

ORIGINAL OPEN MEETING



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MEMORANDUM Arizona Corporation Commission DOCKETED

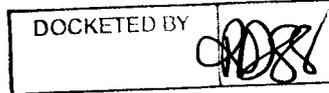
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2010 AUG 11 P 3:29

TO: THE COMMISSION

AUG 11 2010

FROM: Utilities Division



AZ CORP COMMISSION
DOCKET CONTROL

DATE: August 10, 2010

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, NOTICE OF STEP-ONE ACRM FILING FOR ITS TUBAC WATER DISTRICT (DOCKET NOS. WS-01303A-02-0867; WS-01303A-02-0869; WS-01303A-02-0870; AND W-01303A-05-0280)

Introduction

Pursuant to Decision Nos. 67093, 67593, 68310, 68825, and 71410, Arizona-American Water Company ("Company" or "AAW") filed an application on March 5, 2010, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step-One of the Arsenic Cost Recovery Mechanism ("ACRM") for its Tubac Water District.

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

Decision No. 71410 authorized an ACRM for the Company's Tubac Water District and adopted the filing requirements established in Decision No. 68310. AAW's Step-One ACRM filing for its Tubac Water District includes the schedules the Commission requires as a condition for approval to implement an ACRM.

AAW requests a Step-One ACRM surcharge of \$3.99 on the monthly customer charge for 5/8 x 3/4-inch meters¹ and \$0.7040 per 1,000 gallons on the commodity rate. Under the Company's proposal, the average residential customer bill would increase by approximately \$11.65 (or 21.3 percent) from \$54.16 to \$65.68.

Staff recommends a Step-One ACRM surcharge of \$2.42 on the monthly customer charge for 5/8 x 3/4-inch meters and \$0.4273 per 1,000 gallons on the commodity rate. Under Staff's rate design, the average residential customer bill would increase by approximately \$6.99 (or 12.9 percent) from \$54.16 to \$61.15.

¹ The proposed customer charge increases for larger meters.

Background

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

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

On December 17, 2004, AAW filed a motion requesting that the Commission reopen the record in the dockets underlying Decision No. 67093. Reopening the record in those dockets was deemed necessary to allow consideration of a request for imposition of an ACRM within the context of the fair value rate base findings of the rate case dockets.

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

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

On April 15, 2005, the Company filed an application (Docket No. W-01303A-05-0280) for authority to implement ACRMs for its Agua Fria Water, Sun City West Water, Havasu Water, and Tubac Water Districts.

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

By Procedural Order issued May 6, 2005, the Company's request to delete the Tubac Water District from its application was approved.

On November 14, 2005, the Commission issued Decision No. 68310 granting AAW's application for authority to implement an ACRM and a Havasu District Arsenic Impact Fee ("AIF") Tariff subject to the terms and conditions contained in that Decision.

On May 1, 2008, AAW filed an application (Docket Nos. W-01303A-08-0227 and SW-01303A-08-0227) with the Commission for fair value determinations of its utility plant and for

permanent rate increases for ten of its districts (Agua Fria Water, Anthem Water, Havasu Water, Mohave Water, Paradise Valley Water, Sun City West Water, Tubac Water, Agua Fria Wastewater, Anthem Wastewater, and Mohave Wastewater).

On June 20, 2008, AAW filed a Response to (Staff's) Deficiency Letter which included notice that AAW was removing three of the ten districts included in the filing of May 1, 2008. These three systems were Anthem Water, Anthem Wastewater, and the Agua Fria Wastewater districts.

On December 8, 2009, the Commission issued Decision No. 71410 establishing permanent rate increases for the seven districts that remained in the application. Decision No. 71410 also approved an ACRM for the Company's Tubac Water District. Decision No. 71410 also provided that the filing requirements for the ACRM for Tubac would be essentially the same as those outlined in Decision No. 68310.

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

Decision No. 68310 conditioned approval of an ACRM surcharge on the following criteria:

1. AAW shall comply with all requirements discussed in this Order as a condition of approval of the ACRM.
2. AAW shall file a plan with Docket Control by December 31, 2005, that describes how the Company expects to attain and maintain a capital structure (equity, long-term debt, and short-term debt) with equity representing between 40 and 60 percent of total capital.
3. AAW shall file, by April 1st of each year subsequent to any year in which it collects surcharges under an ACRM, a report with the Utilities Division Director showing the Company's ending capital structure by month for the prior year.
4. AAW shall modify the rate base calculation for the Havasu Water District to explicitly show a deduction for AIF collections.
5. That as part of the Earnings Test schedule filed in support of the ACRM, AAW shall incorporate adjustments conforming to Decision No. 67093.
6. AAW shall file the schedules discussed in its application, as modified by Staff's recommendations herein. Microsoft Excel or compatible electronic versions of the filings and all work papers should be filed concurrently with all ACRM filings.
7. AAW shall file permanent rate applications for its Sun City West, Agua Fria, and Havasu districts by no later than April 30, 2008, based on a 2007 test year.

8. For the Havasu District, AAW shall file with Docket Control by January 31st of each year, an annual calendar year status report, until the AIF Tariff is no longer in effect. The status report shall contain a list of all customers that have paid the AIF, the amount each customer has paid, the amount of money spent from the AIF, and a list of all facilities that have been installed with funds from the AIF Tariff.
9. AAW shall file the schedules and information described above, as well as any additional relevant data requested by Staff, as part of any request for an ACRM step increase.
10. Staff and the Company shall open a new proceeding² to examine other forms of mitigation of the ACRM for the Havasu system, including the use of hook-up fees for adjacent systems due to the Commission's concern about the impact on the bills of customers served by the Havasu system from the implementation of the ACRM.

Filing Requirements Compliance (Decision No. 71410)

Decision No. 71410 provided authority for the Company to file an ACRM with the same filing requirements as those outlined Decision No. 68310. Staff performed an examination of the ACRM Step-One filing for the Tubac Water District and concluded that it conforms to the requirements specified in Decision No. 68310.

The Company's ACRM filing includes the following schedules that conform to the methodologies required by Decision No. 66400 and adopted by Decision No. 68310.

1. Balance Sheet – dated December 31, 2009.
2. Income Statement – period ending December 31, 2009.
3. Income Statement Adjustments (Earnings Test) – to conform to Decision No. 71410.
4. Rate Review – a rate review filing for the Tubac Water District.
5. Arsenic Revenue Requirement – an arsenic revenue requirement calculation for Step One.
6. Surcharge Calculation – a detailed surcharge calculation.
7. Rate Base – a schedule showing the elements and the calculation of the rate base.
8. CWIP Ledger – a ledger showing the construction work in progress account.

² Docket No W-01303A-05-0890 has addressed this issue and resulted in Decision No. 69162.

9. 4-Factor Allocation for December 31, 2009 – a schedule showing the allocation for all of the Company's Districts.
10. Typical Bill Analysis – ACRM Step-1 – A typical bill analysis showing the effects on residential customers at various consumption levels including the Average Residential use of 10,690 gallons.

The ACRM schedules provide a basis for the calculation of the surcharge based on financial records and an Earnings Test Schedule which limits the ACRM surcharge when the resulting calculation would result in a rate of return exceeding that authorized in Decision No. 71410.

AAW filed a plan with Docket Control on November 30, 2005, that describes how it expects to attain and maintain a capital structure (equity, long-term debt, and short-term debt) with equity representing between 40 and 60 percent of total capital.

AAW docketed its annual AIF compliance reports for the Havasu District on February 2, 2006, February 1, 2007, February 1, 2008, February 26, 2009, and January 28, 2010, containing a list of all customers that have paid the AIF, the amount each customer has paid, the amount of money spent from the AIF, and a list of all facilities that have been installed with funds from the AIF Tariff.

Water System Analysis

Staff performed a field inspection of the Tubac water system on April 8, 2010. The Tubac system consists of three wells having a combined well capacity of 680 gallons per minute ("GPM") and one 500 GPM arsenic treatment plant ("ATP") and one storage tank (having a capacity of 50,000 gallons). Tubac serves an existing customer base of approximately 580 customers.³ Staff concludes that Tubac does not have adequate storage capacity to serve its existing base of customers. In a Staff Report for Docket No. W-01303 A-09-0152 (issued on May 13, 2009), Staff recommends an additional 470,000 gallons of additional storage capacity be installed prior to June 1, 2010. At the time of its inspection, the Company had not installed any additional storage.

Arsenic Treatment Plant ("ATP")

Based on the arsenic levels and flow capacities of its wells, the Company concluded that an arsenic treatment system consisting of a set of two lead-lag vessels filled with Bayoxide E-33 media would be the most efficient and cost effective arsenic removal method for the Tubac water system.⁴ The following table lists the arsenic levels and flow capacities of the wells in the Tubac water system.

³ According to data submitted, the Company served 579 customers as of February 2010.

⁴ The ATP consists of a set of two 9-foot diameter, five-foot high pressurized vessels manufactured by Severn Trent and filled with iron media manufactured by Severn Trent.

Well ID	ADWR Well Registration #	Arsenic in micro grams per liter ("µg/l")	Flow in gallons per minute ("gpm")
2	55-604371	25 ¹	300
3	55-604370	3 ²	180
4	55-505043	40 ³	500
5	55-632901	15 ³	500

- Notes:
1. Arsenic test results dated February 9, 2009.
 2. Arsenic test results dated November 15, 2005
 3. Arsenic test results dated November 17, 2009.

The Company decided to disconnect Well No. 2 from the rest of the Tubac water system because it was producing water which contained arsenic above the standard as indicated in the table above. This well is located some distance from where the Company located the arsenic treatment plant and it would be cost prohibitive to transport the water from this well to the treatment plant or to build a second treatment plant therefore the well was disconnected. Because the water produced by Well No. 3 contains arsenic at a level below the standard, no treatment of this water is required.

The Company installed the 500 GPM ATP described above at its No. 5 Well site Well Nos. 4 and 5 are located in close proximity to each other. The Company operates the ATP by alternating flow between Well No. 4 and Well No. 5 as water from only one well can be treated at a time. The treated water is disinfected by injecting a sodium hyperchlorite solution into the water before it is delivered to customers.

Samples of the treated water from the ATP have been tested and the test results show that the arsenic levels are between 2 micro grams per liter ("µg/l") and 5 µg/l which meet the arsenic standard of 10 µg/l.⁵

Arsenic Treatment Costs

The Company's rate base schedule ACRM-7, line 5, proposed \$2,016,062 as the increase to gross plant for Step-One Arsenic Removal Facilities. Staff's examination of the Company's posting of amounts to the CWIP ledger showed that the postings did not accurately reflect the Company's records and reconcile to the supporting documentation submitted. Staff recommends reducing the Company's proposed Step-One ACRM plant by \$340,416, from \$2,016,062 to \$1,675,646. See Schedule GWB-1. The composition of the adjustment is explained further below.

A review of AAW's documentation revealed that the Company's application includes \$103,937 of inappropriate costs. The \$103,937 includes \$10,512 of land surveying costs related to the No. 4 Well site and not associated with this arsenic plant. Also included is \$86,663 for media that was purchased in 2005 that did not meet manufacturer specifications and had to be

⁵ Per ADEQ Drinking Water Compliance Status Report dated May 10, 2010.

prematurely replaced, and \$6,762 for water mains not related to arsenic remediation. The Company's proposed costs and Staff's recommended adjustments are illustrated in the following chart:

Tubac ACRM ATP Project Expenses and Staff Adjustments

NARUC Acct #	Description	Co.'s Amounts (\$)	Staff's Adjust	Staff Recommended costs
303	Land & Land Right (Easement/Az-Am & Findeisen)	10,000		10,000
303	Land & Land Right (Easement/Az-Am & Pantania)	4,000		4,000
	Subtotal	14,000		14,000
320.4	Water Treatment Plant (media) (2004-2005, design)	143,877	(10,512.33) ¹	133,364.67
320.4	Water Treatment Plant (media) (WLB Group, design)	186,965		186,965
320.4	Water Treatment Plant (media) (WLB Group, design)	41,356		41,356
320.4	Water Treatment Plant (media) (ADEQ permit fee)	4,000		4,000
320.4	Water Treatment Plant (media) (ADEQ permit fee)	1,800		1,800
320.4	Water Treatment Plant (media) (Santa Cruz Co. permit fee)	300		300
320.4	Water Treatment Plant (media) (Santa Cruz Co. permit fee)	16		16
320.4	Water Treatment Plant (media) (construction)	7,998		7,998
320.4	Water Treatment Plant (media) (construction)	13,944		13,944
320.4	Water Treatment Plant (media) (construction)	84,194		84,194
320.4	Water Treatment Plant (media) (media, Severn Trent)	76,042		76,042
320.4	Water Treatment Plant (media) (media, Severn Trent)	67,780	(67,780) ²	0
320.4	Water Treatment Plant (media) (media, Severn Trent)	18,883	(18,883) ²	0
320.4	Subtotal	647,155	(97,175.33)	427,127
330.2	Pressure Tank (Electric)	104		104
330.2	Pressure Tank (gauge, pressure switch)	887		887
330.2	Subtotal	991		991
331.0	Mains (design, lines WP/Well #4 & WP/Well #5 Construction)	100,674		100,674
331.0	Subtotal	100,674		100,674

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331.1	Mains (2" Air Relief Valve, construction)	2,259		2,259
331.1	Subtotal	2,259		2,259
331.2	Mains (6" PVC, construction)	2,800		2,800
331.2	Mains (6" valves)	1,500		1,500
331.2	Mains (8" DIP, construction)	5,940		5,940
331.2	Subtotal	10,240		10,240
331.3	Mains (12" PVC, construction)	70,611		70,611
331.3	Mains (12" DIP, construction)	88,416		88,416
331.3	Mains (12" valves, construction)	2,110		2,110
331.3	Subtotal	161,137		161,137
333	Services (1" Service to Church)	4,142	(4,142) ³	0
333	Services (4" Sleeve @ Church service line)	2,620	(2,620) ³	0
333	Subtotal	6,762	(6,762)	0
346.1	Communication Equip – non-telephone(IQ control)	194		194
346.1	Communication Equip – non-telephone(Mission Communication)	906		906
346.1	Subtotal	1,100		1,100
	Total Cost	944,318	(103,937)	840,380
	Total Overhead/AFUDC Debt/AFUDC Equity	1,071,444		
	Total (requested in the Application)	2,016,062		

- Notes:
1. DEI Professional Services, LLC (DEI), a consultant firm, performed a land survey in 2004 for the No. 4 Well site. The Company agreed with Staff that the expenses from DEI should not be included in Tubac ACRM because Well #4 was not Tubac arsenic treatment plant site.
 2. Staff believes that this 2005 media expense should not be recovered because Staff believes that the media purchased did not meet manufacture specifications and had to be prematurely replaced with new media.
 3. Staff's adjustment is based on its conclusion that this expense was for plant items (water main replacements) not related to the ATP.

In addition, Staff reviewed AAW's rate base schedules and notes that the amount requested by the Company includes \$236,479 of inappropriate charges which include \$146,390 for general overhead and \$90,089 for contractual services. Consistent with the treatment in prior decisions for Step-One ACRM surcharges, Staff removed the \$146,390 of general overhead costs. The \$90,089 is comprised of \$80,111 for contractual retainage amounts that were double-counted in the work order, along with \$9,978 of contractual services costs that the Company could not support.

Staff believes that these costs as adjusted by Staff are reasonable and that the plant additions are appropriate. Staff determined that this plant was in service at the time of its inspection.

Staff recommends the depreciation rates listed in the following table for the arsenic treatment related plant:

DEPRECIATION RATES FOR TUBAC (arsenic)

NARUC Acct #	Company's Account #.	Depreciable Plant	Depreciation Rates in Decision #71410
303		Land & Land Rights	0
320		Water Treatment	
320.4	N/A	Water Treatment Equipment (Media)	5.00
330		Distribution Reservoirs & Standpipes	
330.2	N/A	Pressure Tanks	5.00
331		Transmission and Distribution	
	331100	TD mains 4-inch & less	1.97
	331200	TD mains 6-inch to 8-inch	1.97
	331300	TD mains 10-inch to 16-inch	2.34
333	333000	Services	2.45
346		Communication Equipments	
	346100	Communication Equip non-telephone	5.03

Surcharge Calculation

Staff's adjustments as described above reduce the ACRM Step-One surcharge revenue requirement by \$48,978 from \$124,606 to \$75,628, as shown in GWB-2.

Staff's adjusted ACRM surcharge revenue requirement reduces the Company proposed monthly minimum surcharge per equivalent billing unit (5/8-inch meter) by \$1.57 from \$3.99 to \$2.42 and the commodity surcharge rate by \$0.2767 from \$0.7040 to \$0.4273 per 1,000 gallons, as shown in Schedule GWB-3.

The Staff-recommended ACRM surcharge rates would increase the average monthly residential customer bill by \$6.99 (or 12.9 percent) from \$54.16 to \$61.15.

RUCO Analysis

On April 6, 2010, RUCO filed its report on this case under Docket No. W-01303A-08-0227. In this filing, RUCO recommended approval of the Company's request as filed.

Conclusions and Recommendations

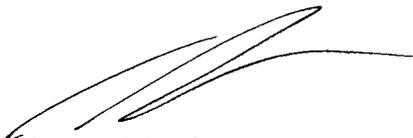
Staff concludes that the arsenic treatment plant costs as adjusted by Staff are reasonable, the plant additions are appropriate, the plant was in service at the time of Staff's inspection and the water being delivered to customers now meets the current water quality standards

Staff concludes that the Company's Step-One ACRM filing for its Tubac Water District, as adjusted, is complete and in accordance with Decision Nos. 68310 and 71410.

Staff recommends that the Company file with the Commission an ACRM tariff consistent with ACRM Schedules GWB-4 and GWB-5.

Staff recommends that Arizona-American Tubac Water District notify its customers of the ACRM tariff approved herein within 30 days of the effective date of this Decision.

Staff recommends the depreciation rates as listed in the aforementioned table for the arsenic treatment related plant.



Steven M. Olea
Director
Utilities Division

SMO:GWB:lhM\MAS

Originator: Gerald W. Becker

Arizona-American Water Company
Tubac Water District
Docket No. W-01303A-08-0227
12 Month Period Ending December, 2009
Revenue Requirement

Line No.	[A]	[B]	[C]
1	Arsenic Plant Revenue Requirement		
2	Gross Arsenic Plant in Service/Rate Base Step 1	\$ 525,646	
3	Accumulated Depreciation of Arsenic Plant Step 1	-	
4	Net Arsenic Plant in Service/Rate Base Step 1	\$ 525,646	
5	Depreciation rate on Step 1 arsenic plant ¹	3.92%	
6	Depreciation expense Step 1	20,630	
7	Depreciation expense net of tax savings ²	14,453	
8	Recoverable O&M costs - Ongoing	-	
9	Recoverable O&M costs - Ongoing net of tax savings	-	
10	Arsenic Operating Income Step 1	\$ (14,453)	
11	Rate of return	-2.75%	
12	Required Rate of Return ³	7.330%	
13	Required Operating Income on Net Arsenic Plant in Service Step 1	38,530	
14	Operating Income Deficiency Step 1	52,983	
15	Gross revenue conversion factor ²	1.4274	
16	Revenue Deficiency	\$ 75,628	

Rates	Current Base Rates	Proposed ACRM Step 1 Surcharge	Total Proposed
Minimum 5/8" Meter	\$ 24.70	\$ 2.42	\$ 27.12
Commodity Rate 0 to 3,000 gallons	1.9000	0.4273	2.33
Commodity Rate 3,001 to 10,000 gallons	3.0000	0.4273	3.43
Commodity Rate 10,001 - 20,000 gallons	4.0000	0.4273	4.43
Commodity Rate 20,001 gallons and over	6.0000	0.4273	6.43

¹ This depreciation rate is derived from Step 1 workpaper "Step 1 Depr Rate" and reflects the depreciation expense of specific utility plant accounts using authorized depreciation rates for those specific accounts, per Decision No. 71410

² 29.9409% tax rate, and gross-up factor per Decision No. 71410

³ Per Decision No. 71410

Arizona-American Water Company
Tubac Water District
Docket No. W-01303A-08-0227
12 Month Period Ending December, 2009
Surcharge Calculation

[A] [B] [C] [D] [E] [F] [G] [H]

Line No.	Growth	Customers	Total Gallons Sold (000s)	Gallons Sold Per Cust (000s)	Monthly Minimum	Minimum Multiples	Equivalent Meters	Monthly Base	Base Total
1	Dec. 2008 (Year 1)	588	90,653	154.17	\$ 24.70	1.0	480	\$ 2.42	\$ 13,962
2	Dec. 2009 (Year 2)	589	86,341	146.59	74.10	3.0	132	7.27	3,840
3	Year 2 minus Year 1	1	(4,312)	(8)	144.38	5.8	246	14.17	7,141
4	Percentage Change	0.17%	-4.76%	-4.92%	230.53	9.3	19	22.62	543
5	Avg Gallons (Col B Ln 1 + Col B Ln 2 + 2)		88,497		461.00	18.7	336	45.24	9,772
6					722.00	29.2	88	70.86	2,551
7					1,440.00	58.3	-	141.32	-
8					2,305.00	93.3	-	226.21	-
9					3,320.00	134.4	-	325.82	-
10		589	590	589			1,300		\$ 37,809

Calculation of Surcharge

24	Total costs to be recovered (Sch. GWB-2, Col A Ln 16)	\$ 75,628		
25	Minimum Revenue (Col B Ln 24 + 2)	\$ 37,814		
26	Commodity Revenue (Col B Ln 24 + 2)	\$ 37,814		

Monthly Increment Per Equivalent Meter

28	Equivalent Meters (Col F Ln 20 x 12 Months)	15,600		
29	Minimum Surcharge (Col C Ln 25 + Ln 29)	\$ 2.42		
30	Average Gallons (Col B Ln 5)	88,497		
31	Commodity Surcharge (Col D Ln 26 + Ln 33)	\$ 0.4273		

ARIZONA AMERICAN WATER COMPANY
 DOCKET NO. W-01303A-08-0227
 TUBAC ACRM STEP-ONE
 12 Month Period Ending December, 2009

Schedule GWB-4

Monthly Customer Charges - Staff
 (ACRM STEP 1)

[A] [B] [C] [D]
 [B] * [\$2.42] [A] + [C]

Meter Size	Base Customer Charge Decision No. 71410	Equivalent Meter Size	Step 1 Customer Charge Surcharge	Combined Base and Step 1 Customer Charge
5/8 x 3/4-inch Meter	\$ 24.70	1.0	\$ 2.42	\$ 27.12
1-inch Meter	\$ 74.10	3.0	\$ 7.26	\$ 81.36
1 1/2-inch Meter	\$ 144.38	5.8	\$ 14.15	\$ 158.53
2-inch Meter	\$ 230.53	9.3	\$ 22.59	\$ 253.12
3-inch Meter	\$ 461.00	18.7	\$ 45.17	\$ 506.17
4-inch Meter	\$ 722.00	29.2	\$ 70.74	\$ 792.74
6-inch Meter	\$ 1,440.00	58.3	\$ 141.09	\$ 1,581.09
8-inch Meter	\$ 2,305.00	93.3	\$ 225.83	\$ 2,530.83
10-inch Meter	\$ 3,320.00	134.4	\$ 325.28	\$ 3,645.28
12-inch Meter	\$ 6,208.00	251.3	\$ 608.23	\$ 6,816.23

ARIZONA AMERICAN WATER COMPANY
 DOCKET NO. W-01303A-08-0227
 TUBAC ACRM STEP-ONE
 12 Month Period Ending December, 2009

Schedule GWB-5

Commodity Rate - Staff
 (ACRM STEP 1)

[A] [B] [C]
 [A] + [B]

Meter Size	Block Size (gallons)	Base Commodity Rate Dec. No. 71410	Step 1 Commodity Surcharge	Combined Base & Step 1 Commodity Rate
5/8 x 3/4-inch Meter Residential	0 - 3,000	1.90	\$ 0.4273	\$ 2.3273
	3,001 - 10,000	3.00	\$ 0.4273	\$ 3.4273
	10,001 - 20,000	4.00	\$ 0.4273	\$ 4.4273
	Over 20,000	6.00	\$ 0.4273	\$ 6.4273
5/8 x 3/4-inch Meter Commercial	0 to 20,000	4.00	\$ 0.4273	\$ 4.4273
	Over 20,000	6.00	\$ 0.4273	\$ 6.4273
	0 to 35,000	4.00	\$ 0.4273	\$ 4.4273
	Over 35,000	6.00	\$ 0.4273	\$ 6.4273
1-inch Meter:	0 to 85,000	4.00	\$ 0.4273	\$ 4.4273
	Over 85,000	6.00	\$ 0.4273	\$ 6.4273
2-inch Meter	0 to 150,000	4.00	\$ 0.4273	\$ 4.4273
	Over 150,000	6.00	\$ 0.4273	\$ 6.4273
3-inch Meter	0 to 175,000	4.00	\$ 0.4273	\$ 4.4273
	Over 175,000	6.00	\$ 0.4273	\$ 6.4273
4-inch Meter	0 to 250,000	4.00	\$ 0.4273	\$ 4.4273
	Over 250,000	6.00	\$ 0.4273	\$ 6.4273
6-inch Meter	0 to 350,000	4.00	\$ 0.4273	\$ 4.4273
	Over 350,000	6.00	\$ 0.4273	\$ 6.4273
8-inch Meter	0 to 900,000	4.00	\$ 0.4273	\$ 4.4273
	Over 900,000	6.00	\$ 0.4273	\$ 6.4273
10-inch Meter	0 to 1,500,000	4.00	\$ 0.4273	\$ 4.4273
	Over 1,500,000	6.00	\$ 0.4273	\$ 6.4273
12-inch Meter	0 to 2,250,000	4.00	\$ 0.4273	\$ 4.4273
	Over 2,250,000	6.00	\$ 0.4273	\$ 6.4273

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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman

GARY PIERCE
Commissioner

PAUL NEWMAN
Commissioner

SANDRA D. KENNEDY
Commissioner

BOB STUMP
Commissioner

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

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

DECISION NO. _____
ORDER

Open Meeting
August 24 and 25, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

A. Introduction

1. Pursuant to Decision Nos. 67093, 67593, 68310, 68825, and 71410, Arizona-American Water Company ("Company" or "AAW") filed an application on March 5, 2010, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step-One of the Arsenic Cost Recovery Mechanism ("ACRM") for its Tubac Water District.

2. The monthly surcharge per customer was established to aid the Company in its efforts to comply with the Environmental Protection Agency's ("EPA") new arsenic maximum contaminant level ("MCL") of 10 particles per billion ("ppb") which went into effect on January 23, 2006.

...

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

3 4. Pursuant to Decision Nos. 68310 and 71410, AAW filed the required schedules
4 prior to the implementation of the ACRM.

5 **B. Background**

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

12 6. On December 17, 2004, AAW filed a motion requesting that the Commission
13 reopen the record in the dockets underlying Decision No. 67093. Reopening the record in those
14 dockets was deemed necessary to allow consideration of a request for imposition of an ACRM
15 within the context of the fair value rate base findings of the rate case dockets.

16 7. On February 15, 2005, the Commission issued Decision No. 67593 granting the
17 Company's request to reopen the record in Decision No. 67093 for the limited purpose of serving
18 as evidentiary basis for future ACRM filings for the affected AAW water districts.

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

23 9. On April 15, 2005, the Company filed an application (Docket No.W-01303A-05-
24 0280) for authority to implement ACRMs for its Agua Fria Water, Sun City West Water, Havasu
25 Water, and Tubac Water Districts.

26 10. On May 4, 2005, the Company filed a Motion to Delete the Tubac Water District
27 from its application. The Motion stated that, in response to its customers' desires, AAW is
28 evaluating an alternative arsenic remediation technology for the Tubac District, and has asked the

1 Arizona Department of Environmental Quality for a 12-month delay for compliance with the new
2 federal MCL for arsenic in drinking water.

3 11. By Procedural Order issued May 6, 2005, the Company's request to delete the
4 Tubac Water District from its application was approved.

5 12. On November 14, 2005, the Commission issued Decision No. 68310 granting the
6 Company's application for authority to implement an ACRM and a Havasu District Arsenic
7 Impact Fee ("AIF") Tariff subject to the terms and conditions contained in that Decision.

8 13. On May 1, 2008, AAW filed an application (Docket Nos. W-01303A-08-0227 and
9 SW-01303A-08-0227) with the Commission for fair value determinations of its utility plant and
10 for permanent rate increases for ten of its districts (Agua Fria Water, Anthem Water, Havasu
11 Water, Mohave Water, Paradise Valley Water, Sun City West Water, Tubac Water, Agua Fria
12 Wastewater, Anthem Wastewater, and Mohave Wastewater).

13 14. On June 20, 2008, AAW filed a Response to (Staff's) Deficiency Letter which
14 included notice that AAW was removing three of the ten districts include in the filing of May 1,
15 2008. These three systems were Anthem Water, Anthem Wastewater, and the Agua Fria
16 Wastewater districts.

17 15. On December 8, 2009, the Commission issued Decision No. 71410 establishing
18 permanent rate increases for seven districts that remained in the application. Decision No. 71410
19 also approved an ACRM for the Company's Tubac Water District. Decision No. 71410 also
20 provided that the filing requirements for the ACRM for Tubac would be essentially the same as
21 those outlined in Decision No. 68310.

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

23 16. In its present application, AAW requests a Step-One ACRM surcharge of \$3.99 on
24 the monthly customer charge for 5/8- x 3/4-inch meters¹ and \$0.7040 per 1,000 gallons on the
25 commodity rate.

26 ...

27 _____

28 ¹ The proposed customer charge increases for larger meters.

1 17. Under the Company's proposal, the average residential customer bill would
2 increase by approximately \$11.65 (or 21.3 percent) from \$54.16 to \$65.68.

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

4 18. Decision No. 68310 conditioned approval of an ACRM surcharge on the following
5 criteria:

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

- 1 j) Staff and the Company shall open a new proceeding² to examine other forms of
2 mitigation of the ACRM for the Havasu system, including the use of hook-up
3 fees for adjacent systems due to the Commission's concern about the impact
4 on the bills of customers served by the Havasu system from the implementation
5 of the ACRM.

6 **E. Filing Requirements Compliance (Decision No. 68310)**

7 19. Decision No. 71410 provided authority for the Company to file an ACRM with the
8 same filing requirements as those outlined in Decision No. 68310. We find that the Company's
9 ACRM Step-One filing for the Tubac Water District conforms to the requirements specified in
10 Decision No. 68310.

11 **F. Analysis**

12 **ACRM Schedules**

13 20. AAW's ACRM filing includes the following schedules that conform to the
14 methodologies required by Decision No. 66400 and adopted by Decision 68310.

- 15 a) Balance Sheet – dated December 31, 2009.
16 b) Income Statement – period ending December 31, 2009.
17 c) Income Statement Adjustments (Earnings Test) – to conform to Decision No.
18 71410.
19 d) Rate Review – a rate review filing for the Tubac Water District.
20 e) Arsenic Revenue Requirement – an arsenic revenue requirement calculation for
21 Step One.
22 f) Surcharge Calculation – a detailed surcharge calculation.
23 g) Rate Base – a schedule showing the elements and the calculation of the rate
24 base.
25 h) CWIP Ledger – a ledger showing the construction work in progress account.
26 i) 4-Factor Allocation for December 31, 2009 – a schedule showing the allocation
27 for all of the Company's Districts.
28 ...

² Docket No W-01303A-05-0890 has addressed this issue and resulted in Decision No. 69162.

1 j) Typical Bill Analysis – ACRM Step-1 – A typical bill analysis showing the
2 effects on residential customers at various consumption levels including the
3 Average Residential use of 10,690 gallons.

4 21. The ACRM schedules provide a basis for the calculation of the surcharge based on
5 financial records and an Earnings Test Schedule which limits the ACRM surcharge when the
6 resulting calculation would result in a rate of return exceeding that authorized in Decision No.
7 71410.

8 22. AAW filed a plan with Docket Control on November 30, 2005, that describes how
9 it expects to attain and maintain a capital structure (equity, long-term debt, and short-term debt)
10 with equity representing between 40 and 60 percent of total capital.

11 23. AAW docketed its annual AIF compliance reports for the Havasu District on
12 February 2, 2006, February 1, 2007, February 1, 2008, February 26, 2009, and January 28, 2010
13 containing a list of all customers that have paid the AIF, the amount each customer has paid, the
14 amount of money spent from the AIF, and a list of all facilities that have been installed with funds
15 from the AIF Tariff.

16 24. We find that the Company's filed schedules conform to the methodologies
17 originally required by Decision No. 68310.

18 25. The ACRM schedules provide for the calculation of a surcharge based on financial
19 records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an amount that
20 would not result in a rate of return exceeding that authorized in Decision No. 71410.

21 **Water System Analysis**

22 26. Staff performed a field inspection of the Tubac water system on April 8, 2010. The
23 Tubac system consists of three wells having a combined well capacity of 680 gallons per minute
24 ("GPM") and one 500 GPM arsenic treatment plant ("ATP") and one storage tank (having a
25 capacity of 50,000 gallons). Tubac serves an existing customer base of approximately 580
26 customers. Staff concludes that Tubac does not have adequate storage capacity to serve its
27 existing base of customers. In a Staff Report for Docket No. W-01303 A-09-0152 (issued on
28 May 13, 2009), Staff recommends an additional 470,000 gallons of additional storage capacity be

1 installed prior to June 1, 2010. At the time of its inspection, the Company had not installed any
2 additional storage.

3 **Arsenic Treatment Plant**

4 27. Based on the arsenic levels and flow capacities of its wells, the Company concluded
5 that an arsenic treatment system consisting of a set of two lead-lag vessels filled with Bayoxide
6 E-33 media would be the most efficient and cost effective arsenic removal method for the Tubac
7 water system.

8 28. The Company decided to disconnect Well No. 2 from the rest of the Tubac water
9 system because it was producing water which contained arsenic above the standard as indicated in
10 the table above. This well is located some distance from where the Company located the arsenic
11 treatment plant and it would be cost prohibitive to transport the water from this well to the
12 treatment plant or to build a second treatment plant therefore the well was disconnected. Because
13 the water produced by Well No. 3 contains arsenic at a level below the standard, no treatment of
14 this water is required.

15 29. The Company installed the 500 GPM ATP described above at its No. 5 Well site
16 Well Nos. 4 and 5 are located in close proximity to each other. The Company operates the ATP by
17 alternating flow between Well No. 4 and Well No. 5 as water from only one well can be treated at
18 a time. The treated water is disinfected by injecting a sodium hyperchlorite solution into the water
19 before it is delivered to customers.

20 30. Samples of the treated water from the ATP have been tested and the test results
21 show that the arsenic levels are between 2 micro grams per liter ("µg/l") and 5 µg/l which meet the
22 arsenic standard of 10 µg/l.

23 31. Staff concludes that the plant additions are appropriate, the plant was in service at
24 the time of Staff's inspection and the water being delivered to customers now meets the current
25 water quality standards. Staff recommends the depreciation rates as delineated in the table in
26 Staff's memo.

27 32. We find that Staff's conclusions and recommendations are reasonable and should
28 be adopted.

Arsenic Treatment Costs

33. The Company proposed \$2,016,062 as the increase to gross plant for Step-One Arsenic Removal Facilities. Staff's examination of the Company's posting of amounts to the CWIP ledger showed that the postings did not accurately reflect the Company's records and reconcile to the supporting documentation submitted. Staff recommends reducing the Company's proposed Step-One ACRM plant by \$340,416, from \$2,016,062 to \$1,675,646.

34. Staff concluded that the Company's application includes \$103,937 of inappropriate costs and Staff recommends that they be removed. The \$103,937 includes \$10,512 of land surveying costs related to the No. 4 Well site and not associated with this arsenic plant. Also included is \$86,663 for media that was purchased in 2005 that did not meet manufacturer specifications and had to be prematurely replaced, and \$6,762 for water mains not related to arsenic remediation.

35. Staff further concluded that the amount requested by the Company includes \$236,479 of inappropriate charges which include \$146,390 for general overhead and \$90,089 for contractual services. Staff recommends that these costs be removed.

36. We find that Staff's conclusions and recommendations are reasonable and should be adopted.

Surcharge Calculation

37. Staff's recommended adjustments reduce the ACRM Step-One surcharge revenue requirement by \$48,978 from \$124,606 to \$75,628, as shown in GWB-2

38. Staff's adjusted ACRM surcharge revenue requirement reduces the Company proposed monthly minimum surcharge per equivalent billing unit (5/8-inch meter) by \$1.57 from \$3.99 to \$2.42 and the commodity surcharge rate by \$0.2767 from \$0.7040 to \$0.4273 per 1,000 gallons, as shown in Schedule GWB-3.

39. The Staff-recommended ACRM surcharge rates would increase the average monthly residential customer bill by \$6.99 (or 12.9 percent) from \$54.16 to \$61.15.

40. We find that Staff's conclusions and recommendations are reasonable and should be adopted.

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RUCO Analysis

41. On April 6, 2010, RUCO filed its report on this case under Docket No. W-01303A-08-0227. In this filing, RUCO recommended approval of the Company's request as filed.

CONCLUSIONS OF LAW

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

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

3. Approval of an ACRM is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

4. It is in the public interest to approve the Company's request for implementation of the ACRM as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the application by Arizona-American Water Company for the implementation of Step-One of the ACRM for its Tubac Water district is approved as discussed herein.

IT IS FURTHER ORDERED that the ACRM surcharge for Tubac District shall be in accordance with the rates as shown in the attached ACRM Schedules GWB-4 and GWB-5.

IT IS FURTHER ORDERED that Arizona-American Water Company docket with the Commission an ACRM tariff consistent with its filing within 30 days of the effective date of this Decision.

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

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

5
 6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7
 8 _____
 9 CHAIRMAN COMMISSIONER
 10
 11 _____
 12 COMMISSIONER COMMISSIONER COMMISSIONER

13 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
 14 Executive Director of the Arizona Corporation Commission,
 15 have hereunto, set my hand and caused the official seal of
 16 this Commission to be affixed at the Capitol, in the City of
 17 Phoenix, this _____ day of _____, 2010.

18 _____
 19 ERNEST G. JOHNSON
 20 EXECUTIVE DIRECTOR

21 DISSENT: _____

22 DISSENT: _____

23 SMO:GB:lh\MAS

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1 SERVICE LIST FOR: Arizona-American Water Company, Tubac ACRM Step-One
2 DOCKET NOS. W-01303A-02-0867; W-01303A-02-0869; W-01303A-02-0870; W-01303A-
3 05-0280

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Arizona-American Water Company
Tubac Water District
Docket No. W-01303A-08-0227
12 Month Period Ending December, 2009
Rate Base

LINE NO.	[A] Per Decision 7/14/10	[B] Arsenic Treatment Plant Increase	[C] Decision Plus Arsenic Treatment Plant	[D] Actual Balance Dec. 2009 ¹	[E] Arsenic Treatment Plant Increase	[F] Actual Balance Plus Arsenic Trtmt. Plant
1						
2						
3						
4	\$ 3,423,384	\$ 3,423,384	\$ 3,423,384	\$ 4,167,112	\$	\$ 4,167,112
5	(939,364)	(939,364)	(939,364)	(1,116,664)		(1,116,664)
6		1,675,646	1,675,646		1,675,646	1,675,646
7						
8	\$ 2,484,020	\$ 1,675,646	\$ 4,159,666	\$ 3,050,448	\$ 1,675,646	\$ 4,726,094
9						
10						
11	1,062,391		1,062,391	1,435,538		1,435,538
12				170,081		170,081
13				(170,081)		(170,081)
14		1,150,000	1,150,195	195	1,150,000	1,150,195
15		(17)	(17)	(26)		(26)
16	58,023		58,023	143,675		143,675
17				(114,387)		(114,387)
18						
19						
20	540		540	540		540
21	(46,088)		(46,088)			
22						
23	\$ 1,075,044	\$ 1,150,000	\$ 2,225,044	\$ 1,465,534	\$ 1,150,000	\$ 2,615,534
24						
25						
26	1,445		1,445			
27	3,381		3,381			
28	21,683		21,683			
29	1,598		1,598			
30						
31	\$ 28,107	\$ -	\$ 28,107	\$ -	\$ -	\$ -
32						
33	\$ 1,437,083	\$ 525,646	\$ 1,962,729	\$ 1,584,913	\$ 525,646	\$ 2,110,560
34						
35						

1 Arsenic Treatment Facility was placed in service 12/16/09. The Gross Utility Plant in Service amount in this column does not include Arsenic Plant in Service.
2 Figure in bold refers to Federal Stimulus Funds disbursed through WIFA for Tubac arsenic treatment facility, accounted for as CIAC.

Arizona-American Water Company
Tubac Water District
Docket No. W-01303A-08-0227
12 Month Period Ending December, 2009
Revenue Requirement

Line No.	[A]	[B]	[C]
1			
2	\$ 525,646		
3	\$ 525,646		
4	3.92%		
5	20,630		
6	14,453		
7	-		
8	\$ (14,453)		
9	-2.75%		
10	7.330%		
11	38,530		
12	52,983		
13	1,4274		
14	\$ 75,628		
15			
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Current Base Rates	Proposed ACRM Step 1 Surcharge	Total Proposed
\$ 24.70	\$ 2.42	\$ 27.12
1.9000	0.4273	2.33
3.0000	0.4273	3.43
4.0000	0.4273	4.43
6.0000	0.4273	6.43

¹ This depreciation rate is derived from Step 1 workpaper "Step 1 Depr Rate" and reflects the depreciation expense of specific utility plant accounts using authorized depreciation rates for those specific accounts, per Decision No. 71410
² 29.9409% tax rate, and gross-up factor per Decision No. 71410
³ Per Decision No. 71410

Decision No. _____

[A] [B] [C] [D] [E] [F] [G] [H]

Line No.	Growth	Customers	Total Gallons Sold (000s)	Gallons Sold Per Cust. (000s)	Minimum Customers	Minimum Multiples	Equivalent Meters	Monthly Base \$	Base Total
1	Dec. 2008 (Year 1)	588	90,653	154.17	480	1.0	480	2.42	13,962
2	Dec. 2009 (Year 2)	589	86,341	146.59	44	3.0	132	7.27	3,840
3	Year 2 minus Year 1	1	(4,312)	(8)	42	5.8	246	14.17	7,141
4	Percentage Change	0.17%	-4.76%	-4.92%	2	9.3	19	22.62	543
5	Avg Gallons (Col B Ln 1 + Col B Ln 2 + 2)		88,497		18	18.7	336	45.24	9,772
6					3	29.2	88	70.86	2,551
7					-	58.3	-	141.32	-
8					-	93.3	-	226.21	-
9					-	134.4	-	325.82	-
10	Meter Size								
11	Res. 5/8 & 3/4-inch	480	481		480	1.0	480	2.42	13,962
12	Comm. 5/8 & 3/4-inch	44	44		44	3.0	132	7.27	3,840
13	1-inch	42	42		42	5.8	246	14.17	7,141
14	1.5-inch	2	2		2	9.3	19	22.62	543
15	2-inch	18	18		18	18.7	336	45.24	9,772
16	3-inch	3	3		3	29.2	88	70.86	2,551
17	4-inch	-	-		-	58.3	-	141.32	-
18	6-inch	-	-		-	93.3	-	226.21	-
19	8-inch	-	-		-	134.4	-	325.82	-
20	Total	589	590	589	589	1,300	1,300	3,320.00	37,809

Line No.	Description	Minimum Surcharge	Commodity Surcharge
23	Calculation of Surcharge		
24	Total costs to be recovered (Sch. GWB-2, Col A Ln 16)	\$ 75,628	
25	Minimum Revenue (Col B Ln 24 + 2)	\$ 37,814	\$ 37,814
26	Commodity Revenue (Col B Ln 24 + 2)		\$ 37,814
28	Monthly Increment Per Equivalent Meter		
29	Equivalent Meters (Col F Ln 20 x 12 Months)	15,600	
31	Minimum Surcharge (Col C Ln 25 + Ln 29)	\$ 2.42	
33	Average Gallons (Col B Ln 5)		88,497
35	Commodity Surcharge (Col D Ln 26 + Ln 33)		\$ 0.4273

Schedule GWB-4

ARIZONA AMERICAN WATER COMPANY
 DOCKET NO. W-01303A-08-0227
 TUBAC ACRM STEP-ONE
 12 Month Period Ending December, 2009

Monthly Customer Charges - Staff
 (ACRM STEP 1)

[A] [B] [C] [D]
 [B] * [\$2.42] [A] + [C]

Meter Size	Base Customer Charge Decision No. 71410	Equivalent Meter Size	Step 1 Customer Charge Surcharge	Combined Base and Step 1 Customer Charge
5/8 x 3/4-inch Meter	\$ 24.70	1.0	\$ 2.42	\$ 27.12
1-inch Meter	\$ 74.10	3.0	\$ 7.26	\$ 81.36
1 1/2-inch Meter	\$ 144.38	5.8	\$ 14.15	\$ 158.53
2-inch Meter	\$ 230.53	9.3	\$ 22.59	\$ 253.12
3-inch Meter	\$ 461.00	18.7	\$ 45.17	\$ 506.17
4-inch Meter	\$ 722.00	29.2	\$ 70.74	\$ 792.74
6-inch Meter	\$ 1,440.00	58.3	\$ 141.09	\$ 1,581.09
8-inch Meter	\$ 2,305.00	93.3	\$ 225.83	\$ 2,530.83
10-inch Meter	\$ 3,320.00	134.4	\$ 325.28	\$ 3,645.28
12-inch Meter	\$ 6,208.00	251.3	\$ 608.23	\$ 6,816.23

Decision No. _____

ARIZONA AMERICAN WATER COMPANY
 DOCKET NO. W-01303A-08-0227
 TUBAC ACRM STEP-ONE
 12 Month Period Ending December, 2009

Schedule GWB-5
 Commodity Rate - Staff
 (ACRM STEP 1)

Meter Size	Block Size (gallons)	Base Commodity Rate Dec. No. 71410	Step 1 Commodity Surcharge	Combined Base & Step 1 Commodity Rate
		[A]	[B]	[A] + [B]
5/8 x 3/4-inch Meter Residential	0 - 3,000	\$ 1.90	\$ 0.4273	\$ 2.3273
	3,001 - 10,000	\$ 3.00	\$ 0.4273	\$ 3.4273
	10,001 - 20,000	\$ 4.00	\$ 0.4273	\$ 4.4273
5/8 x 3/4-inch Meter Commercial	0 to 20,000	\$ 4.00	\$ 0.4273	\$ 4.4273
	Over 20,000	\$ 6.00	\$ 0.4273	\$ 6.4273
	0 to 35,000	\$ 6.00	\$ 0.4273	\$ 6.4273
1-inch Meter:	0 to 35,000	\$ 4.00	\$ 0.4273	\$ 4.4273
	Over 35,000	\$ 6.00	\$ 0.4273	\$ 6.4273
1 1/2-inch Meter:	0 to 85,000	\$ 4.00	\$ 0.4273	\$ 4.4273
	Over 85,000	\$ 6.00	\$ 0.4273	\$ 6.4273
2-inch Meter	0 to 150,000	\$ 4.00	\$ 0.4273	\$ 4.4273
	Over 150,000	\$ 6.00	\$ 0.4273	\$ 6.4273
3-inch Meter	0 to 175,000	\$ 4.00	\$ 0.4273	\$ 4.4273
	Over 175,000	\$ 6.00	\$ 0.4273	\$ 6.4273
4-inch Meter	0 to 250,000	\$ 4.00	\$ 0.4273	\$ 4.4273
	Over 250,000	\$ 6.00	\$ 0.4273	\$ 6.4273
6-inch Meter	0 to 350,000	\$ 4.00	\$ 0.4273	\$ 4.4273
	Over 350,000	\$ 6.00	\$ 0.4273	\$ 6.4273
8-inch Meter	0 to 900,000	\$ 4.00	\$ 0.4273	\$ 4.4273
	Over 900,000	\$ 6.00	\$ 0.4273	\$ 6.4273
10-inch Meter	0 to 1,500,000	\$ 4.00	\$ 0.4273	\$ 4.4273
	Over 1,500,000	\$ 6.00	\$ 0.4273	\$ 6.4273
12-inch Meter	0 to 2,250,000	\$ 4.00	\$ 0.4273	\$ 4.4273
	Over 2,250,000	\$ 6.00	\$ 0.4273	\$ 6.4273

Decision No. _____