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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
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COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT AND TUBAC WATER DISTRICT.	DOCKET NO. W-01303A-08-0227
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WASTEWATER DISTRICT.	DOCKET NO. SW-01303A-08-0227 DECISION NO. 71410 **OPINION AND ORDER**

DATES OF HEARING: March 13 (Pre-Hearing Conference), 17, (Public Comments in Phoenix), 18 (Public Comments in Tubac), 19, 20, 23, 25, 26, and 30, 2009

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Teena Wolfe

IN ATTENDANCE: Kristin K. Mayes, Chairman
Gary Pierce, Commissioner
Paul Newman, Commissioner
Sandra D. Kennedy, Commissioner
Bob Stump, Commissioner

APPEARANCES: Mr. Craig A. Marks, CRAIG A. MARKS, PLC, on behalf of Arizona- American Water Company;

Mr. Daniel Pozefsky, Chief Counsel, on behalf of the Residential Utility Consumer Office;

Mr. Andrew Miller, Town Attorney, on behalf of the Town of Paradise Valley;

Mr. Robert Metli, SNELL & WILMER; on behalf of The Camelback Inn and Sanctuary on Camelback Mountain;

Mr. Marshall Magruder, in propria persona;

Ms. Carol McHale-Hubbs, Attorney, on behalf of the Property Owners and Residents Association;

Mr. Franklyn D. Jeans, BEUS, GILBERT, PLLC, on behalf of the Clearwater Hills Improvement Association; and

Ms. Robin Mitchell, Ms. Nancy Scott and Ms. Ayesha Vohra, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

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BY THE COMMISSION:

I. INTRODUCTION

On May 2, 2008, Arizona-American Water ("Arizona-American" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for increases in its rates and charges for utility service, based on a test year ending December 31, 2007, in its Agua Fria Water and Agua Fria Wastewater districts, Anthem Water and Anthem Wastewater districts, Havasu Water district, Mohave Water and Mohave Wastewater districts, Paradise Valley Water district, Sun City West Water district and Tubac Water district.

On June 2, 2008, the Utilities Division Staff ("Staff") of the Commission filed a Letter of Deficiency stating that Arizona-American's May 2, 2008, rate application did not meet the sufficiency requirements as outlined in Arizona Administrative Code ("A.A.C.") R14-2-103 and listing the items Staff required to deem the application sufficient for processing.

On June 20, 2008, the Company filed its Response to Deficiency Letter and the above-captioned revised application. The revised application does not include the Anthem Water district, the Anthem Wastewater district, or the Agua Fria Wastewater district.

Intervention in this matter was granted to the Residential Utility Consumer Office ("RUCO"), Clearwater Hills Improvement Association ("Clearwater Hills"), the Town of Paradise Valley ("Town"), George E. Cocks, Patricia A. Cocks, Nicholas Wright, Raymond Goldy, Lance Ryerson, Patricia Elliott, Boyd Taylor, Keith Doner, Hallie McGraw, Rebecca M. Szimhardt, Wilma E. Miller, Joe M. Souza, Steven D. Colburn, Shanni Ramsay, Dennis Behmer, Ann Robinett, Betty Newland, Don Grubbs, Liz Grubbs, Mike Kleman, Jacquelyn Valentino, Louis Wilson, Ikuko Whiteford, Marshall Magruder, the Camelback Inn and Sanctuary on Camelback Mountain (collectively "Resorts"), Tom Sockwell, Andy Panasuk, Thomas J. Ambrose, and the Property Owners and Residents Association ("PORA").

On July 15, 2008, Arizona-American filed its Response to Informal Letter of Deficiency, and on July 21, 2001, the Company filed its Supplemental Response to Informal Letter of Deficiency.

On July 22, 2008, the Company filed a Notice of Change for Designated Service.

On July 23, 2008, Staff filed a letter classifying the Company as a Class A utility and stating that, with the revisions docketed on June 20, 2008, July 15, 2008, and July 21, 2008, the above-captioned application met the sufficiency requirements outlined in A.A.C. R14-2-103.

Pursuant to A.A.C. R14-3-101, the Commission issued a Rate Case Procedural Order on July 29, 2008, to govern the preparation and conduct of this proceeding.

On August 4, 2008, Staff filed a Request for Procedural Conference. Therein, Staff stated that it would find it difficult to review the application within the timeframes set forth in the July 29, 2008, Rate Case Procedural Order, and that Staff had attempted, unsuccessfully, to reach agreement with the Company on an extension of those deadline dates.

On August 8, 2008, a second Rate Case Procedural Order was issued, correcting errors in the procedural schedule and accordingly resetting the hearing date in this matter to March 16, 2008.

On August 25, 2008, a third Rate Case Procedural Order was issued, continuing the hearing to commence on March 19, 2009, in order to accommodate parties' schedules, amending the associated procedural schedule, and modifying the public notice requirements to comport with the Company's corrected H Schedules.

On November 12, 2008, Commissioner Kris Mayes filed a letter in the docket requesting that the parties provide the Commission, as part of their testimony in this case, an analysis addressing the predicted impacts of statewide and select consolidation of the Company's water systems, and to propose combinations of systems where potential benefits outweigh the limitations of consolidation efforts, and an analysis of rates and operations under a statewide consolidation of the Company's water systems.

On December 17, 2008, the Company filed a Notice of Filing Letter which included the Company's response to Commissioner Mayes' November 10, 2008 letter regarding rate consolidation.

On March 17, 2009, a public comment meeting was held as scheduled in Sun City West, Arizona. Chairman Mayes, Commissioner Gary Pierce, Commissioner Paul Newman, Commissioner Sandra Kennedy, and Commissioner Bob Stump presided. Members of the public appeared and provided public comment on the application.

On March 18, 2009, a public comment meeting was held as scheduled in Tubac, Arizona. Commissioner Pierce, Commissioner Newman, Commissioner Kennedy, and Commissioner Stump presided. Members of the public appeared and provided public comment on the application.

On March 19, 2009, the hearing on the application commenced as scheduled. The Company, the Town, the Resorts, PORA, Clearwater Hills, RUCO and Staff appeared through counsel. Marshall Magruder appeared on his own behalf. No other intervenors appeared. Several members of the public appeared and provided public comment on the application. The evidentiary portion of the hearing commenced on March 20, 2009, and concluded on March 30, 2009. During the hearing, evidence was presented by the Company, Mr. Magruder, RUCO, and Staff, and the parties were provided the opportunity to cross examine witnesses who had submitted prefiled testimony. Following the hearing, post hearing briefs were submitted by the Company, Mr. Magruder, PORA, RUCO and Staff.

Following the evidentiary hearing, additional local public comment meetings were held by the Commission in Bullhead City, Arizona on April 30, 2009, and in Lake Havasu City, Arizona on May 1, 2009. Chairman Mayes, Commissioner Gary Pierce, Commissioner Paul Newman, Commissioner Sandra Kennedy, and Commissioner Bob Stump presided. Members of the public appeared and provided public comment on the application.

The matter was subsequently taken under advisement pending the issuance of a Recommended Opinion and Order for the Commission's final disposition.

II. APPLICATION

Arizona-American is a wholly owned subsidiary of American Water Works, the largest investor owned utility in the United States.[1] American Water Works owns a number of regulated water and wastewater subsidiaries that operate in 32 states, in addition to non-regulated subsidiaries.[2] American Water Works raises debt capital for its subsidiaries through its financing subsidiary American Water Capital Corp.[3] Arizona-American operates twelve water and wastewater systems in

[1] Direct Testimony of Staff witness Gary T. McMurry (Exh. S-5) at 3.
[2] Direct Testimony of Staff witness Gerald Becker (Exh. S-7) at 3.
[3] *Id.*

Arizona. The wastewater district and the six water districts included in this application include approximately 76,000 of the Company's approximately 130,000 customers located throughout Arizona.[4]

By district, the Company's proposed revenues and the recommendations of the parties who submitted schedules are as follows:

Agua Fria Water

The Company recommends a revenue requirement of $26,623,370, which is an increase of $7,804,796, or 41.47 percent, over its adjusted test year revenues of $18,818,574. The Company's recommendation would result in an approximate $12.20 increase for the average usage (7,400 gallons per month) 5/8 x 3/4 inch meter residential customer, from $24.16 per month to $36.36 per month, or approximately 50.5 percent.

RUCO recommends a revenue requirement of $21,985,260, which is an increase of $3,166,646, or 16.83 percent, over its adjusted test year revenues of $18,818,614. RUCO's recommendation would result in an approximate $5.69 increase for the average usage (7,400 gallons per month) 5/8 x 3/4 inch meter residential customer, from $24.16 per month to $29.85 per month, or approximately 23.57 percent.

Staff recommends a revenue requirement of $21,297,986, which is an increase of $2,479,373, or 13.18 percent, over its adjusted test year revenues of $18,818,613. Staff's recommendation would result in an approximate $5.44 increase for the average usage (7,400 gallons per month) 5/8 x 3/4 inch meter residential customer, from $24.16 per month to $29.59 per month, or approximately 22.5 percent.

Havasu Water

The Company recommends a revenue requirement of $1,579,422, which is an increase of $425,011, or 36.82 percent, over its adjusted test year revenues of $1,154,411. The Company's recommendation would result in an approximate $22.48 increase for the average usage (9,705 gallons per month) 5/8 x 3/4 inch meter residential customer, from $36.59 per month to $59.07 per month, or

[4] Direct Testimony of Staff witness Gary T. McMurry (Exh. S-5) at 3.

approximately 61.44 percent.

RUCO recommends a revenue requirement of $1,424,565, which is an increase of $247,043, or 20.98 percent, over its adjusted test year revenues of $1,177,522. RUCO's recommendation would result in an approximate $15.27 increase for the average usage (9,705 gallons per month) 5/8 x 3/4 inch meter residential customer, from $36.59 per month to $51.86 per month, or approximately 41.73 percent.

Staff recommends a revenue requirement of $1,422,782, which is an increase of $396,196, or 38.59 percent, over its adjusted test year revenues of $1,026,586. Staff's recommendation would result in an approximate $12.79 increase for the average usage (9,705 gallons per month) 5/8 x 3/4 inch meter residential customer, from $36.59 per month to $49.38 per month, or approximately 34.95 percent.

Mohave Water

The Company recommends a revenue requirement of $6,057,207, which is an increase of $943,515, or 18.45 percent, over its adjusted test year revenues of $5,113,692. The Company's recommendation would result in an approximate $4.45 increase for the average usage (8,073 gallons per month) 5/8 x 3/4 inch meter residential customer, from $17.44 per month to $21.89 per month, or approximately 25.48 percent.

RUCO recommends a revenue requirement of $5,510,426, which is an increase of $396,795, or 7.76 percent, over its adjusted test year revenues of $5,113,631. RUCO's recommendation would result in an approximate $2.45 increase for the average usage (8,073 gallons per month) 5/8 x 3/4 inch meter residential customer, from $17.44 per month to $19.89 per month, or approximately 14.04 percent.

Staff recommends a revenue requirement of $5,232,111, which is an increase of $118,480, or 2.32 percent, over its adjusted test year revenues of $5,113,631. Staff's recommendation would result in an approximate $0.38 increase for the average usage (8,073 gallons per month) 5/8 x 3/4 inch meter residential customer, from $17.44 per month to $17.83 per month, or approximately 2.19 percent.

Paradise Valley Water

The Company recommends a revenue requirement of $10,037,959, which is an increase of $1,817,373, or 22.11 percent, over its adjusted test year revenues of $8,220,586. The Company's recommendation would result in an approximate $14.55 increase for the average usage (20,493 gallons per month) 5/8 x 3/4 inch meter residential customer, from $49.20 per month to $63.75 per month, or approximately 29.57 percent.

RUCO recommends a revenue requirement of $9,132,182, which is an increase of $911,597, or 11.09 percent, over its adjusted test year revenues of $8,220,585. RUCO's recommendation would result in an approximate $6.20 increase for the average usage (20,493 gallons per month) 5/8 x 3/4 inch meter residential customer, from $49.20 per month to $55.40 per month, or approximately 12.6 percent.

Staff recommends a revenue requirement of $9,165,550, which is an increase of $1,316,818, or 16.78 percent, over its adjusted test year revenues of $7,848,732. Staff's recommendation would result in an approximate $6.64 increase for the average usage (20,493 gallons per month) 5/8 x 3/4 inch meter residential customer from $49.20 per month to $55.84 per month, or approximately 13.51 percent. Under Staff's three-tier alternative rate design, the increase for the average usage 5/8 x 3/4 inch meter residential customer would be approximately $5.88, from $49.20 per month to $55.08 per month, or approximately 11.97 percent. Under Staff's five-tier alternative rate design, the increase for the average usage 5/8 x 3/4 inch meter residential customer would be approximately $5.63, from $49.20 per month to $54.83 per month, or approximately 11.46 percent.

Sun City West Water

The Company recommends a revenue requirement of $9,953,470, which is an increase of $4,096,204, or 69.93 percent, over its adjusted test year revenues of $5,857,266. The Company's recommendation would result in an approximate $15.51 increase for the average usage (6,704 gallons per month) 5/8 x 3/4 inch meter residential customer, from $19.51 per month to $35.02 per month, or approximately 75.5 percent.

RUCO recommends a revenue requirement of $9,215,792, which is an increase of $3,358,526, or 57.34 percent, over its adjusted test year revenues of $5,857,266. RUCO's recommendation would result in an approximate $13.30 increase for the average usage (6,704 gallons per month) 5/8 x 3/4 inch meter residential customer, from $19.51 per month to $32.81 per month, or approximately 68.17 percent.

Staff recommends a revenue requirement of $9,106,952, which is an increase of $3,405,521, or 59.73 percent, over its adjusted test year revenues of $5,701,431. Staff's recommendation would result in an approximate $12.33 increase for the average usage (6,704 gallons per month) 5/8 x 3/4 inch meter residential customer, from $19.51 per month to $31.84 per month, or approximately 63.14 percent.

PORA did not file schedules but requested that the Commission "limit the percentage of rate increase to 52% which will include stage one and two ACRM."[5]

Tubac Water

The Company recommends a revenue requirement of $697,102, which is an increase of $270,204, or 63.29 percent, over its adjusted test year revenues of $426,898. The Company's recommendation would result in an approximate $32.43 increase for the average usage (11,767 gallons per month) 5/8 x 3/4 inch meter residential customer, from $49.45 per month to $81.88 per month, or approximately 65.58 percent.

RUCO recommends a revenue requirement of $640,921, which is an increase of $214,021, or 50.13 percent, over its adjusted test year revenues of $426,900. RUCO's recommendation would result in an approximate $28.04 increase for the average usage (11,767 gallons per month) 5/8 x 3/4 inch meter residential customer, from $49.45 per month to $77.49 per month, or approximately 56.7 percent.

Staff recommends a revenue requirement of $642,772, which is an increase of $215,872, or 50.57 percent, over its adjusted test year revenues of $426,900. Staff's recommendation would result in an approximate $21.59 increase for the average usage (11,767 gallons per month) 5/8 x 3/4 inch meter residential customer, from $49.45 per month to $71.04 per month, or approximately 43.62 percent. Under Staff's four-tier alternative rate design, the increase for the average usage 5/8 x 3/4

[5] PORA Brief at 5.

inch meter residential customer would be approximately $8.44, from $49.45 per month to $57.89 per month, or approximately 17.07 percent.

Mohave Wastewater

The Company recommends a revenue requirement of $1,381,388, which is an increase of $585,283, or 73.52 percent, over its adjusted test year revenues of $796,105. The Company's recommendation would result in a $36.60 increase for residential customers from $49.65 per month to $86.25 per month, or approximately 73.72 percent.

RUCO recommends a revenue requirement of $888,727, which is an increase of $92,566, or 11.63 percent, over its adjusted test year revenues of $796,161. RUCO's recommendation would result in a $10.33 increase for residential customers from $49.65 per month to $59.98 per month, or approximately 20.8 percent.

Staff recommends a revenue requirement of $714,893, which is a decrease of $81,268, or 10.21 percent, from its adjusted test year revenues of $796,161. Staff's recommendation would result in a $5.15 decrease for residential customers from $49.65 per month to $44.50 per month, or approximately 10.37 percent.

III. RATE BASE

A.. White Tanks Plant (Agua Fria Water)

The Company is currently constructing a water treatment facility ("White Tanks Plant") that will allow it to treat its 11,093 acre-feet per year allotment of Central Arizona Project ("CAP") water for distribution to customers in its Agua Fria Water District.[6] The plant is scheduled to be in service by December 2009.[7] The Maricopa County Municipal Water Conservation District Number One ("MWD") is constructing the water-supply intake on the Beardsley Canal, and the Company is constructing the water transmission main to connect the White Tanks Plant to Arizona-American's existing transmission system.[8] Arizona-American designed the White Tanks Plant to treat 13.5 million gallons per day ("MGD") in Phase I (a), and to expand to treat 20 MGD in Phase I (b) with

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[6] Revised Direct Testimony of Company witness Joseph E. Gross (Exh, A-1) at 3.
[7] Rebuttal Testimony of Company witness Joseph E. Gross (Exh. A-2) at 1.
[8] *Id.*

the addition of one more treatment train.[9] The White Tanks Plant is designed to eventually accommodate three additional 20 MGD phases, for a total treatment capacity of 80 MGD at the 46-acre plant site.[10] According to filings in Docket No. W-01303A-05-0718, original plans were for the White Tanks Plant to be financed, built and owned by MWD, for Arizona-American to obtain treatment services through a long-term capital lease with MWD, and for an Arizona-American affiliate to operate the plant through an Operation and Maintenance ("O&M") agreement with MWD.[11] However, negotiations between MWD and the Company did not come to a final agreement on the plans, and Arizona-American revised its application in Docket No. W-01303A-05-0718. The revised application requested (1) approval of an adjustment to the Company's existing Water Facilities Hook-Up Fee for new home construction; (2) accounting orders related to the White Tanks Plant; and (3) that the Company be ordered to make certain associated filings as a part of its previously-ordered 2008 rate case filing for the Agua Fria District (the instant application).[12] Decision No. 69914 (September 27, 2007) granted the Company authority to implement the Water Facilities Hook-Up Fee ("WHU-1"), to be recorded as Contributions in Aid of Construction ("CIAC"), as a means of financing the White Tanks Plant. Decision No. 69914 approved the Company's request to record post-in-service allowance for funds used during construction ("AFUDC") on the excess of the construction cost of the White Tanks Plant over directly-related hook-up fees collected through 2015.[13] Decision No. 69914 also approved the Company's request for authority to defer post-in-service depreciation expense in excess of the associated amortization of contributions, and directed the Company to propose, as part of the filing in this case, specific accounting entries to meet that objective.[14] Decision No. 69914 authorized the Company to exclude from rate base the contribution balance of the WHU-1 fees.[15] The Company states that because of the recent decline in new home construction, hook-up fee forecasts have declined precipitously, and the general assumption at the time of Decision No. 69914 that housing market growth would make

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[9] Revised Direct Testimony of Company witness Joseph E. Gross (Exh, A-1) at 3.
[10] *Id.*
[11] Staff Brief at 3.
[12] Decision No. 69914 at 3.
[13] Decision No. 69914 at 28-29.
[14] Company Brief at 17.
[15] Decision No. 69914 at 29.

enough hook-up fees available to finance the White Tanks Plant construction was proven wrong.[16]

There are three disputed issues in this proceeding relating to the White Tanks Plant. While two of those issues are not rate base issues, they will be addressed in this section, following discussion of the Company's request to place a portion of the White Tanks Plant construction work in progress ("CWIP") in rate base.

1. CWIP

CWIP is plant that is not completed and not providing service to ratepayers during the test year. Arizona-American proposes to include in rate base $25 million of CWIP associated with the White Tanks Plant, arguing that "[g]iven the current circumstances, including a portion of CWIP in rate base is fair to customers and to Arizona-American."[17] The $25 million constitutes roughly 40 percent of the Company's expected $62 million direct construction cost of the facility.[18] Through December 2008, the Company had paid over $30 million to the construction contractor for the plant.[19]

No other party supports the Company's request to include the CWIP in rate base. CWIP is generally not allowed in rate base because plant that is under construction is not used and useful in providing service to customers during the test year.[20] The inclusion of CWIP in rate base results in a ratemaking mismatch, because the CWIP plant and its associated expenses are not related to the revenues, expenses, and rate base for the test year.[21] Staff argues that under well-established ratemaking principles, inclusion of CWIP in rate base is the exception, not the rule.[22] Staff contends that while the Commission has the discretion to allow CWIP into rate base, there are no extraordinary circumstances to justify it in this case and it is therefore inappropriate.[23] One of the few instances in which this Commission allowed inclusion of CWIP in rate base was in 1984, when Decision No. 54247 (November 28, 1984) granted Arizona Public Service Company ("APS") a CWIP allowance of

[16] Company Brief at 17.
[17] *Id.* at 21.
[18] Rebuttal Testimony of Company witness Joseph E. Gross (Exh. A-2) at 1.
[19] *Id.*
[20] Staff Brief at 5.
[21] *Id.*
[22] Staff Reply Brief at 2.
[23] Staff Brief at 5.

approximately $200 million to due to extraordinary circumstances involving approximately $600 million of CWIP associated with construction of the Palo Verde Nuclear Generating Facility.[24] Staff points out that the Commission was guided in that case by "the economic benefits to ratepayers from further CWIP inclusion and the avoidance of 'rate shock' in the APS service territory"[25] that would be experienced by customers if the entirety of the nuclear plant were placed in rate base at one time.[26]

Staff asserts that this case does not raise the same concerns of "rate shock" that the Commission faced in the APS case, and has none of the attributes of APS case.[27] Staff acknowledges the Company's testimony that it will suffer severe financial consequences absent the recognition of CWIP, but contends that the Company has not demonstrated the existence of extraordinary circumstances in this case to support inclusion of $25 million of CWIP in rate base.[28] Staff points to the fact that Decision No. 69914 granted the Company's requests to put financial mechanisms in place to alleviate financial distress that the Company may experience pending the inclusion of the completed plant in rate base in a subsequent rate proceeding.[29] While Staff acknowledges the Company's assertion that hook-up fees will not be sufficient to pay off the estimated $62 million cost of construction, Staff disagrees that this justifies burdening existing customers with the costs of plant not yet in service.[30] Staff contends that the accounting treatment accorded the Company in Decision No. 69914 will allow it to remain whole during the construction process, and that the Company, not the customers, should shoulder the risk of construction.[31]

RUCO is in agreement with Staff that the Company's reasons for requesting CWIP inclusion in rate base are not compelling, and also recommends that the Commission reject the request.[32] RUCO states that it is not unusual for a Company's financial condition to suffer during the course of building plant, and that while the construction costs of the White Tanks Plant are significant, they are normal expenditures necessary to provide service, and place the shareholders at no greater risk than

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[24] *Id.*
[25] Staff Reply Brief at 2, citing Decision No. 54247 at 19.
[26] Staff Brief at 5, citing Decision No. 54247 at 19-20.
[27] Staff Reply Brief at 3.
[28] Direct Testimony of Staff witness Gerald Becker (S-7) at 21.
[29] Staff Brief at 6.
[30] *Id.*
[31] *Id.*
[32] RUCO Reply Brief at 2.

the costs associated with any other plant.[33] RUCO argues that the requested CWIP allowance in rate base would unfairly shift the risk associated with growth from the Company's shareholders to its ratepayers.[34]

As RUCO points out, the Company's shareholders will have an opportunity to earn a return on their investment when the plant is placed in rate base.[35] We agree with Staff and the Company that the Company's financial expenditure and recovery related to the White Tanks Plant was properly addressed in Decision No. 69914, and the failure of collected WHU-1 fees to finance the plant does not justify burdening customers with CWIP costs. There are no extraordinary circumstances that would warrant such treatment. The White Tanks Plant costs will be considered for inclusion in rate base when the plant is placed in service.

2. O&M Deferral Mechanism

Decision No. 69914 authorized the Company to file in this case a proposed mechanism to defer and subsequently recover O&M expenses for the White Tanks Plant until such expenses can be placed in rate base.[36] The Company proposed a surcharge mechanism in this case that would operate in a manner similar to an Arsenic Cost Recovery Mechanism ("ACRM").[37] Under the Company's proposal, at the conclusion of an initial 12-month period, the Company would submit evidence of actual O&M expense along with the other required schedules, and approximately ninety days later would receive authorization for a surcharge rate increase that would recover two times the actual deferred O&M expense, such that the surcharge would recover not only the deferred expenses but also current ongoing expenses.[38] At the end of 12 months of collecting the O&M surcharge, the surcharge would be reduced down to an amount representative of the actual ongoing expenses (based on the deferral period known expense), until completion of the Company's next rate case for the district, when the surcharge would cease, and O&M expenses would be recovered through normal rates.[39] After factoring in the savings the Company expects to experience from delivering treated

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[33] *Id.*
[34] *Id.* at 3.
[35] *Id.* at 2.
[36] Decision No. 69914 at 29.
[37] Revised Direct Testimony of Company witness Thomas M. Broderick (Exh. A-11) at 16-19.
[38] *Id.*
[39] *Id.*

surface water in place of pumping and treating groundwater, the Company estimates that its net increase in O&M costs attributable to the White Tanks Plant will be $1.1 million annually, or approximately $91,167 per month.[40] The Company contends that it will be very burdensome to carry those costs without rate recovery for the nearly two-year timeframe necessary to begin recovering the expenses in rates.[41] Staff and RUCO both recommend denial of the surcharge O&M deferral mechanism as proposed in the application.[42] RUCO argues that the White Tanks Plant construction does not constitute extraordinary circumstances such as those which led to the development of the ACRM to assist Arizona utilities in complying with new federal arsenic maximum contaminant level ("MCL") mandates.[43]

At the hearing, Mr. Townsley stated that as an alternative to the Company's proposed deferral mechanism, the Company requests authority to carry the O&M costs as a regulatory asset until the Company's next Agua Fria Water district rate case, so that they can be appropriately dealt with,[44] and in its closing brief, the Company proposed an alternative to its surcharge mechanism proposal. The Company proposed O&M accounting order language that would authorize it to defer expenses related to the operation of the White Tanks Plant commencing with the in-service date through and until the date of issuance of a rate order including such expenses as recoverable operating expenses.[45] RUCO acknowledges the magnitude of the White Tanks Plant O&M costs, and its benefit to ratepayers and the environment once completed, and states that it therefore would not oppose deferral of actual incurred O&M expenses until the Company's next rate case, provided that the Company continues to operate the plant on its own.[46]

RUCO and Staff are correct that the White Tanks Plant O&M costs are not the type of costs for which a surcharge mechanism is appropriate or reasonable. However, it is undisputed that the O&M costs will be substantial, and we agree with RUCO that the treatment and delivery of the

[40] Rebuttal Testimony of Company witness Paul G. Townsley (Exh. A-19) at 5-6; Rebuttal Testimony of Company witness Bradley J. Cole (Exh. A-8) at 3-5.
[41] Rebuttal Testimony of Company witness Paul G. Townsley (Exh. A-19) at 5-6.
[42] RUCO Brief at 12-13; Staff Brief at 7.
[43] RUCO Brief at 12.
[44] Tr. at 415, 424-425.
[45] Company Brief at 24-25.
[46] RUCO Reply Brief at 7.

Company's CAP water allocation to displace groundwater mining will benefit the environment and ratepayers. Under the unique circumstances of this case, we find the Company's proposal to defer actual White Tanks Plant O&M costs as a regulatory asset appropriate, and will allow it. The accounting order language proposed by the Company is generally reasonable, and we will adopt it with modification to clarify that the reasonableness of the deferred O&M expenses will be assessed in the Company's next Agua Fria district rate filing, and that the deferral shall be allowed only while Arizona-American is the sole operator of the White Tanks Plant.

3. Hook-Up Fee Tariff Language Changes Related to the White Tanks Plant

Decision No. 69914 authorized the Company to file, as part of this rate case, a proposal to adjust the hook-up fee tariff approved in that Decision.[47] In prefiled rebuttal testimony, the Company proposed to separate the single hook-up fee into separate components, and to make the second component (the White Tanks portion) ineligible for offset credits.[48] In prefiled rejoinder testimony,[49] the Company responded to questions regarding the proposed changes raised by Staff in its prefiled surrebuttal testimony.[50] The Company states that its proposed bifurcation of the hook-up fee would affect only the Company's cash flow from the hook-up fees, and would not increase the total obligations of developers under the hook-up fees and with respect to contributed infrastructure.[51] In its initial closing brief, Staff stated that it does not oppose the Company's proposed hook-up fee treatment, but that it still questioned the need for developers to provide a water source in the form of a new well.[52] Staff opposed language in Section IV (D) of the Company's revised tariff proposal.[53] The Company responded to Staff's stated concerns in its reply brief. The Company removed the language to which Staff objected; revised the definition of "Common Facilities;" and provided a revised Common Facilities Hook-Up Fee (Water) Tariff Schedule for its Agua Fria district that included the responsive changes as Appendix A to its reply brief.[54] The revised document in

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[47] Decision No. 69914 at 29.
[48] Rebuttal Testimony of Company witness Thomas M. Broderick (Exh. A-12) at 3 and Exhibit TMB-R2 (requested revised tariff).
[49] Rejoinder Testimony of Company witness Ian C. Crooks (Exh. A-6) at 2-9.
[50] Surrebuttal Testimony of Staff witness Steven M. Olea (Exh. S-2) at 2-4.
[51] Rejoinder Testimony of Company witness Ian C. Crooks (Exh. A-6) at 6-7.
[52] Staff Brief at 19-20.
[53] *Id.*
[54] Company Reply Brief at 7 and Appendix A.

Appendix A addresses the issue by making facilities that are not Common Facilities, but which developers agree to construct, subject to refund under A.A.C. R14-2-406(D). The Common Facilities Hook-Up Fee (Water) Tariff Schedule for the Company's Agua Fria district that appears as Appendix A to its reply brief is attached hereto and incorporated herein as Exhibit A. The tariff as set forth in Exhibit A addresses the concerns identified by Staff and will be adopted. We will direct the Company to file a conforming copy of Exhibit A along with the filing of new rate schedules as ordered herein.

4. Hook-Up Fee Tariff Accounting Changes Related to the White Tanks Plant

In Docket No. W-01303A-05-0718, the Company requested that it be allowed to defer post-in-service depreciation expense in excess of the associated amortization of WHU-1 fees in order to avoid depressing the Company's earnings and increase its revenue requirement, and that it be allowed to propose, in this proceeding, specific accounting entries to meet that objective.[55] Decision No. 69914 approved the Company's request to record post-in-service AFUDC and to defer post-in-service depreciation expense, but did not specify the accounting entries needed to recover those deferrals. In prefiled direct testimony in this case, the Company proposed accounting procedures for the post-in-service period by which the remaining completed costs of the White Tanks Plant, including accumulated AFUDC, would continue to be offset by available incremental hook-up fees, as follows:

1. First, each month Arizona-American will amortize incremental (amount above the original hook-up fee) WHU-1 fees in an accelerated amount, but not to exceed the total post-in-service AFUDC accrued in that month. This will result in the recovery of an amount equivalent to post-in-service AFUDC each month and keep the deferred accumulated balance of post-in-service AFUDC at zero.

2. Second, each month Arizona-American will also amortize in an accelerated amount remaining available incremental WHU-1 fees in an amount not to exceed the monthly depreciation expense for the White Tanks Plant.

[55] Decision No. 69914 at 24, Findings of Fact No. 33.

3. Third, each month the remaining incremental WHU-1 funds, if any, will be applied as a contribution to the White Tanks Plant. All such contributions shall reduce the White Tanks Plant in the next month for purposes of calculating post-in-service AFUDC, depreciation expense, and the White Tanks Plant balance.

4. However, if the accumulated incremental WHU-1 funds in any month are insufficient to cover the post-in-service AFUDC or allow its amortization to fully offset White Tanks Plant's depreciation expense, Arizona-American will defer the unrecovered post-in-service AFUDC and depreciation expense for recovery at a time when hook-up fees are sufficient or until it is included in rate base. This will be accomplished by using the accumulated amounts in account 271161 as a balancing account.[56]

The Company states that its proposed accounting treatment, by allowing the Company to recover post-in-service AFUDC as it is incurred, would permit the Company to recover its White Tanks Plant cost of capital on an ongoing basis, and thereby avoid a reduction in earnings.[57] The Company further states that its proposed accounting procedure would also benefit customers by minimizing post-in-service AFUDC and deferred depreciation expense, which is ultimately paid for by customers.[58] The Company provided a forecast of WHU-1 fee collections in Exhibit TMB-4, attached to Revised Direct Testimony of Company witness Thomas M. Broderick (Exh. A-11), and noted that in the forecast, the additional WHU-1 fees are inadequate to fund post-in-service AFUDC and depreciation from April 2010 through December 2012, and that the forecast shows the accumulated balance in account 271161 (as opposed to just the new amount collected each month) amortized over that period.[59]

No party disputed that approval of the Company's proposed accounting entries is necessary in order to account for a portion of the accumulated WHU-1 fees as an accelerated amortization of a contribution in an amount equal to post-in-service AFUDC, or for the accelerated amortization of the

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[56] Revised Direct Testimony of Company witness Thomas M. Broderick (Exh. A-11) at 23-24.
[57] *Id.* at 23.
[58] *Id.* at 24.
[59] *Id.* at 23 and Exhibit TMB-4.

accumulated WHU-1 contributions in an amount equal to the deferred depreciation on the White Tanks Plant.[60] There was no evidence that the Company's proposed treatment would be harmful to ratepayers. While RUCO states on brief that it opposes the Company's proposed change of accounting for treatment of the WHU-1 fees once the plant goes into service, the rationale it provided was that "RUCO believes that the Company should adhere to the rest of the Commission's previous decision on this matter – Decision No. 69914."[61] The Company is not, however, requesting a deviation from Decision No. 69914. Decision 69914 was silent on this issue, other than to indicate that the Company had requested to be allowed to propose specific accounting procedures in this proceeding.

The accounting entries proposed by the Company present a reasonable means, pending the Company's next rate filing for the Agua Fria Water district, of permitting the Company to recover its White Tanks Plant cost of capital on an ongoing basis, and thereby avoid a reduction in earnings, while providing a benefit to ratepayers by minimizing post-in-service AFUDC and deferred depreciation expense. We will approve the requested accounting procedures, and will also require the parties to address the necessity of continuing these accounting procedures in the Company's next rate filing for the Agua Fria Water district.

B. Post Test Year Plant in Dispute (Agua Fria Water, Mohave Water, and Mohave Wastewater)

Staff recommends exclusion of proposed plant in the amount of $2,046,765 in the Agua Fria Water district; $610,732 in pro forma adjustments in the Mohave Water district; and $3,932,080 relating to the Wishing Well Wastewater Treatment Facility ("WWTP") in the Mohave Wastewater district, all because the plant was not in service prior to the end of the test year. RUCO recommends a downward adjustment of $2,138,020 to Mohave Wastewater's rate base, contending that this represents a portion of the WWTP that is not used and useful.

As Staff explains, Commission rules require the end of the test year, which is the one-year historical period used in determining rate base, operating income and rate of return, to be the most

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[60] *See* Revised Direct Testimony of Company witness Thomas M. Broderick (Exh. A-11) at 24.
[61] RUCO Reply Brief at 7.

recent practical date available prior to the filing.[62] A utility has the freedom to choose a test year that includes all major rate base and operating income items needed to support its rate application, and to include pro forma adjustments to its chosen test year.[63] Matching is a fundamental principle of accounting and ratemaking, and the absence of matching distorts the meaning of, and reduces the usefulness of, operating income and rate of return for measuring the fairness and reasonableness of rates.[64] Staff contends that the matching principle is the reason that the Commission has allowed inclusion of post test year plant in rate base only in special and unusual situations that warranted the recognition of post test year plant.[65] Staff states that it has traditionally recognized two scenarios in which Staff believes recognition of post test year plant is appropriate: (1) when the magnitude of the investment relative to the utility's total investment is such that not including the post test year plant in the cost of service would jeopardize the utility's financial health; and (2) when certain conditions exist as follows: (a) the cost of the post test year plant is significant and substantial, (b) the net impact on revenue and expenses for the post test year plant is known and insignificant or is revenue-neutral, and (c) the post test year plant is prudent and necessary for the provision of services and reflects appropriate, efficient, effective, and timely decision-making.[66]

Agua Fria Water. Staff made two adjustments, totaling $2,046,765, removing post test year plant from this district's plant in service as set forth in the Company's application. Staff's proposed adjustments include: (1) removal of $1,647,404 from Account No. 330000, Distribution Reservoirs and Standpipes, for a 2.2 million gallon ("MG") storage tank that Staff believes was completed and placed in service in November 2008,[67] and (2) removal of $399,361 from Account No. 331400, TD Mains 18 inch and Greater.[68] The Company argues that this plant, the 2.2 MG Sierra Montana Reservoir, was placed in service as post test year plant on December 8, 2008, at a cost of $1,794,728,

[62] Staff Brief at 9, citing A.A.C. R14-2-103(A)(3)(p).
[63] Staff Brief at 9.
[64] Direct Testimony of Staff witness Gerald Becker (Exh. S-7) at 20.
[65] Staff Brief at 9.
[66] Direct Testimony of Staff witness Gerald Becker (Exh. S-7) at 20.
[67] Direct Testimony of Staff witness Dorothy Hains (Exh. S-3) Exhibit DMH-1 at 13; Staff Final Schedules Agua Fria GWB-4 and GWB-9B.
[68] Staff Final Schedules Agua Fria GWB-4 and GWB-9B.

and that it is therefore appropriate to include the cost in rate base.[69]

The Company has not demonstrated special or unusual circumstances to justify inclusion of these post test year plant additions, and Staff's proposed adjustments will be adopted.

Mohave Water. Staff made three adjustments, totaling $610,731, removing post test year plant from this district's plant in service. Staff's proposed adjustments to plant in service include: (1) removal of $490,772 from Account No. 330000, Distribution Reservoirs and Standpipes; (2) removal of $59,875 from Account No. 331001, TD Mains Not Classified by Size; and (3) removal of $60,084 from Account No. 331300, TD Mains 10 inch to 16 inch.[70] Staff's Engineering witness's prefiled testimony stated that a 0.25 MG storage tank (also called Big Bend Acres Tank) that the Company requested be included in rate base was not complete and not in service at the time of Staff's site inspection, but that the Arizona Department of Environmental Quality ("ADEQ") issued a Partial Engineer's Certificate of Completion for this project on November 26, 2008.[71] The Company made an adjustment in rebuttal testimony increasing the estimated cost for this project to actual cost of $643,127.[72] The Company argues that it is appropriate to include the plant costs in rate base because the plant will be in service on and after the date rates go into effect in this case.[73]

The Company has not demonstrated special or unusual circumstances to justify inclusion of these post test year plant additions. Staff's proposed adjustments will be adopted.

Mohave Wastewater. RUCO recommended that $2,138,020, or 50 percent of the Company's proposed $4,276,039 for the WWTP, be excluded from rate base until such time that the Commission determines it is used and useful.[74] Staff proposed three adjustments associated with the WWTP, totaling $3,932,080, to this district's plant in service. Staff's proposed adjustments include: (1) removal of $765,906 from Account No. 354500, WW Structures & Improvements General; (2) removal of $813,581 from Account No. 371100, WW Pumping Equipment Electric; and (3)

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[69] Company Reply Brief at 4, citing Rebuttal Testimony of Company witness Joseph E. Gross (Exh. A-2) at 5. According to the Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-26) at 1-2, the $2,046,765 cost originally requested by the Company was based on engineering estimates, and the Company reduced it by $252,470 it in its rebuttal schedules.

[70] Staff Final Schedules Mohave Water GWB-4 and GWB-9.

[71] Direct Testimony of Staff witness Dorothy Hains (Exh. S-3) Exhibit DMH-3 at 16.

[72] Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-26) at 3, 5.

[73] Company Reply Brief at 4.

[74] RUCO Final Schedule Mohave Wastewater RLM-4; RUCO Reply Brief at 5-6.

removing $2,352,593 from Account No. 380000, TD Equipment.[75] Staff's Engineering witness stated that the Company began an expansion project in 2007, that the 250,000 gallons per day ("GPD") plant was incapable of properly treating wastewater flow, the Company expanded the treatment capacity to 500,000 GPD, and the plant was placed in service in the summer of 2008.[76] Staff recommends a disallowance of $3,932,808 related to the WWTP, because the work that was brought into service in the summer of 2008 after the test year included not only system improvements but expansion,[77] which Staff believes suggests the work was needed to service future customers.[78] Staff maintains that its treatment of the WWTP as post test year plant is appropriate, and that the Company's responsibility to meet planning requirements established by ADEQ are not controlling on the issue.[79]

The Company maintains that based on bona fide developer requests for service and a five-year planning horizon for evaluating the need for new capacity, the plant expansion was prudent, and that RUCO's disallowance for "so-called excess capacity" is therefore inappropriate.[80] Further, the Company argues that if some excess capacity disallowance were found to be appropriate, the disallowance should be based only on the amount of construction costs associated with the capacity expansion, or $1.4 million.[81]

In response to Staff's recommendation for exclusion, the Company argues that the post test year plant should be allowed in rate base if plant costs are verified, construction was prudent, and the plant is used and useful.[82] The Company also contends that the post test year plant should be allowed in rate base because it improved reliability, and that without the rehabilitation/expansion work, the WWTP could not continue to meet the standards of its Aquifer Protection Permit.[83]

The Company's expansion of the WWTP, which included replacement of degraded

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[75] Staff Final Schedules Mohave Wastewater GWB-4 and GWB-9.
[76] Direct Testimony of Staff witness Dorothy Hains (Exh. S-3) Exhibit DMH-7 at 7.
[77] Staff Brief at 9, citing Rebuttal Testimony of Company witness Joseph E. Gross (Exh. A-2) at 12; Tr. at 139.
[78] Staff Brief at 9.
[79] Staff Reply Brief at 9.
[80] Company Brief at 32.
[81] *Id.*, citing Rebuttal Testimony of Company witness Joseph E. Gross (Exh. A-2) at 15.
[82] Company Brief at 29.
[83] *Id.* at 30.

components and rehabilitation,[84] was completed outside the test year.[85] As Staff argues, while the Company must adhere to the standards established by ADEQ with regard to the appropriate planning horizon, the Company also controls its selection of a test year, and there is nothing to preclude the Company from filing a rate case to include the WWTP.[86] There is merit to all the arguments concerning the WWTP. It is true that it required rehabilitation to provide continuous, reliable, safe service to the Company's customers. It is also true that the rehabilitation and expansion of the plant were completed after the test year ended. There is no dispute that the costs of the rehabilitation and associated capacity expansion were large, and that they would dramatically increase rates if that Company were allowed to recover all of those costs in a single rate case. It is further true that deferring the Company's recovery of prudent expenses will cause even larger rate increases in the future. Therefore, to mitigate the potential for future rate shock and to account for the fact that the rehabilitation is already benefiting current customers, it is appropriate at this time to include only the $2.138 million cost of the WWTP rehabilitation in rate base in accordance with RUCO's testimony. The prudency and recovery of the remaining cost of the WWTP can be considered in a future rate case. The Company shall not file a permanent rate application prior to January 1, 2011, for the Mohave Wastewater District.

C. Paradise Valley Water Well No. 12 (Paradise Valley Water)

RUCO recommends that Well No. 12, for which the Company never received proper permits to begin construction, be removed from the Paradise Valley Water district's rate base.[87] The Company and Staff accepted this adjustment.[88] The $1,175,027 reduction to plant in service for the Paradise Valley Water district will be adopted.

D. Plant Retirement (Paradise Valley Water, Sun City Water)

RUCO recommends an adjustment to correct (1) a $70,000 plant retirement from Paradise Valley Water that was erroneously booked to Sun City West Water, and (2) $6,672 of retirements

[84] Revised Direct Testimony of Company witness Joseph E. Gross (Exh. A-1) at 13; Rebuttal Testimony of Company witness Joseph E. Gross (Exh. A-2) at 11; Tr. at 139.
[85] Direct Testimony of Staff witness Dorothy Hains (Exh. S-3) Exhibit DMH-7 at 7.
[86] *See* Staff Reply Brief at 4, citing to Tr. 428.
[87] Surrebuttal Testimony of RUCO witness Timothy J. Coley (Exh. R-10) at 14.

from Sun City West Water that should have been booked to Sun City (which is not included in this proceeding). The Company and Staff accepted RUCO's adjustments correcting the booking errors to these districts,[89] and they will be adopted.

E. Miscellaneous Utility Plant in Service (Agua Fria Water, Sun City West Water)

RUCO recommends an adjustment moving utility plant in service in the amount of $18,581 from Sun City West Water, where it was improperly booked, to Agua Fria Water.[90] The recommendation includes an accompanying adjustment of $2,375 to accumulated depreciation.[91] On brief, the Company accepted this adjustment.[92] RUCO's adjustments correcting the booking errors to these districts will be adopted.

F. CIAC Amortization Balance (Agua Fria Water, Mohave Water)

The Company corrected an accounting entry by which a reduction to CIAC was erroneously booked to Mohave Water instead of Agua Fria Water.[93] RUCO recommends adjustments to make corresponding entries to the accumulated amortization balances for those districts.[94] The adjustments increase Agua Fria's CIAC balance by $28,016 and decrease Mohave Water's CIAC balance by $27,517. On brief, the Company accepted this adjustment.[95] RUCO's adjustments correcting the booking errors to these districts will be adopted.

G. Missing Plant Documentation (Agua Fria Water, Mohave Water, Mohave Wastewater)

Due to the Company's failure to provide adequate supporting documentation, Staff recommended disallowance of test year plant in the Agua Fria Water district in the amount of $1,189,832; in the Mohave Water district in the amount of $518,976; and in the Mohave Wastewater

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[88] Company Reply Brief at 8; Staff Final Schedule GWB-9A reduces plant in service by a total of $1,175,027.
[89] Company Reply Brief at 8; Staff Final Schedules Sun City West GWB-5.
[90] Surrebuttal Testimony of RUCO witness Timothy J. Coley (Exh. R-10) at 15.
[91] *Id.*
[92] Company Reply Brief at 8.
[93] Surrebuttal Testimony of RUCO witness Timothy J. Coley (Exh. R-10) at 15.
[94] *Id.*
[95] Company Reply Brief at 8.

district in the amount of $306,362.[96]

Regarding Staff's proposed Agua Fria district disallowance of $1,189,832, the Company asserts that the proposed costs are based on engineering estimates, and that although the developer claims to have submitted the final invoices, the Company does not believe it has received them, and is still asking for another copy.[97] The Company believes this estimated amount for the Rancho Cabrillo Subdivision on-site costs of $1,189,832 should be included in rate base nonetheless.[98]

Regarding Staff's proposed Mohave Water district disallowance of $518,976, the Company argues that there was no determination that the projects were not used and useful, the projects were built in accordance with other Commission-approved line extension agreements, and that the costs should therefore be included in rate base using detailed engineering estimated costs.[99] The Company attached to rebuttal testimony two invoices labeled Mira Monte Classic and Mira Monte Vista dated October 30, 2008, totaling $134,099, which the Company states is more than the costs Staff audited, because it includes services and hydrants, as well as the main Staff audited.[100]

Regarding the Mohave Wastewater district disallowance recommended by Staff, the Company asserts that one portion of this plant is owned by the Company, used and useful, is serving customers, and that the Company has credible engineering estimates.[101] The Company asserts that the other portion is used and useful and the property on which it is located is developed.[102] The Company argues that the plant should be included in rate base because it is in service, even if all the final invoices have not been collected.[103]

Staff contends that its recommendation in this case is consistent with Staff's recommendation in other dockets where the utility lacked documentation to support test year plant.[104] Staff notes that Decision No. 70627 (November 19, 2008) adopted Staff's recommendation to remove claimed plant

[96] Staff Brief at 12.
[97] Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-26) at 1-2.
[98] Company Brief at 33.
[99] Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-26) at 4.
[100] *Id.* at 4, Exhibit LJG-R1.
[101] *Id.* at 7-8.
[102] *Id.* at 8.
[103] *Id.*
[104] Staff Brief at 12.

additions that Staff could not verify.[105]

The Company included all the plant discussed above in its plant in service balances in its application despite the fact that it could make no supporting documentation for the plant available to the parties for audit. The Company claims that plant which lacks supporting documentation should be included in rate base, simply because the Company has engineering estimates for it, the plant is "providing service," and no party has demonstrated that it is not used and useful, and that its disallowance would be inappropriate.[106] The Company contends that it would be punitive to exclude the estimated, unsupported costs. We strongly disagree. Because the Company could not make invoices available for audit when the rate case was filed, the requested plant costs could not be verified. They are not known and measurable costs. It is the Company, and not the other parties to this case, who bears the burden of demonstrating that plant is used and useful, and that the Company's requested rates are based on known and measurable costs. The exclusion of undocumented plant costs in this case does not prevent the Company from submitting proper documentation evidencing the actual costs paid for the plant for audit in a future rate proceeding. Staff's proposed adjustments are reasonable and will be adopted.

H. AIAC and CIAC in CWIP

The Company contends that Advances in Aid of Construction ("AIAC") and CIAC associated with CWIP and not yet in rate base should not be deducted from rate base, because there is no offsetting plant in rate base.[107] The balances in dispute total $3,942,844 in CIAC and $312,175 in AIAC.[108] The Company states that when the plant moves into Utility Plant in Service, then it is appropriate to deduct the associated AIAC and CIAC when calculating rate base, but contends that it is improper to do so before that time.[109] Staff states that the CIAC and AIAC funds that the Company asserts are in CWIP should be reflected in the CIAC and AIAC balances used to calculate

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[105] *Id.*
[106] Company Brief at 32, citing Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-26) at 4.
[107] Company Brief at 33; Rejoinder Testimony of Company witness Linda J. Gutowski (Exh. A-27) at 7-8.
[108] *Id.* at 7. By district, the disputed amounts are as follows for CIAC: Agua Fria Water, $3,432,286; Havasu Water, $10,845; Mohave Water, $94,452; Paradise Valley Water, $322,588; Sun City West Water, $17,318; and Mohave Wastewater, $65,395. The AIAC amounts in dispute are as follows: Mohave Water, $291,909; and Tubac Water, $20,266.
[109] Rejoinder Testimony of Company witness Linda J. Gutowski (Exh. A-27) at 7.

and properly reflect a reduction to rate base, regardless of the form of the CIAC or AIAC or how it is used.[110] Staff argues that reducing rate base by CIAC and AIAC preserves the ratemaking balance and removes the possibility of the Company earning an excess.[111] RUCO and Staff contend that it is the Company's choice whether to accept plant or funds from developers, and that if the Company chooses to accept plant, then the Company is not expending funds for the plant and thus has funds for other uses.[112] The Company disagrees, arguing that the fact that developers build and contribute plant does not make any funds available to the Company to build other components of plant.[113] RUCO and Staff both argue that regardless of how the Company accepts AIAC or CIAC, whether in plant or in funds, the ratemaking treatment should not change.[114] Staff and RUCO assert that the Company's position is contrary to traditional ratemaking practices and contrary to the National Association of Regulatory Commissioners ("NARUC") definition of CIAC, which does not distinguish between CIAC associated with CWIP and CIAC associated with plant in service.[115]

The Company argues that the Commission has accepted adjustments excluding CWIP-related CIAC in the past,[116] but in a case cited by the Company, the issue was not contested or discussed. As Staff states, the issue of customer-supplied advances associated with CWIP was raised most recently in Docket No. G-04204A-06-0463 et al., and was discussed in Decision No. 70011 in that docket.[117] We agree with RUCO and Staff that the Company's choice whether to accept plant or funds from developers is irrelevant, and does not change the nature of AIAC or CIAC. The evidence in this case

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[110] Surrebuttal Testimony of Staff witness Gerald Becker (Exh. S-8) at 10.
[111] Staff Brief at 11.
[112] RUCO Reply Brief at 4-5; Staff Brief at 11.
[113] Company Brief at 33.
[114] Staff Brief at 11; RUCO Reply Brief at 4-5.
[115] RUCO Reply Brief at 4; Staff Brief at 11, citing to the NARUC Uniform System of Accounts as follows:

271. Contributions in Aid of Construction

A. This account shall include:

1. Any amount or item of money, services or property received by a utility from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and which is utilized to offset the acquisition, improvement to offset the utility's property, facilities or equipment used to provide utility services to the public.

[116] Company Brief at 34, citing Decision No. 68302 (November 14, 2005), Docket No. W-01445A-04-0650; Rejoinder Testimony of Company witness Linda J. Gutowski (Exh. A-27) at 8, citing schedules from a Staff witness's testimony in that docket.
[117] *See* Decision No. 70011 at 8-10.

does not persuade us to depart from the traditional ratemaking treatment of deducting AIAC and CIAC from rate base. The adjustments recommended by RUCO and Staff will be adopted.

I. Arsenic Treatment Facilities (Agua Fria, Havasu, and Sun City West Water districts)

To meet the new federal arsenic standard, the Company constructed and installed arsenic treatment facilities in its Agua Fria Water, Havasu Water, Paradise Valley Water, and Sun City West Water districts.[118] Staff is recommending that a portion of the costs of the arsenic treatment facilities installed by the Company in its Agua Fria Water, Havasu Water, and Sun City West Water districts be disallowed from plant in service due to overcapacity.

Based on the analysis of Staff's Engineering witness, for the Agua Fria Arsenic Treatment Plant No. 5, Staff recommends disallowance of $126,352 of the Company's cost of the facility (Staff's estimated cost difference between three 11 foot diameter vessels and the four 11 foot diameter vessels installed by the Company); for Havasu Arsenic Treatment Plant, Staff recommends disallowance of $34,266 of the Company's $286,960 cost of the facility (Staff's estimated cost difference between two 11 foot diameter vessels and the two 14 foot diameter vessels installed by the Company); and for Sun City West Arsenic Treatment Plant No. 2, Staff recommends disallowance of $92,080 of the Company's $575,380 cost of the facility (Staff's estimated difference between four 11 foot diameter vessels and the four 12 foot diameter vessels installed by the Company).[119]

The Company contends that Staff's claims concerning the overcapacity of the installed arsenic treatment vessels are without merit.[120] The Company's witness Joseph E. Gross testified that the Company designed its iron-oxide based arsenic treatment systems to operate in series mode instead of a parallel configuration, which allows for greater maximum flow rates and reduced empty bed minimum contact time.[121] For a system operating in parallel configuration, which Staff used in its analysis of the facilities, the literature recommends minimum empty bed contact time of no less than five minutes and maximum flow rates of not greater than five gallons per minute per square foot

[118] *See* Decision No. 68310 (November 14, 2005); Decision No. 68858 (July 28, 2006).
[119] Surrebuttal Testimony of Staff witness Dorothy Hains (Exh. S-4) at 3-5.
[120] Company Brief at 35.
[121] Tr. at 150-54; *See* Exhs. A-3, A-4, and A-5.

("gpm/sq ft") of media.[122] Operating in the series, or lead/lag mode instead of parallel mode, the maximum flow rates improve to eight gpm/sq ft and minimum contact time decreases to 2.5 minutes, and the facilities were designed to satisfy these standards.[123] The Company's witness testified that the net results of the series flow configuration is an increase in the media's absorption capability of 15 to 50 percent, which increase translates into a proportional reduction in operating costs.[124]

Staff disagrees with the Company, and argues instead that the alternative vessel configurations as described in Staff Engineering witness's prefiled surrebuttal testimony would be more than adequate to properly treat the output from the associated wells.[125] While we do not disagree that the configurations described by Staff would be adequate, we find that the Company presented credible evidence to support its contention that it made its choice of installation of water treatment facilities with the goal of achieving the minimum life cycle cost possible, through extending the life of the media used in the arsenic removal vessels.[126] The facilities were designed in a configuration recommended by federal guidelines and the manufacturer of the equipment.[127] Based on the evidence presented at the hearing, we find that the adjustments recommended by Staff are not necessary, and will not adopt them.

J. Accumulated Depreciation (all districts)

RUCO disagrees with the Company's use of an end of the month accumulated depreciation methodology, which the Company states that it has employed since January 2003.[128] RUCO recommends that the Company instead use a mid-month depreciation convention.[129] RUCO recommends adjusting the accumulated depreciation balances for all the districts in this case, because RUCO employs a mid-month depreciation convention and applies the last authorized depreciation rate in calculating RUCO's recommended accumulated depreciation levels for each district.[130] On brief, RUCO states that it is "less concerned with the methodology used and more concerned with the

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[122] Exh. A-4 and A-5.
[123] Company Brief at 35, citing to Exh. A-3.
[124] Tr. at 152.
[125] Staff Brief at 9; Surrebuttal Testimony of Staff witness Dorothy Hains (Exh. S-4) at 3-5.
[126] *See* Tr. at 127-137, 151-154; Exhs. A-3, A-4, and A-5.
[127] Tr. at 127-137, 151-154; Exhs. A-3 and A-4.
[128] RUCO Brief at 4.
[129] *Id.* at 5; RUCO Reply Brief at 4.
[130] Direct Testimony of RUCO witness Timothy J. Coley (Exh. R-9) at 9.

ratemaking principle. Generally Accepted Accounting Principles ("GAAP") recognize RUCO's methodology as well as the Company's methodology 'as long as it is applied consistently.'"[131] RUCO claims that the Company's application of the end of month convention is inconsistent, in contravention of GAAP, because during the test year used in the rate proceeding that led to Decision No. 67093 (June 30, 2004), the Company used a mid-month convention.[132]

The Company changed to the end of month convention as of January 2003.[133] Its application in this case is based on the actual depreciation expenses booked and approved by its auditors using a methodology allowed for by GAAP and which complies with all Sarbanes-Oxley requirements.[134] Over the life of an asset, use of all three GAAP accepted conventions, mid-month, end of month, or mid-year, yield the same total depreciation expense.[135] The Company believes that RUCO's adjustments improperly substitute a fictional depreciation expense.[136] We agree, and will therefore not adopt RUCO's proposal to substitute a mid-month convention for the acceptable end of month convention booked by the Company.

K. Cash Working Capital (all districts)

In preparing its cash working capital requirement for this case, the Company performed a lead/lag study.[137] A utility must have cash on hand to finance cost of service in the time period between when service is rendered and associated revenues are collected, and the cash working capital component of a utility's working capital allowance measures the amount of investor-supplied capital necessary for a utility to meet this need.[138] A lead/lag study measures the actual lead and lag days attributable to individual revenue and expense items, and is the most accurate way to measure the cash working capital requirement.[139] Revenue lag days are determined by measuring the amount of time between provision of services and the receipt of payment for those services.[140] The

[131] RUCO Brief at 5, citing Intermediate Accounting, p. 559, D. Keso, J. Weygandt, T. Warfield, John Wiley & Sons, Inc., 2001.
[132] RUCO Brief at 5, citing Surrebuttal Testimony of RUCO witness Timothy J. Coley (Exh. R-10) at 11.
[133] Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-26) at 9.
[134] *Id.*
[135] *Id.*
[136] *Id.*
[137] Revised Direct Testimony of Company witness Sheryl L. Hubbard (Exh. A-28) at 5-6; Company Schedule B-6.
[138] Revised Direct Testimony of Company witness Sheryl L. Hubbard (Exh. A-28) at 5.
[139] Direct Testimony of RUCO witness Timothy J. Coley (Exh. R-9) at 21.
[140] Revised Direct Testimony of Company witness Sheryl L. Hubbard (Exh. A-28) at 5.

measurement of time between the incurrence of expenses and the payment of those obligations are referred to as expense lag days, and they offset the revenue lag.[141]

RUCO and the Company disagree on two issues related to the Company's lead/lag study.[142] RUCO disagrees with the inclusion of non-cash expense items in the Company's original lead/lag study, because they are items for which the Company did expend cash to pay for, but which will require no future cash outlays.[143] RUCO notes that the Company excluded all non-cash expense items from its revised calculations provided in rebuttal testimony, but still disagrees with the Company's inclusion of an allocated amount of regulatory expense.[144]

RUCO also argues that it is incorrect to use 365 days to calculate average daily revenue, because the Company is not open for business and collecting receivables or paying payables on weekends and holidays, and advocates the use of 254 days to calculate the average daily revenue.[145] The Company states that water consumption by the Company's customers occurs on a daily basis and the associated average daily revenue should be calculated using a full year, or 365 days, and that both average daily revenues and average accounts receivable balances should be computed on a comparable basis of 365 daily balances, which is the public utility industry standard.[146] The Company explains that by using the accounts receivable balance on Friday for the following Saturday and Sunday balances (and Monday bank holidays where applicable), a 365 day average can be computed, which is what the Company did in calculating the cash working capital component of working capital presented in the Company's rejoinder testimony.[147]

The cash working capital component of working capital by district proposed by the parties is as follows:

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Company	$12,206	$53,338	$187,330	$41,544	$85,384	$21,683	($3,481)
RUCO	($236,355)	$10,348	$67,444	($148,538)	($7,196)	$19,310	($4,689)
Staff	$129,242	$25,320	$181,849	$42,810	$38,413	$19,685	$7,641

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141 *Id.*
142 RUCO Brief at 9.
143 Direct Testimony of RUCO witness Timothy J. Coley (Exh. R-9) at 19.
144 Surrebuttal Testimony of RUCO witness Timothy J. Coley (Exh. R-10) at 22.
145 RUCO Brief at 9-10.
146 Rejoinder Testimony of Company witness Sheryl L. Hubbard (Exh. A-30) at 3.
147 *Id.* at 3-4.

Across the seven districts, the Company recommends total cash working capital of $398,004, Staff recommends $444,960, and RUCO recommends ($299,676).

While we agree with RUCO that the Company should have excluded regulatory expense from its cash working capital calculations, we disagree with RUCO's arguments that the Company's use of 365 days to calculate average daily revenue, and the associated accounts receivable balances is "excessive." The use of 365 days is acceptable, because the Company provides services to its customers 365 days per year. The fact that the Company is not open for business and collecting receivables or paying payables on weekends or holidays is irrelevant to the Company's calculation of average daily revenue associated with services provided 365 days per year. RUCO did not delineate the amount of the difference between the Company's calculations and RUCO's calculations attributable to the Company's inclusion of an allocation of regulatory expense in its calculation. In future cases, we will not accept cash working capital calculations that include non-cash items. However, of the cash working capital proposals presented in this case, we find that the Company's are the more reasonable, and will adopt them.

L. Amortization of Imputed Regulatory Advances and Contributions (all districts except Paradise Valley Water)

Decision No. 63584 (April 24, 2001) approved a settlement agreement regarding the sale of assets to Arizona-American from Citizens Utilities. The sale involved all the districts in this proceeding with the exception of Paradise Valley Water. The settlement agreement called for the unrecovered balance of imputed regulatory AIAC and imputed regulatory CIAC to be amortized over 6 1/2 years and 10 years, respectively, beginning January 15, 2002.[148] The Company proposed in this application that the amortizations of regulatory AIAC from January 1, 2008 through July 14, 2008 be recognized in this case instead of in the next rate filings for these districts.[149] The Company's request is based on: (1) the fact that the imputed regulatory AIAC will have been fully amortized at least a year prior to the time new rates go into effect, and (2) that for reasons beyond the Company's control, in particular the three-year moratorium on rate cases imposed as a condition of RWE's acquisition of

[148] Decision No. 63584.
[149] Revised Direct Testimony of Company witness Thomas M. Broderick (Exh. A-11) at 8-9.

Arizona-American's parent company, recovery of the amortizations has been delayed past the times contemplated by the settlement agreement approved by Decision No. 63584.[150] Staff opposed the request and contends that the amortization of the imputed regulatory AIAC should coincide with the end of the test year.[151] RUCO believes that the Company's request should be granted, because the amortization of the imputed regulatory AIAC is a known and measurable post test year event and the imputed AIAC has been fully amortized since July 14, 2008.[152] No party disagrees that the amounts are known and measurable. By the time new rates approved in this proceeding go into effect, the imputed regulatory AIAC will have been fully amortized for nearly 1 1/2 years. We agree with RUCO that it is reasonable to allow the amortizations to be included in rates in this case, and will allow it.

M. Fair Value Rate Base Summary

The Company did not prepare schedules showing the elements of Reconstruction Cost New Rate Base ("RCND") for the districts.[153] Instead, the Company requested that the Original Cost Rate Base ("OCRB") be treated as its Fair Value Rate Base ("FVRB") for the districts.[154] Based on the discussion of rate base issues set forth above, we find the FVRB for each of the districts to be as follows:

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
OCRB/FVRB	$61,830,329	$3,996,771	$9,229,667	$37,075,690	$38,365,090	$1,437,084	$698,120

IV. OPERATING INCOME ISSUES

A. Annualization of ACRM Step 2 Increase (Havasu Water, Paradise Valley Water and Sun City West Water)

The Company and RUCO's adjusted test year revenues have been increased to include annualized revenues from the ACRM Step 2 increases for Havasu Water, $150,935; Paradise Valley Water, $371,853; and Sun City West Water, $155,835. Staff's proposed adjusted test year revenues do not include these annualized revenues.[155] The Company points out that failure to include the

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[150] Rebuttal Testimony of Company witness Thomas M. Broderick (Exh. A-12) at 10-11.
[151] Staff Brief at 10.
[152] Direct Testimony of RUCO witness William A. Rigsby (Exh. R-12) at 10.
[153] Direct Testimony of Staff witness Gerald Becker (Exh. S-7) at 10.
[154] *Id.*
[155] Staff Final Schedules GWB-1.

ACRM Step 2 increases in adjusted test year revenues would result in an overstatement of the necessary revenue increase for those districts.[156] We agree, and will include them in adjusted test year revenues. Adjusted test year revenues for the districts are adopted as follows:

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Adjusted test year revenues	$18,818,613	$1,177,522	$5,113,631	$8,220,586	$5,857,266	$426,900	$796,161

B. Labor Expense (all districts)

RUCO proposed, and the Company and Staff accepted,[157] a labor expense adjustment in the amount of $163,092 to conform to the Company's revised level of test year labor costs.[158] The Company provided the effect on all the districts through the 4-factor allocation methodology used to allocate Arizona Corporate charged among the districts, for the following district-specific adjustments:[159]

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Labor expense adjustment	($37,665)	($2,259)	($12,768)	($12,536)	($13,568)	($1,183)	($1,678)

The adjustment is reasonable and will be applied in accordance with the Company's allocation.

C. Waste Disposal Expense (all districts)

RUCO proposed an adjustment to reflect the Company's revised level of waste disposal expense.[160] Staff and the Company agree to the adjustment,[161] and the Company provided the effect on all the districts through the 4-factor allocation methodology used to allocate Arizona Corporate charged among the districts, for the following district-specific adjustments:[162]

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Waste disposal expense adjustment	$870	$52	$295	$290	$313	$27	$39

[156] Company Brief at 41.
[157] Tr. at 780, 785.
[158] Direct Testimony of RUCO witness Rodney L. Moore (Exh. R-5) at 14.
[159] Rebuttal Testimony of Company witness Sheryl L. Hubbard (Exh. A-29) at 7.
[160] Direct Testimony of RUCO witness Rodney L. Moore (Exh. R-5) at 12.
[161] Rebuttal Testimony of Company witness Sheryl L. Hubbard (Exh. A-29) at 8; Tr. at 781, 785.
[162] Rebuttal Testimony of Company witness Sheryl L. Hubbard (Exh. A-29) at 8.

The adjustment is reasonable and will be applied in accordance with the Company's allocation.

D. Achievement Incentive Pay (all districts)

RUCO proposes disallowance of 30 percent, or $5,555, of the Company's $18,517 Arizona Corporate allocated annual incentive pay ("AIP") management fees expenses for the districts in this proceeding.[163] The Company states that while it disagrees with the premise that shareholders are the primary beneficiaries of additional profit the Company achieves as the result of Arizona-American meeting its financial targets, it will not oppose RUCO's proposed adjustment in this proceeding.[164] Staff is in agreement with RUCO and the Company that the adjustment should be made.[165] The Company states that RUCO's adjustment affects each of the seven districts through the 4-factor allocation methodology as follows:[166]

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Management fees adjustment	($33,408)	($2,004)	($11,325)	($11,119)	($12,035)	($1,049)	($1,489)

The adjustments proposed by RUCO and agreed to by the Company and Staff, as set forth above are reasonable and will be adopted.

E. Water Testing Expense (all districts except Mohave Wastewater)

The Company and Staff are in agreement that water testing expense should be allowed for each of the water districts as follows:[167]

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water
Water testing expense	$788,041	$46,438	$362,644	$345,535	$299,015	$51,510

The adjustments to water testing expense as set forth above are reasonable and will be adopted.

F. Miscellaneous Expense (all districts)

The parties are in agreement that downward expense adjustments should be made to remove

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[163] Direct Testimony of RUCO witness Rodney L. Moore (Exh. R-5) at 13-14.
[164] Rebuttal Testimony of Company witness Sheryl L. Hubbard (Exh. A-29) at 10-11.
[165] Tr. at 783, 786.
[166] Rebuttal Testimony of Company witness Sheryl L. Hubbard (Exh. A-29) at 10-11.
[167] *Id.* at 13 and Exhibits SLH-3R; Tr. at 782, 786; Staff Final Schedules GTM-19.

civic and charitable contributions, membership dues, and other related miscellaneous expenses not typically recovered from customers, from each of the seven districts through the 4-factor allocation methodology as follows:[168]

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Miscellaneous Expense Adjustments	($5,450)	($188)	($1,407)	($3,802)	($1,299)	($360)	($167)

The adjustments proposed by RUCO and agreed to by the Company and Staff as set forth above are reasonable and will be adopted.

G. Tank Maintenance Program (all Water districts)

The Company proposed a reserve for water tank maintenance expense which would provide an annual allowance for tank maintenance costs in operating expenses. Under the Company's proposal, the funds collected through rates would be recorded in a deferred liability account labeled Reserve for Tank Maintenance, and the Reserve for Tank Maintenance account would be charged as tank maintenance expenses are incurred, reducing the balance of funds reserved.[169] The Company states that in subsequent rate cases, actual tank maintenance expenditures and the reserve account could be reviewed and the annual allowance increased, decreased or remain unchanged on a going forward basis as circumstances warrant,[170] and that all revenue collected would be offset by actual expenditures made to maintain tanks, resulting in no over-collection or under-collection of tank maintenance expense.[171]

RUCO supports the Company's request, based on its review of estimates the Company has received, but not accepted, through a request for proposals process.[172] RUCO states that any future imprudent or unreasonable expenditure incurred by the Company in connection with the program could be addressed in a future rate case proceeding to insure that ratepayers are not harmed by the Company being overcharged for work that is not needed.[173]

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[168] Direct Testimony of RUCO witness Rodney L. Moore (Exh. R-5) at 15; Rebuttal Testimony of Company witness Sheryl L. Hubbard (Exh. A-29) at 13-14; Tr. at 782, 786.
[169] Company Brief at 41.
[170] *Id.*
[171] *Id.*, citing Rebuttal Testimony of Company witness Sheryl L. Hubbard (Exh. A-29) at 14.
[172] Direct Testimony of RUCO witness William A. Rigsby (Exh. R-12) at 28-29.
[173] *Id.* at 29.

Staff opposes the Company's proposal and recommends that test year tank maintenance expenses be normalized instead.[174] Staff does not accept the Company's proposed maintenance costs because they are based on costs proposed by a Company affiliate in Missouri and by an unaffiliated Arizona utility, Arizona Water Company, and that the Company did not demonstrate that the costs are directly comparable to its own costs.[175] Staff argues that there is no standard for maintenance on storage tanks because of climate differences and water quality.[176]

We are not opposed to the Company instituting a 14-year interior coating and exterior painting program for its water tanks. However, we do not believe that it is necessary or reasonable to adopt the Company's proposal for advance funding of a Reserve for Tank Maintenance at this time. Because the tank maintenance expense reserve account balance proposed by the Company is not based on known and measurable Company expenditures, we find the normalization of tank maintenance expenses proposed by Staff, which is based on a three year average of expenses for each district, to be the more reasonable alternative. Staff's normalization adjustment will therefore be adopted for each of the six water districts.

H. Meter Depreciation Expense (all Water districts)

The Company proposed a uniform 15-year depreciation rate (6.67 percent per year) for Account 334100 - Meters, based on its efforts to replace all small water meters after 15 years of usage in order to maintain metering accuracy.[177] Staff states that while it supports the Company's formal proposal to go forward with a 15 year meter change-out program, Staff believes it is premature to adjust the meter depreciation rates, because the Company has not implemented such a plan in the past.[178]

We agree with the Company that meter replacement is important in order to maintain accurate meter readings for its customers. We find that Arizona-American presented credible evidence that it has been replacing meters on a 15 year cycle over the last three years,[179] and that the Company's

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[174] Staff Brief at 16.
[175] *Id.*
[176] *Id.*
[177] Rebuttal Testimony of G. Troy Day (Exh. A-10) at 5; Rebuttal Testimony of Linda J. Gutowski (Exh. A-26) at 29.
[178] Staff Brief at 16-17.
[179] Rejoinder Testimony of Company witness Linda J. Gutowski (A-27) at Exhibit LJG-2RJ.

actions in these districts over the past three years demonstrates a commitment to implementation of a 15 year meter change-out program. We believe the Company has demonstrated an intention to continue the 15 year meter replacement program, and therefore find it appropriate to authorize the requested depreciation rate for meters. Should the program not continue for any reason, we will revisit this authorized depreciation rate in a future rate proceeding. A 6.67 percent depreciation rate for Account 334100 - Meters in the six water districts will be adopted, for test year meter depreciation expense for this account as follows.

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water
Depreciation expense Meters - Account 334100	$311,278	$11,712	$118,102	$23,403	$117,131	$6,607

I. Rate Case Expense

Arizona-American requests total rate case expense of $517,935 amortized over three years. The portion of the $517,935 total related to this case is $456,275.[180] This amount includes $289,275 expended as of January 28, 2009; estimated invoices past that date for $132,000 for outside witnesses, external counsel, and the costs of analyzing rate consolidation as requested by the Commission after the rate application was filed; and $35,000 for the costs of mailing a required letter to customers at the end of the case.[181]

The Company accepted Mr. Magruder's recommendation to eliminate $10,000 of witness training expenses from rate case expenses.[182] In his reply brief, Mr. Magruder objects to the Company recovering the costs it incurred to comply with the Commission's request to analyze rate consolidation, arguing that the Company "should be looking for ways to consolidate rates when submitting a rate case" and "there should be no new expenses to provide a clear answer to this concern."[183] The Company incurred the costs in question in order to respond to a Commission request that was made after its application was prepared, filed, and found sufficient. Rate case filing requirements do not require rate consolidation analysis, and there was no requirement prior to the filing for the Company to submit a rate consolidation proposal. Neither Mr. Magruder nor any other

[180] Rebuttal Testimony of Company witness Thomas A. Broderick (Exh. A-12) at 17.
[181] *Id.* at 16-17.
[182] *Id.* at 18.
[183] Magruder Reply Brief at 41.

party contests that the Company incurred costs in order to respond to the Commission's request, or that the costs were unreasonable. The Company reasonably incurred the costs in good faith for the benefit of ratepayers, and should therefore be allowed to recover them in rates.

In addition to $456,275 in expenses for this proceeding, the Company is requesting recovery of $62,000 that represents the unamortized balance as of May 31, 2009, through April 2010, of the amount of rate case expense allowed in Decision No. 69440 (May 1, 2007) for its Mohave Water and Mohave Wastewater districts ("Decision No. 69940 rate case expenses").[184] The Company claims that it should be allowed to collect this amount in the amortization of rate case expense for this proceeding because it would otherwise be permanently precluded from recovering expense that the Commission previously approved as recoverable.[185]

RUCO opposes the inclusion in rates set in this case the $62,000 of Decision No. 69440 rate case expenses, and Staff is in agreement.[186] RUCO argues that it should not be allowed because the amortization of rate case expense for two separate rate cases in one rate case is not a normal recurring expense; it would allow the Company to recover expenses associated with rates that are no longer in effect; and it would reimburse the Company for an expense that does not provide a benefit to current ratepayers.[187]

We agree with RUCO and Staff that it would be inappropriate to allow Decision No. 69440 rate case expenses. As RUCO argues, allowing recovery of the Decision 69440 rate case expenses would contravene the ratemaking convention of setting rates at a normal recurring level of expenses, and would improperly result in charging ratepayers for expenditures related to rates that are no longer in effect, and it therefore must be rejected.

We find total rate case expense of $456,275, normalized over three years and allocated across the seven districts using the Company's 4-factor allocation methodology as agreed to by Staff[188] to be reasonable, and will allow it. The amount of normalized rate case expense for each district is as follows:

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[184] Rebuttal Testimony of Company witness Sheryl L. Hubbard (Exh. A-29) at 12-13.
[185] Company Reply Brief at 9.
[186] Tr. at 782, 785.
[187] RUCO Brief at 11.
[188] *See* Rebuttal Testimony of Company witness Sheryl L. Hubbard (Exh. A-29) at 11 and Exhibits SLH-3R; Tr. at 782.

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Rate case expense	$69,224	$4,220	$24,483	$23,201	$25,543	$2,240	$3,181

J. Gross Revenue Conversion Factor

The Company and Staff are in agreement as to the inclusion of a property tax factor in the Gross Revenue Conversion Factor ("GRCF"), which is used to calculate the gross revenue required to obtain the proper level of operating income. RUCO opposes the inclusion of a property tax factor in the GCRF, stating that it has historically excluded property tax from its GCRF.[189] Inclusion of a property tax factor in the GCRF provides a simple, reasonable, and accurate means of calculating the gross revenue required to obtain the proper level of utilities' operating income. We find no basis in the record in this proceeding to deviate from our prior determinations.

K. Operating Income Summary

Based on the discussion of operating income issues set forth above, we find the adjusted test year operating expenses and operating income for each of the districts to be as follows:

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Adjusted test year revenues	$18,818,613	$1,177,521	$5,113,631	$8,220,585	$5,857,266	$426,900	$796,161
Test year operating expenses	$16,027,608	$1,049,369	$4,529,332	$6,085,055	$5,134,891	$476,710	$673,526
Test year operating income	$2,791,005	$128,152	$584,299	$2,135,530	$722,375	($49,810)	$122,635

V. COST OF CAPITAL

Based on their cost of capital analyses, the Company proposes an overall rate of return of 8.40 percent, RUCO recommends 7.0 percent, and Staff recommends 7.34 percent. PORA did not perform an analysis, but requests that the Company's rate of return be restricted to 6.5 percent, yielding an increase in rates for Sun City West Water district customers of 52 percent maximum.[190]

A. Capital Structure

The Company proposes a capital structure of 53.25 percent debt, consisting of long term debt alone, and 46.75 percent equity.[191] RUCO recommends a capital structure of 55.2 percent debt and

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[189] RUCO Reply Brief at 8.
[190] PORA Brief at 3.
[191] Revised Direct Testimony of Company witness Thomas M. Broderick (Exh. A-11) at Exhibit TMB-2.

44.8 percent equity.[192] Staff recommends a capital structure of 58.68 percent debt and 41.62 percent equity.[193] The Company argues, as it has in prior rate cases, against the inclusion of short term debt in its capital structure.[194] The Company contends that its short term debt balance should be excluded because it has increased due to interim financing of the White Tanks plant, a large capital project,[195] and that it is inappropriate to include short term debt in rate base when it is financing CWIP.[196] Staff responds that the Commission's filing requirements, which include schedules that require a listing of an applicant's short term debt as a component of the cost of capital, contemplate the inclusion of short term debt in capital structure.[197] As we stated in Decision No. 70351 (May 16, 2008), short term debt is a source of funds available to the Company, and should therefore be included in the Company's capital structure. Excluding a portion of the Company's 58.68 percent debt would in effect compensate shareholders for a non-existent equity investment. A capital structure for the Company of 58.68 percent debt and 41.62 percent equity best represents the Company's actual capital structure, and will be adopted for purposes of this proceeding.

B. Cost of Debt

For purposes of this proceeding, the Company's cost of debt is determined to be 5.463 percent, which is the figure upon which the parties generally agree.[198]

C. Cost of Equity

Unlike the cost of debt, which is based on actual costs, the cost of equity for the districts, which do not have publicly traded stock, must be estimated. The parties submitting cost of equity testimony used data from selected sample groups of publicly traded companies in order to estimate the districts' cost of equity. Their cost of equity recommendations for the Company range from the

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[192] Direct Cost of Capital Testimony of RUCO witness William A. Rigsby (Exh. R-1) at 53.
[193] Direct Testimony of Staff witness David C. Parcell (Exh. S-10) at 2. Revised Direct Testimony of Company witness Thomas M. Broderick (Exh. A-11) at Exhibit TMB-2.
[194] Rebuttal Testimony of Company witness Thomas M. Broderick (Exh. A-12) at 13.
[195] Company Brief at 44, citing Rebuttal Testimony of Company witness Thomas M. Broderick (Exh. A-11) at 13.
[196] *Id.*
[197] Staff Brief at 12, citing A.A.C. R14-2-103, Schedule D-2.
[198] Direct Testimony of Staff witness David C. Parcell (Exh. S-10) at 2; Direct Cost of Capital Testimony of RUCO witness William A. Rigsby (Exh. R-1) at 53; Revised Direct Testimony of Company witness Thomas M. Broderick (Exh. A-11) at Exhibit TMB-2.

Company's 11.75 percent, Staff's 10.00 percent, to RUCO's 8.88 percent.[199]

In reaching her 11.75 percent cost of equity recommendation for Arizona-American, the Company's witness Dr. Bente Villadsen used two benchmark samples, regulated water utilities and natural gas local distribution companies ("LDC"), selected based on their risk characteristics, which Dr. Villadsen believes are comparable to Arizona-American's districts.[200] She also reported results for a subsample of the water companies with a high percentage of regulated revenues.[201] Dr. Villadsen gave greater weight to her analysis results for the LDC sample, because she believes that the water sample she used suffers from numerous data issues that make the cost of equity estimates based thereon not reliable at the present time.[202] For each sample, Dr. Villadsen estimated the sample companies' cost of equity using several versions of the discounted cash flow ("DCF") methodology,[203] and approaches to which she refers as risk-positioning methods, including the capital asset pricing model ("CAPM").[204] Dr. Villadsen utilized an "after-tax weighted-average cost of capital" ("ATWACC") calculation, using market value capital structures, in her DCF and risk positioning analyses in order to determine the cost of equity that the proxy companies' estimated overall cost of capital gives rise to at the Company's requested capital structure consisting of 46.9 percent equity, and also at approximately 41.6 percent equity.[205] Dr. Villadsen testified that a return on equity for Arizona-American of 11.75 percent is reasonable because it is equal to the midpoint of her risk-positioning estimates and her DCF estimates.[206]

RUCO's witness William Rigsby used a DCF analysis[207] and a CAPM analysis[208] to reach his 8.88 percent cost of equity estimate for Arizona-American. Mr. Rigsby used a water proxy group that included four of the same water companies included in Dr. Villadsen's water proxy group, and a natural gas LDC proxy group consisting of the same ten companies in Dr. Villadsen's natural gas

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199 Revised Direct Testimony of Company witness Bente Villadsen (Exh. A-13) at 3; Direct Testimony of Staff witness David C. Parcell (Exh. S-10) at 2; Direct Cost of Capital Testimony of RUCO witness William A. Rigsby (Exh. R-1) at 4.
200 Revised Direct Testimony of Company witness Bente Villadsen (Exh. A-13) at 2.
201 *Id.*
202 *Id.* at 2-3, 44.
203 *Id.* at 29-37, 42-44.
204 *Id.* at 23-29, 37-39.
205 *Id.* at 14-16.
206 *Id.* at 3-4.
207 Direct Cost of Capital Testimony of RUCO witness William A. Rigsby (Exh. R-1) at 7-27.
208 *Id.* at 28-33.

LDC proxy group.[209] Mr. Rigsby recommends the average of his DCF and CAPM results, 8.88 percent, as an appropriate cost of equity for the Company.[210]

Staff's witness David Parcell utilized three methodologies to determine his cost of equity estimate of 10.0 percent for the Company; the constant growth DCF model,[211] the CAPM,[212] and a Comparable Earnings analysis.[213] He used three proxy groups in his analysis; the four water utilities in the Standard Edition of Value Line, the eight water utilities covered in AUS Utility Reports, and the proxy group of water utilities selected by the Company's witness Dr. Villadsen.[214] Mr. Parcell recommends the 10.0 percent midpoint level of the results of his three cost of equity estimation models.[215]

RUCO and Staff are both critical of Dr. Villadsen's use of the ATWACC methodology, which has the effect of raising cost of equity estimates, has not been extensively used or reviewed in the regulatory environment, and though presented several times, has never been accepted by this Commission.[216]

The Company asserts that Staff and RUCO's recommendations do not reflect current market conditions. The Company contends that Staff's recommended 10 percent return on equity is only 1.4 to 1.5 percent more than the 8.5 to 8.6 bond returns of American Water's bonds, and that RUCO's recommendation of 8.88 percent barely exceeds long term corporate bond rates, which have risen significantly.[217] The Company claims that Staff's and RUCO's cost of equity estimates are too low because they would not provide an adequate incentive for an investor to choose an equity purchase over long term bonds, which the Company argues is a safer investment in today's uncertain financial climate.[218] The Company believes that Mr. Rigsby and Mr. Parcell should have added risk premiums to their equity estimates to account for the increased risk to Arizona-American's equity investors that

[209] *Id.* at 17-22.
[210] *Id.* at 34.
[211] Direct Testimony of Staff witness David C. Parcell (Exh. S-10) at 17-21.
[212] *Id.* at 22-25.
[213] *Id.* at 25-30.
[214] *Id.* at 17.
[215] *Id.* at 30.
[216] RUCO Brief at 16; Staff Brief at 14.
[217] Company Brief at 46-47.
[218] *Id.*

results from Arizona-American's capital structure being more highly leveraged than those in the proxy groups.[219]

Staff responds that one of the major impacts of a recession is to depress the profits of most enterprises, and that as a result, it is to be expected that capital costs will decrease if a significant recession occurs,[220] and RUCO responds that it is precisely current market conditions that serve as the basis for RUCO's cost of equity recommendation.[221] RUCO states that during a recession with dramatic falls in stock prices, a stable water utility is an attractive investment. RUCO explains that its recommendation to forego a risk premium in this case is not due to failure to recognize the current economy, but is instead recognizes current economic conditions.[222]

Arizona-American does not accept RUCO and Staff's rationale, arguing instead that its return on equity should not be "reduced" in the current economic climate, when the federal government is providing aid to companies to allow them to survive the current market turmoil, and that it would make no sense to "deny Arizona-American taxable income when the State of Arizona needs income-tax revenue."[223]

Arizona-American is a regulated monopoly. The purpose of the rate-setting exercise undertaken in this case is to set just and reasonable rates and to establish a fair return on the Company's fair value rate base. We recognize that the Company must compete for capital with non-monopoly firms, and we consider and weigh all analyses and estimates of cost of equity. We take issue with the Company's argument that it should be granted a higher return on its investment because government aid is being given to non-monopoly companies. And the argument that we should grant the Company a higher equity return so that its earnings will exceed bond rates by a higher margin and therefore increase state income tax proceeds, is disrespectful to the Company's customers and to the Commission. We will not increase rates on the backs of captive utility ratepayers in an effort to increase state revenues. We agree with Staff that the Company's arguments seem to ignore the relationship between economic conditions and the cost of capital, when it implies

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[219] *Id.* at 47.
[220] Staff Brief at 15.
[221] RUCO Reply Brief at 9.
[222] *Id.*.
[223] Company Reply Brief at 6.

that it should somehow be shielded from the negative impacts of today's economy that affect its ratepayers and virtually every other business.[224]

The evidence presented supports a cost of equity of 9.9 percent. This level of return on equity reasonably and equitably balances the needs of Arizona-American and its ratepayers, is consistent with recent Commission determinations, and results in the setting of just and reasonable rates.

D. Cost of Capital Summary

Based on the foregoing, we adopt an overall cost of capital for Arizona-American of 7.33 percent, calculated as follows:

	Percentage	Cost	Weighted Cost
Debt	58.68%	5.463%	3.21%
Common Equity	41.62%	9.9%	4.12%
Weighted Average Cost of Capital			**7.33%**

VI. AUTHORIZED REVENUE INCREASE

Based on the discussion herein, revenue increases for each of the districts are authorized as follows:

Agua Fria Water

Based on our findings herein, we determine that the Agua Fria Water district's gross revenue should increase by $2,875,120.

Fair Value Rate Base	$61,830,329
Adjusted Operating Income	2,791,005
Required Fair Value Rate of Return	7.33%
Required Operating Income	4,532,163
Operating Income Deficiency	1,741,158
Gross Revenue Conversion Factor	1.6513
Gross Revenue Increase	$ 2,875,120

Havasu Water

Based on our findings herein, we determine that the Havasu Water district's gross revenue should increase by $265,007.

Fair Value Rate Base	$3,996,771

[224] Staff Reply Brief at 5.

Adjusted Operating Income	128,152
Required Fair Value Rate of Return	7.33%
Required Operating Income	292,963
Operating Income Deficiency	164,811
Gross Revenue Conversion Factor	1.6079
Gross Revenue Increase	$ 265,007

Mohave Water

Based on our findings herein, we determine that the Mohave Water district's gross revenue should increase by $152,411.

Fair Value Rate Base	$9,229,667
Adjusted Operating Income	584,299
Required Fair Value Rate of Return	7.33%
Required Operating Income	676,535
Operating Income Deficiency	92,235
Gross Revenue Conversion Factor	1.6524
Gross Revenue Increase	$ 152,411

Paradise Valley Water

Based on our findings herein, we determine that the Paradise Valley Water district's gross revenue should increase by $958,940.

Fair Value Rate Base	$37,075,690
Adjusted Operating Income	2,135,530
Required Fair Value Rate of Return	7.33%
Required Operating Income	2,717,648
Operating Income Deficiency	582,118
Gross Revenue Conversion Factor	1.6473
Gross Revenue Increase	$ 958,940

Sun City West Water

Based on our findings herein, we determine that the Sun City West Water district's gross revenue should increase by $3,439,746.

Fair Value Rate Base	$38,365,090
Adjusted Operating Income	722,375
Required Fair Value Rate of Return	7.33%
Required Operating Income	2,812,161
Operating Income Deficiency	2,089,786
Gross Revenue Conversion Factor	1.6460
Gross Revenue Increase	$ 3,439,746

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Tubac Water

Based on our findings herein, we determine that the Tubac Water district's gross revenue should increase by $221,454.

Fair Value Rate Base	$1,437,084
Adjusted Operating Income	(49,810)
Required Fair Value Rate of Return	7.33%
Required Operating Income	105,338
Operating Income Deficiency	155,149
Gross Revenue Conversion Factor	1.4274
Gross Revenue Increase	$ 221,454

Mohave Wastewater

Based on our findings herein, we determine that the Mohave Wastewater district's gross revenue should increase by $110,296.

Fair Value Rate Base	$2,836,120
Adjusted Operating Income	110,808
Required Fair Value Rate of Return	7.33%
Required Operating Income	207,888
Operating Income Deficiency	97,080
Gross Revenue Conversion Factor	1.1361
Gross Revenue Increase	$ 110,296

VII. RATE DESIGN

A. Rate Consolidation

On November 12, 2008, Commissioner Mayes filed a letter in the docket requesting that the parties provide the Commission, as part of their testimony in this case, an analysis addressing the predicted impacts of statewide and select consolidation of the Company's water districts, and to propose combinations of districts where potential benefits outweigh the limitations of consolidation efforts, and an analysis of rates and operations under a statewide consolidation of the Company's water districts. In a letter to the docket dated December 17, 2008, the Company stated that it would provide a flexible analysis tool in response to the request. The consolidation analysis tool formulated by the Company is a large Excel spreadsheet that can be used to analyze assumptions and data points in a consolidation analysis, and the Company will make the tool available to any party on request.[225] The Company's witness Mr. Broderick stated that the rate consolidation analysis has a number of

[225] Rebuttal Testimony of Company witness Thomas M. Broderick (Exh. A-12) at 5.

assumptions and decision points that must be considered.[226] Mr. Broderick attached the results of one consolidation scenario to his prefiled rebuttal testimony. That scenario is attached to this Decision and incorporated herein as Exhibit B. Exhibit B includes all eight of the Company's water districts at the Company's requested revenues in the original application filed in this case, and at the present rates for the Sun City Water district. Exhibit B shows the typical 5/8 x 3/4 inch meter residential customer bill on a pre- and post- consolidation basis for each of the water districts, with a consolidated monthly basic service charge of $15.59 and three tier commodity rates of $1.50, $2.50 and $3.25. That scenario would result in the following total residential revenue and percentage shifts (in total changes net to zero) by district:[227]

District/Revenue shift increase/(decrease)		**Rate increase/(decrease)**
Anthem	($4.6 million)	(47.74 %)
Tubac	($0.3 million)	(47.13 %)
Havasu	($0.6 million)	(42.90 %)
Agua Fria	($3.5 million)	(17.75 %)
Sun City West	($1.3 million)	(15.69 %)
Paradise Valley	$0.3 million	2.95 %
Mohave	$1.7 million	37.22 %
Sun City	$8.4 million	136.00 %

Mr. Broderick stated that he experimented with the residential rate designs, but it did not change his conclusion that in order to achieve a total residential rate consolidation, the rates in the Sun City Water and Mohave Water districts would increase significantly, and that the major short term beneficiaries would be Anthem Water, Tubac Water, and Havasu Water districts, with the only largely unaffected water district being Paradise Valley Water.[228] The Company's witness Mr. Townsley further addressed the difficulties and benefits of rate consolidation, and laid out a specific partial rate consolidation proposal that involves the levelizing of net plant investment per customer

[226] *Id.* at 5-6.
[227] *Id.* at 7.
[228] *Id.*

by means of a systems benefit charge to be assessed on the variable usage rate per gallon.[229]

Based on its analysis, the Company believes that with the magnitude of revenue shift that would be required, its customers are not yet ready for an eight district consolidation.[230] The Company contends that ordering rate consolidation in this proceeding would be impractical, and could lead to unintended consequences, because at this time, there are more questions than answers, and to get the answers, data must be gathered, informed public input must be received, and difficult policy choices must be made. The Company believes that a subsequent parallel proceeding is needed to provide a forum for all parties, the public and the Commission to consider consolidation.[231]

PORA states that it is unprepared to consider consolidation of rates.[232] PORA agrees with Staff that rate consolidation is a complex issue with both public and policy implications, that public outreach should be undertaken prior to consolidation, and that adequate notice of consolidation should be given to all affected ratepayers.[233] PORA believes that Sun City West Water and Sun City Water districts have unique attributes which should entitle them to an option to not participate in rate consolidation if and when consolidation is implemented.[234]

RUCO states that it opposes consolidation of rates in this proceeding because only seven of the Company's thirteen water and wastewater districts are being considered in this proceeding, and because consolidation in this case would result in the inequitable spread of costs over some, but not all, of the Company's water districts.[235] RUCO contends that while there may be good reasons for rate consolidation, the reasons should be thoroughly vetted on the record and then applied evenly to all the districts.[236]

Staff states that it supports rate consolidation, but urges the Commission to proceed with caution, and does not recommend consolidation in the instant case.[237] Staff states that rate consolidation is a complex issue that has both public and policy ramifications which require careful

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[229] *Id.* at 11-18.
[230] *Id.* at 8.
[231] Company Brief at 52.
[232] PORA Brief at 4.
[233] *Id.*
[234] *Id.*
[235] RUCO Reply Brief at 8-9.
[236] *Id* at 9.
[237] Staff Brief at 20.

consideration in order to avoid any unintended consequences.[238] Staff is also concerned that the notice in this case was not adequate to notify affected ratepayers if consolidation were to be accomplished in this proceeding.[239]

Staff's witness Mr. Abinah agreed with the Company's counsel that several issues need to be addressed prior to rate consolidation, including:

- How to deal with different numbers of tiers and breakover points across districts;
- How to account for differing uses of water for residential irrigation across districts;
- Whether commercial rates should be consolidated at the same time as residential;
- How cost of service and returns by customer class should be affected;
- How public input can be maximized;
- How customers can be educated about the pros and cons of rate consolidation;
- How parties will participate in the public process;
- Whether to phase in or immediately implement consolidated rate structures;
- Whether wastewater rates should also be consolidated; and
- What economies of scale would be accomplished by consolidation.[240]

Only one party is recommending rate consolidation in this proceeding. Mr. Magruder recommends that consolidated rates be implemented in the water districts at this time, and that in the next Arizona-American rate case all other water districts be integrated into the consolidated rate structure.[241]

Staff states that if the Commission wishes to consider rate consolidation, this docket may be left open for the sole purpose of rate design for consolidation purposes, with the possibility of a consolidation of this docket with a future docket for the purpose of considering consolidating rates of Arizona-American's water districts.[242] RUCO states, however, that it would not support reopening this docket or the Company's next rate case docket for the purpose of applying a new rate design to

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238 *Id.*
239 *Id.*
240 Tr. at 892-97.
241 Magruder Brief at 27; *see also* Magruder Reply Brief at 19-27.
242 Staff Reply Brief at 5.

rates approved in a prior proceeding.[243] RUCO believes that the issue of rate consolidation should be considered when all of the districts are the subject of a rate case.[244] The Company agrees with Staff's approach, and states that it would be appropriate for this Decision to order that the docket be left open for the limited purpose of future action to revenue neutral rate consolidation.[245]

We believe that the issue of consolidation merits thorough vetting, discussion and public participation. In the instant proceeding, parties have argued that further development of the issue is needed. Accordingly, we find it reasonable to defer this issue in the instant rate case but keep this docket open for the limited purpose of consolidation discussion.

While the Commission will defer addressing consolidation in the instant case, we believe this issue is of critical importance and that unnecessary delay does not allow customers to benefit from administrative expediency, economies of scale and other efficiencies which would otherwise occur through consolidation. Accordingly, we will require Commission Staff to propose at least one consolidation proposal in the Company's next rate case which will allow parties and the public ample opportunity to have notice of this issue and participate in that discussion. We also believe the Company should commence a dialogue with its customers as soon as practicable, and will require it to initiate town hall-style meetings in all of its service territories to begin communicating with consumers the various impacts of system consolidation in each of those service territories, and to collect feed-back from consumers on such consolidation.

B. General Rate Design

The Company, RUCO and Staff are in general agreement on the appropriate rate design for the seven districts. Mr. Magruder proposed a ten tier inverted block rate design for all 5/8 x 3/4 inch meter residential water customers in the six water districts affected by this proceeding, which includes a commodity charge beginning at $1.50 per thousand gallons for usage up to 4,000 gallons per month, with breakover points at 8,000, 12,000, 16,000, 20,000, 24,000, 28,000, 32,000, and 40,000, ending at all usage over 40,001 gallons, for which Mr. Magruder proposed a commodity

[243] RUCO Reply Brief at 8.
[244] *Id.*
[245] Company Reply Brief at 7.

charge of $6.00 per thousand gallons.[246]

1. Mohave Wastewater district

The Company, RUCO and Staff's proposed rate design for Mohave Wastewater district residential customers, the current flat rate per dwelling unit, is reasonable and will be adopted.

2. Agua Fria, Havasu, Mohave, and Sun City West Water districts

The Company, RUCO, and Staff's proposed rate design for 5/8 x 3/4 inch meter residential customers in both the Agua Fria and Havasu Water districts is a three tier inverted block design with the first breakover point at 4,000 gallons and the second at 13,000 gallons, with the third tier for all monthly usage over 13,000 gallons.

For Mohave Water district 5/8 x 3/4 inch meter residential customers, the Company, RUCO, and Staff propose a three tier inverted block rate design with the first breakover point at 4,000 gallons and the second at 10,000 gallons, with the third tier for all monthly usage over 10,000 gallons.

For Sun City West Water district 5/8 x 3/4 inch meter residential customers, the Company, RUCO and Staff propose a three tier inverted block rate design with the first breakover point at 4,000 gallons and the second at 15,000 gallons, with the third tier for all monthly usage over 15,000 gallons.

With the exception of the Magruder proposal for ten tier rates for all the water districts, there was no dispute over the rate design for the Agua Fria, Havasu, Mohave, or Sun City West water districts. The ten tier rate design proposed by Mr. Magruder was not accompanied by any typical bill analysis or proof of revenues as were the rate designs proposed by the Company, Staff and RUCO, making adoption of that proposal unworkable in this case. The rate design proposed by the Company, RUCO and Staff for the Agua Fria, Havasu, Mohave, and Sun City West Water districts is reasonable and will be adopted.

3. Paradise Valley Water district

For the Paradise Valley Water district, the Company and RUCO propose a three tier inverted block rate design for 5/8 x 3/4 inch meter residential customers with the first breakover point set at

[246] Direct Testimony of Marshall Magruder (Exh. M-4); Magruder Reply Brief at 9.

25,000 gallons, the second at 80,000 gallons, and the third tier for all usage over 80,000 gallons per month, which is the same as the current rate structure.[247] Staff proposes a five tier inverted block rate design with the first breakover point set at 4,000 gallons, the second breakover point set at 20,000 gallons, the third at 65,000 gallons, and the fourth at 125,000 gallons, with the fifth tier for all monthly usage over 125,000 gallons. Based on public comment and the Company's change in position on rate design at the hearing, Staff also provided two alternative rate designs for the Paradise Valley Water district.[248] Staff's alternative five tier rate design for 5/8 x 3/4 inch meter residential customers has a first breakover point set at 5,000 gallons, a second breakover point set at 15,000 gallons, a third breakover point set at 40,000 gallons, and the fourth breakover point set at 80,000 gallons, with the fifth tier for all monthly usage over 80,000 gallons. Staff's three tier alternative rate design for 5/8 x 3/4 inch meter residential customers sets a first breakover point at 15,000 gallons, the second at 50,000 gallons, and the third tier for all usage over 50,000 gallons.

The following illustrates the differing breakover points for commodity charges recommended by the parties for the Paradise Valley Water district:

Current and Company and RUCO proposal breakover points	Staff 3-tier alternative breakover points	Staff proposal breakover points	Staff 5-tier alternative breakover points	Magruder proposal breakover points
n/a		4,000	5,000	4,000 8,000
25,000	15,000	20,000	15,000	12,000 16,000
80,000	50,000	65,000	40,000	20,000 24,000
over 80,000	over 50,000	125,000	80,000	28,000 32,000
n/a	n/a	over 125,000	over 80,000	40,000 over 40,000

RUCO's rate design witness testified that RUCO proposed that the Company keep its current three tier rate design in place based on its conclusion that average and median usage customers would have to change their usage patterns to such a great degree in order to receive benefit of a lower cost

[247] Tr. at 531-32, 542-43, 630, 638. In its application, the Company had proposed the five tier rate design that Staff now recommends, but subsequently changed its recommendation to the three tier rate design currently in effect for the Paradise Valley Water district.
[248] Tr. at 544-45.

per gallon that the change would be unattainable, and there would actually be no incentive to conserve.[249] RUCO's witness stated that another reason RUCO did not propose a five tier rate design is that if Paradise Valley Water district is to be included in a future statewide rate consolidation, the rate structure would probably have to be reduced back to a three tier rate design.[250] RUCO stated that the current rate design is set with a higher first tier of 25,000 gallons in recognition of the high [20,493 gallons per month] average usage in the Paradise Valley Water district, and the district has some extreme high use customers.[251]

Staff states that it stands by its five tier recommendation for the Paradise Valley Water district.[252] However, Staff prepared two alternative rate designs for Commission consideration, based on public comment from customers.[253] Staff states that its three tier alternative is an attempt to lower the bills of those customers who use less water, and it would increase bills for the high usage customer.[254] Staff's three tier alternative lowers the minimum monthly charge, lowers the breakpoints on usage, and lowers the commodity charges.[255] Staff states that it designed its five tier alternative to provide some rate protection to very low water users, and it would decrease rates for a customer who uses between 5,000 and 9,000 gallons per month.[256] Under Staff's proposed revenues, both of Staff's alternative rate designs would result in slightly smaller percentage increases for average usage customers compared to Staff's five tier proposed design.[257]

The ten tier rate design proposed by Mr. Magruder was not accompanied by any typical bill analysis or proof of revenues as were the rate designs proposed by the Company, Staff and RUCO, and the alternative rate designs provided by Staff, making adoption of that proposal unworkable in this case.

The average usage in the Paradise Valley Water district is high, and we agree with RUCO that the rate design should properly recognize the fact that conservation may not be attainable through rate

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249 Tr. at 643, 647-48.
250 Tr. at 643.
251 Tr. at 648-50.
252 Tr. at 659, Staff Brief at 17.
253 *Id.*
254 Staff Brief at 17.
255 *Id.*
256 *Id.*
257 Staff's Notice of Filing Staff's Corrected Alternative Rate Design, docketed on April 17, 2009.

design for customers whose "discretionary" usage is many times higher than that of customers in other districts. According to evidence gathered by the Company, implementation of the "High Block Surcharge" in the last rate decision for this water district did not result in conservation.[258] However, public comment demonstrated that not all customer usage in the Paradise Valley Water district is as high as the average or extreme high usage that is so striking in this district, and it is therefore appropriate to provide some rate protection to customers in this district who have much lower than average usage rates for the district. For that reason, we will adopt the Staff alternative five tier rate design proposal. The five tier alternative retains the current high tier breakover point of above 80,000 gallons to which the district's customers are accustomed, but also will also allow low usage customers to receive the advantage of a first tier breakover point of 5,000 gallons. RUCO's witness raises a valid point in regard to the adoption of three versus five tiers in relation to a possible future rate consolidation. In the event of a future rate consolidation, the issue of whether matching tiered rate structures will be required can be revisited.

4. Tubac Water district

For Tubac Water district 5/8 x 3/4 inch meter residential customers, the Company, RUCO and Staff propose a three tier inverted block rate design with the first breakover point at 4,000 gallons and the second at 20,000 gallons, with the third tier for all monthly usage over 20,000 gallons. Based on public comment and the Company's change in position on rate design at the hearing, Staff also provided an alternative four tier rate design for Tubac Water.[259] Staff's alternative design for 5/8 x 3/4 inch meter residential customers has a first breakover point lowered to 3,000 gallons, a second breakover point set at 10,000 gallons, and a third breakover point set at 20,000 gallons, with the fourth tier for all monthly usage over 20,000 gallons.

The following illustrates the differing breakover points for commodity charges recommended by the parties for the Tubac Water district:

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[258] Revised Direct Testimony of Company witness Thomas M. Broderick (Exh. A-11) at 29.
[259] Tr. at 544-45.

Current and Company, RUCO and Staff proposal breakover points	Staff 4-tier alternative breakover points	Magruder proposal breakover points
n/a	3,000	4,000 8,000
4,000	10,000	12,000 16,000
20,000	20,000	20,000 24,000
over 20,000	over 20,000	28,000 32,000
n/a	n/a	40,000 over 40,000

Under Staff's proposed revenues, Staff's alternative four tier rate design would result in a smaller percentage increase (approximately 17.08 percent) for average usage (11,767 gallons per month) residential customers compared to the three tier proposed design (approximately 43.62 percent).[260]

The ten tier rate design proposed by Mr. Magruder was not accompanied by any typical bill analysis or proof of revenues as were the rate designs proposed by the Company, Staff and RUCO, and the alternative rate design provided by Staff, making adoption of that proposal unworkable in this case.

Based on the record, Staff's alternative four tier rate design appears to best meet the needs of the residential customers of Tubac Water district, and it will be adopted. As with the Paradise Valley Water district rate design, in the event of a future rate consolidation, the issue of whether matching tiered rate structures will be required can be revisited.

C. Paradise Valley Water Surcharges

1. High Block Usage Surcharge, Public Safety Surcharge, and System Benefits Surcharge

The parties are in agreement with the Company's request to eliminate the High Block Usage Surcharge and to leave the Public Safety Surcharge set at zero. The application also included a request for implementation of a Systems Benefit Surcharge for the purpose of financing measures to encourage ratepayers in this district to reduce water consumption. The Town opposes the Company

[260] Staff's Notice of Filing Staff's Corrected Alternative Rate Design, docketed on April 17, 2009.

proposed System Benefits Surcharge.[261] RUCO states that while it recommends the implementation of the Company proposed System Benefits Surcharge, it is sensitive to the Town's arguments opposing it.[262] It is reasonable at this time to eliminate the High Block Usage Surcharge and to leave the Public Safety Surcharge set at zero. The record does not support the Company's request to implement a Systems Benefit Surcharge as proposed, and it therefore will not be authorized at this time.

2. CAP Surcharge

Until recently, the Company was sourcing water from the PCX-1 well, which is owned by Salt River Project ("SRP"), in exchange for SRP's use of Arizona-American's Paradise Valley Water district 3,231 acre feet CAP allocation.[263] The Company discontinued use of the PCX-1 well in May 2008,[264] due to its trichloroethylene ("TCE") contamination. To maintain supply, the Company added storage capacity and is replacing retired Well No. 12 with a new well to bring the district's production capacity back to its original level of 2200 GPM.[265] The Company is no longer exchanging its 3,231 Paradise Valley Water district CAP allocation with SRP for use of the PCX-1 well. Instead, the Company is currently recharging the district's CAP allocation at the Tonopah Desert Recharge Project, which is owned by the Central Arizona Water Conservation District ("CAWCD") at a cost of $8 per acre foot, and recovering it from wells in the Paradise Valley Water district.[266] The Company states that this allows it to fully utilize the district's CAP allocation in alignment with the Arizona Department of Water Resources ("ADWR") Phoenix Active Management Area ("AMA") goal of safe yield.[267] The Company states that it has plans to evaluate

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[261] Town of Paradise Valley Resolution Number 1185. A copy of Resolution No. 1185 was filed in this docket on March 13, 2009.
[262] RUCO Brief at 15.
[263] Rebuttal Testimony of Company witness John C. (Jake) Lenderking (Exh. A-21) at 7.
[264] Direct Testimony of Staff witness Dorothy M. Hains (Exh. S-3) at 10.
[265] Revised Direct Testimony of Company witness John C. (Jake) Lenderking (Exh. A-21) at 8.
[266] *Id.*
[267] *Id.*

other storage options closer to the district.[268]

The Company's current CAP Surcharge for the Paradise Valley Water district is $0.2009 per thousand gallons for all residential usage in excess of 45,000 gallons per month, and for all non-residential usage. The CAP Surcharge is set at a level to allow the Company to recover SRP water delivery charges and administrative charges totaling $22.62 per acre foot; annual CAP Municipal and Industrial ("M&I") water service charges of $91 per acre foot; and M&I capital charges of $21 per acre foot.[269] Arizona-American proposes to lower the amount of the CAP Surcharge to account for the difference between the former $22.62 per acre foot SRP water delivery and administrative charges and the current $8 per acre foot CAWCD storage cost. No party opposed adjusting the surcharge amount. The Company's proposed change to the existing CAP Surcharge is reasonable and appropriate, and will be authorized. We will order the Company to take into account any overcollection that has occurred since the date of the changes in the Company's CAP Surcharge costs, in calculating the lower surcharge amount.

VIII. OTHER ISSUES

A. Tubac Water district ACRM (Tubac Water district)

Arizona-American must provide arsenic treatment for its Tubac Water district water supply.[270] The Company requests approval of an ACRM for the Tubac Water district that is essentially identical to the ACRMs previously approved for the Company's Agua Fria Water, Havasu Water, Paradise Valley Water, and Sun City Water districts, with the inclusion of the associated engineering overheads, consistent with the Commission's treatment in Docket No. W-01445A-00-0962.[271] Arizona-American had originally included the Tubac Water district in its application that resulted in Decision No. 68310, which approved an ACRM two-step rate increase process for its Agua Fria, Havasu and Sun City West water districts, but subsequently requested that Tubac Water

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[268] *Id.* at 9.
[269] Rebuttal Testimony of Company witness John C. (Jake) Lenderking (Exh. A-21) at 7-8; Decision No. 68131 at 4-5.
[270] Direct Testimony of Company witness Joseph E. Gross (Exh. A-1) at 8.
[271] Revised Direct Testimony of Thomas A. Broderick (Exh. A-11) at 25.

district be removed from consideration in that proceeding due to the strong community interest in pursuing alternative technologies and community interest in seeking an extension of the arsenic compliance deadline.[272] On January 18, 2008, the federal Environmental Protection Agency ("EPA") denied the Company's request for a three year exemption from meeting the new MCL for arsenic.[273] The Company is currently designing an arsenic treatment facility which should be in service by summer 2010 at its Water Plant No. 5.[274]

All production wells in the Tubac Water district contain arsenic levels that exceed the MCL for arsenic.[275] Staff believes that the installation of a granular iron media filter arsenic removal central treatment plant is necessary.[276] Staff does not recommend making a predetermination regarding the inclusion of engineering overheads in the ACRM.[277] No party opposes the Company's ACRM request with the exception of Marshall Magruder, who opposes it because he believes that a point-of-use system is preferable.[278] The Company states that it has chosen central plant treatment because it is less expensive, more thorough, and consistent with recommendations provided by the Arizona Department of Environmental Quality ("ADEQ").[279] ADEQ's Arsenic Master Plan, a compliance guideline document for the federal arsenic regulation, does not recommend use of point of use devices in public water systems the size of the Tubac Water district, serving more than 300 customers, due to the breakpoint for operation and maintenance costs.[280] The Tubac Water district had an average of 535 customers during the test year.[281]

Uncontroverted evidence in this proceeding demonstrates that while a point of use system would initially be less expensive to install, in the long run it would actually be more expensive, would not treat water used for bathing and tooth brushing, would require frequent access into customers' homes, and would not meet ADEQ guidelines.[282] We understand that the costs of

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[272] *Id.* at 26.
[273] Direct Testimony of Staff witness Gerald Becker (Exh. S-7) at 31-32.
[274] Direct Testimony of Company witness Joseph E. Gross (Exh. A-1) at 8.
[275] Direct Testimony of Staff witness Dorothy M. Hains (Exh. S-3) at 11.
[276] *Id.* at 12.
[277] Direct Testimony of Staff witness Gerald Becker (Exh. S-7) at 32.
[278] Direct Testimony of Marshall Magruder (Exh. M-4) at 15.
[279] Rebuttal Testimony of Company witness Jeffrey W. Stuck (Exh. A-9) at 2-4.
[280] *Id.* at 5.
[281] *Id.*
[282] *Id.* at 2-5.

complying with the federally mandated arsenic treatment requirements are high, especially for a district the size of the Tubac Water district. However, the Company must comply with the federal mandate to reduce the arsenic concentrations in water served to its customers. The evidence presented demonstrates that the Company's arsenic treatment plan was reached after consideration of all its options for achieving compliance and is reasonable and appropriate, and we therefore approve the Company's ACRM proposal.

B. Water Loss (Mohave Water, Havasu Water, and Paradise Valley Water districts)

For the Havasu Water and Mohave Water districts, which had test year water loss of 13.34 percent and 14.39 percent respectively, Staff makes the following recommendation:

> Staff recommends that the Company reduce its water loss to below 10 percent by December 31, 2009 or before it files its next rate increase application and/or CC&N application and/or financing application, whichever comes first. Staff further recommends that the Company begin water loss monitoring and take action to ensure water loss remains less than 10 percent immediately. If the water loss for the twelve month period ending December 31, 2009, is greater than 10 percent, the Company must come up with a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why water loss reduction to 10 percent or less is not feasible or cost effective. Such a report shall be docketed in this case.[283]

For the Paradise Valley Water district, which had test year water loss of 9.59 percent, Staff makes the following recommendation:

> Staff recommends that the Company monitor the water system closely and take action to ensure that lost water remains less than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10 percent, the Company shall come up with a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Such a report shall be docketed in this case.[284]

The Company agrees with Staff that water losses should be reduced below 10 percent, but does not support the Staff recommendations in the Mohave Water and Havasu Water districts in regard to consequences for failing to accomplish the reduction before the filing of any applications at the Commission.[285] The Company argues that compliance may not be cost effective.[286] Staff

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[283] Direct Testimony of Staff witness Dorothy M. Hains (Exh. S-3) at 6, 7-8.
[284] *Id.* at 9.
[285] Company Brief at 53-54, citing Rebuttal Testimony of Company witness Thomas A. Broderick (Exh. A-12) at 15-16.

believes the water loss data from 2004-2007 in those districts suggests that the Company has not been aggressive enough in taking action to correct the water loss problem.[287] Staff believes that its recommendation provides an opportunity for the Company to provide a detailed report demonstrating that water loss reduction to less than 10 percent is cost prohibitive and not cost effective;[288] that water loss reduction is a part of the Company's routine maintenance program;[289] and that the Company has an obligation to properly maintain its system.[290]

The record in this proceeding reflects that the Company is taking at least one step to address water loss, by its implementation of a water meter changeout program, for which we are approving increased meter depreciation expense. The Company argues that "[i]t makes no sense to essentially force investment in one area, without examining all possible challenges and opportunities."[291] We agree that it is the Company, and not the Commission, that makes decisions regarding infrastructure investments. We do not read the Staff recommendation as "forcing" investment in water loss amelioration. Instead, the Staff recommendation, which we routinely adopt for water utilities demonstrating water loss issues, requires the Company to either correct the water loss problems, or to provide an analysis for Commission review as to why the measures required to correct them would not be feasible or cost effective. Staff's recommendations are reasonable and will be adopted, with a compliance date of June 30, 2010 and with compliance filings due by July 31, 2010.

C. Water Use Data (all districts)

When requesting data from the Company required for Staff to review the Company's cost of service study ("COSS"), Staff received inconsistent water use data from the Company.[292] The water use figures used in the Company's COSS do not match those provided to Staff, showing as much as a 2 percent difference.[293] The Company's witness testified that due to incompatible data systems communicating with each other, coupled with problems compiling data at the gross level instead of at

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[286] *Id.*
[287] Surrebuttal Testimony of Staff witness Dorothy M. Hains (Exh. S-4) at 2.
[288] *Id.*
[289] *Id.*
[290] Staff Brief at 18.
[291] Company Brief at 54.
[292] Direct Testimony of Staff witness Steven M. Olea (Exh. S-1) at 6.
[293] *Id.* at 7.

the public water system level, the Company submitted inaccurate information to Staff.[294] Staff contends that the Company should be very concerned about not knowing with accuracy how much water it produces and sells.[295] Staff recommends that Staff be ordered to find the Company's next rate application insufficient if, during its review of the Company's next rate filing, Staff finds the water use data submitted to be inaccurate, or if the water use figures used in the Company's COSS are not identical to those provided to Staff.[296] We find Staff's recommendation reasonable and will adopt it.

The Commission remains concerned about the impacts associated with groundwater usage within Arizona-American's systems and service territory. While many of Arizona-American systems are located within an AMA, several are outside these zones and are not subject to ADWR reporting and conservation requirements. Accordingly, Arizona-American is not required to comply with conservation goals and management practices of ADWR in all of its systems. In light of the Commission's desire to conserve groundwater in Arizona, we believe it is reasonable to require Arizona-American to submit for Commission approval within 120 days of the effective date of this Decision, at least ten Best Management Practices ("BMPs") (as outlined in ADWR's Modified Non-Per Capita Conservation Program), in each of the water systems that are the subject of this rate case. The Company may request cost recovery of actual costs associated with the BMPs implemented.

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Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. On May 2, 2008, Arizona-American filed with the Commission an application for increases in its rates and charges for utility service in its Agua Fria Water and Agua Fria Wastewater Districts, Anthem Water and Anthem Wastewater Districts, Havasu Water District, Mohave Water and Mohave Wastewater Districts, Paradise Valley Water District, Sun City West Water District and Tubac Water District.

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294 Tr. at 201.
295 Staff Brief at 18.
296 *Id.*; Direct Testimony of Steven M. Olea (Exh. S-1) at 8.

2. On June 2, 2008, Staff filed a Letter of Deficiency stating that Arizona-American's May 2, 2008, rate application did not meet the sufficiency requirements as outlined in A.A.C R14-2-103 and listing the items Staff required to deem the application sufficient for processing.

3. On June 20, 2008, the Company filed its Response to Deficiency Letter and a revised application, which did not include a rate increase request for the Anthem Water District, the Anthem Wastewater District, or the Agua Fria Wastewater District.

4. On July 8, 2008, by Procedural Order, intervention was granted to RUCO.

5. By Procedural Order issued July 29, 2008 Clearwater Hills was granted intervention.

6. On July 15, 2008, Arizona-American filed its Response to Informal Letter of Deficiency, and on July 21, 2008, the Company filed its Supplemental Response to Informal Letter of Deficiency.

7. On July 22, 2008, the Company filed a Notice of Change for Designated Service.

8. On July 23, 2008, Staff filed a letter classifying the Company as a Class A utility and stating that, with the revisions docketed on June 20, 2008, July 15, 2008, and July 21, 2008, the above-captioned application met the sufficiency requirements outlined in A.A.C. R14-2-103.

9. On July 29, 2008, a Rate Case Procedural Order was issued setting a hearing date and associated procedural deadlines.

10. On August 4, 2008, Staff filed a Request for Procedural Conference. Therein, Staff stated that it would find it difficult to review the application within the timeframes set forth in the July 29, 2008, Rate Case Procedural Order, and that Staff had attempted, unsuccessfully, to reach agreement with the Company on an extension of those deadline dates.

11. On August 7, 2008, counsel for the Company filed a Notice of Change of Address.

12. On August 8, 2008, a second Rate Case Procedural Order was issued, stating that the July 29, 2008, Rate Case Procedural Order had inadvertently set the deadline for Staff and intervenor direct testimony 48 days sooner than the default deadline provided by A.A.C. R14-2-103(B)(11)(b). The August 8, 2008, Rate Case Procedural Order corrected the procedural schedule and accordingly reset the hearing date in this matter to March 16, 2008.

13. On August 15, 2008, a telephonic procedural conference was held at the request of

RUCO. Counsel for the Company, Clearwater Hills, RUCO, and Staff attended. During the procedural conference, RUCO proposed that the hearing be continued to March 19, 2009, due to RUCO's unavailability from March 16-18, 2009. Also during the procedural conference, counsel for the Company indicated that due to arithmetic errors in the Company's schedules, the customer notice set forth in the August 8, 2008, Rate Case Procedural Order incorrectly represented the rate increase effects of its application, and stated the Company's intent to file updated schedules.

14. On August 18, 2008, the Company filed a Notice of Filing Revised H-2 Schedules.

15. On August 20, 2008, a procedural order was issued setting a Telephonic Procedural Conference to allow the parties an opportunity to comment on proper notice to customers in each affected District of (1) the Company's overall revenue increase requests; and (2) the effect of the Company's requests on typical residential customer bills.

16. On August 20, 2008, the Company filed a Notice of Filing Revised Mark-Up of Procedural Order.

17. A telephonic procedural conference was held as scheduled on August 22, 2008. The Company, RUCO and Staff appeared through counsel. Clearwater Hills did not appear. Counsel for the Company, RUCO and Staff indicated that the information appearing in the marked-up copies of pages 6-7 of the August 8, 2008, Rate Case Procedural Order, attached to the Company's August 20, 2008 Notice of Filing, would provide adequate and accurate public notice of the Company's requested revenue increases, and of the effects the requests would have on average usage 5/8 by 3/4 inch meter residential customer bills.

18. A third Rate Case Procedural Order was issued on August 25, 2008, continuing the hearing to commence on March 19, 2009, amending the associated procedural schedule, and modifying the public notice requirements to comport with the Company's August 20, 2008 Notice of Filing Revised Mark-Up of Procedural Order.

19. On October 7, 2008, the Town of Paradise Valley filed an Application to Intervene.

20. On October 15, 2008, George E. Cocks and Patricia A. Cocks filed a Motion to Intervene.

21. By procedural order issued October 22, 2008, the Town of Paradise Valley, George E.

Cocks and Patricia A. Cocks were granted intervention.

22. On November 5, 2008, a Motion to Intervene was filed by Nicholas Wright, Raymond Goldy, Lance Ryerson, Patricia Elliott, Boyd Taylor, Keith Doner, Hallie McGraw, Rebecca M. Szimhardt, Wilma E. Miller, Joe M. Souza, Steven D. Colburn, Shanni Ramsay, Dennis Behmer, Ann Robinett, Betty Newland, Don Grubbs, Liz Grubbs, Mike Kleman, Jacquelyn Valentino, Louis Wilson and Ikuko Whiteford.

23. On November 7, 2008, the Company filed a Motion to Approve Additional Customer Notice in order to include a Company phone number omitted from the original notice and to correct the time of the scheduled evidentiary hearing.

24. On November 10, 2008, Marshall Magruder filed a Motion to Intervene.

25. On November 12, 2008, Commissioner Kris Mayes filed a letter in the docket requesting that the parties provide the Commission, as part of their testimony in this case, an analysis addressing the predicted impacts of statewide and select consolidation of the Company's water systems, and to propose combinations of systems where potential benefits outweigh the limitations of consolidation efforts, and an analysis of rates and operations under a statewide consolidation of the Company's water systems.

26. On November 18, 2008, a procedural order was issued approving the additional customer notice proposed by the Company and granting intervention to Nicholas Wright, Raymond Goldy, Lance Ryerson, Patricia Elliott, Boyd Taylor, Keith Doner, Hallie McGraw, Rebecca M. Szimhardt, Wilma E. Miller, Joe M. Souza, Steven D. Colburn, Shanni Ramsay, Dennis Behmer, Ann Robinett, Betty Newland, Don Grubbs, Liz Grubbs, Mike Kleman, Jacquelyn Valentino, Louis Wilson, Ikuko Whiteford, and Marshall Magruder.

27. On November 14, 2008, the Resorts filed a Motion to Intervene, which was granted by procedural order issued November 21, 2008.

28. On December 4, 2008, Tom Sockwell and Andy Panasuk each filed a Motion to Intervene.

29. On December 5, 2008, the Company filed a Motion to Limit Service of Documents.

30. On December 8, 2008, Thomas J. Ambrose filed a Motion to Intervene.

31. On December 10, 2008, the Company filed a Notice of Filing Affidavit of Customer Notice.

32. By procedural order issued December 12, 2008, Tom Sockwell, Andy Panasuk, and Thomas J. Ambrose were each granted intervention. The December 12, 2008 procedural order also ruled on the Company's Motion to Limit Service of Documents and provided a procedure to be followed if intervenors wished to opt out of receiving service of documents.

33. On December 17, 2008, the Company filed a Notice of Filing Letter which included the Company's response to Commissioner Mayes' November 10, 2008 letter regarding rate consolidation.

34. On January 8, 2009, the Company filed a Notice of Filing Intervenor Opt-Outs.

35. On January 9, 2009, Staff filed a Motion for Extension of Time to File Direct Testimony.

36. On January 9, 2009, Marshall Magruder filed a Notice of Filing and Direct Testimony (Issues).

37. On January 9, 2009, RUCO filed the direct testimony of William A. Rigsby, Rodney L. Moore, and Timothy J. Coley.

38. On January 13, 2009, Staff filed the direct testimony of Gerald Becker, Gary T. McMurry, Dorothy Hains, and David C. Parcell.

39. On January 15, 2009, the Company filed a Motion to Extend Filing Deadlines.

40. On January 20, 2009, RUCO filed the direct rate design testimony of Rodney L. Moore.

41. On January 20, 2009, Staff filed the rate design and cost of service testimony of Steven M. Olea, Steve Irvine, and Marvin E. Millsap.

42. On January 20, 2009, the Company filed a Notice of Intervenor Opt-Outs.

43. On January 20, 2009, PORA filed an intervention request.

44. On January 22, 2009, Marshall Magruder filed a Motion to Extend a Filing Deadline.

45. On January 23, 2009, a procedural order was issued granting the requests of the Company and Marshall Magruder to extend filing deadlines and granting PORA's intervention

request.

46. On January 27, 2009, Marshall Magruder filed a Notice of Filing Direct Testimony (Cost of Service and Rate Design).

47. On February 3, 2009, the Company filed a Notice of Filing Intervenor Opt-Outs.

48. On February 6, 2009, Commissioner Bob Stump filed a letter in the docket stating that it would be beneficial to hold public comment meetings locally for the benefit of customers of the Company located in Sun City, Sun City West, Lake Havasu City, and Tubac, Arizona.

49. On February 10, 2009, Commissioner Mayes filed a letter in the docket concurring with Commissioner Stump, and proposing that public comment meetings be held in Bullhead City, Sun City West, Casa Grande, and Tubac, Arizona.

50. On February 11, 2009, the Company filed the rebuttal testimony of Paul G. Townsley, Christopher C. Buls, Thomas M. Broderick, Linda J. Gutowski, Sheryl L. Hubbard, Joseph E. Gross, G. Troy Day, Jeffrey W. Stuck, Bradley J. Cole, Bente Villadsen, and Paul R. Herbert, and rebuttal schedules A-1, B-2, B-5, B-6, C-2, and C-3.

51. On February 18, 2009, the Company filed a letter dated February 10, 2009, to Commissioner Stump indicating the dates and content of community meetings it voluntarily provided for its customers.

52. On February 18, 2009, the Company filed a Notice of Filing Intervenor Opt-Outs.

53. On February 18, 2009, the Company filed a letter dated February 12, 2009 to Mr. Cliff Cowles.

54. On February 25, 2009, PORA filed a copy of data requests submitted to the Company on February 18, 2009.

55. On February 26, 2009, a procedural order was issued ordering the Company to provide public notice of local public comment meetings scheduled to be held in Sun City West, Arizona on March 17, 2009 and in Tubac, Arizona on March 18, 2009.

56. On March 2, 2009, PORA filed a copy of data requests submitted to the Company on February 27, 2009.

57. On March 3, 2009, Marshall Magruder filed a Notice of Filing Surrebuttal Testimony

(Part III).

58. On March 3, 2009, RUCO filed the surrebuttal testimony of William A.Rigsby, Rodney L. Moore and Timothy J. Coley.

59. On March 4, 2009, the Company filed a Motion for Dates Certain.

60. On March 11, 2009, Staff filed a request for a date certain to be set for its cost of capital witness.

61. On March 11, 2009, the Company filed the rejoinder testimony of its witnesses Ian C. Crooks, Linda J. Gutowski, Sheryl L. Hubbard, Bente Villadsen, John C. (Jake) Lenderking, and rejoinder schedules.

62. On March 12, 2009, a procedural order was issued setting dates certain for the testimony during the hearing of certain witnesses.

63. On March 13, 2009, the pre-hearing conference was held as scheduled. The Company, Clearwater Hills, the Town, the Resorts, RUCO and Staff appeared through counsel. Marshall Magruder appeared on his own behalf. No other intervenors appeared.

64. On March 13, 2009, Staff filed the surrebuttal testimony of Elijah O. Abinah.

65. On March 13, 2009, the Company filed a Notice of Filing Affidavit of Customer Notice.

66. On March 13, 2009, the Town filed a copy of its Resolution Number 1185, and on March 17, 2009, docketed a Notice of that filing.

67. Between March 17 and March 24, 2009, the parties filed summaries of pre-filed testimony.

68. On March 17, 2009, a public comment meeting was held as scheduled in Sun City West, Arizona. Chairman Mayes, Commissioner Gary Pierce, Commissioner Paul Newman, Commissioner Sandra Kennedy, and Commissioner Bob Stump presided.

69. On March 17, 2009, a local public comment meeting was held as scheduled in Sun City West, Arizona. Chairman Mayes, Commissioner Gary Pierce, Commissioner Paul Newman, Commissioner Sandra Kennedy, and Commissioner Bob Stump presided. Members of the public appeared and provided public comment on the application.

70. On March 18, 2009, a local public comment meeting was held as scheduled in Tubac, Arizona. Commissioner Pierce, Commissioner Newman, Commissioner Kennedy, and Commissioner Stump presided. Members of the public appeared and provided public comment on the application.

71. On March 19, 2009, the hearing on the application commenced as scheduled. The Company, the Town, the Resorts, PORA, RUCO and Staff appeared through counsel. Marshall Magruder appeared on his own behalf. No other intervenors appeared. Members of the public appeared and provided public comment on the application.

72. The evidentiary portion of the proceeding commenced on March 20, 2009 and concluded on March 30, 2009.

73. On March 29, 2009, Staff filed its alternative rate design for the Paradise Valley Water District and the Tubac Water District.

74. On March 27, 2009, a procedural order was issued directing the Company to provide public notice of local public comment meetings scheduled to be held in Bullhead City, Arizona on April 30, 2009 and in Lake Havasu City, Arizona on May 1, 2009.

75. On April 1, 2009, the Company filed a Notice of Filing Affidavits of Publication.

76. On April 10, 2009, the Company filed a Notice of Filing Post-Hearing Documents.

77. On April 14, 2009, the Company filed its Final Post-Hearing Schedules.

78. On April 15, 2009, the Company filed a Notice of Filing Intervenor Opt-Out.

79. On April 17, 2009, Staff filed its Corrected Alternative Rate Design.

80. On April 17, 2009, Staff filed its Closing Schedules.

81. On April 29, 2009, the Company filed a Notice of Filing Affidavit of Customer Notice.

82. On April 29, 2009, Marshall Magruder filed his closing brief.

83. On April 30, 2009, a local public comment meeting was held in Bullhead City, Arizona. Chairman Mayes, Commissioner Gary Pierce, Commissioner Paul Newman, Commissioner Sandra Kennedy, and Commissioner Bob Stump presided. Members of the public appeared and provided public comment on the application.

84. On May 1, 2009, a local public comment meeting was held in Lake Havasu City, Arizona. Chairman Mayes, Commissioner Gary Pierce, Commissioner Paul Newman, Commissioner Sandra Kennedy, and Commissioner Bob Stump presided. Members of the public appeared and provided public comment on the application.

85. On May 1, 2009, the Company, Staff and RUCO filed their closing briefs.

86. On May 7, 2009, the Company docketed a letter to the Commissioners dated May 7, 2009.

87. On May 15, 2009, the Company, RUCO and Staff filed their reply briefs.

88. On May 19, 2009, PORA filed its closing brief.

89. On May 19, 2009, Marshall Magruder filed his reply brief.

90. Between June 5, 2008, and October 20, 2009, 1,832 written public comments were filed in opposition to the Company's requested rate increases in the districts.

91. The fair value rate base of the Agua Fria Water district is $61,830,329.

92. The fair value rate base of the Havasu Water district is $3,996,771.

93. The fair value rate base of the Mohave Water district is $9,229,667.

94. The fair value rate base of the Paradise Valley Water district is $37,075,690.

95. The fair value rate base of the Sun City West Water district is $38,365,090.

96. The fair value rate base of the Tubac Water district is $1,437,084.

97. The fair value rate base of the Mohave Wastewater district is $2,836,120.

98. A fair value rate of return for the Arizona-American districts of 7.33 percent is reasonable and appropriate.

99. The revenue increases requested by the Company for the districts would produce an excessive return on FVRB.

100. The gross revenues of the Agua Fria Water district should increase by $2,875,120.

101. Under the rates adopted herein, an average usage (7,400 gallons/month) Agua Fria Water district residential customer on a 5/8 x 3/4-inch meter will experience an increase of $6.26, approximately 25.93 percent, from $24.16 per month to $30.42 per month.

102. The gross revenues of the Havasu Water district should increase by $265,007.

103. Under the rates adopted herein, an average usage (9,705 gallons/month) Havasu Water district residential customer on a 5/8 x 3/4-inch meter will experience an increase of $13.50, approximately 36.90 percent, from $36.59 per month to $50.09 per month.

104. The gross revenues of the Mohave Water district should increase by $152,411.

105. Under the rates adopted herein, an average usage (8,073 gallons/month) Mohave Water district residential customer on a 5/8 x 3/4-inch meter will experience an increase of $0.57, approximately 3.24 percent, from $17.44 per month to $18.01 per month.

106. The gross revenues of the Paradise Valley Water district should increase by $958,940.

107. Under the rates adopted herein, an average usage (20,493 gallons/month) Paradise Valley Water district residential customer on a 5/8 x 3/4-inch meter will experience an increase of $5.78, approximately 11.76 percent, from $49.20 per month to $54.98 per month.

108. The gross revenues of the Sun City West Water district should increase by $3,439,746.

109. Under the rates adopted herein, an average usage (6,704 gallons/month) Sun City West Water district residential customer on a 5/8 x 3/4-inch meter will experience an increase of $12.91, approximately 66.11 percent, from $19.51 per month to $32.42 per month.

110. The gross revenues of the Tubac Water district should increase by $221,454.

111. Under the rates adopted herein, an average usage (11,797 gallons/month) Tubac Water district residential customer on a 5/8 x 3/4-inch meter will experience an increase of $8.55, approximately 17.08 percent, from $50.04 per month to $58.59 per month.

112. The gross revenues of the Mohave Wastewater district should increase by $110,296.

113. Under the rates adopted herein, residential customers in the Mohave Wastewater district will experience a rate increase of $6.90 per month, approximately 13.90 percent, from $49.65 to $56.55.

114. The Company shall not file a permanent rate application prior to January 1, 2011, for the Mohave Wastewater District.

115. The rate designs adopted herein are just and reasonable.

116. This docket should remain open for the limited purpose of consolidation in the Company's next rate case with a separate docket in which a revenue-neutral change to rate design of

all the Company's water districts or other appropriate proposals or all the Company's water and wastewater districts or other appropriate proposals may be considered simultaneously, after appropriate public notice, with appropriate opportunity for informed public comment and participation.

117. The Company should be ordered to lower the amount of its existing CAP Surcharge for the Paradise Valley Water district to account for the difference between the former $22.62 per acre foot SRP water delivery and administrative charges and the current $8 per acre foot CAWCD storage cost, taking into account any overcollection that has occurred since the date of the changes in the Company's CAP Surcharge costs.

118. The ACRM as presented in the application for the Company's Tubac Water district should be approved, without any predetermination regarding engineering overheads.

119. The Common Facilities Hook-Up Fee (Water) Tariff Schedule for the Company's Agua Fria district proposed by the Company and attached hereto as Exhibit A is reasonable and should be adopted.

120. Under the unique circumstances of this case, the Company's proposal to defer incremental White Tanks Plant O&M costs as a regulatory asset is appropriate and should be allowed. The accounting order language proposed by the Company should be modified to clarify that the reasonableness of the deferred O&M expenses will be assessed in the Company's next Agua Fria district rate filing, and that the deferral shall be allowed only while Arizona-American is the sole owner and operator of the White Tanks Plant.

121. The Company proposed specific accounting entries, as set forth in the discussion herein, which will allow the Company to continue to offset the actual and remaining costs of the White Tanks Plant, including accumulated AFUDC, by available incremental hook-up fees which are recommended to be not subject to offset in this proceeding and which are collected under the Common Facilities Hook-Up Fee (Water) Tariff Schedule for the Company's Agua Fria Water district, and to record post-in-service AFUDC after the White Tanks Plant goes into service for the plant costs that are in excess of the hook-up fees collected and recommended not to be subject to offset in this proceeding, and to defer post-in-service depreciation expense in excess of the associated

amortization of those hook-up fees. The accounting entries proposed by the Company present a reasonable means, pending the Company's next rate filing for the Agua Fria Water district, of permitting the Company to recover its White Tanks Plant capital costs on an on-going basis, and thereby avoid a reduction in earnings, while providing a benefit to ratepayers by minimizing post-in-service AFUDC and deferred depreciation expense. The necessity of continuing these accounting procedures should be addressed in the Company's next rate filing for its Agua Fria Water district.

122. For its Mohave Water district and Havasu Water district, the Company should be required to reduce its water loss to below 10 percent by June 30, 2010 or before it files its next rate increase application and/or CC&N application and/or financing application, whichever comes first, and to begin water loss monitoring and take action to ensure water loss remains less than 10 percent immediately. If the water loss for the twelve month period ending June 30, 2010, is greater than 10 percent, the Company should be required to formulate a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why water loss reduction to 10 percent or less is not feasible or cost effective, and to docket in this case, no later than July 31, 2010, either the plan, the report, or notification that its water loss has been reduced below 10 percent.

123. For its Paradise Valley Water district, the Company should be required to monitor the system closely and take action to ensure that lost water remains less than 10 percent in the future, and if the water loss at any time before the next rate case is greater than 10 percent, the Company should formulate a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective, and should docket in this case prior to the filing of its next rate case either the plan, the report, or notification that its water loss has remained below 10 percent.

124. Staff's recommendation that Staff be ordered to find the Company's next rate application insufficient if, during its review of the Company's next rate filing, Staff finds the water use data submitted to be inaccurate, or if the water use figures used in the Company's COSS are not identical to those provided to Staff, is reasonable and should be adopted.

125. The Maricopa County Environmental Services Division ("MCESD") has determined

that the Agua Fria, Paradise Valley and Sun City West Water districts are currently delivering water that meets the water quality standards required by A.A.C. Title 18, Chapter 4.

126. ADEQ has determined that the Havasu, Mohave, and Tubac Water districts are currently delivering water that meets the water quality standards required by A.A.C. Title 18, Chapter 4. ADEQ has granted the Company a waiver of the arsenic MCL violation for the Tubac Water district while the Company works to address the problem.

127. The Mohave Wastewater district is in full compliance with ADEQ for operation and maintenance, operator certification and discharge permit limits.

128. The Agua Fria, Paradise Valley, and Sun City West Water districts are within the Phoenix AMA and are in compliance with ADWR requirements governing water providers.

129. The Tubac Water district is within the Santa Cruz AMA and is in compliance with ADWR requirements governing water providers.

130. The Havasu Water and Mohave Water districts are not within any ADWR AMA and are in compliance with the ADWR requirements governing water providers.

131. The Agua Fria, Havasu, Mohave, Paradise Valley, Sun City West, and Tubac Water districts have approved cross connection tariffs.

132. The Agua Fria, Havasu, Mohave, Paradise Valley, Sun City West, and Tubac Water districts have approved curtailment tariffs.

133. The Agua Fria, Havasu, Mohave, Paradise Valley, and Sun City West Water districts have no outstanding compliance issues with the Commission.

134. For the Mohave Wastewater district, Staff recommends approval of the Off-Site Facilities Hook-Up Fee ("OFHF") Tariff set forth in Exhibit C, attached hereto and incorporated herein by reference, and recommends approval of the OFHF fees and reporting requirements. Staff further recommends that the Company be required to submit a calendar year Off-Site Facilities Hook-Up Fee status report each January 31 to Docket Control for the prior 12 month period beginning January 31, 2010, until the Off-Site Facilities Hook-Up Fee Tariff is no longer in effect. Staff recommends that the status report shall contain a list of all customers who have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest

earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12-month period, with the first report covering the timeframe from inception of the tariff through December 31, 2009. Staff's recommendations should be approved, except that the first status report should be due on January 31, 2011, covering the period from the inception of the tariff through December 31, 2010.

135. In its application, the Company indicated its interest in developing a low-income program for the districts in its rate application. The Commission supports the Company in this endeavor and accordingly will require that the Company, working with Staff, develop and file a low-income tariff in this docket by December 31, 2009, for Commission consideration.

CONCLUSIONS OF LAW

1. Arizona-American is a public service corporation pursuant to Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Arizona-American and the subject matter of the application.

3. Notice of the proceeding was provided in conformance with law.

4. The fair value of Arizona-American's Agua Fria Water District's rate base is $61,830,329, and applying a 7.33 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

5. The fair value of Arizona-American's Havasu Water district's rate base is $3,996,771, and applying a 7.33 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

6. The fair value of Arizona-American's Mohave Water district's rate base is $9,229,667, and applying a 7.33 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

7. The fair value of Arizona-American's Paradise Valley Water district's rate base is $37,075,690, and applying a 7.33 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

8. The fair value of Arizona-American's Sun City West Water district's rate base is

$38,365,090, and applying a 7.33 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

9. The fair value of Arizona-American's Tubac Water district's rate base is $1,437,084, and applying a 7.33 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

10. The fair value of Arizona-American's Mohave Wastewater district's rate base is $2,836,120 and applying a 7.33 percent fair value rate of return on this fair value rate base produces rates and charges that are just and reasonable.

11. It is reasonable and in the public interest to order the Company not to file a permanent rate application prior to January 1, 2011, for the Mohave Wastewater District.

12. The rates and charges approved herein are reasonable.

13. It is reasonable and in the public interest to keep this docket open for the limited purpose of consolidation in the Company's next rate case with a separate docket in which a revenue-neutral change to rate design of all the Company's water districts or other appropriate proposals or all the Company's water and wastewater districts or other appropriate proposals may be considered simultaneously, after appropriate public notice, with appropriate opportunity for informed public comment and participation.

14. It is reasonable and in the public interest to adopt the Common Facilities Hook-Up Fee (Water) Tariff Schedule for the Company's Agua Fria district proposed by the Company and attached hereto as Exhibit A.

15. Under the unique circumstances of this case, it is reasonable and in the public interest to allow the Company to defer White Tanks Plant O&M expenses as a regulatory asset, and to modify the accounting order language proposed by the Company to clarify that the reasonableness of the deferred O&M expenses will be assessed in the Company's next Agua Fria district rate filing, and that the deferral shall be allowed only while Arizona-American is the sole owner and operator of the White Tanks Plant.

16. It is reasonable and in the public interest to approve the specific accounting entries proposed by the Company, as described in Findings of Fact No. 121 above. Further, it is reasonable

and in the public interest to require that the necessity of continuing these accounting procedures be addressed in the Company's next rate filing for its Agua Fria Water district.

17. It is reasonable and in the public interest to order the Company to lower the amount of its existing CAP Surcharge for the Paradise Valley Water district to account for the difference between the former $22.62 per acre foot SRP water delivery and administrative charges and the current $8 per acre foot CAWCD storage cost, taking into account any overcollection that has occurred since the date of the changes in the Company's CAP Surcharge costs.

18. It is reasonable and in the public interest to approve the Company's ACRM proposal for its Tubac Water district as presented in the application, without any predetermination regarding engineering overheads.

19. It is reasonable and in the public interest to require the Company, for its Mohave Water district and Havasu Water district, to reduce its water loss to below 10 percent by June 30, 2010 or before it files its next rate increase application and/or CC&N application and/or financing application, whichever comes first, and to begin water loss monitoring and take action to ensure water loss remains less than 10 percent immediately. If the water loss for the twelve month period ending June 30, 2010, is greater than 10 percent, it is reasonable and in the public interest to require the Company to formulate a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why water loss reduction to 10 percent or less is not feasible or cost effective, and to docket in this case no later than July 31, 2010, either the plan, the report, or notification that its water loss has been reduced below 10 percent.

20. It is reasonable and in the public interest to require the Company, for its Paradise Valley Water district, to monitor the system closely and take action to ensure that lost water remains less than 10 percent in the future, and if the water loss at any time before the next rate case is greater than 10 percent, to formulate a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective, and to docket in this case prior to the filing of its next rate case either the plan, the report, or notification that its water loss has remained below 10 percent.

21. It is reasonable and in the public interest to require Staff to find the Company's next

rate application insufficient if, during its review of the Company's next rate filing, Staff finds the water use data submitted to be inaccurate, or if the water use figures used in the Company's COSS are not identical to those provided to Staff.

22. It is reasonable and in the public interest to approve the Off-Site Facilities Hook-Up Fee Tariff attached hereto as Exhibit C as recommended by Staff, and to approve the reporting requirements set forth therein, except that the first calendar year Off-Site Facilities Hook-Up Fee status report should be due on January 31, 2011 and should cover the timeframe from inception of the tariff through December 31, 2010.

ORDER

IT IS THEREFORE ORDERED that Arizona-American Water Company is hereby authorized and directed to file with the Commission, on or before November 30, 2009, the schedules of rates and charges attached hereto and incorporated herein as Exhibit D, which shall be effective for all service rendered on and after December 1, 2009.

IT IS FURTHER ORDERED that this docket shall remain open for the limited purpose of consolidation in the Company's next rate case with a separate docket in which a revenue-neutral change to rate design of all Arizona-American Water Company's water districts or other appropriate proposals or all Arizona-American's water and wastewater districts or other appropriate proposals may be considered simultaneously, after appropriate public notice, with appropriate opportunity for informed public comment and participation.

IT IS FURTHER ORDERED that the Company shall commence a dialogue with its customers as soon as practicable, and will initiate town hall-style meetings in all of its service territories to begin communicating with consumers the various impacts of system consolidation in each of those service territories, and to collect feed-back from consumers on such consolidation.

IT IS FURTHER ORDERED that Arizona-American Water Company shall file, along with the new schedules of rates and charges ordered above, a copy of the Common Facilities Hook-Up Fee (Water) Tariff Schedule for the Company's Agua Fria district as it appears in Exhibit A, attached hereto, and a copy of the Off-Site Facilities Hook-Up Fee Tariff for its Mohave Wastewater district as it appears in Exhibit C, attached hereto.

IT IS FURTHER ORDERED that the first calendar year Off-Site Facilities Hook-Up Fee status report for the Mohave Wastewater district shall be due on January 31, 2011, covering the timeframe from inception of the tariff through December 31, 2010.

IT IS FURTHER ORDERED that Arizona-American Water Company shall lower the amount of its existing CAP Surcharge for the Paradise Valley Water district to account for the difference between the former $22.62 per acre foot SRP water delivery and administrative charges and the current $8.00 per acre foot CAWCD storage cost, taking into account any overcollection that has occurred since the date of the changes in the Company's CAP Surcharge costs.

IT IS FURTHER ORDERED that Arizona-American Water Company is hereby authorized to implement the ACRM for its Tubac Water district as presented in the application, but without any predetermination regarding engineering overheads.

IT IS FURTHER ORDERED that Arizona-American Water Company is hereby authorized to defer incremental operating and maintenance expenses related to the operation of the White Tanks Plant commencing with the in-service date through and until the date of issuance of a rate order that considers the reasonableness of such expenses as recoverable operating expenses, in accordance with the following:

(1) The deferral shall be allowed only if Arizona-American is the sole owner and operator of the White Tanks Plant.

(2) Arizona-American Water Company shall defer for consideration of future recovery White Tanks Plant expenses to include: labor and labor-related benefits associated with personnel to operate the White Tanks Plant; power costs; chemicals; waste disposal expenses; operating supplies; and any other expenses directly associated with the operation of the White Tanks Plant. These expenses shall be tracked and recorded in a deferral account limited exclusively to White Tanks Plant costs.

(3) Arizona-American Water Company shall offset the amount deferred by all operating cost savings realized elsewhere in the Company's Agua Fria system that result from the reduction in water production from existing groundwater sources displaced by treated surface water from the White Tanks Plant. Arizona-American Water Company shall track such operating cost savings

quarterly in sufficient detail to facilitate a subsequent audit and reasonableness review in its next Agua Fria District rate filing proceeding, and shall include with that rate filing a report detailing the deferred expenses and associated savings for review in that proceeding.

(4) Arizona-American Water Company shall file annually, during the period prior to the date of issuance of a rate order that considers the authorized deferred expenses as recoverable operating expenses, an earnings test for the Agua Fria Water district, so that in the event the Company would earn more than its authorized return on rate base as a result of the deferral, the amount of the deferral can be reduced to bring earnings down to the authorized return.

(5) In accordance with this Ordering Paragraph, Arizona-American Water Company shall be authorized to:

a. defer the sum of its White Tank Plant's Operations and Maintenance expenses less the realized cost savings resulting from production shifts as a regulatory asset in Account 186, Miscellaneous Deferred Debits;

b. accrue interest on the outstanding deferred Operations and Maintenance expense balance at its prevailing short-term interest rate;

c. beginning on the date of issuance of a rate order that considers the authorized deferred expenses as recoverable operating expenses, amortize the allowed amount of the regulatory asset over a reasonable time period to be determined in that rate order, and include such amortization as a recoverable expense.

IT IS FURTHER ORDERED that the proposed specific accounting entries, as described in Findings of Fact No. 121 above, are hereby approved.

IT IS FURTHER ORDERED that the necessity of continuing the accounting procedures approved in the prior Ordering Paragraph shall be addressed in the Company's next rate filing for its Agua Fria Water district.

IT IS FURTHER ORDERED that Arizona-American Water Company shall, for its Mohave Water district and Havasu Water district, reduce its water loss to below 10 percent by June 30, 2010 or before it files its next rate increase application and/or CC&N application and/or financing application, whichever comes first, and shall begin water loss monitoring and take action to ensure water loss remains less than 10 percent immediately. If the water loss for the twelve month period ending June 30, 2010, is greater than 10 percent, the Company shall formulate a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why water loss reduction to 10 percent or less is not feasible or cost effective, and shall docket in this case, no later than July 31, 2010, either the plan, the report, or notification that its water loss has been reduced below 10 percent.

IT IS FURTHER ORDERED that Arizona-American Water Company shall, for its Paradise Valley Water district monitor the system closely and take action to ensure that lost water remains less than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10 percent, the Company shall formulate a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective, and shall docket in this case prior to the filing of its next rate case either the plan, the report, or notification that its water loss has remained below 10 percent.

IT IS FURTHER ORDERED that Arizona-American Water Company shall not file a permanent rate application prior to January 1, 2011, for the Mohave Wastewater District.

IT IS FURTHER ORDERED that Arizona-American shall work with Staff to develop and file a low-income tariff for Commission consideration in this docket by December 31, 2009, for Commission consideration.

IT IS FURTHER ORDERED that Staff shall find Arizona-American Water Company's next rate application insufficient if, during its review of the filing, Staff finds the water use data submitted to be inaccurate, or if the water use figures used in the Company's cost of service study are not identical to those provided to Staff.

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IT IS FURTHER ORDERED that Arizona-American shall submit within 120 days of the effective date of this Decision at least ten Best Management Practices (as outlined in ADWR's Modified Non-Per Capita Conservation Program) in each of the water systems that are the subject of this rate case to Docket Control for Commission approval. The Company may request cost recovery of actual costs associated with the BMPs implemented.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 8th day of December 2009.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT Sandra D. Kennedy

DISSENT ______________________

SERVICE LIST FOR: ARIZONA-AMERICAN WATER COMPANY

DOCKET NOS.: W-01303A-08-0227 and SW-01303A-08-0227

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EXHIBIT A

TARIFF SCHEDULE

UTILITY: ____________________ DECISION NO. ____________
DOCKET NO. ____________________ EFFECTIVE DATE: ___________

COMMON FACILITIES HOOK-UP FEE (WATER)
AGUA FRIA WATER DISTRICT

I. Purpose and Applicability

The purpose of the Common Facilities hook-up fee payable to Arizona-American Water Company ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional common water facility infrastructure, including the White Tanks Surface Water Treatment Facility, to provide water production, delivery, treatment, storage and pressure among all new service connections. These charges are applicable to all new service connections established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to the Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with the Company for the installation of water facilities to serve new service connections, and may include developers and/or builders of new residential subdivisions.

"Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of water facilities, which may include Common Facilities, to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, in either case which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Common Facilities" means (i) all wells, including engineering and design costs, and (ii) storage tanks, production, treatment, booster pumps, pressure tanks, transmission mains and related appurtenances, including engineering and design costs, constructed for the benefit of the entire water system and not for the exclusive use of the Applicant's development.

"Service Connection" means and includes all service connections for single-family residential or other uses, regardless of meter size.

III. Common Facilities Water Hook-up Fee

For each new service connection, the Company shall collect a Common Facilities hook-up fee derived from the following table:

COMMON FACILITIES HOOK-UP FEE TABLE

Meter Size	Size Factor	Component A Offset Eligible	Component B Not Offset Eligible	Total Fee
5/8" x 3/4"	1	$1,150.00	$2,130.00	**$3,280.00**
3/4"	1.5	$1,725.00	$3,195.00	**$4,920.00**
1"	2.5	$2,875.00	$5,325.00	**$8,200.00**
1-1/2"	5	$5,750.00	$10,650.00	**$16,400.00**
2"	8	$9,200.00	$17,040.00	**$26,240.00**
3"	16	$18,400.00	$34,080.00	**$52,480.00**
4"	25	$28,750.00	$53,250.00	**$82,000.00**
6" or larger	50	$57,500.00	$106,500.00	**$164,000.00**

IV. Terms and Conditions

(A) Assessment of One Time Common Facilities Hook-up Fee: The Common Facilities hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Common Facilities Hook-up Fee: Common Facilities hook-up fees may only be used to pay for capital items of Common Facilities, or for repayment of loans obtained for installation of Common Facilities. Common Facilities hook-up fees shall not be used for repairs, maintenance, or operational purposes.

(C) Time of Payment:

1) In the event that the Applicant that will be constructing improvements is required to enter into a Main Extension Agreement, payment of the Common Facilities hook-up fees required hereunder shall be made by the Applicant no later than within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).

2) In the event that the Applicant for service is not required to enter into a Main Extension Agreement, the charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Common Facilities Construction By Developer: The Company and Applicant may agree to construction of Common Facilities necessary to serve a particular development by Applicant which facilities are then conveyed to the Company. In that event, Company shall credit the total cost of such Common Facilities as an offset to Component A of the Common Facilities hook-up fees due under this Tariff. If the total cost of the Common Facilities constructed by Applicant and conveyed to Company is less than the applicable Component A of the Common Facilities hook-up fee due under this Tariff, Applicant shall pay the remaining amount of Component A of the Common Facilities hook-up fees owed hereunder. If the total cost of the Common Facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable Component A of the Common Facilities hook-up fees under this Tariff, Applicant shall be refunded the difference upon acceptance of the Common Facilities by the Company. The Company and Applicant may agree to construction of additional facilities that are not Common Facilities, the cost of which shall not be subject to off-set under this paragraph IV.D, but which will be subject to refund under R14-2-406(D).

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to provide water service to any Applicant or other applicant for service in the event that such Applicant or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Large Subdivision Projects: In the event that the Applicant is engaged in the development of a residential subdivision containing more than 150 lots, and is a party to a Main Extension Agreement with the Company for such development, the Company may, in its discretion, agree to payment of the Common Facilities hook-up fees in installments. Such installments may be based on the residential subdivision development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's construction schedule and water service requirements.

(G) Common Facilities Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the Common Facilities hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Common Facilities Hook-Up Fees Received: All funds collected by the Company as Common Facilities hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of the Common Facilities, including repayment of loans obtained for the installation of Common Facilities that will benefit the entire water system.

(I) Common Facilities Hook-up Fee in Addition to On-site Facilities: The Common Facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities or other additional facilities under Paragraph IV.D, above, under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable Common Facilities are constructed utilizing funds collected pursuant to the Common Facilities hook-up fees, or if the Common Facilities hookup fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

K) Fire Flow Requirements: In the event the Applicant has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the Common Facilities hook-up fee, and which are contemplated to be constructed using the proceeds of the Common Facilities hook-up fee, the Company may require the Applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to paying the Common Facilities hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Common Facilities hook-up fee status report each January 31 to Docket Control for the prior twelve (12) month period, beginning January 31, 2011, until the Common Facilities hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the Common Facilities hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

EXHIBIT B

SCENARIO: ALL EIGHT DISTRICTS RATE CONSOLIDATION

RESIDENTIAL CUSTOMERS

Meter Size	Anthem	Aqua Fria	Havasu	Mohave	Paradise Valley	Sun City	Sun City West	Tubac	Total
Avg gals 5/8"	9,022	7,400	9,705	8,073	20,493	8,269	6,704	11,767	
UNCONSOLIDATED RATES (BASED ON PROPOSED RATES ORIGINAL 5-1-08 FILING PLUS EXISTING SUN CITY)									
5/8 & 3/4	$4,235,042	$13,040,648	$1,326,214	$4,442,597	$2,088,645	$3,389,239	$5,957,328	$466,587	$34,946,301
1	$5,054,744	$4,271,558	$312	$47,776	$4,348,114	$127,597	$157,769	$38,921	$14,046,791
1.5	$164,849	$945,122	$0	$0	$216,452	$1,788,716	$1,469,445	$0	$4,584,584
2	$258,430	$1,781,218	$2,627	$106,464	$1,112,402	$825,185	$538,188	$12,982	$4,637,496
3	$0	$6,307	$0	$0	$0	$14,350	$0	$1,949	$22,606
4	$0	$0	$30,750	$0	$0	$0	$368,296	$0	$399,046
6	$0	$610	$0	$0	$0	$6,185	$0	$0	$6,795
8	$0	$0	$0	$0	$0	$0	$0	$0	$0
TOTAL	$9,713,065	$20,045,463	$1,359,903	$4,596,838	$7,765,613	$6,151,273	$8,491,027	$520,438	$58,643,621
Avg Mo Bill 5/8"	$66.64	$38.21	$73.77	$24.50	$70.26	$13.91	$35.10	$85.29	
CONSOLIDATED RATES									
5/8 & 3/4	$2,209,212	$10,537,998	$747,995	$6,067,816	$1,944,389	$7,947,897	$4,913,727	$240,554	$34,609,589
1	$2,634,456	$3,603,402	$222	$69,040	$4,643,788	$291,799	$136,053	$24,105	$11,402,867
1.5	$88,000	$825,982	$0	$0	$253,343	$4,243,195	$1,274,269	$0	$6,684,790
2	$143,948	$1,564,455	$2,384	$170,798	$1,153,127	$1,976,152	$484,796	$8,111	$5,503,772
3	$0	$5,812	$0	$0	$0	$35,472	$0	$2,359	$43,643
4	$0	$0	$25,871	$0	$0	$0	$349,653	$0	$375,524
6	$0	$780	$0	$0	$0	$22,656	$0	$0	$23,436
8	$0	$0	$0	$0	$0	$0	$0	$0	$0
TOTAL	$5,075,617	$16,538,429	$776,473	$6,307,654	$7,994,648	$14,517,171	$7,158,498	$275,130	$58,643,621
Avg Mo Bill 5/8"	$34.15	$30.09	$35.85	$31.77	$66.94	$32.26	$28.35	$41.01	
INCREASE/(DECREASE) IN RATES NEEDED TO CONSOLIDATE									
5/8 & 3/4	$ (2,025,830)	$ (2,502,650)	$ (578,219)	$ 1,625,219	$ (144,256)	$ 4,558,658	$ (1,043,601)	$ (226,033)	$ (336,712)
1	$ (2,420,288)	$ (668,155)	$ (90)	$ 21,263	$ 295,674	$ 164,202	$ (21,716)	$ (14,815)	$ (2,643,925)
1.5	$ (76,849)	$ (119,139)	$ -	$ -	$ 36,891	$ 2,454,479	$ (195,176)	$ -	$ 2,100,206
2	$ (114,482)	$ (216,763)	$ (243)	$ 64,334	$ 40,726	$ 1,150,967	$ (53,392)	$ (4,871)	$ 866,276
3	$ -	$ (496)	$ -	$ -	$ -	$ 21,122	$ -	$ 410	$ 21,037
4	$ -	$ -	$ (4,879)	$ -	$ -	$ -	$ (18,643)	$ -	$ (23,522)
6	$ -	$ 169	$ -	$ -	$ -	$ 16,472	$ -	$ -	$ 16,641
8	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	$ (4,637,449)	$ (3,507,034)	$ (583,430)	$ 1,710,816	$ 229,035	$ 8,365,899	$ (1,332,529)	$ (245,308)	$ (0)
TOTAL	-47.74%	-17.50%	-42.90%	37.22%	2.95%	136.00%	-15.69%	-47.13%	0.00%
Change in Avg Mo Bill 5/8"	($32.49)	($8.12)	($37.92)	$7.27	($3.32)	$18.35	($6.75)	($44.28)	

DECISION NO. 71410

Description	Meter Size in Inches	Base Charge	Volume Blocks (1,000 Gallons) 1 First	Volume Blocks (1,000 Gallons) 2 Next	Volume Charges (per 1,000 Gallons) 1 First	Volume Charges (per 1,000 Gallons) 2 Next	Volume Charges (per 1,000 Gallons) 3 Next
Residential	5/8 & 3/4	$15.59	4	11	1.5	2.5	3.25
Residential	1	$38.98	4	36	1.5	2.5	3.25
Residential	1.5	$77.96	75		2.5	3.25	
Residential	2	$124.74	120		2.5	3.25	
Residential	3	$233.89	225		2.5	3.25	
Residential	4	$389.81	375		2.5	3.25	
Residential	6	$779.62	750		2.5	3.25	
Residential	8	$1,247.39	1200		2.5	3.25	

EXHIBIT C

FIGURE 7
TARIFF SCHEDULE

UTILITY: Arizona-American Water Company - MOHAVE WASTEWATER DISTRICT DECISION NO. ________
DOCKET NO.: WS-01303A-08-0227 EFFECTIVE DATE: ______

OFF-SITE FACILITIES HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site facilities hook-up fees payable to Arizona-American Water Company - Mohave Wastewater District ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide wastewater treatment plant facilities among all new service laterals. These charges are applicable to all new service laterals established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-601 of the Arizona Corporation Commission's ("Commission") rules and regulations governing sewer utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of wastewater facilities to serve new service laterals, and may include Developers and/or Builder of new residential subdivisions.

"Company" means Arizona-American Water Company - Mohave Wastewater District –

"Collection Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of wastewater facilities to the Company to serve new service laterals, or install wastewater facilities to serve new service laterals and transfer ownership of such wastewater facilities to the Company, which agreement does not require the approval of the Commission pursuant to A.A.C. R-14-2-606, and shall have the same meaning as "Wastewater Facilities Agreement".

"Off-site Facilities" means the wastewater treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include lift stations, transportation mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and benefit the entire wastewater system.

"Service Lateral" means and includes all service laterals for single-family residential or other uses.

III. Off-Site Facilities Hook-up Fee

For each new service lateral, the Company shall collect an off-site facilities hook-up fee as listed in the following table:

TREATMENT PLANT HOOK-UP FEE TARIFF TABLE		
Service Lateral Size	Factor	Fee
4-inch	1	$785*
6-inch	2	$1,570
8-inch	3½	$2,748

* Established per Decision No. 69440.

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Facilities Hook-up Fee: The off-site facilities hook-up fee may be assessed only once per parcel, service lateral, or lot within a subdivision (similar to a service lateral installation charge).

(B) Use of Off-Site Facilities Hook-up Fee: Off-site facilities hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained for installation of off-site facilities. Off-site hook-up fees shall not be used for repairs, maintenance, or operational purposes.

(C) Time of Payment:

(1) In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Collection Main Extension Agreement, payment of the fees required hereunder shall be made by the Applicant, Developer or Builder when operational acceptance is issued for the on-site wastewater facilities constructed to serve the improvement.

(2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Collection Main Extension Agreement, the charges hereunder shall be due and payable at the time wastewater service is requested for the property.

(D) Off-Site Facilities Construction By Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall be refunded the difference upon acceptance by the Company (of the off-site facilities).

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to provide wastewater service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company connect service or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site facilities hook-up fee tariff shall be non-refundable contributions in aid of construction.

(G) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site facilities hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities.

(H) Off-Site Facilities Hook-up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection Main Extension Agreement.

(I) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site facilities hook-up fees, or if the off-site facilities hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(J) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2009, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

EXHIBIT D

ARIZONA-AMERICAN - AGUA FRIA WATER
Docke No. W-01303A-08-0227

AGUA FRIA WATER

Monthly Minimum	
5/8 x x3/4-inch Meter	$ 13.85
1-inch Meter	$ 34.66
11/2-inch Meter	$ 68.77
2-inch Meter	$ 110.83
3-inch Meter	$ 221.66
4-inch Meter	$ 346.29
6-inch Meter	$ 692.52
8-inch Meter	$ 1,108.03
10-inch Meter	$ 1,592.75
12-inch Meter	$ 2,977.75
Other Public Entities - State Prision	$ 222.43
Monthly Service Charge for Fire Sprinkler	
4-inch Meter - Rate Schedule B6M04 (Sun City West Rate)	$ 41.00
4-inch Meter - Rate Schedule C6M04	$ 32.40
6-inch Meter - Rate Schedule C6M06	$ 47.00
6-inch Meter - Rate Schedule E6M06	$ 147.00
8-inch Meter - Rate Schedule C6M08	$ 64.00
10-inch Meter - Rate Schedule C6M10	$ 126.39
12-inch Meter - Rate Schedule C6M12	$ 190.00
Gallons in the Minimum	-

Commodity Rates (Residential, Commercial, Industrial)	Block	
5/8 x 3/4-inch Meter Residential	0 - 4,000 Gallons	1.8240
	4,001 - 13,000 Gallons	2.7280
	Over 13,000 Gallons	3.2750
5/8 x 3/4-inch Meter Commercial	0 to 13,000 Gallons	2.7280
	Over 13,000 Gallons	3.2750
1-inch Meter:	0 to 45,000 Gallons	2.7280
	Over 45,000 Gallons	3.2750
1 1/2-inch Meter:	0 to 100,000 Gallons	2.7280
	Over 100,000 Gallons	3.2750
2-inch Meter	0 to 150,000 Gallons	2.7280
	Over 150,000 Gallons	3.2750
3-inch Meter	0 to 300,000 Gallons	2.7280
	Over 300,000 Gallons	3.2750
4-inch Meter	0 to 400,000 Gallons	2.7280
	Over 400,000 Gallons	3.2750
6-inch Meter	0 to 800,000 Gallons	2.7280
	Over 800,000 Gallons	3.2750
8-inch Meter	0 to 1,125,000 Gallons	2.7280
	Over 1,125,000 Gallons	3.2750
10-inch Meter	0 to 1,500,000 Gallons	2.7280
	Over 1,500,000 Gallons	3.2750
12-inch Meter	0 to 2,250,000 Gallons	2.7280
	Over 2,250,000 Gallons	3.2750
Arizona Water Contract	0 to 8,000 Gallons	2.0200
	Over 8,000 Gallons	2.7280
Other Public Entities - State Prision	All Gallons	2.2400
OWU - PI Surprise	All Gallons	1.2000
Private Fire Service	All Gallons	1.3800
Irrigation/Bulk - Raw	All Gallons	2.7280
Irrigation - Non Potable	All Gallons	2.7280

DECISION NO. 71410

AGUA FRIA WATER

ARIZONA-AMERICAN - AGUA FRIA WATER
Docke No. W-01303A-08-0227

Service Charges	
Establishment Re-establishment and/reconnection of Service:	
Regular Hours	$ 30.00
After Hours	$ 40.00
Water Meter Test (If Correct)	$ 81.00
Meter Re-Read (If Correct)	$ 5.00
NSF Check Charge	$ 10.00
Late Fee Charge	1.5% Per Month
Deferred Payment Finance Charge	N/A
Deposit Requirements Residential	**
Deposit Requirements Non-Residential	**
Deposit Interest	***

** Residential - two times the average bill. Non-residential - two and one-half times the estimated maximum bill.

*** Interest per [Per ACC Rule 14-2-403(B)]

Meter and Service Line Installation Charges	Service Line Charge	Meter Installation Charge	Total Charge
5/8 x 3/4-inch Meter	$ 445.00	$ 155.00	$ 600.00
3/4-inch Meter	$ 445.00	$ 255.00	$ 700.00
1-inch Meter	$ 495.00	$ 315.00	$ 810.00
11/2-inch Meter	$ 550.00	$ 525.00	$ 1,075.00
2-inch Turbine Meter	$ 830.00	$ 1,045.00	$ 1,875.00
2-inch Compound Meter	$ 830.00	$ 1,890.00	$ 2,720.00
3-inch Turbine Meter	Actual Cost	Actual Cost	Actual Cost
3-inch Compound Meter	Actual Cost	Actual Cost	Actual Cost
4-inch Turbine Meter	Actual Cost	Actual Cost	Actual Cost
4-inch Compound Meter	Actual Cost	Actual Cost	Actual Cost
6-inch Turbine Meter	Actual Cost	Actual Cost	Actual Cost
6-inch Compound Meter	Actual Cost	Actual Cost	Actual Cost
8-inch or Larger	Actual Cost	Actual Cost	Actual Cost

An applicant for water service shall pay to the Company, as a refundable advance in aid of construction the full cost to provide the new service line and meter.

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM IT CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES,USE, AND FRANCHISE TAX. PER COMMISSION RULE 14-2-409D(5).

ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.

HAVASU WATER

Arizona American Water Company - Havasu
Docket No. W-01303A-08-0227

Monthly Minimum		
3/4-inch Meter	$	23.50
1-inch Meter	$	58.75
11/2-inch Meter	$	117.50
2-inch Meter	$	188.00
3-inch Meter	$	376.10
4-inch Meter	$	587.50
6-inch Meter	$	1,174.95
8-inch Meter	$	1,879.91
10-inch Meter	$	2,702.37
12-inch Meter	$	5,052.26
6-inch, or smaller, Meter for Apartments, RV Parks and Resorts	$	13.00

Commodity Rates (Residential and Commercial)	Block		
3/4-inch Meter Residential	0 - 4,000 Gallons	$	2.3400
	4,001 - 13,000 Gallons	$	3.0200
	Over 13,000 Gallons	$	3.5500
3/4-inch Meter Commercial and Industrial	0 to 13,000 Gallons	$	3.0200
	Over 13,000 Gallons	$	3.5500
1-inch Meter:	0 to 30,000 Gallons	$	3.0200
	Over 30,000 Gallons	$	3.5500
1 1/2-inch Meter:	N/A	$	3.0200
	N/A	$	3.5500
2-inch Meter	0 to 60,000 Gallons	$	3.0200
	Over 60,000 Gallons	$	3.5500
3-inch Meter	0 to 90,000 Gallons	$	3.0200
	Over 90,000 Gallons	$	3.5500
4-inch Meter	0 to 110,000 Gallons	$	3.0200
	Over 110,000 Gallons	$	3.5500
6-inch Meter	0 to 500,000 Gallons	$	3.0200
	Over 500,000 Gallons	$	3.5500
8-inch Meter	N/A	$	3.0200
	N/A	$	3.5500
10-inch Meter	N/A	$	3.0200
	N/A	$	3.5500
12-inch Meter	N/A	$	3.0200
	N/A	$	3.5500

HAVASU WATER

ARIZONA AMERICAN - HAVASU WATER
Docket No. W-01303A-08-0227

Service Charges	
Establishment Re-establishment and/or reconnection of Service:	
Regular Hours	$ 25.00
After Hours	$ 34.00
Water Meter Test (If Correct)	$ 10.00
Meter Re-Read (If Correct)	$ 5.00
NSF Check Charge	$ 25.00
Late Fee Charge	1.5% Per Month
Deferred Payment Finance Charge	1.5% Per Month
Deposit Requirements Residential	**
Deposit Requirements Non-Residential	**
Deposit Interest	***

** Residential - two times the average bill. Non-residential - two and one-half times the estimated maximum bill.

*** Interest per [Per ACC Rule 14-2-403(B)]

Meter and Service Line Installation Charges	Service Line Charge	Meter Installation Charge	Total Charge
5/8 x 3/4-inch Meter	$ 445.00	$ 155.00	$ 600.00
3/4-inch Meter	$ 445.00	$ 255.00	$ 700.00
1-inch Meter	$ 495.00	$ 315.00	$ 810.00
11/2-inch Meter	$ 550.00	$ 525.00	$ 1,075.00
2-inch Turbine Meter	$ 830.00	$ 1,045.00	$ 1,875.00
2-inch Compound Meter	$ 830.00	$ 1,890.00	$ 2,720.00
3-inch Turbine Meter	Actual Cost	Actual Cost	Actual Cost
3-inch Compound Meter	Actual Cost	Actual Cost	Actual Cost
4-inch Turbine Meter	Actual Cost	Actual Cost	Actual Cost
4-inch Compound Meter	Actual Cost	Actual Cost	Actual Cost
6-inch Turbine Meter	Actual Cost	Actual Cost	Actual Cost
6-inch Compound Meter	Actual Cost	Actual Cost	Actual Cost
8-inch or Larger	Actual Cost	Actual Cost	Actual Cost

An applicant for water service shall pay to the Company, as a refundable advance in aid of construction the full cost to provide the new service line and meter.

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM IT CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES,USE, AND FRANCHISE TAX. PER COMMISSION RULE 14-2-409D(5).

ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.

MOHAVE WATER

Arizona-American - Mohave Water
Docket No. W-01303A-08-0227

Monthly Minimum	System	
5/8 x 3/4-inch Meter	Bullhead	$ 9.00
1-inch Meter	Bullhead	$ 22.50
1 1/2-inch Meter	Bullhead	$ 45.00
2-inch Meter	Bullhead	$ 72.00
2-inch Meter	Havasu	$ 41.52
3-inch Meter	Bullhead	$ 144.00
4-inch Meter	Bullhead	$ 225.00
4-inch Meter	Havasu	$ 71.45
6-inch Meter	Bullhead	$ 450.00
8-inch Meter	Bullhead	$ 720.00
10-inch Meter	Bullhead	$ 1,035.00
12-inch Meter	Bullhead	$ 1,935.00

Monthly Service Charge for Fire Sprinkler		
2-inch Meter	No Usage	$ 3.36
4-inch Meter	No Usage	$ 6.71
6-inch Meter	No Usage	$ 10.08
8-inch Meter	No Usage	$ 13.44
10-inch Meter	No Usage	$ 16.79
Hydrant	No Usage	$ 8.56

Commodity Rates (Residential, Commercial, Industrial)	Block	
5/8 x 3/4-inch Meter Residential	0 - 4,000 Gallons	0.8850
	4,001 -10,000 Gallons	1.3430
	Over 10,000 Gallons	1.6070
5/8 x 3/4-inch Meter - Apartment	0 to 10,000 Gallons	1.3430
	Over 10,000 Gallons	1.6070
5/8 x 3/4-inch Meter Commercial	0 to 10,000 Gallons	1.3430
	Over 10,000 Gallons	1.6070
1-inch Meter:	0 to 25,000 Gallons	1.3430
	Over 25,000 Gallons	1.6070
1 1/2-inch Meter:	0 to 50,000 Gallons	1.3430
	Over 50,000 Gallons	1.6070
2-inch Meter - Havasu	0 to 60,000 Gallons	1.3430
	Over 60,000 Gallons	1.6070
2-inch Meter	0 to 80,000 Gallons	1.3430
	Over 80,000 Gallons	1.6070
3-inch Meter	0 to 150,000 Gallons	1.3430
	Over 150,000 Gallons	1.6070
4-inch Meter - Havasu	0 to110,000 Gallons	1.3430
	Over 110,000 Gallons	1.6070
4-inch Meter	0 to 250,000 Gallons	1.3430
	Over 250,000 Gallons	1.6070
6-inch Meter	0 to 500,000 Gallons	1.3430
	Over 500,000 Gallons	1.6070
8-inch Meter	0 to 1,125,000 Gallons	1.3430
	Over 1,125,000 Gallons	1.6070
10-inch Meter	0 to 1,500,000 Gallons	1.3430
	Over 1,500,000 Gallons	1.6070
12-inch Meter	0 to 2,250,000 Gallons	1.3430
	Over 2,250,000 Gallons	1.6070
Other Public Authorities - Monthly base charge per above meter size	All Usage	1.3430

MOHAVE WATER

Arizona-American - Mohave Water
Docket No. W-01303A-08-0227

Service Charges	
Establishment or re-establishment of Service:	
Including Sewer Service	$ 25.00
No Including Sewer Service	$ 20.00
Reconnection of Service (Delinquent):	
Regular Hours	$ 35.00
After Hours	$ 50.00
Water Meter Test (If Correct)	$ 35.00
Meter Re-Read (If Correct)	$ 25.00
NSF Check Charge	$ 25.00
Late Fee Charge	1.5% Per Month
Deferred Payment Finance Charge	1.5% Per Month
Deposit Requirements Residential	*
Deposit Requirements Non-Residential	*
Deposit Interest	**

* Residential - two times the average bill. Non-residential - two and one-half times the estimated maximum bill.

** Interest per [Per ACC Rule 14-2-403(B)]

Meter and Service Line Installation Charges	Service Line Charge	Meter Installation Charge	Total Charge
5/8 x 3/4-inch Meter	$ 370.00	$ 130.00	$ 500.00
3/4-inch Meter	$ 370.00	$ 205.00	$ 575.00
1-inch Meter	$ 420.00	$ 240.00	$ 660.00
11/2-inch Meter	$ 450.00	$ 450.00	$ 900.00
2-inch Turbine Meter	$ 580.00	$ 945.00	$ 1,525.00
2-inch Compound Meter	$ 580.00	$ 1,640.00	$ 2,220.00
3-inch Turbine Meter	$ 745.00	$ 1,420.00	$ 2,165.00
3-inch Compound Meter	$ 465.00	$ 2,195.00	$ 2,660.00
4-inch Turbine Meter	$ 1,090.00	$ 2,270.00	$ 3,360.00
4-inch Compound Meter	$ 1,120.00	$ 3,145.00	$ 4,265.00
6-inch Turbine Meter	$ 1,610.00	$ 4,425.00	$ 6,035.00
6-inch Compound Meter	$ 1,630.00	$ 6,120.00	$ 7,750.00
8-inch or Larger	Actual Cost	Actual Cost	Actual Cost

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM IT CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES,USE, AND FRANCHISE TAX. PER COMMISSION RULE 14-2-409D(5).

ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.

PARADISE VALLEY WATER

Arizona American Water Company - Paradise Valley Water
Docket No. W-01303A-08-0227

Monthly Minimum	
5/8 x 3/4-inch Meter	$ 25.15
3/4-inch Meter	$ 26.16
1-inch Meter	$ 50.30
11/2-inch Meter	$ 90.54
2-inch Meter	$ 140.84
3-inch Meter	$ 276.65
4-inch Meter	$ 462.76
6-inch Meter	$ 930.00
8-inch Meter	$ 2,245.00
10-inch Meter	$ 3,228.00
12-inch Meter	$ 6,034.00
Monthly Service Charge for Fire Sprinkler	$ 10.00

Commodity Rates (Residential, Commercial, Industrial)	Block	Per 1,000 Gallons
5/8 x 3/4-inch Meter Residential	0 - 5,000 Gallons	1.0500
	5,001 - 15,000 Gallons	1.2500
	15,001 - 40,000 Gallons	2.2000
	40,001 - 80,000 Gallons	2.7500
	Over 80,000 Gallons	3.2259
3/4-inch Meter Residential	0 - 5,000 Gallons	1.0500
	5,001 - 15,000 Gallons	1.2500
	15,001 - 40,000 Gallons	2.2000
	40,001 - 80,000 Gallons	2.7500
	Over 80,000 Gallons	3.2259
1-inch Meter Residential	0 - 5,000 Gallons	1.0500
	5,001 - 15,000 Gallons	1.2500
	15,001 - 40,000 Gallons	2.2000
	40,001 - 80,000 Gallons	2.7500
	Over 80,000 Gallons	3.2259
1-1/2-inch Meter Residential	0 - 5,000 Gallons	1.0500
	5,001 - 15,000 Gallons	1.2500
	15,001 - 40,000 Gallons	2.2000
	40,001 - 80,000 Gallons	2.7500
	Over 80,000 Gallons	3.2259
2-inch Meter Residential	0 - 5,000 Gallons	1.0500
	5,001 - 15,000 Gallons	1.2500
	15,001 - 40,000 Gallons	2.2000
	40,001 - 80,000 Gallons	2.7500
	Over 80,000 Gallons	3.2259
5/8-inch Meter Commercial	0 to 400,000 Gallons	1.9500
	Over 400,000 Gallons	2.3000
3/4-inch Meter Commercial	0 to 400,000 Gallons	1.9500
	Over 400,000 Gallons	2.3000
1-inch Meter Commercial	0 to 400,000 Gallons	1.9500
	Over 400,000 Gallons	2.3000
1 1/2-inch Meter Commercial:	0 to 400,000 Gallons	1.9500
	Over 400,000 Gallons	2.3000
2-inch Meter	0 to 400,000 Gallons	1.9500
	Over 400,000 Gallons	2.3000
3-inch Meter	0 to 400,000 Gallons	1.9500
	Over 400,000 Gallons	2.3000
4-inch Meter	0 to 400,000 Gallons	1.9500
	Over 400,000 Gallons	2.3000
6-inch Meter	0 to 400,000 Gallons	1.9500
	Over 400,000 Gallons	2.3000
3-inch Meter Turf Customer	All Gallons	1.6800
4-inch Meter Turf Customer	All Gallons	1.6800
6-inch Meter Paradise Valley Country Club	All Gallons	1.5600
Other Public Authorities - Monthly base charge per above meter size	All Usage	1.9500

DECISION NO. 71410

PARADISE VALLEY WATER

Arizona American Water Company - Paradise Valley Water
Docket No. W-01303A-08-0227

Service Charges	
Establishment of Service:	
Regular Hours	$ 20.00
After Hours	$ 40.00
Re-establishment of Service within 12 Months:	
Monthly Minimum times Months Disconnected From the Water System [Per ACC Rule 14-2-403(D)]	
Reconnection of Service (Delinquent):	
Regular Hours	$ 30.00
After Hours	$ 60.00
Water Meter Test (If Correct)	$ 15.00
Meter Re-Read (If Correct)	$ 10.00
NSF Check Charge	$ 12.00
Late Fee Charge	1.5% Per Month
Deposit Requirements Residential	**
Deposit Requirements Non-Residential	**
Deposit Interest	***

** Residential - two times the average bill. Non-residential - two and one-half times the estimated maximum bill.

*** Interest per [Per ACC Rule 14-2-403(B)]

Meter and Service Line Installation Charges	Service Line Charge	Meter Installation Charge	Total Charge
5/8 x 3/4-inch Meter	$ 445.00	$ 155.00	$ 600.00
3/4-inch Meter	$ 445.00	$ 255.00	$ 700.00
1-inch Meter	$ 495.00	$ 315.00	$ 810.00
11/2-inch Meter	$ 550.00	$ 525.00	$ 1,075.00
2-inch Meter	$ 830.00	$ 1,045.00	$ 1,875.00
3-inch Meter	Actual Cost	Actual Cost	Actual Cost
4-inch Meter	Actual Cost	Actual Cost	Actual Cost
6-inch Turbine Meter	Actual Cost	Actual Cost	Actual Cost
Over 6-inch	Actual Cost	Actual Cost	Actual Cost

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM IT CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES,USE, AND FRANCHISE TAX. PER COMMISSION RULE 14-2-409D(5).

ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.

SUN CITY WEST WATER

Arizona American Water Company - Sun City West
Docket No. W-01303A-08-0227

Monthly Minimum			
5/8 x 3/4-inch Meter		$	14.80
1-inch Meter		$	37.50
11/2-inch Meter		$	79.00
2-inch Meter		$	123.40
3-inch Meter		$	236.80
4-inch Meter		$	370.00
6-inch Meter		$	740.00
8-inch Meter		$	1,184.00
10-inch Meter		$	1,702.00
12-inch Meter		$	3,182.00

Monthly Service Charge for Fire Sprinkler			
4-inch or Smaller Meter	No Usage	$	56.26
6-inch Meter	No Usage	$	84.40
8-inch Meter	No Usage	$	112.53

(Residential, Commercial, Industrial)	Block		
5/8 x 3/4-inch Meter Residential	0 - 4,000 Gallons	$	2.4100
	4,001 - 15,000 Gallons	$	2.9500
	Over 15,000 Gallons	$	3.5600
5/8 x 3/4-inch Meter Commercial	0 to 15,000 Gallons	$	2.9500
	Over 15,000 Gallons	$	3.5600
1-inch Meter:	0 to 40,000 Gallons	$	2.9500
	Over 40,000 Gallons	$	3.5600
1 1/2-inch Meter:	0 to 100,000 Gallons	$	2.9500
	Over 100,000 Gallons	$	3.5600
2-inch Meter	0 to 150,000 Gallons	$	2.9500
	Over 150,000 Gallons	$	3.5600
3-inch Meter	0 to 275,000 Gallons	$	2.9500
	Over 275,000 Gallons	$	3.5600
4-inch Meter	0 to 400,000 Gallons	$	2.9500
	Over 400,000 Gallons	$	3.5600
6-inch Meter	0 to 550,000 Gallons	$	2.9500
	Over 550,000 Gallons	$	3.5600
8-inch Meter	0 to 1,402,000 Gallons	$	2.9500
	Over 1,402,000 Gallons	$	3.5600
10-inch Meter	0 to 2,100,000 Gallons	$	2.9500
	Over 2,100,000 Gallons	$	3.5600
12-inch Meter	0 to 4,110,000 Gallons	$	2.9500
	Over 4,110,000 Gallons	$	3.5600

SUN CITY WEST WATER

Arizona American Water Company - Sun City West Water
Docket No. W-01303A-08-0227

Service Charges	Staff Recommended
Establishment Re-establishment and/or reconnection of Service:	
Regular Hours	$ 30.00
After Hours	$ 40.00
Water Meter Test (If Correct)	$ 10.00
Meter Re-Read (If Correct)	$ 5.00
NSF Check Charge	$ 25.00
Late Fee Charge	1.5% Per Month
Deposit Requirements Residential	**
Deposit Requirements Non-Residential	**
Deposit Interest	***

** Residential - two times the average bill. Non-residential - two and one-half times the estimated maximum bill.

*** Interest per [Per ACC Rule 14-2-403(B)]

Meter and Service Line Installation Charges	Service Line Charge	Meter Installation Charge	Total Charge
5/8 x 3/4-inch Meter	$ 370.00	$ 130.00	$ 500.00
3/4-inch Meter	$ 370.00	$ 205.00	$ 575.00
1-inch Meter	$ 420.00	$ 240.00	$ 660.00
11/2-inch Meter	$ 450.00	$ 450.00	$ 900.00
2-inch Turbine Meter	$ 580.00	$ 945.00	$ 1,525.00
2-inch Compound Meter	$ 580.00	$ 1,640.00	$ 2,220.00
3-inch Turbine Meter	$ 745.00	$ 1,420.00	$ 2,165.00
3-inch Compound Meter	$ 465.00	$ 2,195.00	$ 2,660.00
4-inch Turbine Meter	$ 1,090.00	$ 2,270.00	$ 3,360.00
4-inch Compound Meter	$ 1,120.00	$ 3,145.00	$ 4,265.00
6-inch Turbine Meter	$ 1,610.00	$ 4,425.00	$ 6,035.00
6-inch Compound Meter	$ 1,630.00	$ 6,120.00	$ 7,750.00
8-inch or Larger	At Cost	At Cost	At Cost

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM IT CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES,USE, AND FRANCHISE TAX. PER COMMISSION RULE 14-2-409D(5).

ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.

TUBAC WATER

Arizona American Water Company - Tubac Water
Docket No. W-01303A-08-0227

Monthly Minimum		
5/8 x 3/4-inch Meter	$	24.70
1-inch Meter	$	74.10
11/2-inch Meter	$	144.38
2-inch Meter	$	230.53
3-inch Meter	$	461.00
4-inch Meter	$	722.00
6-inch Meter	$	1,440.00
8-inch Meter	$	2,305.00
10-inch Meter	$	3,320.00
12-inch Meter	$	6,208.00
Gallons in the Minimum		-

Commodity Rates (Residential and Commercial)	Block	Per 1,000 Gallons	
5/8 x 3/4-inch Meter Residential	0 - 3,000 Gallons	$	1.90
	3,001 - 10,000 Gallons	$	3.00
	10,001 - 20,000 Gallons	$	4.00
	Over 20,000 Gallons	$	6.00
5/8 x 3/4-inch Meter Commercial	0 to 20,000 Gallons	$	4.00
	Over 20,000 Gallons	$	6.00
1-inch Meter:	0 to 35,000 Gallons	$	4.00
	Over 35,000 Gallons	$	6.00
1 1/2-inch Meter:	0 to 85,000 Gallons	$	4.00
	Over 85,000 Gallons	$	6.00
2-inch Meter	0 to 150,000 Gallons	$	4.00
	Over 150,000 Gallons	$	6.00
3-inch Meter	0 to 175,000 Gallons	$	4.00
	Over 175,000 Gallons	$	6.00
4-inch Meter	0 to 250,000 Gallons	$	4.00
	Over 250,000 Gallons	$	6.00
6-inch Meter	0 to 350,000 Gallons	$	4.00
	Over 350,000 Gallons	$	6.00
8-inch Meter	0 to 900,000 Gallons	$	4.00
	Over 900,000 Gallons	$	6.00
10-inch Meter	0 to 1,500,000 Gallons	$	4.00
	Over 1,500,000 Gallons	$	6.00
12-inch Meter	0 to 2,250,000 Gallons	$	4.00
	Over 2,250,000 Gallons	$	6.00

TUBAC WATER

Arizona American Water Company - Tubac Water
Docket No. W-01303A-08-0227

Service Charges	
Establishment Re-establishment and/or reconnection of Service:	
Regular Hours	$ 30.00
After Hours	$ 45.00
Water Meter Test (If Correct)	$ 10.00
Meter Re-Read (If Correct)	$ 5.00
NSF Check Charge	$ 25.00
Late Fee Charge	1.5% Per Month
Deferred Payment Finance Charge	1.5% Per Month
Deposit Requirements Residential	**
Deposit Requirements Non-Residential	**
Deposit Interest	***

** Residential - two times the average bill. Non-residential - two and one-half times the estimated maximum bill.

*** Interest per [Per ACC Rule 14-2-403(B)]

Meter and Service Line Installation Charges	Service Line Charge	Meter Installation Charge	Total Charge
5/8 x 3/4-inch Meter	$ 445.00	$ 155.00	$ 600.00
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1-inch Meter	$ 495.00	$ 315.00	$ 810.00
11/2-inch Meter	$ 550.00	$ 525.00	$ 1,075.00
2-inch Turbine Meter	$ 830.00	$ 1,045.00	$ 1,875.00
2-inch Compound Meter	$ 830.00	$ 1,890.00	$ 2,720.00
3-inch Turbine Meter	Actual Cost	Actual Cost	Actual Cost
3-inch Compound Meter	Actual Cost	Actual Cost	Actual Cost
4-inch Turbine Meter	Actual Cost	Actual Cost	Actual Cost
4-inch Compound Meter	Actual Cost	Actual Cost	Actual Cost
6-inch Turbine Meter	Actual Cost	Actual Cost	Actual Cost
6-inch Compound Meter	Actual Cost	Actual Cost	Actual Cost
8-inch or Larger	Actual Cost	Actual Cost	Actual Cost

An applicant for water service shall pay to the Company, as a refundable advance in aid of construction the full cost to provide the new service line and meter.

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM IT CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES,USE, AND FRANCHISE TAX. PER COMMISSION RULE 14-2-409D(5).

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MOHAVE WASTEWATER

RATE DESIGN

Monthly Usage Charge	
Residential (Per ERU)	$ 56.55
Commercial (Per ERU)	56.55
Public Auhority (Per ERU)	56.55
Large Commercial	72.89
Commodity Charge	
Residential	$ -
Commercial	-
Public Auhority	-
Large Commercial	2.28
Effluent (Per Acre Foot)	
0 to 24	$ 227.79
25 to 99	227.79
100 to 199	227.79
200 & Above	227.79
Service Line Connection Charges (Non-Refundable)	
Residential	Cost
Commercial	Cost
School	Cost
Multiple Dwelling	Cost
Mobile Home Park	Cost
Effluent	Cost
Treatment Plant Availability Fee	
Per New Connection.	
4-Inch	$ 785.00
6-Inch	1,570.00
8-Inch	2,748.00
Service Charges:	
Establishment	$ 20.00
Establishment (After Hours)	30.00
Reconnection (Deliquent)	30.00
Deposit	*
Deposit Interest	*
Re-Establishment (With-in 12 Months)	**
NSF Check	25.00
Late Payment Charge	***

* Per Commission Rules (R-14-2-603.B)
** Months off system times minimum (R14-2-603.D)
*** Per Commissions Rules (R14-2-608.D)