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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR
AUTHORITY TO IMPLEMENT STEP ONE OF
AN ARSENIC COST RECOVERY MECHANISM
FOR ITS TUBAC WATER DISTRICT

DOCKET NO. W-01303A-08-0227

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[Signature]

**ARIZONA-AMERICAN WATER COMPANY
TUBAC WATER DISTRICT
NOTICE OF FILING
STEP-ONE ACRM**

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Arizona-American Water Company ("Arizona-American") hereby submits its Step-One Arsenic Cost Recovery Mechanism ("ACRM") filing ("Step-One Filing") for its Tubac Water District ("Tubac").

The Commission approved an ACRM for Tubac in Decision No. 71410 (December 8, 2009). As authorized by Decision No. 71410, Arizona-American now files its Step-One Filing requesting the establishment of a surcharge for arsenic plant in service.

This Step-One Filing supports the establishment of an Arsenic Cost Recovery Mechanism surcharge ("ACRM Surcharge") of \$3.99 for the basic service charge (5/8 inch meter) and \$0.7040 per 1,000 gallons for the commodity rate. The bill impact for an average residential customer will be \$11.65 per month or a 21.3% increase.¹

The relatively small magnitude of the requested Step-One ACRM reflects very successful efforts over several years involving the Commission, the local community and the Company to significantly mitigate the cost of Tubac's arsenic facility. As a result, the Company obtained an

¹ The average Tubac residential customer uses 10,690 gallons of water per month.

1 American Recovery and Reinvestment Act of 2009 (“ARRA”) forgivable principal through WIFA
2 for 57% of the actual total cost of Tubac’s arsenic facility. Therefore, the Company continues to be
3 in compliance with Decision No. 71168 which authorized the pursuit of financing through the
4 Water Infrastructure Finance Authority of Arizona (“WIFA”) for the arsenic project. Furthermore,
5 the Company reduced construction cost from its earlier estimate of \$2.3 million to \$2.0 million by
6 further value engineering the design of the Tubac arsenic facility. The balance of the project or
7 \$866,062 is financed at the current WIFA subsidized rate, 3.98%, also in compliance with Decision
8 No. 71168.

9 Prior to these efforts, the Company estimated that Tubac’s Step-One ACRM would equal
10 \$25.98 for the basic service charge for 5/8 inch meter residential customers plus \$3.137 per 1,000
11 gallons water used (Exhibit TMB-5, Broderick Direct Testimony, June 20, 2008, Docket No. W-
12 01303A-08-0227). These cost saving efforts have effectively dramatically reduced the basic
13 service charge for residential customers with a 5/8 inch meter by \$21.99 and the commodity rate per
14 1,000 gallons by \$2.43.

15 Tubac’s new arsenic facility was successfully placed in-service on December 16, 2009 and
16 Tubac residents have received potable water thereafter in compliance with the new reduced Federal
17 mcl standard for arsenic of less than 10 parts per billion in drinking water. This was the successful
18 conclusion of a multi-year process to provide Tubac safer, but still affordable, drinking water.

19 As usual, the Step-One Filing is supported by the schedules and workpapers required under
20 the Commission’s ACRM procedure. Schedule ACRM-3 indicates that the Company does not
21 presently earn its Commission authorized return on equity even after annualizing revenues for the
22 effect of the base rate increase authorized and effective in Tubac on December 1, 2009. Schedule
23 ACRM-5 calculates the Step-One revenue requirement using the Commission’s most recently
24 authorized rate of return of 7.33%, again, in compliance with Decision No. 71410. Copies of all
25 schedules and workpapers are also being provided to Commission Staff and the Residential Utility
26 Consumer Office in Microsoft Excel format.

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RESPECTFULLY SUBMITTED on March 5, 2010.



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1 Original and 13 copies **filed**
2 on March 5, 2010, with:

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4 Docket Control
5 Arizona Corporation Commission
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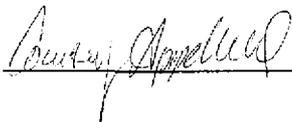
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9 Copies of the foregoing **mailed**
10 on March 5, 2010, to:

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