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MEMORANDUM

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TO: Docket Control
Arizona Corporation Commission

2010 APR 30 A 9: 10

FROM: Steven M. Olea
Director
Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: April 30, 2010

RE: DOCKET NO. W-01303-98-0507^A, STAFF RESPONSE TO ARIZONA-AMERICAN WATER COMPANY'S FILING ITS CAP SURCHARGE CALCULATION FOR YEAR 2010, RECEIVED MARCH 9, 2010.

On March 9, 2010, Arizona-American Water Company ("Company") filed its Central Arizona Project ("CAP") surcharge calculation for its Paradise Valley Water Division, in accordance with Decision No. 61831 (July 20, 1999). Under the terms of that Decision, the Company is required to file an annual true-up of its CAP surcharge. That Decision further contemplated that Staff would review and approve the calculation of the CAP surcharge.

On April 7, 2010, Staff filed a notice indicating that it had reviewed the Company's filing and had some concerns with the surcharge calculation. Accordingly, Staff could not approve the surcharge calculation at that time, and the Company was thereby notified that it should not begin collection of the new surcharge amount.

Staff notes that the Company has failed to file the required annual true-up of its CAP surcharge since 2006, but has continued to collect the surcharge amount calculated at that time. Further, in addition to the regular CAP surcharge amount, the Company seeks to recover, over the next three years, an amount in excess of one million dollars that it claims was an under recovery for the years 2006, 2007, 2008, and 2009.

The Company asserts that Decision No. 68858 (July 28, 2006) authorized it to transfer power cost savings reimbursed by Motorola from the surcharge calculation to calculations in base rates. Staff does not agree. Staff finds no discussion of this issue in the Decision and concludes that the Commission did not authorize any such transfer.

Further Staff finds that the Company has included unauthorized new charges in its calculation of the surcharge. The CAP - Tonopah Desert Recharge Facility fee which began in 2007 and has been recorded at \$25,848 per year was not authorized to be included in the CAP surcharge. Staff believes the surcharge should reflect only the M&I charges and the related savings.

Arizona Corporation Commission

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Staff recommends that the Company re-file its calculation of the CAP surcharge for 2007, 2008 and 2009 to reflect the then current M&I charges and the appropriate power savings and fees savings accordingly.

Staff further recommends that the Company file its annual true-up on December 1st of each year as per Decision No. 61831. If there is an under recovery due to the Company's failure to timely update the surcharge, it shall forfeit any under recovery that may occur in the future.

Staff further recommends that the authorized CAP surcharges be reviewed in the next rate case for the Paradise Valley Water Division and consider the feasibility of including the future M&I costs in base rates and eliminating the CAP surcharges permanently.

SMO:DWC:tdp

Originator: Darron Carlson