

OPEN MEETING ITEM



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

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ARIZONA CORPORATION COMMISSION

2010 NOV 30 P 3: 21

DATE: NOVEMBER 30, 2010
DOCKET NO.: W-01303A-09-0343 and SW-01303A-09-0343

AZ CORP COMMISSION
DOCKET CONTROL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Opinion and Order on:

ARIZONA-AMERICAN WATER COMPANY ANTHEM WATER DISTRICT, SUN CITY WATER DISTRICT, ANTHEM/AGUA FRIA WASTEWATER DISTRICT, SUN CITY WASTEWATER DISTRICT, AND SUN CITY WEST WASTEWATER DISTRICT (RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

DECEMBER 9, 2010

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

DECEMBER 14, 2010 and DECEMBER 15, 2010

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

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ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 KRISTIN K. MAYES - Chairman
4 GARY PIERCE
5 PAUL NEWMAN
6 SANDRA D. KENNEDY
7 BOB STUMP

8 IN THE MATTER OF THE APPLICATION OF
9 ARIZONA-AMERICAN WATER COMPANY, AN
10 ARIZONA CORPORATION, FOR A
11 DETERMINATION OF THE CURRENT FAIR
12 VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS ANTHEM WATER
DISTRICT AND ITS SUN CITY WATER
DISTRICT, AND POSSIBLE RATE
CONSOLIDATION FOR ALL OF ARIZONA-
AMERICAN WATER COMPANY'S DISTRICTS.

DOCKET NO. W-01303A-09-0343

13 IN THE MATTER OF THE APPLICATION OF
14 ARIZONA-AMERICAN WATER COMPANY, AN
15 ARIZONA CORPORATION, FOR A
16 DETERMINATION OF THE CURRENT FAIR
17 VALUE OF ITS UTILITY PLANT AND
18 PROPERTY AND FOR INCREASES IN ITS
19 RATES AND CHARGES BASED THEREON FOR
UTILITY SERVICE BY ITS ANTHEM/AGUA
FRIA WASTEWATER DISTRICT, ITS SUN CITY
WASTEWATER DISTRICT AND ITS SUN CITY
WEST WASTEWATER DISTRICT, AND
POSSIBLE RATE CONSOLIDATION FOR ALL
OF ARIZONA-AMERICAN WATER
COMPANY'S DISTRICTS.

DOCKET NO. SW-01303A-09-0343

DECISION NO. _____

OPINION AND ORDER

20 PUBLIC COMMENTS: April 7, 2010, at Anthem, Arizona
21 May 17, 2010, at Sun City, Arizona
22 DATE OF PRE-HEARING April 16, 2010
23 CONFERENCE:
24 DATES OF HEARING – PHASE I, April 19, 20, 21, 22, 23, and 29, 2010
25 REVENUE REQUIREMENT:
26 DATES OF HEARING – PHASE II, May 18, 19, 20, 21, 25, 28, June 2, and 3, 2010
27 RATE DESIGN AND
28 PLACE OF HEARING: Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE: Teena Wolfe

1
2 IN ATTENDANCE:

Kristen K. Mayes, Chairman
Gary Pierce, Commissioner
Bob Stump, Commissioner
Sandra D. Kennedy, Commissioner
Paul Newman, Commissioner

3
4
5 PHASE I APPEARANCES:

Mr. Thomas H. Campbell and Mr. Michael T. Hallam,
LEWIS AND ROCA, LLP, on behalf of Applicant;

6
7 Mr. Greg Patterson, on behalf of Water Utility
Association of Arizona;

8 Ms. Judith M. Dworkin, SACKS TIERNEY PA, and
Mr. Lawrence V. Robertson, Jr., on behalf of Anthem
Community Council;

9
10 Mr. Larry Woods, President, on behalf of Property
Owners and Residents Association;

11 Mr. Norman D. James and Mr. Jay L. Shapiro,
FENNEMORE CRAIG, P.C., on behalf of DMB White
Tank, LLP;

12
13 Mr. W.R. Hansen, *in propria persona*;

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

15
16 Ms. Maureen Scott, Senior Staff Counsel, Ms. Robin
Mitchell, and Mr. Wesley Van Cleve, Staff Attorneys,
Legal Division, on behalf of the Utilities Division of
the Arizona Corporation Commission.

17
18 PHASE II APPEARANCES:

19 Mr. Thomas H. Campbell and Mr. Michael T. Hallam,
LEWIS AND ROCA, LLP, on behalf of Applicant;

20 Ms. Judith M. Dworkin and Ms. Roxanne S. Gallagher,
SACKS TIERNEY PA, and Mr. Lawrence V.
Robertson, Jr., on behalf of Anthem Community
Council;

21
22 Mr. Robert J. Metli, SNELL & WILMER, LLP, on
behalf of The Camelback Inn, Sanctuary on Camelback
Mountain, the Intercontinental Montelucia Resort and
Spa, and the Scottsdale Cottonwoods Resort and Suites;

23
24 Mr. Andrew M. Miller, Town Attorney, on behalf of
the Town of Paradise Valley;

25
26 Mr. Bradley J. Herrema, BROWNSTEIN HYATT
FARBER SCHRECK, LLP. on behalf of Anthem Golf
and Country Club;

1 Mr. Norman D. James and Mr. Jay L. Shapiro,
2 FENNEMORE CRAIG, P.C., on behalf of DMB White
Tank, LLP;

3 Ms. Joan S. Burke, LAW OFFICE OF JOAN S.
4 BURKE, on behalf of Mashie, L.L.C. dba Corte Bella
Golf Club;

5 Mr. W.R. Hansen, *in propria persona*;

6 Mr. Larry Woods, *in propria persona*;

7 Mr. Marshall Magruder, *in propria persona*;

8 Mr. Philip H. Cook, *in propria persona*;

9 Mr. Daniel Pozefsky, Chief Counsel, on behalf of
10 Residential Utility Consumer Office; and

11 Ms. Maureen Scott, Senior Staff Counsel, and Ms.
12 Robin R. Mitchell, Attorney, Legal Division, on behalf
of the Utilities Division of the Arizona Corporation
13 Commission.
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BY THE COMMISSION:

I. PROCEDURAL HISTORY

On July 2, 2009, Arizona-American Water Company (“Arizona-American” or “Company”) filed with the Arizona Corporation Commission (“Commission”) an application for rate increases for its Anthem Water District, Sun City Water District, Anthem/Agua Fria Wastewater District, Sun City Wastewater District and Sun City West Wastewater District. Arizona-American filed supplements to its rate application on July 13, 2009, and August 21, 2009. The application is based on a test year ended December 31, 2008.

On August 24, 2009, the Commission’s Utilities Division (“Staff”) filed a Letter of Sufficiency indicating that Arizona-American had satisfied the requirements of Arizona Administrative Code R14-2-103 and classifying the Company as a Class A utility.

On August 26, 2009, a procedural order was issued setting a procedural conference to provide an opportunity for discussion of a hearing schedule, public notice, and other procedural issues prior to the issuance of a rate case procedural order.

On September 2, 2009, the procedural conference was convened as scheduled. Appearances were entered by counsel for the Company, the Residential Utility Consumer Office (“RUCO”), and Staff. At the procedural conference, the Company indicated that it planned to file a separate rate consolidation application in the near future.¹ Based on that indication, the issue of appropriate customer notice of a rate consolidation proposal was brought to the attention of the parties present.² The procedural conference was then recessed to allow the parties time to meet and discuss an appropriate form of notice.

On September 3, 2009, the procedural conference reconvened as requested by the parties. The Company stated that it intended to proceed with the application as filed, and not to file the rate consolidation application discussed the previous day.³ The Company agreed to prepare a form of

¹ Transcript of September 2, 2009 Procedural Conference at 5.

² *Id.* at 14-20.

³ *Id.* at 27.

1 public notice of the application in cooperation with RUCO and Staff, and to file it for consideration.

2
3 On September 14, 2009, Arizona-American filed a proposed form of notice. In the filing, the
4 Company indicated that Staff had found the proposed form of notice acceptable, and that RUCO had
5 informed the Company that RUCO did not expect to have comments on it. The proposed form of
6 notice made no mention of rate consolidation, and was designed to be provided only to customers of
7 the Anthem Water district, Sun City Water district, Anthem/Agua Fria Wastewater district, Sun City
8 Wastewater district and Sun City West Wastewater district.

9 On September 24, 2009, a procedural order was issued setting a hearing on the application to
10 commence on April 19, 2010, setting associated procedural deadlines, and requiring the Company to
11 provide public notice of the application in the form proposed by the Company and agreed to by Staff
12 and RUCO.

13 On December 8, 2009, Decision No. 71410 was issued in Docket Nos. W-01303A-08-0227
14 et al. ("08-0227 Docket"). Decision No. 71410 ruled on the Company's previous rate application
15 for its Agua Fria Water district, Havasu Water district, Mohave Water and Mohave Wastewater
16 districts, Paradise Valley Water district, Sun City West Water district and Tubac Water district.

17 Decision No. 71410 stated that Docket No. 08-0227 would
18 remain open for the limited purpose of consolidation in the Company's next rate case
19 with a separate docket in which a revenue-neutral change to rate design of all
20 Arizona-American Water Company's water districts or other appropriate proposals or
21 all Arizona-American's water and wastewater districts or other appropriate proposals
22 may be considered simultaneously, after appropriate public notice, with appropriate
23 opportunity for informed public comment and participation.⁴

24 On March 1, 2010, The Camelback Inn, Sanctuary on Camelback Mountain, the
25 Intercontinental Montelucia Resort and Spa, and the Scottsdale Cottonwoods Resort and Suites
26 (collectively the "Resorts") filed a Motion to Intervene. The Resorts are customers of the
27 Company's Paradise Valley Water district. In the filing, the Resorts stated that on February 10,
28 2010, the Resorts learned that the instant case was pending, and were provided an agenda to a
meeting at the offices of the Company entitled "Rate Consolidation Scenarios." The Resorts
attached a copy of the agenda to their Motion to Intervene, and stated that the agenda informed the

⁴ Decision No. 71410 at 78.

1
2 Resorts that Staff would be making a rate consolidation proposal on March 22, 2010, in this docket,
3 and that responsive testimony to Staff's proposal would be due on or about April 5, 2010. The
4 Resorts stated that February 10, 2010, was the first time the Resorts had notice that a possible
5 consolidated rate structure would be developed for the Commission's consideration in this case that
6 would then be applied to the other districts. The Resorts noted that there might be other Arizona-
7 American customers in other districts that had not been provided notice of this proceeding and might
8 be directly and substantially affected by rate consolidation. The Resorts requested a waiver of the
9 intervention deadline based upon lack of notice, and that they be granted intervention.

10 On March 9, 2010, a procedural order was issued granting the Resorts' Motion to Intervene
11 and Staff's Motion for Extension and Request for Procedural Conference. The procedural order
12 stated that in light of Staff's plans to file a rate consolidation proposal with its rate design testimony
13 in this docket, the notice issues initially raised at the September 2, 2009, procedural conference must
14 be properly addressed. A procedural conference was set to commence on March 12, 2010, for the
15 purpose of discussing proper and appropriate notice related to any rate consolidation proposal made
16 in this docket.

17 On March 12, 2010, the Town of Paradise Valley ("Paradise Valley") filed a Motion to
18 Intervene, which stated that the first time it had notice that a possible consolidated rate structure
19 would be developed for the Commission's consideration in this case that would then be applied to
20 the other districts was February 10, 2010.

21 On March 12, 2010, the procedural conference was convened as scheduled. Appearances
22 were entered through counsel for the Company, Anthem Community Council ("Council"), the
23 Resorts, RUCO, and Staff. Paradise Valley also appeared and was granted intervention. At the
24 procedural conference, Staff confirmed that it planned to file rate consolidation proposals with
25 testimony on March 29, 2010. Staff stated that while it was unknown at that time what Staff's
26 recommendation would be, any Staff rate consolidation proposal would likely affect customers in all
27 of Arizona-American's districts. Some parties present expressed the concern that a solution to the
28 rate consolidation notice issue should not delay the scheduled April 19, 2010, commencement of the

1 hearing on the Company's application. The parties were informed that in order to allow an
2 appropriate opportunity for informed public comment, intervention, and full participation of any
3 party wishing to participate in the rate consolidation portion of the upcoming hearing, that a portion
4 of the hearing would have to be delayed. Staff was directed to proceed with its proposed March 29,
5 2010, filing of testimony and exhibits on rate design/rate consolidation, and the Company was
6 directed to file its rebuttal testimony on rate design/rate consolidation on April 5, 2010, as proposed.
7 The parties were informed that a procedural schedule for the filing of intervenors' responsive
8 testimony to rate design/rate consolidation testimony would be forthcoming.
9

10 On March 18, 2010, a procedural order was issued bifurcating the hearing in this matter into
11 two phases, with the second phase ("Phase II") to include Commission consideration of rate design
12 and rate consolidation issues. The procedural order directed the Company to mail to each of its
13 customers in all its districts public notice of the bifurcation, the new intervention deadline for Phase
14 II, and the hearing dates and filing deadlines for both Phase I and Phase II of the proceedings. The
15 ordered form of public notice was based on the Company's March 16, 2010, filing of a form of
16 notice which the Company had circulated to all parties, and which incorporated all comments
17 received from the parties at the time of filing.

18 Intervention in this matter was granted to RUCO, the Council, the Sun City West Property
19 Owners and Residents Association ("PORA"), W.R. Hansen, the Water Utility Association of
20 Arizona ("WUAA"), the Resorts, Paradise Valley, Anthem Golf and Country Club ("Anthem
21 Golf"), Marshall Magruder, Larry D. Woods,⁵ Philip H. Cook, DMB White Tank, LLC ("DMB"),
22 and Mashie, LLC dba Corte Bella Golf Club ("Corte Bella").

23 The written public comment filed in this matter was extensive, with approximately 3,681
24 customers filing comments. In addition, local public comment sessions were held by
25 Commissioners in Anthem and Sun City, Arizona, and the record includes the transcribed public
26 comments made orally at those sessions.

27 ⁵ In Phase I of this proceeding, Mr. Woods represented PORA subject to the conditions required by Rule 31(d)(28) of the
28 Rules of the Arizona Supreme Court. Mr. Woods participated in Phase II of this proceeding on his own behalf, and not
on behalf of PORA.

1
2 On April 19, 2010, the evidentiary hearing commenced on Phase I issues as scheduled, and
3 concluded on April 30, 2010. Phase II of the evidentiary hearing commenced as scheduled on May
4 18, 2010, and concluded on June 3, 2010. Prior to the taking of evidence on both April 19, 2010 and
5 May 18, 2010 public comment was received orally and transcribed for the record.

6 Initial closing briefs were filed on July 16, 2010, by the Company, the Council, the Resorts,
7 Paradise Valley, Marshall Magruder, W.R. Hansen, Larry Woods, DMB, Corte Bella, RUCO, and
8 Staff. Reply closing briefs were filed on August 16, 2010, by the Company, the Council, Anthem
9 Golf, Marshall Magruder, DMB, Corte Bella, RUCO, and Staff, and this matter was taken under
10 advisement.

11 **II. APPLICATION**

12 **A. Company**

13 Arizona-American, an Arizona public service corporation, is a wholly owned subsidiary of
14 American Water Works ("American Water"), the largest investor-owned water and wastewater
15 utility in the United States. American Water owns a number of regulated water and wastewater
16 subsidiaries that operate in 32 states, in addition to non-regulated subsidiaries. American Water
17 raises debt capital for its subsidiaries through its financing subsidiary American Water Capital Corp.
18 American Water is listed on the New York stock exchange as AWK. American Water has
19 undertaken several ownership changes over the past several years.⁶ Until 2003, American water was
20 a publicly traded company headquartered in Voorhees, New Jersey.⁷ In 2003, American Water's
21 stock was acquired by RWE Aktiengesellschaft ("RWE"), and became a wholly-owned subsidiary
22 of RWE.⁸ In 2005, RWE announced its intention⁸ to exit from its water activities in the United States
23 and elsewhere and, in connection with this, sold approximately 63.2 million shares in an initial
24 public offering ("IPO") of American Water's shares.⁹ This sale amounted to approximately 40
25 percent of American Water's shares being owned by the investing public and the remaining 60

26
27 ⁶ Direct Testimony of Staff witness Gerald Becker (Exh. S-9) at 3.

28 ⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

1 percent still owned by RWE.¹⁰ During the fourth quarter of 2009, RWE fully divested its remaining
 2 ownership of American Water through the consummation of additional IPOs, and all associated
 3 board members have resigned from the Board of Directors.

4 Arizona-American is Arizona's largest investor-owned water and wastewater utility,
 5 operating twelve water and wastewater systems in Arizona, serving approximately 150,000
 6 customers located in portions of Maricopa, Mohave, and Santa Cruz Counties. During the test year,
 7 the Anthem Water district served approximately 8,700 customers in the Anthem Community,¹¹ the
 8 Sun City Water district served approximately 23,000 customers in Sun City, the Town of
 9 Youngtown, and small sections of Peoria and Surprise,¹² the Anthem/Agua Fria Wastewater district
 10 served approximately 10,121 customers in the Anthem, Verrado, and Russell Ranch communities,¹³
 11 the Sun City Wastewater district served approximately 21,965 customers in Sun City, the Town of
 12 Youngtown, and small sections of Peoria and Surprise,¹⁴ and the Sun City West Wastewater district
 13 served approximately 14,968 customers in Sun City West and the Corte Bella community.¹⁵

14 Arizona-American's President Paul Townsley testified that the Company's financial position
 15 is poor and that Arizona-American has lost approximately \$30 million since American Water
 16 purchased the water and wastewater assets of Citizens Utilities in 2002.¹⁶ According to Mr.
 17 Townsley, Arizona-American experienced a net loss of \$1.8 million in 2008, an improvement over
 18 its \$4.6 million loss in 2007.¹⁷ Arizona-American has not paid a dividend to its shareholders since
 19 2003.¹⁸ Mr. Townsley stated that as of December 31, 2008, Arizona-American's times interest
 20 earned ratio ("TIER")¹⁹ was 0.52.

21 During this proceeding, the Company proposed that the Commission consider statewide rate
 22

23 ¹⁰ *Id.*

24 ¹¹ *Id.* at 4.

25 ¹² *Id.*

26 ¹³ Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at Exhibit DMH-3 at 4, DMH-4 at 6, and DMH-6 at 4.

27 ¹⁴ *Id.* at Exhibit DMH-5 at 4.

28 ¹⁵ *Id.* at Exhibit DMH-6 at 5.

¹⁶ Direct Testimony of Company witness Paul Townsley (Exh. A-3) at 3.

¹⁷ *Id.*

¹⁸ *Id.* at 7.

¹⁹ TIER represents the number of times earnings will cover interest expense on short-term and long-term debt. A TIER of less than 1.0 is not sustainable in the long term.

consolidation, citing, among other considerations, improved rate case efficiency, improved ability to make needed capital investments in smaller districts, and a desire to bring the tariff structure of water and wastewater utilities more in line with those of other regulated utilities in Arizona.²⁰

B. Summary of Revenue Recommendations

By district, adjusted test year revenues were as follows:

Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
\$7,492,744	\$9,283,101	\$8,637,123	\$5,940,381	\$5,661,710

By district, Arizona-American's proposed revenues and the revenue recommendations of the parties who submitted schedules are as follows:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Company	\$13,455,431	\$11,166,039	\$13,926,904	\$8,097,263	\$7,142,475
RUCO	\$12,516,000	\$9,787,589	\$13,684,829	\$7,435,703	\$6,419,979
Staff	\$13,420,925	\$11,126,179	\$13,688,321	\$7,665,720	\$7,137,298

The Council did not present revenue schedules, but based on its recommended reductions to the rate bases and rates of return recommended by the Company, RUCO and Staff for the Anthem/Agua Fria Wastewater and Anthem Water districts,²¹ the Council recommends reductions to the revenue requirements recommended by those parties for those districts.²²

III. RATE BASE

A. Rate Base Recommendations

The parties recommend the following rate bases for the districts in their final schedules:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Company	\$57,422,164	\$28,376,946	\$45,322,775	\$15,656,720	\$18,207,774

²⁰ Direct Testimony of Company witness Paul Townsley (Exh. A-3) at 14.

²¹ Council Final Schedules Anthem-Legal 1, Anthem-Legal 2, Anthem-3.

²² *Id.*

Staff	\$57,248,934	\$28,192,680	\$45,115,225	\$15,488,742	\$18,098,487
RUCO	\$57,258,174	\$26,212,284	\$45,260,942	\$14,595,027	\$18,095,016

The differences in rate base recommendations by the Company, RUCO and Staff are due to disputes about post-test year plant in the Sun City Water district, recovery of costs under and agreement the Company has with the City of Glendale affecting the Sun City West Wastewater district, and calculation of cash working capital in each of the districts.

The Council did not present rate base schedules, but recommends reductions to the rate bases recommended by the Company, RUCO and Staff for the Anthem/Agua Fria Wastewater and Anthem Water districts.²³ The Council's recommended reductions are related to its position on the Company's refund payments made to Pulte and to its position on the Northwest Plant allocations between Anthem/Agua Fria Wastewater and the Sun City West Wastewater districts.

B. Post Test Year Plant (Sun City Water)

The application proposes inclusion in plant in service of a new Well 5.1 which was completed in May 2009 to replace a retired well in the Sun City Water district, at a cost of \$1,587,149.²⁴ The Company's witness testified that Arizona-American completed this project on an expedited basis and under budget in May 2009, which helped to ensure an adequate water supply for the peak summer season.²⁵

RUCO recommends that Well 5.1 not be allowed in plant in service because RUCO believes its inclusion would violate the matching principle, and there are no exceptional or extraordinary circumstances that would justify its inclusion.²⁶ RUCO argues that the project's cost is not significant enough to justify a departure from the requirement that plant be in service during the test year, because it comprises just 0.47 percent of the combined gross utility plant in service in this rate case filing.²⁷

²³ *Id.*

²⁴ Rebuttal Testimony of Company witness Joseph Gross (Exh. A-9) at 2.

²⁵ Phase I Tr. at 525-26.

²⁶ RUCO Br. at 5.

²⁷ *Id.*; Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 7.

1 Staff disagrees with RUCO's recommendation to exclude Well 5.1 from plant in service.²⁸
2 Staff recommends that Well 5.1 be included in plant in service because the old Well 5.1 was retired
3 in 2007 and abandoned in 2008, the new Well 5.1 was in service at the time of Staff's inspection,
4 and is used and useful.²⁹
5

6 The Company argues that Well 5.1 meets criteria under which the Commission has allowed
7 post-test year plant in rate base, because the project cost is significant and substantial, representing
8 approximately 5.6 percent of the Sun City Water district's rate base; is revenue neutral; and that the
9 project was prudent and necessary to provide adequate water supply to customers during the summer
10 peak demand period in 2009.³⁰

11 The construction of Well 5.1 was necessary in order to replace an aged retired well in order
12 to provide continuous, reliable and adequate service to customers. Staff has verified that it is in
13 service and that it is used to provide service to existing customers. We agree with Staff and the
14 Company that it is reasonable and appropriate to include Well 5.1 in rate base at this time.

15 **C. City of Glendale Sewage Transportation Agreement - 99th Avenue Interceptor**
16 **Replacement Costs (Sun City Wastewater)**

17 Arizona-American has long been a party to a City of Glendale Sewage Transportation
18 Agreement ("Glendale Agreement"), by which the Company acquired rights from the City of
19 Glendale to utilize the 99th Avenue Interceptor to transport sewage from the Sun City Wastewater
20 district to the Tolleson Treatment Plant.³¹ The 99th Avenue Interceptor is a sewer trunk main that is
21 owned by multiple municipalities.³² The Company's participation in the Glendale Agreement has
22 provided it with a cost-effective means to transport Sun City Wastewater sewage flows instead of
23 constructing its own treatment plant.³³

24 In November 2009, the Company received an invoice in the amount of \$917,906.09 for
25

26 ²⁸ Co. Br. at 8-9; Staff Br. at 5.

27 ²⁹ Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at 13.

28 ³⁰ Co. Br. at 8.

³¹ Rebuttal Testimony of Company witness Miles Kiger (Exh. A-14) at 2 and Exhibit MHK-1R.

³² Phase I Tr. at 550-51.

³³ *Id.*

1 replacement costs related to the 99th Avenue Interceptor incurred prior to that date.³⁴ The Company
 2 paid the invoice on April 2, 2010.³⁵ At the hearing, the Company provided the testimony of Mr.
 3 Weber, an employee of the City of Glendale, who discussed the replacement costs and the process
 4 the City of Glendale used to validate the costs prior to invoicing Arizona-American for its
 5 proportionate share.³⁶

6
 7 The Company requested an accounting order authorizing the deferral of \$917,906 in capital
 8 improvement costs for the Company's proportionate share of the 99th Avenue Interceptor project
 9 under the Glendale Agreement.³⁷ The Company stated that their requested treatment is similar to the
 10 costs included in rate components 3 and 4 of the Tolleson Agreement for which the Company
 11 obtained an accounting order from the Commission.³⁸

12 Staff recommends denial of the request for an accounting order. Staff's witness testified that
 13 deferral is unnecessary, because the proper classification ratemaking treatment of the 99th Avenue
 14 Interceptor costs is known at this time, unlike the Tolleson Agreement costs.³⁹ During Phase II of
 15 the hearing, after having an opportunity to consider the testimony presented during Phase I, Staff's
 16 witness testified that capitalization of the costs as prescribed by the Uniform System of Accounts
 17 ("USOA") and generally accepted accounting principles ("GAAP") provides for appropriate cost
 18 recovery.⁴⁰ Staff recommends that the amounts paid by the Company under its agreement with the
 19 City of Glendale to use the 99th Avenue Interceptor for sewer transport be treated as a capital lease,
 20 and should be included in rate base for the Sun City Wastewater district.⁴¹ Staff determined that the
 21 Company's payment for 100 percent of the 99th Avenue Interceptor's capacity it uses equals the fair
 22 value of the invoiced improvement cost, such that the \$917,906 in capital improvement costs should
 23 be capitalized beginning on the date the replacement became effective.⁴² Staff recommends that

24 ³⁴ Rebuttal Testimony of Company witness Miles Kiger (Exh. A-14) at 2 and Exhibit MHK-2R.

25 ³⁵ Phase I Tr. at 135; Exh. A-24.

26 ³⁶ Phase I Tr. at 458-464.

27 ³⁷ Rebuttal Testimony of Company witness Miles Kiger (Exh. A-14) at 2.

28 ³⁸ *Id.* at 2-3.

³⁹ Phase II Tr. at 973.

⁴⁰ *Id.* at 970-971.

⁴¹ Staff Reply Br. at 3; Tr. at 972; Exhs. S-13 and S-14.

⁴² Phase II Tr. at 972.

1 because the replacement was performed primarily before, but also during and shortly after the test
 2 year, that the replacement costs should be included in rate base, net of accumulated depreciation
 3 using the authorized depreciation rate for the plant account in which the replacement costs are
 4 recorded.⁴³

5
 6 The Company accepted Staff's position on the 99th Avenue Interceptor replacement costs.
 7 RUCO does not object to inclusion of identified 99th Avenue Interceptor test year replacement costs
 8 in rate base, but did not include any of the costs in its final schedules, because during Phase I of the
 9 hearing, RUCO's witness was unable to readily identify the test year amount from the Company's
 10 hearing exhibit.⁴⁴

11 Staff's recommended treatment of the of \$917,906 in capital improvement costs, net of
 12 accumulated depreciation, for the Company's proportionate share of the 99th Avenue Interceptor
 13 project under the Glendale Agreement, is reasonable and will be adopted.

14 **D. Cash Working Capital (All Districts)**

15 In preparing its cash working capital requirement for this case, the Company performed a
 16 lead/lag study.⁴⁵ A utility must have cash on hand to finance cost of service in the time period
 17 between when service is rendered and associated revenues are collected, and the cash working
 18 capital component of a utility's working capital allowance measures the amount of investor-supplied
 19 capital necessary for a utility to meet this need. A lead/lag study measures the actual lead and lag
 20 days attributable to individual revenue and expense items, and is the most accurate way to measure
 21 the cash working capital requirement. Revenue lag days are determined by measuring the amount of
 22 time between provision of services and the receipt of payment for those services. Expense lag days
 23 are determined by measuring the time between the incurrence of expenses and the payment of those
 24 obligations. Expense lag days offset revenue lag days. The resulting cash working capital amount is
 25 added to or subtracted from the Company's rate base.

26 The parties' cash working capital recommendations as represented in their final schedules

27 ⁴³ Staff Br. at 10.

28 ⁴⁴ RUCO Reply Br. at 12, citing to Phase I Tr. at 932-933.

⁴⁵ Direct Testimony of Company witness Linda J. Gutowski (Exh. A-17) at 3.

are as follows, by district:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Company	\$200,095	\$627,027	\$336,115	\$255,760	\$311,580
Staff	\$(59,108)	\$272,781	\$5,948	\$9,426	\$116,869
RUCO	\$36,104	\$415,091	\$198,901	\$102,182	\$198,822

1. Expense Lag – Management Fees

The Company uses a shared services model through which it procures certain management services through an affiliate, American Water Works Services Company (“Service Company”). The Company pays management fees for its share of services a month in advance, and the Service Company uses the payments to pay payroll, rent, insurance, utilities, and other expenses.⁴⁶ The Company states that it makes the advance payments pursuant to a 1989 agreement with the Service Company.⁴⁷ The Service Company bills Arizona-American in advance, and on the following bill, true up the actual amount charged for the prior month, with a credit for any interest earned by the Service Company.⁴⁸ The Company calculated a lead of 11.25 days for the expense lag as it relates to management fees.⁴⁹ The Company’s witness testified that 11.25 lead days is reflective of the Company’s actual lead days for payment of management fees to its service company affiliate.⁵⁰ The Company’s witness stated that the payments are made in advance because the Service Company has no water or sewer customers; and that the Service Company is an “at cost” affiliate, and that without the advance payments, the Service Company’s working capital costs would increase and

⁴⁶ Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-18) at 10; Phase I Tr. at 589.

⁴⁷ *Id.* Ms. Gutowski’s testimony states that Article IV, BILLING PROCEDURES, Section 4.1 of the 1989 Service Company agreement states:

As soon as practicable after the last day of each month, Service Company shall render a bill to Water Company for all amounts due from Water Company for services and expenses each month *plus an amount equal to the estimated cost of such services and expenses for the current month* . . . All amounts so billed shall reflect the credit for payments made on the estimated portion of the prior bill and shall be paid by Water Company within a reasonable time after receipt of the bill therefore.
(emphasis added by Ms. Gutowski.)

⁴⁸ Phase I Tr. at 389, 760.

⁴⁹ Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-18) at 10; Exh. A-30.

⁵⁰ Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-18) at 11.

1 subsequently be passed on to Arizona-American.⁵¹ The Company's witness testified that given the
 2 unique nature of the business relationship between Arizona-American and the Service Company, the
 3 terms of the agreement are reasonable.⁵² The Company argues that because this piece of the expense
 4 lag is based on the Company's actual experience, it should be accepted by the Commission.⁵³ The
 5 Company's witness also testified that its calculation in this case used the same kind of lead days
 6 used in the 2008 Working Capital calculation that was approved as part of Decision No. 71410.⁵⁴
 7

8 Staff disagrees with the Company's calculation of a lead of 11.25 days for the expense lag as
 9 it relates to management fees. Staff witnesses testified that lead/lag days should not be based on
 10 internal agreements made between the Company and its unregulated affiliate.⁵⁵ Staff argues that
 11 were the Service Company not an affiliate, the procurement and payment services would be at arms'
 12 length, and might be more commercially reasonable.⁵⁶ Staff expressed concern that the use of an
 13 internal agreement to calculate lead/lag days might result in a situation where an unregulated utility
 14 affiliate may expect payments even sooner than one month in advance, or prepayment of
 15 management fees, with ratepayers supporting this internal circumstance through cash working
 16 capital.⁵⁷

17 Staff further argues that the cash working capital approved in Decision No. 71410 was based
 18 on a lead of 3.88 days for management expenses, and not 11.25 lead days as implied by the
 19 Company's statement that the same type of lead days were used in that case.⁵⁸ Staff recommends
 20 that the Company's proposed 11.25 lead days be disregarded in the calculation of cash working
 21 capital.⁵⁹ Staff does not recommend using the 3.88 lead days allowed in Decision No. 71410,
 22 because no lead/lag study was performed to establish the payment pattern of the affiliate service
 23

24 ⁵¹ *Id.* at 10.

25 ⁵² *Id.* at 10-11.

26 ⁵³ Co. Br. at 15.

27 ⁵⁴ Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-18) at 11.

28 ⁵⁵ Surrebuttal Testimony of Staff witnesses Gerald Becker (Exh. S-10) at 5, and Garry McMurry (Exh. S-6) at 4.

⁵⁶ Staff Reply Br. at 2.

⁵⁷ Surrebuttal Testimony of Staff witnesses Gerald Becker (Exh. S-10) at 5, and Garry McMurry (Exh. S-6) at 4; Staff Reply Br. at 3.

⁵⁸ Staff Br. at 4.

⁵⁹ Surrebuttal Testimony of Staff witnesses Gerald Becker (Exh. S-10) at 6, and Garry McMurry (Exh. S-6) at 5.

1 provided.⁶⁰

2
3 RUCO also argues that the prepayment of affiliate management fees is unreasonable and
4 constitutes overreaching because affiliated transactions are not arms' length transactions, and
5 recommends that the lag applied to management fees be adjusted to commercially reasonable
6 terms.⁶¹

7 2. Revenue Lag

8 RUCO disagrees with the Company's proposed collection lag.⁶² For the test year, the
9 Company calculated an average of 26.1 collection lag days district-wide.⁶³ The collection lag is the
10 calculation of the time from the billing date to the date collections are received.⁶⁴ RUCO
11 recommends instead that twenty collection lag days be used in calculating the Company's cash
12 working capital, because the due date for payment of billings for water and wastewater service is
13 twenty days and does not differ by the type of customer, and that the Company's proposed revenue
14 lags assume that customers, on average, throughout the year, are not complying with the payment
15 terms.⁶⁵ RUCO argues that the Company's revenue lags are excessive and should be rejected.⁶⁶

16 The Company responds that RUCO's recommendation for a twenty day collection lag, based
17 solely on the due date of each bill, ignores the realities of the collection process and should not be
18 adopted.⁶⁷ The Company explains that while each bill is sent out with a due date that is twenty days
19 after the billing date, the Commission's rules and the Company's tariffs contemplate that payment
20 may be made after the due date, with a late payment fee to be charged after the twenty-fifth day.⁶⁸
21 After that time, the Company also attempts to provide customers with additional notices prior to
22 disconnection.⁶⁹ The Company asserts that in light of its collection process, and the Company's

23 ⁶⁰ Staff Br. at 4.

24 ⁶¹ RUCO Br. at 10-11, citing to Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 25-26, 28; RUCO
Reply Br. at 6.

25 ⁶² Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 12-22; RUCO Br. at 10.

26 ⁶³ Rebuttal Testimony of Company witness Linda J. Gutowski (Exh. A-18) at 9.

27 ⁶⁴ Phase I Tr. at 586.

28 ⁶⁵ RUCO Br. at 7-8, 11, citing to Direct Testimony of RUCO witness Ralph Smith (Exh. R-9) at 21 and Surrebuttal
Testimony of RUCO witness Ralph Smith (Exh. R-10) at 11.

⁶⁶ RUCO Br. at 10; RUCO Reply Br. at 6.

⁶⁷ Co. Br. at 14.

⁶⁸ Co. Br. at 13, citing to Exh. A-36.

⁶⁹ Phase I Tr. at 587-88.

1 increasing number of charge-offs, a collection lag of 26.1 days is reasonable and appropriate.⁷⁰

2 Staff did not brief this issue.

3
4 **3. Conclusion**

5 We fully agree with RUCO and Staff that the Company's internal arrangement with its
6 unregulated affiliate should not dictate its need for cash working capital. However, we are not
7 convinced, based on the record in this proceeding, that inclusion of the 26.1 collection lag days in
8 the cash working capital calculation is inappropriate. Overall, we find that Staff's proposed cash
9 working capital is the most reasonable and appropriate recommendation in light of the facts
10 presented, and will adopt it.

11 We find that a reasonable and appropriate amount of cash working capital for the districts for
12 purposes of this proceeding is as follows:

13 Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
14 \$(59,108)	\$272,781	\$5,948	\$9,426	\$116,869

15
16 **E. Allocation of Northwest Valley Treatment Plant (Anthem/Agua Fria
17 Wastewater and Sun City West Wastewater)**

18 The Northwest Valley Regional Water Reclamation Facility ("Northwest Valley") treats
19 wastewater flows from both the Anthem/Agua Fria Wastewater district and the Sun City West
20 wastewater district. In Decision No. 70209 (March 20, 2008), the Company was ordered to allocate
21 68 percent of the Northwest Valley plant costs to the Sun City West Wastewater district.⁷¹ Decision
22 No. 70372 (June 13, 2008) ordered the allocation of 32 percent of the Northwest Valley plant costs
23 to the Anthem/Agua Fria Wastewater district.⁷²

24
25 Based on its projected growth projections in this proceeding, Staff recommends that the
26 Northwest Valley plant be allocated 28 percent to the Anthem/Agua Fria Wastewater district and 72

27 _____
⁷⁰ Co. Br. at 14.

28 ⁷¹ Decision No. 70209 at 5.

1 percent to the Sun City West Wastewater district.⁷³ The Company and RUCO are in agreement with
 2 Staff's recommended allocation.

3 Staff conducted a linear regression analysis, using actual and projected growth numbers, to
 4 determine that the Sun City West Wastewater district could have approximately 15,055 customers
 5 by the end of 2013, and will use approximately 72 percent of the Northwest Valley plant's
 6 capacity.⁷⁴ Staff anticipates rapid growth in the Northeast Agua Fria area known as Corte Bella,
 7 which lies within the Agua Fria Wastewater district, but whose flows are treated by the Northwest
 8 Valley plant due to its proximity.⁷⁵ Staff's growth analysis for the Corte Bella area was not
 9 performed with linear regression, due to the unavailability of sufficient data points, as Staff had
 10 access to accurate growth numbers for that area only for 2007 and 2008.⁷⁶ Using the available
 11 growth numbers for 2007 and 2008, Staff projected that 28 percent of the Northwest Plant's capacity
 12 will be needed to serve customers in the Northeast Agua Fria area.⁷⁷

13 The Council disagrees with Staff's recommended Northwest Valley plant allocation.⁷⁸ The
 14 Council argues that Staff's customer growth projections are inaccurate in light of the current
 15 sluggish real estate market that the Council believes will likely experience a sustained delay in
 16 recovery.⁷⁹ The Council asserts that its witness Mr. Neidlinger's growth projection appropriately
 17 accounts for recent and continuing reductions in customer growth rates due to the foreseeable
 18 sustained flat housing market, and should be adopted in lieu of Staff's growth projections.⁸⁰

19 Staff contends that Mr. Neidlinger's assertion that Staff's projection was based on the
 20 assumption that there were no customers in the Northeast Agua Fria area at the end of 2004 is
 21
 22
 23
 24

25 ⁷² Decision No. 70372 at 12.

26 ⁷³ Phase I Tr. at 767, 770; Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at Exhibit DMH-6 at 5.

27 ⁷⁴ Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at Exhibit DMH-6 at 5.

28 ⁷⁵ Staff Br. at 8.

⁷⁶ Phase I Tr. at 793, 798.

⁷⁷ Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at Exhibit DMH-6 at 5, fn 3.

⁷⁸ Surrebuttal Testimony of Dan Neidlinger (Exh. Anthem-3) at 6; Council Br. at 12-13; Council Reply Br. at 13-15.

⁷⁹ Council Reply Br. at 13.

1 incorrect.⁸¹ Staff states that Mr. Neidlinger's growth analysis completely disregarded the customer
 2 counts for the years 2005 and 2006, based on his assumption that it would be unrealistic to use them
 3 because they don't represent what is going to happen in the future in the area.⁸² Staff argues that by
 4 disregarding the customer counts for the years 2005 and 2006, the Council's methodology does not
 5 give an accurate portrayal of growth in the area, and would result in a skewed allocation.⁸³ Staff
 6 argues that while projecting growth is not an exact science, Staff's growth projections are more
 7 reflective of future growth, and Staff's allocation recommendation is reasonable.⁸⁴

8
 9 The Company has accepted Staff's allocation of the Northwest Valley plant, and states that
 10 Staff's more moderate adjustment to the Anthem/Agua Fria Wastewater district will lead to less
 11 adjustment in the future,⁸⁵ and that extensive back-and-forth modification of the allocation
 12 percentage based on real estate cycles is not good public policy.⁸⁶

13
 14 Staff used a reasonable methodology for its growth projections in this case. Staff's growth
 15 projection methodology was based on available facts and is more likely to reflect future growth than
 16 the methodology advocated by the Council. We find that Staff's growth projection methodology
 17 results in a reasonable estimate for the allocation of the Northwest Valley plant, and will therefore
 18 adopt it.

19
 20 **F. Anthem Infrastructure Agreement (Anthem Water and Anthem/Agua Fria
 Wastewater)**

21 **1. Background**

22 In 1997, Arizona-American's predecessor Citizens Utilities Company ("Citizens") and Del
 23 Webb Corporation ("Del Webb"), the predecessor of Pulte Corporation ("Pulte"), and subsidiaries of
 24

25 ⁸⁰ *Id.* at 14.

26 ⁸¹ Staff Br. at 9.

27 ⁸² Phase I Tr. at 873.

28 ⁸³ Staff Reply Br. at 3.

⁸⁴ Staff Br. at 9.

⁸⁵ Co. Br. at 15; Co. Reply Br. at 6.

⁸⁶ Co. Br. at 16; Phase I Tr. at 146-47.

1 Citizens and Del Webb⁸⁷ entered into an Agreement for the Villages at Desert Hills
 2 Water/Wastewater Agreement ("Infrastructure Agreement" or "Agreement") regarding the
 3 construction and funding of the extensive new water and wastewater infrastructure required to serve
 4 the master-planned community of Anthem.⁸⁸ Under the Agreement, Del Webb was to fund much of
 5 the water and wastewater infrastructure, and Arizona-American would eventually have to refund Del
 6 Webb's advanced funds in accordance with Exhibit B of the Agreement, with a large balloon
 7 payment when build-out occurred. Only after projects were completed and refunds made to Pulte
 8 did the plant become eligible for inclusion in rate base.

9
 10 In October 1997, Citizens, DistCo and TreatCo filed a joint application in Docket No. W-
 11 01032A-97-0599 *et al.* for a Certificate of Convenience and Necessity ("CC&N") to provide water
 12 and wastewater utility service to the planned community development that ultimately became known
 13 as Anthem. That application specifically sought approval of the Infrastructure Agreement. On June
 14 19, 1998, Decision No. 60975 was issued in that docket granting Citizens a water and wastewater
 15 CC&N for the Anthem service territory. Decision No. 60975 adopted the recommendation made by
 16 Staff that the Commission not consider any determination regarding the requested approval of the
 17 Infrastructure Agreement.⁸⁹

18 Over the course of the build-out at Anthem, there were several modifications to the
 19 Agreement. The first modification was the November 30, 1998 Letter Agreement.⁹⁰ In the Letter
 20 Agreement, Del Webb agreed in part to compensate Citizens for the additional costs and reduced
 21 revenues resulting from the requirements of Decision No. 60975. The Letter Agreement established
 22 a ten-year revenue stream from Del Webb to Citizens in recognition of the difference between what
 23 had been agreed to by the parties to the Agreement and the requirements of Decision No. 60975.

24 The second modification to the Infrastructure Agreement was by the First Amendment, dated

25 ⁸⁷ The original parties to the Agreement were Del Webb and its subsidiary The Villages at Desert Hills, Inc. (as the
 26 Anthem project was called at the time), Citizens, and Citizens' subsidiaries Citizens Water Services Company of Arizona
 ("DistCo"), and Citizens Water Resources Company of Arizona ("TreatCo").

27 ⁸⁸ A copy of the Agreement was admitted into the record of Docket No. WS-1303A-06-0403 as Exhibit A-16. During
 the hearing in this matter, on April 20, 2010, administrative notice was taken of Decision No. 70372 (June 13, 2008)
 issued in Docket No. WS-1303A-06-0403, and the entire record of Docket No. WS-1303A-06-0403.

28 ⁸⁹ Decision No. 60975 at 6, 10.

⁹⁰ A copy of the Letter Agreement was admitted into the record of Docket No. WS-1303A-06-0403 as Exhibit A-17.

1
2 May 8, 2000.⁹¹ The purpose of the First Amendment was to add the 195-acre Jacka Parcel acquired
3 by Del Webb to the Anthem project and required the parties to take certain actions related to the
4 addition of the land parcel to Anthem.

5 In May 2000, Citizens, TreatCo and DistCo filed a an application to extend the CC&Ns in
6 the Anthem service area to include the Jacka Parcel and requested approval of the First Amendment
7 to the Infrastructure Agreement. On March 13, 2001, the Commission issued Decision No. 63445
8 approving the CC&N extension application and the First Amendment.

9 In December 2000, Citizens again requested approval of the Infrastructure Agreement, in
10 connection with an application to delete an area in the City of Phoenix from its certificated territory.
11 In that case, Citizens argued that the Commission had approved the Infrastructure Agreement by its
12 approval of the First Amendment in Decision No. 63445. On June 5, 2002, the Commission issued
13 Decision No. 64897 in which it did not approve the Infrastructure Agreement, and specifically found
14 that “[a]pproval of the addition of the Jacka Parcel in Decision No. 63445 did not result in approval
15 of the underlying Infrastructure Agreement that the Commission declined to approve in Decision
16 No. 60975.”⁹²

17 In November and December of 2002, Arizona-American filed applications in Docket Nos.
18 WS-01303A-02-0867 et al. requesting rate adjustments for several of its districts, including its
19 Anthem Water and Anthem/Agua Fria Wastewater districts. A refund payment was included in the
20 rate filing.⁹³ Decision No. 67093 was issued in that docket on June 30, 2004.

21 The third modification to the Infrastructure Agreement was the Second Amendment, dated
22 September 21, 2000.⁹⁴ The Second Amendment revised the Capacity Reservation Section 3.2 of the
23 Agreement and adjusted the equivalent residential unit (“ERU”) benchmarks due to the withdrawal
24 of the portion of Anthem located within the City of Phoenix from the Arizona-American CC&N,
25 and the addition of the Jacka Parcel to the CC&N. The Second Amendment also addressed the
26

27 ⁹¹ A copy of the First Amendment was admitted into the record of Docket No. WS-1303A-06-0403 as Exhibit A-18.

⁹² Decision No. 64897, Findings of Fact No. 7.

⁹³ Staff Br. at 13.

28 ⁹⁴ A copy of the Second Amendment was admitted into the record of Docket No. WS-1303A-06-0403 as Exhibit A-19.

1 effect of the Phoenix Agreement, and other matters. The Second Amendment included a consent by
2 Del Webb to the assignment by Citizens of its rights and obligations under the Infrastructure
3 Agreement to Arizona-American.
4

5 On September 27, 2001, Citizens, Arizona-American, Del Webb and Anthem Arizona LLC
6 entered into the Refund Coordination Agreement,⁹⁵ which addressed the allocation of
7 responsibilities between Citizens (including TreatCo and DistCo) and Arizona-American. It also
8 adopted a new schedule for the calculation and allocation of refunds.

9 The fourth modification to the Infrastructure Agreement, the Third Amendment, dated
10 December 12, 2002,⁹⁶ increased the water allocation under the Ak-Chin Lease and again recognized
11 Arizona-American's substitution for Citizens in the Infrastructure Agreement.

12 In June and August of 2006, Arizona-American filed applications in Docket Nos. WS-
13 01303A-06-0403 et al. requesting rate adjustments for its Anthem Water and Anthem/Agua Fria
14 Wastewater districts. The Council participated as an intervenor in that prior rate case.

15 Prior to the conclusion of that rate case, on or about October 8, 2007, Arizona-American and
16 Pulte entered into the Fourth Amendment to the Agreement. The Fourth Amendment was intended
17 to address Commission concerns and Arizona-American's financial circumstances by providing
18 further rate relief to Anthem customers, utilizing the following measures:

- 19 1. Pulte agreed to delay the final true-up payment by approximately six months, until
20 March 31, 2008;
- 21 2. Pulte agreed to reduce the total refundable developer advance by \$1.5 million; and
- 22 3. Pulte agreed to defer for two years, without interest, 25 percent of the true-up
23 payment that would otherwise have been due at build-out.

24 As in this case, in the prior rate case including the Anthem and Anthem/Agua Fria
25 Wastewater districts, in Docket No. WS-1303A-06-0403, numerous public comments, both oral and
26 written, were received in opposition to the requested rate increase. Also, as in this case, the public

27 ⁹⁵ A copy of the Refund Coordination Agreement was admitted into the record of Docket No. WS-1303A-06-0403 as
Exhibit A-21.

28 ⁹⁶ A copy of the Refund Coordination Agreement was admitted into the record of Docket No. WS-1303A-06-0403 as
Exhibit A-20.

1 comments expressed displeasure that the Company's proposed rates reflected repayment by
 2 Arizona-American to Pulte for infrastructure costs paid by Pulte, and particularly, that existence of
 3 the advances was not disclosed to homebuyers at the time of purchase.
 4

5 On June 13, 2008, the Commission issued Decision No. 70372 in Docket No. WS-1303A-
 6 06-0403. Decision No. 70372 included in rate base the developer refunds Arizona-American had
 7 made and for which it requested recovery in that case. Decision No. 73072 stated:

8 We take the public comment received in this case seriously and recognize the gravity
 9 of the customers' concerns regarding the infrastructure costs required to provide
 10 water and wastewater utility services for the Anthem community. At this time, no
 11 party has alleged, and we do not find, that the Company's repayment of developer
 12 advances under the Anthem Agreements has been imprudent or improper. . . .

13 Our determination in this case is not intended to have any bearing on our
 14 determination in any subsequent case filed by the Company for these districts
 15 regarding the reasonableness of the Company's agreement to refund to Pulte almost
 16 all of the costs required to construct Anthem's water infrastructure.⁹⁷

17 Decision No. 73072 ordered the Company to ensure that the term of the Fourth Amendment
 18 to the Infrastructure Agreement deferring 25 percent of the true-up payment due from Arizona-
 19 American would inure to the benefit of ratepayers by an appropriate choice of test year for filing its
 20 next rate case.⁹⁸

21 2. Pulte Refund True-Up Payments at Issue in this Proceeding

22 On June 29, 2007, Arizona-American refunded \$3,068,300.57 of advances due to Pulte
 23 pursuant to the Infrastructure Agreement and the subsequent amendments thereto.⁹⁹ Of that amount,
 24 \$2,147,810.40 was for water and \$920,490.17 was for wastewater.¹⁰⁰ On March 31, 2008, pursuant
 25 to the terms of the Infrastructure Agreement and subsequent amendments thereto, as modified by the
 26 Fourth Amendment described above, Arizona-American refunded \$20,226,122 of the advances due
 27 to Pulte at build-out of the Anthem community, which occurred in September 2007.¹⁰¹ Of that
 28

⁹⁷ Decision No. 73072 at 43.

⁹⁸ *Id.* at 62.

⁹⁹ Exh. Anthem-7.

¹⁰⁰ *Id.*

¹⁰¹ *Id.*; Rebuttal Testimony of Company witness Paul Townsley (Exh. A-4) at 10; Direct Testimony of Company witness Paul Townsley (Exh. A-3) at 9.

1 amount, \$14,889,798.55 was for water and \$5,336,323.45 was for wastewater.¹⁰² On March 31,
 2 2010, Arizona-American paid Pulte the remaining 25 percent of the deferred interest-free payment,
 3 \$6,742,041, pursuant to the terms of the Infrastructure Agreement and subsequent amendments
 4 thereto, as modified by Fourth Amendment described above.¹⁰³ Of that amount, \$4,719,428.70 was
 5 for water and \$2,022,612.30 was for wastewater.¹⁰⁴ The Company is not seeking recovery of the
 6 March 31, 2010 refund payment in this proceeding.¹⁰⁵

7
 8 3. Council's Proposed Exclusion of Refunds from Rate Base

9 Prior to commencement of the evidentiary hearing in this case, the Council filed a pre-
 10 hearing memorandum alleging that the Infrastructure Agreement constituted an evidence of
 11 indebtedness as contemplated in A.R.S. §§ 40-301 to 303. The Council also argues that the
 12 Infrastructure Agreement is a main extension agreement as contemplated by A.A.C. R14-2-406.
 13 Based on the fact that the Company did not obtain Commission approval pursuant to A.A.R.S. §§
 14 40-301 to 303 and A.A.C. R14-2-406, the Council requests that the Company's 2007 repayment of
 15 \$3,068,300.57 and 2008 repayment of \$20,2269,122 to Pulte for infrastructure costs pursuant to the
 16 Infrastructure Agreement be excluded from rate base and receive no ratemaking recognition.¹⁰⁶ The
 17 Council accordingly proposes adjustments reducing the rate base of the Anthem Water district by
 18 \$17,037,609, and reducing the rate base of the Anthem/Agua Fria Wastewater district by
 19 \$6,256,813.¹⁰⁷

20 The Company argues that the Council's position is not only entirely void of legal merit but
 21 also manifestly unfair, because the refund payments represent investment in plant found used and
 22 useful in providing service to the Anthem community.¹⁰⁸ Arizona-American states that it is legally
 23 entitled to a fair return on and of the investment it has made in the used and useful plant, and that the
 24 Council does not provide any reasons that justify a disallowance.¹⁰⁹ The Company states that

25 ¹⁰² Exh. Anthem-7.

26 ¹⁰³ *Id.*; Direct Testimony of Company witness Paul Townsley (Exh. A-3) at 9.

27 ¹⁰⁴ Exh. Anthem-7.

28 ¹⁰⁵ Phase I Tr. at 241-42.

¹⁰⁶ Council Br. at 1-7; Council Reply Br. at 2; Council Final Schedules.

¹⁰⁷ Council Final Schedules.

¹⁰⁸ Co. Reply Br. at 10.

¹⁰⁹ *Id.*

1 ratepayers in the Anthem community have enjoyed the benefits of the system since 1998 without the
 2 full carrying cost of that system being reflected in rates, and that the Company has not earned any
 3 return on the investments it has made in Anthem since 2003.¹¹⁰ The Company contends that
 4 although some in the Anthem community believe that they were misled by Del Webb/Pulte Homes
 5 when they purchased their homes, that issue is appropriately addressed in the pending class action
 6 lawsuit against Pulte in federal court, and not in this proceeding.¹¹¹

7 RUCO states that the refund payments the Company made constitute infrastructure costs,
 8 which are legitimate costs of service, and that in fairness, the Company should be able to recover its
 9 legitimate costs.¹¹²

10 It is Staff's position that all of the plant for which Arizona-American paid Pulte is used and
 11 useful, and Staff's recommendations in this case accordingly include the plant in rate base.¹¹³ Staff
 12 agrees with RUCO that the infrastructure costs at issue are legitimate costs of service and that the
 13 Company should be allowed to recover those costs.¹¹⁴ Staff states that the Council's argument is
 14 effectively a request that plant be disallowed, and that the Council has not alleged a legally sound
 15 basis upon which to alter the ratemaking treatment of the refund payments.¹¹⁵

16
 17 a. Whether the Infrastructure Agreement Constitutes "Evidence of
 18 Indebtedness" Pursuant to A.R.S. §§ 40-301 through 40-303

19 The Council alleges that the Infrastructure Agreement constitutes an evidence of
 20 indebtedness as contemplated in A.R.S. § 40-301 *et seq.* Based on the fact that the Company did not
 21 obtain Commission approval of the Infrastructure Agreement pursuant to A.R.S. §§ 40-301 to 303,
 22 the Council requests that the Company's 2007 and 2008 repayment of advances totaling
 23 \$23,294,422 by Arizona-American to Pulte pursuant to the Infrastructure Agreement be excluded
 24 from rate base and receive no ratemaking recognition.

25 The Company states that the Commission's prior Decisions declining to approve or

26 ¹¹⁰ Co. Reply Br at 3, citing to Phase I Tr. at 299-300.

27 ¹¹¹ Co. Reply Br. at 2.

28 ¹¹² RUCO Br. at 41.

¹¹³ Staff Br. at 16.

¹¹⁴ Staff Reply Br. at 7.

¹¹⁵ Staff Br. at 12.

1 disapprove the Infrastructure Agreement indicate that it is a “private contract,” and not the type of
 2 agreement that requires Commission approval.¹¹⁶ The Company states that the Council has not
 3 provided a single example of the Commission treating an agreement of the nature of the
 4 Infrastructure Agreement as “evidence of indebtedness” under A.R.S. §§ 40-301 to 303, that to the
 5 Company’s knowledge the Commission has not done so, and that if the Commission were to now
 6 change course and require prior approval under these statutes, nearly every existing main extension
 7 and line extension agreement in the State of Arizona would become invalid.¹¹⁷ The Company
 8 asserts that proper statutory construction¹¹⁸ and application of pertinent equitable principles¹¹⁹ also
 9 compel the conclusion that the Infrastructure Agreement does not constitute “evidence of
 10 indebtedness.”

11
 12 The Company additionally states that the Infrastructure Agreement is not required to be
 13 treated as debt under GAAP and is not booked as such, which the Company argues is a strong
 14 indication that it is not “evidence of indebtedness,” citing to Commission Decision No. 69947.¹²⁰
 15 The Council charges that by referencing Decision No. 69947’s reference to GAAP treatment being
 16 indicative of “evidence of indebtedness” the Company “erroneously extends the scope of the
 17 Commission’s application of GAAP in order to reach the conclusion Arizona-American desires in
 18 this proceeding.”¹²¹ We disagree. The declaratory order APS sought in that case, and which the
 19 Commission declined to issue, would have allowed APS to exclude from treatment as debt two
 20 agreements which were classified as long-term debt per GAAP.¹²² Instead of issuing the requested
 21 declaratory order, Decision No. 69947 set out guidelines for the Company to follow in the event of

22 ¹¹⁶ Co. Br. at 22; Co. Reply Br. at 10-11.

23 ¹¹⁷ Co. Br. at 22, 24; Co. Reply Br. at 10.

24 ¹¹⁸ Co. Br. at 22-24.

25 ¹¹⁹ *Id.* at 24-25.

26 ¹²⁰ *Id.* at 22, citing to *In Re APS*, Docket No. E-01345A-06-0779, Decision No. 69947 (October 30, 2007) at 10-13
 27 (indicating that GAAP guides the determination as to whether an “evidence of indebtedness” exists), and at 11, fn 16
 28 (“GAAP status is the determinant for compliance filings and how the condition test for issuance of debt or equity is
 calculated.”). Decision No. 69947 ruled on an APS request for general financing authority, and denied APS’s request
 for “a declaratory order that confirms that only traditional indebtedness for borrowed money constitutes an ‘evidence of
 indebtedness’ under A.R.S. §§ 40-301 and 40-302 and that such other arrangements do not require prior Commission
 authorization and do not count against the Continuing Long-Term Debt or Continuing Short-Term debt authorizations
 requested in the application.” Decision No. 69947 at 1-2.

¹²¹ Council Reply Br. at 3.

¹²² Decision No. 69947 at 11.

1 changes in GAAP or changes in interpretation of GAAP.¹²³

2
3 The Company argues that because A.R.S. §§ 40-301 to 303 restrict a public utility's right to
4 contract, they must be narrowly construed and must not be extended to transactions outside their
5 plain terms,¹²⁴ and that under the statutory doctrine of *ejusdem generis*, the phrase "other evidence
6 of indebtedness" must be interpreted in light of the character of other terms that precede it,¹²⁵ which
7 in this case are "stocks," "stock certificates," "bonds," and "notes."¹²⁶ The Company states that
8 agreements such as the Infrastructure Agreement are not designed for the purpose of building up the
9 utility's general and permanent capital structure like an issuance of stock, but rather serve the
10 specific and limited purpose of placing the risks of development on the developer rather than the
11 public utility.¹²⁷ The Council advances the argument that the Infrastructure Agreement constitutes a
12 financing agreement whereby Pulte financed the construction of Anthem's water and wastewater
13 facilities through an interest-free loan, and that Arizona-American secured its indebtedness to Pulte
14 through the issuance of two letters of credit.¹²⁸ In regard to the Council's reliance on *United States*
15 *v. Austin*, the securities case cited by the Council in support of its position, the Company does not
16 believe it provides relevant or persuasive authority, because it involves interpretation of the federal
17 securities laws, which are of a different nature and purpose than a state law regulating a public
18 utility's debt and equity.¹²⁹ The Company states that the Infrastructure Agreement was a private
19 contract prescribing the terms of the parties' agreement, including a schedule for refund of funds
20 advanced, and the fact that it was backed by letters of credit does not alter its character in that

21 ¹²³ *Id.* at 17-18.

22 ¹²⁴ Co. Br. at 23, citing to, e.g., *Webster Mfg. Co. v. Byrnes*, 207 Cal 630, 637 (Cal. 1929) (analogous California statute)
23 ("The right of contract is by the statute abridged to a certain extent and no reason exists for making an application of the
24 statute not plainly warranted by the language employed in it."), and *Wis. So. Gas Co. v. Pub. Serv. Comm'n*, 57 Wis. 2d
25 643, 648 (Wis. 1973) (reasoning that similar Wisconsin statute should be "reasonably construed and [not applied] to
26 transactions not clearly covered" by statutory language) (internal quotation marks omitted).

27 ¹²⁵ Co. Br. at 23, citing to *Wilderness World, Inc. v. Dep't of Revenue*, 182 Ariz. 196, 199 (Ariz. 1995) ("where general
28 words follow the enumeration of particular classes of persons or things, the general words should be construed as
applicable only to persons or things of the same general nature or class of those enumerated.").

¹²⁶ Co. Br. at 23.

¹²⁷ Co. Reply Br. at 11.

¹²⁸ Council Br. at 5, citing to *U.S. v. Austin*, 462 F.2d 724, 736 (10th Cir. 1072) (citing *Keller v. City of Scranton*, 49 A.
781,782 (1901) and *Nelson v. Wilson*, 264 P. 679, 682 (1928) for the proposition that the term "evidence of indebtedness
is not limited to a promissory note or other simple acknowledgement of a debt owing and is held to include all
contractual obligations to pay in the future for consideration presently received."); Council Reply Br. at 4-5.

¹²⁹ Co. Br. at 12.

1 regard.¹³⁰ The Company asserts that the Council appears to be relying on a barebones argument that
 2 the Infrastructure Agreement is “evidence of indebtedness” merely because it creates contractual
 3 payment obligations that extend more than one year into the future, and that such simplistic logic
 4 would amount to a requirement that any routine contractual arrangement extending over one year,
 5 whether it be for cleaning services, computer software, or document support services, be docketed
 6 and presented to the Commission for approval.¹³¹

7
 8 The Council argues that the Infrastructure Agreement constitutes evidence of indebtedness
 9 because Arizona-American’s audited financial statements list advances in aid of construction
 10 (“AIAC”), together with proceeds from debt issuances, net borrowings from notes, and capital
 11 contributions under the heading “Cash flows from financing activities,” and that the Staff Report in
 12 the Company’s recent financing application docket considered AIAC in its calculation of short-term
 13 and long-term debt.¹³² The Council’s argument is misguided on this point. While the Staff Report
 14 the Council cited did include AIAC in the analysis of the Company’s capital structure, AIAC was
 15 not included in the calculation of debt.¹³³

16 The Company argues that the doctrine of equitable estoppel precludes treating the
 17 Infrastructure Agreement as “evidence of indebtedness.”¹³⁴ Arizona-American contends that it was
 18 perfectly reasonable for it to rely on the Commission’s past practice of not requiring prior approval
 19 for this type of agreement, as well as on the Commission’s past Decisions declining to approve or
 20

21 ¹³⁰ Co. Reply Br. at 11.

22 ¹³¹ *Id.* at 11-12.

23 ¹³² Council Reply Br. at 5, citing to the Staff Report in Docket No. WS-01303A-09-0407 at 3.

24 ¹³³ Capital Structure inclusive of AIAC and CIAC

25 The Company’s actual capital structure at December 31, 2008, inclusive of advances-in-aid-of-
 26 construction (“AIAC”) and net contributions-in-aid-of-construction (“CIAC”), modified to reflect
 27 issuance of the aforementioned \$2.3 million WIFA loan, results in a pro forma capital structure
 28 consisting of 8.9 percent short-term debt, 28.1 percent long-term debt, 23.1 percent equity, 28.5
 percent AIAC and 11.3 percent CIAC (Schedule JCM-I, Column [A], lines 28-38).

Staff Report in Docket No. WS-01303A-09-0407 at 3 (footnote omitted).

26 ¹³⁴ Co. Br. at 25, citing to *Valencia Energy v. Arizona Dep’t of Revenue*, 191 Ariz. 565, 567-77 (Ariz. 1998), the
 27 Company argues that equitable estoppel applies where three elements are present: (1) a party engages in acts
 28 inconsistent with a position it later adopts, (2) reasonable reliance by the other party, and (3) injury to the latter resulting
 from the former’s repudiation of its prior conduct. The Company further argues that equitable estoppel may be
 maintained against a governmental entity as long as its application “will not substantially and adversely affect the
 exercise of governmental powers,” citing to *Valencia* at 576-78.

1 disapprove the Infrastructure Agreement, and states that Arizona-American in fact did so rely.¹³⁵
 2 The Company states that it would suffer substantial injury if the Commission were now to decide
 3 that the refund payments should be excluded from rate base due to lack of prior approval, and argues
 4 that such a determination would be inequitable.¹³⁶
 5

6 Staff states that A.R.S. § 40-301(A) requires public service corporations to seek prior
 7 Commission approval before issuing stocks, bonds, notes or other evidence of indebtedness, and that
 8 the Council is attempting to shoehorn the Infrastructure Agreement into the category of "evidence of
 9 indebtedness," but that the attempt does not work.¹³⁷ Staff argues that while headings are not law,¹³⁸
 10 the title of A.R.S. § 40-301, "Issuance of stocks and bonds; authorized purposes," indicates the types
 11 of instruments the Arizona Legislature intended to be governed by the provision.¹³⁹ Staff states that
 12 the Infrastructure Agreement is not a stock or bond, but an agreement that provides terms and
 13 conditions of service, as well as refund obligations.¹⁴⁰ Staff does not believe that the Agreement and
 14 associated agreements constitute "evidence of indebtedness."¹⁴¹ Staff also points out that while the
 15 Council would use the Company's failure to obtain Commission approval under A.R.S. §§ 40-301 to
 16 303 to permanently exclude the full amount of the refund payments from rate base, the Council fails
 17 to explain how it reconciles this position with the fact that the Company sought Commission
 18 approval on several occasions but was unsuccessful in obtaining it.¹⁴² Staff argues that taking the
 19 Council's interpretation of A.R.S. §§ 40-301 to 303 to its logical conclusion would mean that any
 20 contract that a utility enters into that requires the payment of money over a term would require prior
 21 Commission approval.¹⁴³ Staff agrees with the Company's observation that if the Commission were
 22 to adopt the Council's interpretation of A.R.S. §§ 40-301 to 303, then nearly every existing main
 23 extension and line extension agreement in the State of Arizona would become invalid, and the

24 ¹³⁵ Co. Br. at 25.

25 ¹³⁶ *Id.*

26 ¹³⁷ Staff Br. at 14.

27 ¹³⁸ *Id.*, referring to A.R.S. § 1-212.

28 ¹³⁹ Staff Br. at 14.

¹⁴⁰ Staff Br. at 14; Staff Reply Br. at 5.

¹⁴¹ Staff Reply Br. at 5.

¹⁴² *Id.*

¹⁴³ Staff Br. at 14-15.

1
2 Commission would be inundated with agreements that could potentially qualify as “other evidences
3 of indebtedness.”¹⁴⁴

4 RUCO states that whether the Infrastructure Agreement is an evidence of indebtedness is
5 academic at this point, and that the “right and fair thing” is to allow the Company to recover the
6 refunds it made.¹⁴⁵

7 We agree with Staff that the Infrastructure Agreement is not a stock or bond, but an
8 agreement that provides terms and conditions of service, as well as refund obligations, and that its
9 approval under A.R.S. §§ 40-301 to 303 was not necessary. As the Company states, agreements
10 such as the Infrastructure Agreement are not designed for the purpose of building up the utility’s
11 general and permanent capital structure like an issuance of stock, but rather serve the specific and
12 limited purpose of placing the risks of development on the developer rather than the public utility, as
13 the Infrastructure Agreement did in this case. We find that it was reasonable for Arizona-American
14 not to seek approval under A.R.S. §§ 40-301 to 303 in reliance on the Commission’s past practice of
15 not requiring prior approval under that statute for this type of agreement, as well as on the
16 Commission’s past Decisions declining to approve or disapprove the Infrastructure Agreement. We
17 are not persuaded by the Council’s arguments that the Company’s 2007 and 2008 repayment of
18 advances to Pulte pursuant to the Infrastructure Agreement should be excluded from rate base and
19 receive no ratemaking recognition because the Infrastructure Agreement constitutes “evidence of
20 indebtedness” and is void because the Company failed to obtain Commission approval thereof
21 pursuant to A.R.S. §§ 40-301 to 303.

22 b. A.A.C. R14-2-406

23 The Council argues that if the Infrastructure Agreement is not “evidence of indebtedness”
24 that it is a main extension agreement as contemplated by A.A.C. R14-2-406. Based on the fact that
25 the Company did not obtain Commission approval of the Infrastructure Agreement pursuant to
26 A.A.C. R14-2-406, the Council requests that the Company’s 2007 and 2008 repayment of advances
27

28 ¹⁴⁴ Staff Reply Br. at 6.

¹⁴⁵ RUCO Br. at 41.

1 totaling \$23,294,422 by Arizona-American to Pulte pursuant to the Infrastructure Agreement be
2 excluded from rate base and receive no ratemaking recognition.

3
4 The Commission has on multiple occasions had requests for approval of the Infrastructure
5 Agreement, but has declined to approve or disapprove it. The Company argues that in fairness, the
6 Commission's determination that approval was not required cannot now serve as a basis for
7 disallowing the Pulte refund payments.¹⁴⁶ The Company further argues that even assuming, for the
8 sake of argument, that approval of the Infrastructure Agreement should have been obtained under
9 A.A.C. R14-2-406, that failure to obtain approval would not provide a basis for excluding the refund
10 payments from rate base. The Company states that the main extension rule's specific remedy for
11 failing to obtain necessary approval is that the refundable advance shall be immediately due and
12 payable to the person making the advance, a condition that has already been met in this case, as the
13 Company has satisfied its repayment obligations to Pulte.¹⁴⁷

14 RUCO states that the Infrastructure Agreement does not meet the requirements for a main
15 extension agreement, and for the reasons the Commission provided in Decision No. 64897, does not
16 require Commission approval under A.A.C. R14-2-406.¹⁴⁸

17 Staff states that the Commission has treated the Infrastructure Agreement somewhat like a
18 main extension agreement, by treating the prior refund payments as AIAC, but that the Commission
19 has never approved the Infrastructure Agreement, even though the Company has sought approval.¹⁴⁹
20 Staff argues that equitable considerations strongly weigh against the Commission taking the harsh

21
22 ¹⁴⁶ Co. Br. at 25; Co. Reply Br. at 12-13.

¹⁴⁷ Co Br. at 26; Co. Reply Br. at 13. R14-2-406 (M) provides as follows:

23 M. All agreements under this rule shall be filed with and approved by the Utilities Division of the Commission. No
24 agreement shall be approved unless accompanied by a Certificate of Approval to Construct as issued by the Arizona
25 Department of Health Services. Where agreements for main extensions are not filed and approved by the Utilities
26 Division, the refundable advance shall be immediately due and payable to the person making the advance.

¹⁴⁸ RUCO Reply Br. at 16; RUCO Br. at 37-40, citing the following:

26 There are other reasons for declining to approve the Infrastructure Agreement in this proceeding. Staff points out that the
27 Agreement is a private contract between the Companies and a third party developer that contains "unequal refunding structures,
28 cost caps, priority services, and penalties" that may be inconsistent with the Commission's standards (Staff Report at 3).
According to Staff, the Infrastructure Agreement does not require the Commission's approval and, by not making a determination
regarding the Agreement, the Commission "protects its rights to set rates and conditions it deems necessary to protect the public
interest" (*Id.*).

Decision No. 64897 at 6.

¹⁴⁹ Staff Br. at 15.

1 action proposed by the Council, and recommends that the proposal be disregarded.¹⁵⁰ Staff explains
 2 that under the Commission's main extension rules, if a utility does not obtain Commission approval
 3 of a main extension agreement, the remedy is to require the utility to refund all of the money
 4 advanced, and that the main extension rules do not require the disallowance of plant.¹⁵¹ Staff's
 5 position is that the plant has been found to be used and useful, and Staff believes it would be
 6 inequitable now to penalize the Company as the Council suggests for not obtaining approval of the
 7 Agreement, when it had sought such approval on several occasions.¹⁵²

8
 9 The Council acknowledged in its Closing Brief that A.A.C. R14-2-406 requires advances
 10 made under the provisions of an unapproved agreement to be refunded.¹⁵³ The Council did not
 11 respond in its Reply Brief to the arguments presented by the Company, RUCO and Staff regarding
 12 the effects of A.A.C. R14-2-406 on the Infrastructure Agreement,

13 As Staff points out, Arizona-American (or its predecessor) sought approval of the
 14 Infrastructure Agreement and various associated agreements several times, but because the
 15 agreements went well beyond the typical main extension agreement, the Commission did not
 16 approve what amounted to private agreements between the parties. The Company has refunded all
 17 the advances under the Infrastructure Agreement, which is the remedy provided under A.A.C. R14-
 18 2-406 for failure to obtain approval of a main extension agreement. We find that the fact that the
 19 Company did not obtain approval of the Infrastructure Agreement pursuant to A.A.C. R14-2-406
 20 does not provide a valid basis for excluding the refund payments from rate base.

21 c. Reasonableness of the Refund Payments

22 In the alternative to its arguments under A.R.S. §§ 40-301 to 303 A.A.C. and R14-2-406, the
 23 Council argues that any portion of the disputed refund payments that has not been shown by
 24 Arizona-American to be reasonable and proper should be permanently excluded from rate base and
 25 denied any rate base recognition.¹⁵⁴

26 ¹⁵⁰ *Id.*; Staff Reply Br. at 6.

27 ¹⁵¹ Staff Br. at 15.

¹⁵² *Id.*

¹⁵³ Council Br. at 5-6.

28 ¹⁵⁴ Council Reply Br. at 7.

1
2 In response to the concern expressed by several parties that there is a degree of unfairness in
3 asking Anthem residents to bear the full amount of the balloon payment in rates at this time, Staff
4 states that if there is any issue presented regarding the balloon payment, it is one of
5 reasonableness.¹⁵⁵ Staff states that it is mindful of the evidence in the record that suggests that an
6 agreement to refund the entire advance to Pulte may not have been typical of main extension
7 agreements entered into at that time,¹⁵⁶ and other evidence that suggests that the Anthem build-out
8 occurred much sooner than expected.¹⁵⁷ Staff states that should the Commission desire to balance
9 the equities and interests of the ratepayers and stockholders, the Commission could give some
10 recognition to those facts in the record which question the reasonableness of the original build-out
11 projections and the Agreement itself.¹⁵⁸

12 The Council states that evidence introduced in the two latest hearings involving Anthem
13 suggest that the Company was aware that the accelerated build-out of the Anthem community ten
14 years ahead of schedule could require the balloon payment to become due in 2007, with payment
15 showing up in the Company's rates years in advance of the dates indicated to the Commission in the
16 1998 CC&N proceedings;¹⁵⁹ and that the Company was aware that Citizens' agreement to refund
17 100 percent of developer-funded development costs apparently deviated from the usual practice of
18 developers to include approximately 50 percent of development costs in home prices.¹⁶⁰

19 The Company disagrees with the Council's allegation that it agreed to refund 100 percent of
20 developer advances for the Anthem infrastructure. Rather, the Company asserts, the total amount of
21 reimbursement to Pulte approximates only 71 percent of Pulte's total investment in the Anthem
22 water and wastewater infrastructure and when interest is factored in, the amount of reimbursement
23 drops to only approximately 55 percent.¹⁶¹

24 The Company contends that it was not unreasonable, imprudent or improper for Citizens and

25 ¹⁵⁵ Staff Br. at 16.

¹⁵⁶ *Id.*, citing to Exhibit S-2.

26 ¹⁵⁷ Staff Br. at 16, citing to Exhibit S-1.

¹⁵⁸ Staff Br. at 16; Staff Reply Br. at 7-8.

27 ¹⁵⁹ Council Br. at 6, citing to Exh. S-1 at 2 and Exh. S-2.

¹⁶⁰ Council Br. at 8, citing to Exh. S-1 at 2.

28 ¹⁶¹ Co. Reply Br. at 14, citing to Phase I Tr. at 415; Docket No. WS-01303A-06-0403 Tr. at 983-84 (testimony of Pulte witness Daniel Christopher Ward), Tr. at 1118 (testimony of Paul Townsley), and Exhibit P-7.

1
2 Arizona-American to rely on the Commission's Decisions declining to approve or disapprove the
3 Infrastructure Agreement, and proceed to make refund payments.¹⁶² The Council asserts that the
4 facts do not support Arizona-American's claim that equitable estoppel applies.¹⁶³ The Council
5 argues that assuming, *arguendo*, that the estoppel doctrine applies in this instance,¹⁶⁴ Arizona-
6 American cannot claim that it made the refunds in reasonable reliance on the Commission's words
7 or actions, because the attempts to obtain Commission approval of the Infrastructure Agreement
8 indicate the existence of a belief that Commission approval was necessary, and Arizona-American
9 knew that the Commission had never approved the Infrastructure Agreement.¹⁶⁵ The Council asserts
10 that Arizona-American knew there was a possibility that the Commission would not allow
11 ratemaking recognition of the refunds, citing to language in the Fourth Amendment stating that
12 "[t]he ACC's decision regarding rate treatment for any amounts refunded pursuant to the previous
13 agreement or other amounts included in this Fourth Amendment shall not affect the terms in this
14 Fourth Amendment."¹⁶⁶ The Council further asserts that Arizona-American knew that the
15 Commission had left the status of the reasonableness of the Infrastructure Agreement refund
16 provisions as an open question in Arizona-American's last rate case involving the Anthem
17 districts.¹⁶⁷ The Council takes the position that "it would be unfair and against the public interest to
18 require Anthem residents to shoulder the burden of AAWC's imprudent decision to enter into a
19 questionable financing arrangement and to pay the Disputed Refund Payments particularly, where
20 the Commission's previously expressed discomfort with the Infrastructure Agreement provided
21 adequate advance notice to AAWC that the Disputed Refund Payments were vulnerable to the
22 prospect of disallowance in AAWC's future rate cases."¹⁶⁸

23 ¹⁶² Co. Br. at 25, fn 123.

24 ¹⁶³ Council Reply Br. at 8.

25 ¹⁶⁴ Council Reply Br. at 7-8, referring to the elements of equitable estoppel listed by the Company in its Closing Brief at
26 25, fn 122 where the Company argues that equitable estoppel applies where three elements are present: (1) a party
engages in acts inconsistent with a position it later adopts, (2) reasonable reliance by the other party, and (3) injury to the
latter resulting from the former's repudiation of its prior conduct. *Valencia Energy* at 567-77. The Company further
argues that equitable estoppel may be maintained against a governmental entity as long as its application "will not
substantially and adversely affect the exercise of governmental powers," citing to *Valencia Energy* at 576-78.

27 ¹⁶⁵ Council Reply Br. at 8, citing to Phase I Tr. at 377-78.

28 ¹⁶⁶ Council Reply Br. at 8, citing to Phase I Tr. at 359.

¹⁶⁷ Council Reply Br. at 8, citing to Phase I Tr. at 353, 281-82, 285-86.

¹⁶⁸ Council Reply Br. at 8.

1
2 The Company asserts that the refund payments provided for in the Infrastructure Agreement
3 are reasonable, and that there is no evidence to suggest that the plant is not prudent.¹⁶⁹ Arizona-
4 American contends that the Pulte refund payments, which represent its reasonable investment in
5 used and useful plant, should be allowed in rate base.¹⁷⁰ The Company states that the Anthem
6 system was an expensive one to build, serving a unique community located in a relatively less
7 populated area well to the north of Phoenix.¹⁷¹ The Company points to the fact that both RUCO and
8 Staff recognize that all the plant is used and useful, and that its infrastructure costs are a legitimate
9 cost of service that should be recovered.¹⁷²

10 RUCO believes that by having allowed the Company to recover eligible refunds in past
11 Decisions, the Commission has sent the message that the Commission approves of the Company's
12 recovery of the refunds, and it would therefore be unfair to deny recovery of the refunds now.¹⁷³
13 RUCO states that there is no evidence in the record questioning the reasonableness of the repayment
14 amounts; and nothing in the record alleging that the assets built by the Pulte funds are not used and
15 useful.¹⁷⁴ RUCO contends that for the Commission to change its direction on the recovery of
16 refunds, some of which it has already allowed, would be unfair as a matter of equity.¹⁷⁵

17 d. Analysis

18 In Decision No. 73072, we stated that our determination in that case was not intended to
19 have any bearing on our determination in any subsequent case filed by the Company for the Anthem
20 districts regarding the reasonableness of the Company's agreement to refund to Pulte almost all of
21 the costs required to construct Anthem's infrastructure.¹⁷⁶ In that case, the Council recommended
22 that in order to lessen the rate impacts of the remaining Pulte payments, the Company be required to
23 file its next rate case for the districts prior to refunding the last 25 percent of the reduced true-up
24

25 ¹⁶⁹ Co. Reply Br. at 14.

¹⁷⁰ *Id.*

¹⁷¹ *Id.*

¹⁷² *Id.*

¹⁷³ RUCO Br. at 41.

¹⁷⁴ RUCO Reply Br. at 16.

¹⁷⁵ *Id.*

¹⁷⁶ Decision No. 73072 at 43.

1 payment that the Company had negotiated with Pulte in the Fourth Amendment.¹⁷⁷ Decision No.
2 73072 adopted the Council's suggestion, and the Company has complied with the Decision.
3

4 The Council now urges that any portion of the disputed refund payments that has not been
5 shown by Arizona-American to be reasonable and proper should be permanently excluded from rate
6 base and denied any rate base recognition. However, we can find no evidence in the record of this
7 proceeding that the refund payments, which paid for infrastructure that is used and useful and
8 necessary in the provision of service to the districts, were not reasonable and proper. No party
9 disputed the fact that the Anthem system was an expensive one to build, that all the plant is used and
10 useful, and that the infrastructure costs are a legitimate cost of service. No party disputed the
11 evidence that Arizona-American refunded to Pulte approximately 71 percent of Pulte's total
12 investment in the Anthem water and wastewater infrastructure and that when interest is factored in,
13 the amount of reimbursement drops to only approximately 55 percent.

14 In Decision No. 64897, the Commission recognized that the Infrastructure Agreement
15 contained unequal refunding structures, cost caps, priority services, and penalties that may be
16 inconsistent with the Commission's standards.¹⁷⁸ While there was significant dispute in this
17 proceeding regarding whether the Infrastructure Agreement required Commission approval, no party
18 has demonstrated that any elements of the Infrastructure Agreement which led the Commission to
19 decline to approve it on several occasions were actually, in practice, unreasonable or improper.

20 The record evidence does not support a disallowance of Arizona-American's prudently made
21 equity investments in the infrastructure required to provide reasonable and adequate water and
22 wastewater utility service to the Anthem districts. In conformance with the fundamental ratemaking
23 principle that a public utility must be allowed an opportunity to earn a reasonable return on its
24 prudent investments, the equity investment that the Company made in the Anthem districts'
25 infrastructure in the form of advance refunds will be allowed in rate base.
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28 ¹⁷⁷ See Decision No. 70372 at 40, citing to the Council's suggestion in its Reply Brief.

¹⁷⁸ Decision No. 64897 at 6.

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2 4. Proposed "Phase-In" Plans

3 a. Council's Phase-In Proposals

4 The Council urges that if the refund payments are recognized, that a phase-in plan should be
5 adopted in regard to the water and wastewater plant associated with the 2007 and 2008 Pulte
6 refunds.¹⁷⁹ The Council argues that a phase-in plan is appropriate considering the controversy
7 surrounding the refund payments, the need to mitigate rate shock for Anthem ratepayers, and
8 because Arizona-American benefitted from the interest-free use of the plant financed with AIAC for
9 many years.¹⁸⁰

10 Under the Council's proposed "ratable plant transfer plan," water and wastewater plant and
11 related accumulated depreciation associated with the 2007 and 2008 Pulte refunds would be
12 removed from plant in service for purposes of ratemaking in this proceeding.¹⁸¹ The Company
13 would be required to file future rate cases to recover the transferred amounts in rates.¹⁸² The net
14 plant would be "parked" or deferred as plant held for future use and then transferred into plant in
15 service ratably over the five year period of 2009 through 2013, with the transfer of 40 percent or \$8
16 million of the aggregate 2007 and 2008 Pulte refunds to plant in 2010, conceivably allowing the
17 Company to earn a return on that portion of the 2007 and 2008 Pulte refunds by the year 2012,
18 depending on rate case timing.¹⁸³ Under the ratable plant transfer plan, 80 percent or \$16 million of
19 the aggregate 2007 and 2008 refunds would become eligible for ratemaking recognition by the end
20 of 2012, thereby enabling the Company to be earning a return on the bulk of the 2007 and 2008
21 Pulte refunds by the year 2014, depending on rate case timing.¹⁸⁴ The Council explains that the
22 2010 Pulte refund would be accorded the same treatment under the plan, but transferred to plant in
23 service over the five year period of 2011 through 2015, and that depreciation on all the refunds
24 would be stayed as reclassified to plant in service.¹⁸⁵ The Council explained that for accounting

25 ¹⁷⁹ Council Br. at 9; Council Reply Br. at 8-9.

26 ¹⁸⁰ Council Reply Br. at 13.

27 ¹⁸¹ Council Br. at 9.

28 ¹⁸² Direct Testimony of Council witness Dan Neidlinger Exh. Anthem-1; Exh. A-45 at 2-3.

¹⁸³ Council Br. at 9, citing to Direct Testimony of Council witness Dan Neidlinger (Exh. Anthem-1) at 4; Surrebuttal Testimony of Council witness Dan Neidlinger (Exh. Anthem-3) at 3.

¹⁸⁴ Council Br. at 9.

¹⁸⁵ Council Br. at 9, citing to Direct Testimony of Council witness Dan Neidlinger (Exh. Anthem-1) at 4.

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2 purposes, since the AIAC was used to fund infrastructure recorded in many separate plant accounts,
3 it believes the most efficient accounting would be the establishment of two contra control plant
4 accounts: one for gross utility plant and one for accumulated depreciation, and that the offsetting
5 entries for both gross plant and accumulated depreciation would be recorded in separate plant held
6 for future use accounts.¹⁸⁶ Accumulated depreciation would be based on overall accumulated
7 depreciation percentages at December 31, 2008, at 14.93 percent for water plant and 17.38 percent
8 for wastewater plant.¹⁸⁷

9 The Company believes that the Council's phase-in proposal would be subject to Accounting
10 Standards Codification ("ASC") 980-340 (formerly Statement of Financial Accounting Standards
11 ("SFAS") 92) pertaining to Phase-In Plans and ASC 980-360 (formerly SFAS 90) pertaining to
12 Plant Disallowances,¹⁸⁸ and that in accordance with those accounting guidelines, the phase-in
13 proposal would require a substantial write off of the plant, resulting in severe financial consequences
14 for the Company.¹⁸⁹

15 The Council disagrees. The Council argues that because under Mr. Neidlinger's plan
16 Arizona-American can eventually recover all the costs of the Anthem plant associated with the 2007
17 and 2008 refunds, it is not probable that part of the cost of the plant will be disallowed for
18 ratemaking purposes, and therefore the Company's asserted SFAS 90 concerns do not apply.¹⁹⁰ The
19 Council's witness Mr. Arndt testified to his belief that SFAS 92 is not an impediment to the
20 Commission's adoption of Mr. Neidlinger's ratable transfer plan, and that SFAS 90 does not address
21 refunds relating to prior AIACs.¹⁹¹ In the opinion of the Council's witness, because Arizona-
22 American has not abandoned any water or wastewater plant in this case, and Mr. Neidlinger's
23 ratable plant transfer proposal does not contemplate or require a disallowance of utility plant, SFAS
24 90 does not apply.¹⁹² Mr. Arndt also opined that for purposes of the American Water's consolidated

25 ¹⁸⁶ Council Br. at 9.

26 ¹⁸⁷ *Id.* at 9-10, citing to Direct Testimony of Council witness Dan Neidlinger (Exh. Anthem-1) at 4-5.

27 ¹⁸⁸ Redacted Testimony of Company witness James Jenkins (Exh. A-45) at 1, 3.

28 ¹⁸⁹ Phase I Tr. at 18.

¹⁹⁰ Council Reply Br. at 10.

¹⁹¹ Co. Br. at 11, citing to Direct Testimony of Council witness Michael L. Arndt (Exh. Anthem-13) at 6, 7-8.

¹⁹² Direct Testimony of Council witness Michael L. Arndt (Exh. Anthem-13) at 9.

1 financial statements, any adjustment that Arizona-American elected as a result of a phase-in plan
 2 could be supported by disclosure notes explaining the Commission's adoption of the ratable transfer
 3 plan, and that "[i]f properly reported, the notes would not suggest that the Commission had
 4 'disallowed' the 2008 \$20.2 million refund payment to Pulte Homes, nor would the plant be
 5 characterized as 'abandoned.'"¹⁹³ Mr. Neidlinger testified that SFAS 92 is not applicable in this
 6 case because the amount of plant involved is not material to American Water's consolidated plant
 7 balance.¹⁹⁴

8
 9 The Council states that as an alternative to its proposed ratable plant transfer plan, the
 10 Commission could allow Arizona-American to include the full amount of the 2008 refund in rate
 11 base, but order a phase-in of recognition of the rate of return on it, beginning with this case.¹⁹⁵ The
 12 Council argues that this approach would allow the Company to realize an immediate return on its
 13 Anthem plant investments while recognizing that it has benefitted from the interest-free use of plant
 14 financed with AIAC for many years.¹⁹⁶

15 b. Company's Response

16 The Company opposes both the Council's phase-in proposals. In regard to the alternate
 17 proposal, the Company contends that the Council's argument that the Company has enjoyed
 18 "interest free use of the plant financed with AIAC for many years" ignores the fact that the use of
 19 AIAC to fund the plant has allowed the Anthem community to enjoy interest-free use of this plant
 20 since 1998 without full recognition of the used and useful plant in rate base.¹⁹⁷

21 In regard to the Council's proposed ratable plant transfer plan, the Company's witness Mr.
 22 James Jenkins, who is the Company's Vice President, Finance for American Water's Western
 23 Division, testified that he is not aware of a phase-in plan of the type proposed by the Council being
 24 approved by any Commission in any state in which American Water's affiliates operate.¹⁹⁸ As

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 26 ¹⁹³ *Id.* at 9-10.

¹⁹⁴ Phase I Tr. at 846-48.

¹⁹⁵ Council Br. at 12.

¹⁹⁶ *Id.*

¹⁹⁷ Co. Reply Br. at 8.

¹⁹⁸ Phase I Tr. at 515-16.

1 stated above, the Company believes that the Council's phase-in proposal would be subject to ASC
 2 980-340 (formerly SFAS 92) pertaining to Phase-In Plans and ASC 980-360 (formerly SFAS 90)
 3 pertaining to Plant Disallowances,¹⁹⁹ and that in accordance with those accounting guidelines, the
 4 phase-in proposal would require a substantial write off of the plant, and would result in severe
 5 financial consequences for the Company.²⁰⁰

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 7 The Company contends that the testimony of the Council's witness Mr. Neidlinger on the
 8 accounting implications of the Council's phase-in plan was not credible, because as Mr. Neidlinger
 9 conceded, he has no direct experience in applying FAS 92, has not addressed the issue in the role of
 10 an auditor, and has never advised any public utilities with regard to the application of FAS 92.²⁰¹ In
 11 regard to the testimony of the Council's witnesses Mr. Arndt on the accounting implications of the
 12 Council's phase-in plan, the Company contends that his testimony was also not credible, because
 13 despite the clear language of the accounting guidelines relied upon by the Company's witness Mr.
 14 Jenkins,²⁰² Mr. Arndt testified that the accounting provisions to do not apply to plant constructed
 15 after 1988, or to water or wastewater utilities.²⁰³ The Company argues that ultimately, however, the
 16 most telling evidence is that both Mr. Neidlinger and Mr. Arndt conceded that it is the Company that
 17 would make the decision regarding the accounting treatment of the Council's phase-in proposal.²⁰⁴

18 The Company states that putting aside the accounting implications of the Council's proposed
 19 phase-in plan, the fundamental effect of the plan would be to deny the Company a return on and of
 20 its investment, in violation of the law.²⁰⁵ The Company argues that the Council's phase-in plan does
 21 not recommend applying any carrying costs and would not make the Company whole in the present
 22 value sense, and that given the Company's current financial position, it cannot agree to a phase-in of
 23 plant as proposed by the Council, or any phase-in plan that delays its authorized revenue increase.²⁰⁶

24 ¹⁹⁹ Redacted Testimony of Company witness James Jenkins (Exh. A-45) at 1, 3.

25 ²⁰⁰ Phase I Tr. at 18.

26 ²⁰¹ Co. Br. at 18, citing to Phase I Tr. at 882-83.

27 ²⁰² Co. Br. at 18, citing to Exh. A-46 at ¶ 4 (describing application of FAS 92).

28 ²⁰³ Co. Br. at 18, citing to Direct Testimony of Council witness Michael Arndt (Exh. Anthem-13) at 6-7; Phase II Tr. at 610-18; Exh. A-46.

²⁰⁴ Co. Br. at 18, citing to Phase II Tr. at 622-23 and Phase I Tr. at 888.

²⁰⁵ Co. Br. at 19.

²⁰⁶ Co. Br. at 19.

1 The Company states that any type of phase-in plan would require the Company to forego revenue on
2 plant that the Commission has found to be in rate base.²⁰⁷ The Company states that as RUCO's
3 witness testified, phase-in plans ultimately have a detrimental effect on ratepayers, as the Company
4 is entitled to receive its authorized revenue at a later date, which results in higher rates following the
5 phase-in.²⁰⁸

6
7 c. RUCO's Withdrawal of its Alternate Phase-In Proposal

8 On October 1, 2010, RUCO docketed a Notice of Filing Withdrawal of Phase-In Proposal.
9 In its Closing Brief, RUCO expressed concerns about the impact on the Anthem ratepayers that
10 would result should the Commission allow full and immediate recovery of the Pulte refunds, and
11 had proposed an alternate phase-in rate design proposal which would allow for recovery of the
12 refunds over a ten year period of time.²⁰⁹ Staff, in its Reply Brief, stated that conceptually it did not
13 have a problem with most aspects of the RUCO proposal, but that in the event the Commission
14 decided to adopt it, Staff recommended several changes.²¹⁰ Staff pointed out several critical issues
15 the proposal had not addressed.²¹¹

16 RUCO stated in its October 1, 2010 filing that in making its alternate phase-in rate design
17 proposal, RUCO initially believed it would provide a rate design option that would ameliorate the
18 impact of the rate increase for Anthem customers. RUCO explained in its filing that subsequent to
19 filing its Closing Brief, RUCO invited interested parties to go over the relevant numbers, and that
20 during the course of those meetings, it became apparent to RUCO that due to carrying costs and
21 other costs that allow the Company full recovery of its revenue requirement, no version of RUCO's
22 proposal, or modification to it, would actually result in a rate design more beneficial to Anthem
23 ratepayers than RUCO's stand-alone rate design. RUCO stated that it withdraws its alternate phase-
24 in proposal for that reason.

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26 ²⁰⁷ *Id.*, citing to Rate Design Direct Testimony of RUCO witness Rodney Moore (Exh. R-13) at 5; Phase II Tr. at 728-29.

27 ²⁰⁸ Co. Br. at 19, citing to Phase II Tr. at 729-30.

28 ²⁰⁹ RUCO Br. at 41-43.

²¹⁰ Staff Reply Br. at 8-9.

²¹¹ *Id.* at 9.

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d. Staff's Position

Staff does not support the Council's proposal to phase-in the refunds to rate base over time.²¹² Staff states that it does not support the proposal because the record is not clear what impacts it would have on the Company and what accounting treatment it would necessitate.²¹³ Staff stated that while the Council disagrees with the Company's position regarding SFAS 92 pertaining to Phase-In Plans and SFAS 90 pertaining to Plant Disallowances, in the end it is ultimately the Company and its auditors that must make the determination, and therefore, the Council's opinion may be of little import in the matter.²¹⁴

e. Analysis

In its Reply Brief, the Council disputes the Company's claim that severe financial consequences would result if the Company elects to write off the 2007 and 2008 refunds, charging that the claims are "exaggerated and unsubstantiated" because in 2009, the Company recorded positive net income; that in 2009, the Company indicated that it had sufficient revenue to cover its expected debt service payments; and because the Company is wholly-owned by the largest investor-owned water and wastewater utility in the United States.²¹⁵ While the Council argues that a phase-in plan is appropriate considering the controversy surrounding the refund payments, the need to mitigate rate shock for Anthem ratepayers, and the fact that Arizona-American benefitted from the interest-free use of the plant financed with AIAC for many years, the Council's arguments fail to address how the phase-in will allow the Company an opportunity to earn a return on and of its equity investment in the used and useful plant necessary to provide reasonable and adequate service to the Anthem districts. The Council's arguments also fail to take into account the fact that the Company's use of AIAC to fund the plant has allowed the Anthem districts to enjoy interest-free use of the AIAC-funded used and useful plant for many years, without full recognition of that plant in rates.

As RUCO recognized in withdrawing its well-considered phase-in plan, such plans

27 ²¹² Staff Reply Br. at 6.

²¹³ *Id.*

²¹⁴ Staff Reply Br. at 6-7.

28 ²¹⁵ Council Reply Br. at 10.

ultimately have a detrimental effect on ratepayers, because ratemaking principles require that utilities receive authorized revenue at a later date. Unless a utility voluntarily agrees to forego its authorized revenues, phase-in plans ultimately result in higher rates following the phase-in, due to the need for recovery of carrying costs that allow the Company full recovery of its revenue requirement. The Company has not agreed to forego authorized revenues in this proceeding. After careful consideration, RUCO determined that no version of RUCO's proposal, or modification to it, would actually result in a rate design more beneficial to Anthem ratepayers than RUCO's stand-alone rate design. For the same reasons, we must decline to approve the Council's phase-in proposals.

G. Fair Value Rate Base Summary

Applicants did not prepare schedules showing the elements of Reconstruction Cost New Rate Base ("RCND"),²¹⁶ and thereby waived a determination of the fair value of its property using an RCND valuation. Therefore, the Original Cost Rate Base ("OCRB") and the Fair Value Rate Base ("FVRB") for the districts are the same for purposes of this application. Based on the discussion of rate base issues set forth above, we find the FVRB for each district to be as follows:

Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
\$57,248,934	\$28,192,680	\$45,115,225	\$15,488,742	\$18,098,487

IV. OPERATING INCOME

A. Proposed Test Year Operating Income

The parties propose adjusted test year operating income by district as follows:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Company	\$528,986	\$898,210	\$67,162	\$(67,374)	\$397,489
Staff	\$545,925	\$906,189	\$210,381	\$65,615	\$404,542
RUCO	\$684,046	\$1,371,776	\$16,411	\$75,904	\$763,200

²¹⁶ Direct Testimony of Company witness Linda Gutowski (Exh. A-17) at 2.

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B. Test Year Revenues

Adjusted test year revenues were not contested, and are as follows by district:

Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
\$7,492,744	\$9,283,101	\$8,637,123	\$5,940,381	\$5,661,710

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C. Test Year Operating Expenses

The parties propose adjusted test year operating expenses by district as follows:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Company	\$6,963,758	\$8,384,892	\$8,569,840	\$6,008,401	\$5,264,220
Staff	\$6,946,819	\$8,376,912	\$8,426,742	\$5,874,766	\$5,257,168
RUCO	\$6,808,685	\$7,911,325	\$8,620,712	\$5,864,477	\$4,898,510

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The parties were able to resolve many disputed operating expense issues. Issues remaining in dispute are addressed below.

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1. Pension Expense (All Districts)

By district, the parties' final schedules show the following recommended amounts for test year pension expense:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Company	\$119,955	\$269,873	\$240,306	\$86,994	\$159,930
Staff	\$119,955	\$269,873	\$240,306	\$64,196	\$159,931
RUCO	\$48,320	\$115,594	\$115,351	\$38,661	\$75,664

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The Company utilized 2009 ERISA based pension expense amounts, totaling approximately \$2.09 million, as the most appropriate known and measurable calculation of this expense item.²¹⁷ The Company states that its 2009 pension expense is known and measurable and reflects its actual

²¹⁷ Co. Reply Br. at 15, citing to Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 10 and Rebuttal Testimony of Company witness Miles Kiger (Exh. A-14) at 14-15.

1 expense, based on the Company's minimum contributions required by law.²¹⁸ The Company asserts
 2 that its actual pension expense remained high in 2010 and that the Company expects pension
 3 expense to continue to increase in the near future, and remain at levels near the current level
 4 thereafter.²¹⁹

5 RUCO states that the Company's 2009 pension expense amount is abnormally high whether
 6 it is measured under ERISA or FAS 87 accounting method, and recommends that recovery based on
 7 2009 amounts be denied.²²⁰ RUCO advocates that instead of using the 2009 ERISA amount of
 8 pension expense, that the Company's pension expense be based instead on the 2008 test year FAS
 9 87 amount of \$958,949.²²¹ RUCO asserts that the ERISA method of accounting for pension expense
 10 provides for a wide amount of management discretion on how to fund the plan each year, and that
 11 FAS 87 provides for funding amounts that are consistent with GAAP.²²² RUCO argues that use of
 12 FAS 87 accounting for pension expense is appropriate because it is the pension expense accounting
 13 method used by American Water.²²³

14 The Company responds that while its management does have some discretion in relation to
 15 pension funding, it does not have discretion to fund at levels below the minimum ERISA based
 16 amounts.²²⁴ The Company objects to RUCO's recommendation to use of a FAS 87 based amount of
 17 pension expense, because for ratemaking purposes, the Company is ERISA based in its accounting
 18 for pension expense.²²⁵ The Company states that it is not seeking to transition to FAS 87 accounting
 19 in this case, but that if the Commission wishes it to transition to FAS 87 as recommended by RUCO,
 20 then it would be necessary for the Commission to order the Company to use FAS 87, and to identify
 21

22 ²¹⁸ Phase I Tr. at 137-38; Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 10.

23 ²¹⁹ Co. Br. at 27, citing to Exh. A-25. Exh. A-25, provided at the hearing, shows the Company's projected ERISA based
 24 minimum contributions to be as follows:

<u>Actual 2010 Contribution</u>	<u>Projected 2011 Minimum Contribution</u>	<u>Projected 2012 Minimum Contribution</u>	<u>Projected 2013 Minimum Contribution</u>	<u>Projected 2014 Minimum Contribution</u>
\$2.062M	\$2.591M	\$2.794M	\$2.147M	\$2.034M

25 ²²⁰ RUCO Br. at 17.

26 ²²¹ *Id.* at 14.

27 ²²² *Id.* at 16, citing to Phase I Tr. at 919.

28 ²²³ RUCO Reply Br. at 8, citing to Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 82.

²²⁴ Phase I Tr. at 137-38; Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 10.

²²⁵ Co. Br. at 28, citing to Phase I Tr. at 139-40.

1 the specific FAS 87 amount for ratemaking purposes.²²⁶ The Company explained that in the event it
 2 is ordered to transition from ERISA to FAS 87, the Company would request recovery of the
 3 accumulated difference between FAS 87 based and ERISA based accounting for pension expense
 4 that is on the Company's books, and that the amounts be amortized over a period of five years.²²⁷
 5 The Company's witness noted that because FAS 87 amounts have historically exceeded ERISA
 6 amounts, the Company has regulatory assets on its balance sheet in two accounts for the
 7 accumulated amounts by which FAS 87 has exceeded ERISA, and that the balances of the two
 8 accounts as of February 28, 2010 were \$746,347 for Deferred Service Company Pension Cost and
 9 \$1,050,173 for Deferred Pension Cost for Arizona-American employees.²²⁸
 10

11 RUCO is opposed to amortization of the regulatory assets that would result from a transition
 12 from ERISA based pension expense recognition to FAS 87 based pension expense recognition
 13 because the Company has not previously requested authority for such a deferral.²²⁹

14 Consistent with Staff's recommended treatment of pension expense in the Company's prior
 15 rate case, Staff proposes no adjustment to the Company's pension expense request.²³⁰ In regard to
 16 RUCO's recommendation to use FAS 87 amounts, Staff expressed concern that a full record
 17 regarding the costs to transition from ERISA to FAS 87 has not been developed.²³¹

18 The dramatic increase in pension expense experienced by the Company is a result of market
 19 forces outside the Company's control. While RUCO alleges in its Reply Brief that the Company
 20 designed its pension plan poorly, that the plan has been underfunded for years, and that it is tied to a
 21 market that has been subject to abnormal conditions over the past several years,²³² RUCO did not
 22 point to any evidence supporting the allegations regarding plan design or underfunding, and
 23 RUCO's witness testified that "the really poor market performance in 2008 . . . affected just about
 24 any kind of investment."²³³ We do not disagree with RUCO that the Company's management has

25 ²²⁶ Co. Br. at 29, citing to Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 13.

26 ²²⁷ Co. Br. at 29, citing to Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 14-15.

27 ²²⁸ Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 12.

28 ²²⁹ RUCO Br. at 18-20.

²³⁰ Staff Reply Br. at 4.

²³¹ *Id.*

²³² RUCO Reply Br. at 8.

²³³ Phase I Tr. at 973.

1 discretion in relation to ERISA pension funding. However, as the Company states, it does not have
2 discretion to fund at levels below the minimum ERISA based amounts for which it is seeking
3 recovery. As acknowledged by RUCO, the Company changed its plan from a defined-benefit plan
4 to a defined-contribution plan beginning January 1, 2006, which RUCO's witness agreed is a
5 reasonable way to provide retirement benefits.²³⁴ The pension expense recovery requested by the
6 Company in this proceeding is based on minimum funding required by law, and the record
7 demonstrates that Company's qualified plan contributions are projected to annually rise above 2009
8 levels through the year 2013 before moving back to the current expense level in 2014. RUCO's
9 recommendation that recovery of the Company's pension expenses be based on 2008 FAS 87
10 amounts, which are less than half of the known and measurable 2009 minimum ERISA amounts
11 accepted by Staff, would lead to under-recovery of a known and measurable expense. The 2009
12 ERISA amounts are known and measurable actual expenses incurred by the Company, and based on
13 the evidence presented, reflect a reasonable level of expenses.

14
15 We find that the pension expense amounts proposed by the Company and accepted by Staff
16 are known and measurable. Because they more accurately reflect the Company's actual operating
17 expense on a going-forward basis than the amounts advocated by RUCO, they will be adopted.

18 2. Normalization of Other Post-Employment Benefit Expenses (All Districts)

19 As with pension expense, the Company proposes other post-employment benefit ("OPEB")
20 expense based on known and measurable actual 2009 expense levels. The Company's witness
21 testified that the larger than typical 22 percent pro forma increase to the test year level of employee
22 benefits expense was driven by increased funding obligations due to the severe deterioration in
23 financial markets.²³⁵ As with pension expenses, the Company expects OPEB expenses to remain at
24 a higher level in the future and believes that the adjustment to reflect actual 2009 OPEB expense for
25 its employees and Service Company employees is appropriate.²³⁶

26 Instead of the pro forma adjustments to recognize known and measurable increases in OPEB

27 ²³⁴ RUCO Br. at 16 citing to Phase I Tr. at 982.

28 ²³⁵ Direct Testimony of Company witness Sheryl Hubbard (Exh. A-16) at 15.

²³⁶ *Id.*

1 expenses, RUCO proposes adjustments normalizing the OPEB expense using an average of 2007-
2 2008 expenses, for a reduction of \$296,761 spread across the districts in this case.²³⁷ RUCO states
3 that it proposed the adjustments because the OPEB expense, like the Company's pension expense,
4 has been affected by investment market conditions, though not as egregiously.²³⁸ RUCO argues that
5 ratepayers should not be responsible for unusually high expenses incurred outside of a test year
6 which were the result of unprecedented market conditions.²³⁹

7 Staff did not propose any similar adjustments.

8 The Company states that the same reasoning that supports the Company's pension expense
9 figures also support recovery of the Company's increased cost for OPEB expense.²⁴⁰

10 RUCO's recommendation that recovery of the Company's OPEB expenses be normalized
11 based on past years, which are known to be unrepresentative of demonstrated cost levels on a going-
12 forward basis, would lead to under-recovery of a known and measurable expense. While it is
13 lamentable that market conditions have led to the increased costs, the 2009 OPEB amounts are
14 known and measurable actual expenses incurred by the Company, and based on the evidence
15 presented, reflect a reasonable level of expenses.

16 We find that the OPEB amounts for direct employees and Service Company employees
17 proposed by the Company and accepted by Staff are known and measurable. Because they more
18 accurately reflect the Company's actual operating expense on a going-forward basis than the
19 amounts advocated by RUCO, they will be adopted.

20
21 3. Annual Incentive Plan ("AIP") for Service Company Employees

22 The Company's request includes 70 percent of Arizona-American's Arizona Corporate
23 allocated AIP management fees expenses paid to the Service Company for the districts in this
24 proceeding.

25 ²³⁷ RUCO Br. at 20-21, citing to Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 81-82; RUCO Br.
26 at 24-26, citing to Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 95; RUCO Br. at 29, citing to
27 Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 99 (\$7,206 of RUCO's proposed adjustments are
based on a three year average of 2006-2008 expenses).

28 ²³⁸ RUCO Br. at 20-21, citing to Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 82.

²³⁹ RUCO Br. at 25.

²⁴⁰ Co. Br. at 30.

1
2 RUCO proposes an adjustment that removes 100 percent of identifiable incentive
3 compensation expense included in the management fees the Company paid to the Service Company
4 during the test year.²⁴¹ Mr. Hansen believes that management fees bear far greater scrutiny; and
5 believes incentive bonuses should be disallowed; and that the Commission should also review its
6 policy on pensions.²⁴² RUCO's proposed adjustment would remove a total of \$265,853 in test year
7 operating expenses, spread across the districts in this case.²⁴³ RUCO states that its recommendation
8 differs from the 30 percent disallowance for AIP compensation approved by the Commission in
9 Decision No. 71410 last year and Decision No. 68858 (July 28, 2006). RUCO supported the 30
10 percent disallowance in the prior cases.²⁴⁴ RUCO now argues that its 100 percent proposed Service
11 Company disallowance in this case is appropriate because the award to the Service Company
12 employees is dependent upon American Water operating income and corporate financial targets.²⁴⁵
13 RUCO's witness testified that in the prior cases disallowing 30 percent, there was no distinction
14 made between AIP expense for Arizona-American's employees and the AIP expense charged to
15 Arizona-American by the Service Company for its employees.²⁴⁶ RUCO argues that "Arizona
16 ratepayers should not have to pay for incentive compensation that is tied to American Water Works
17 corporate or non-jurisdictional and non-regulated income or on non-Arizona jurisdictional
18 operations or non-regulated operations-based financial achievements."²⁴⁷

19 Staff did not make any adjustment.

20 The Company opposes RUCO's proposal to completely disallow AIP for Service Company
21 employees. The Company argues that the Commission should not treat AIP costs for Service
22 Company employees differently simply because these employees are employed by a different
23 entity.²⁴⁸ The Company states that as with AIP for direct employees, AIP is an important part of

24 ²⁴¹ RUCO Br. at 26.

25 ²⁴² Hansen Br. at 3.

26 ²⁴³ RUCO Br. at 28, citing to Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 96.

27 ²⁴⁴ RUCO Reply Br. at 10.

28 ²⁴⁵ RUCO Br. at 28 and RUCO Reply Br. at 10-11, both citing to Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 96.

²⁴⁶ Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 96.

²⁴⁷ RUCO Br. at 28.

²⁴⁸ Co. Reply Br. at 18.

1 compensation for Service Company employees, which include many members of the Arizona-
 2 American team.²⁴⁹ The Company points out that through its relationship with the Service Company,
 3 Arizona-American is able to take advantage of expertise and economies of scale.²⁵⁰
 4

5 Arizona-American is supported not only by its own direct employees, but also by employees
 6 of the Service Company.²⁵¹ The evidence presented does not support a deviation from past practice
 7 to disallow 30 percent of all Arizona-American's AIP compensation expenses, including the Service
 8 Company employee-related AIP costs. In past cases, we have adopted a 30 percent disallowance of
 9 AIP costs in order to account for the portion of AIP based on the Company's financial performance.
 10 We declined to disallow any of the remaining AIP expenses because they are closely tied to salary
 11 expense.²⁵² We find that the 30 percent disallowance of all AIP costs continues to provide an
 12 appropriate balance between ratepayers and shareholders, and it will again be adopted in this case.

13 4. Management Fees Labor Expense (All Districts)

14 RUCO proposes an adjustment reducing Arizona-American's requested labor expense across
 15 the districts by \$89,678, which represents a 4 percent March 2009 pay increase for Service Company
 16 employees.²⁵³

17 The Company opposes RUCO's adjustment, stating that its requested expense allowance is
 18 based on a known and measurable increase like that accepted by RUCO and adopted by the
 19 Commission in the Company's prior rate cases and accepted by Staff in this case.²⁵⁴

20 Arizona-American is supported not only by its own direct employees, but also by employees
 21 of the Service Company.²⁵⁵ We find that the salary expense proposed by the Company and accepted
 22 by Staff is based on actual known and measurable incurred expense. Because it more accurately
 23 reflects the Company's actual operating expense on a going-forward basis than the amount
 24

25 ²⁴⁹ Rebuttal Testimony of Company witness Paul Townsley (Exh. A-4) at 7.

26 ²⁵⁰ *Id.* at 8.

27 ²⁵¹ *Id.*

28 ²⁵² Decision No. 68858 at 20-21.

²⁵³ Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 92.

²⁵⁴ Co. Reply Br. at 18, citing to Phase I Tr. at 654 and Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 92.

²⁵⁵ Rebuttal Testimony of Company witness Paul Townsley (Exh. A-4) at 8.

1 advocated by RUCO, it will be adopted.

2 5. Rate Case Expense

3 The parties' proposed allowances for rate case expense, normalized over three years, are as
4 follows, by district:

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
5 Company	\$51,989	\$69,395	\$68,439	\$40,277	\$34,388
6 Staff	\$51,989	\$69,395	\$68,439	\$40,277	\$34,388
7 RUCO	\$37,486	\$50,982	\$49,260	\$29,110	\$24,840

8 In calculating its rate case expense, the Company initially included an "estimated
9 unrecovered portion of Commission-Approved rate case expenses from the last rate case" from its
10 prior Anthem Water district and Anthem/Agua Fria Wastewater district rate cases.²⁵⁶ As Staff stated
11 in its direct testimony, the Commission has adopted Staff's recommendations in prior proceedings
12 that rate case expense be normalized instead of amortized.²⁵⁷ While amortized expenses are
13 permanent accounts that carry over from prior years, normalized expenses are operating income
14 accounts which are closed out each year and are not eligible for consideration in future rate cases.²⁵⁸
15 As RUCO points out, Decision No. 69440 (May 1, 2007) did not allow the Company's similar
16 request, because it contravened the ratemaking convention of setting rates at a normal recurring level
17 of expenses.²⁵⁹ The Company has subsequently removed those amounts from its proposed
18 allowance for rate case expense.²⁶⁰

19 RUCO recommends that the Company's allowed rate case expense recovery in this case be
20 limited to an amount similar to that allowed in Decision No. 71410, the Company's previous rate
21 case.²⁶¹ RUCO argues that the costs sought by the Company are unreasonable and not supported by
22

23
24
25 ²⁵⁶ Direct Testimony of Company witness Miles Kiger (Exh. A-13) at 10.

26 ²⁵⁷ Direct Testimony of Staff witness Gerald Becker (Exh. S-9) at 20-21.

27 ²⁵⁸ See Direct Testimony of Staff witness Gerald Becker (Exh. S-9) at 20-21.

28 ²⁵⁹ Direct Testimony of RUCO witness Ralph Smith (Exh. R-9) at 36-37.

²⁶⁰ Rebuttal Testimony of Company witness Miles Kiger (Exh. A-14) at 17.

²⁶¹ Direct Testimony of RUCO witness Ralph Smith (Exh. R-9) at 37; Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 46-47.

1 the record.²⁶² RUCO asserts that the Company should not be compensated for the actual costs
 2 incurred to send out the consolidation notice ordered prior to Phase II of the hearing, because the
 3 Company could have reduced the mailing expense by including the notice as a bill insert.²⁶³ RUCO
 4 also alleges a “concern of double counting raised by charging for Company and affiliate labor cost
 5 in rate case expense.”²⁶⁴

6 Other than the removal of the “unrecovered costs,” accepted by the Company, Staff proposed
 7 no further adjustments to the Company’s proposed rate case expense.²⁶⁵

8 The Company states that the direct accounting method the Company uses for Service
 9 Company labor is efficient and eliminates the possibility of double counting,²⁶⁶ and points out that
 10 the separate mailing of additional notice regarding rate consolidation was ordered by the
 11 Commission.²⁶⁷

12 The hearing in this proceeding was extraordinary, with numerous parties, numerous
 13 witnesses and many issues. It required a great deal more time and expense than the prior case to
 14 which RUCO compares it. The normalized amount of rate case expense proposed by the Company
 15 and agreed to by Staff is reasonable, supported by the record, and will be allowed.

16
 17 6. Non-Account Chemical Expense and Fuel and Power Expense Adjustment
 18 (Sun City Water)

19 In Decision No. 70351 (May 16, 2008), the most recent rate Decision for the Sun City Water
 20 district, the Commission ordered the Company to institute water loss reporting and to devise a water
 21 loss reduction plan if the Sun City Water district’s water loss was greater than 10 percent at any time
 22 before its next rate case. Decision No. 70351 was based on a 2006 test year.

23 In this proceeding, Staff found that the Sun City Water district had water loss of 11.1 percent
 24 in the test year.²⁶⁸ Staff recommends that the Company be required to reduce water loss in the Sun

25 ²⁶² RUCO Br. at 12.

26 ²⁶³ *Id.* at 12-13.

27 ²⁶⁴ *Id.* at 13, citing to Surrebuttal Testimony of RUCO witness Ralph Smith (Exh. R-10) at 44.

28 ²⁶⁵ Staff Reply Br. at 4.

²⁶⁶ Co. Reply Br. at 17, citing to Phase I Tr. at 142.

²⁶⁷ Co. Reply Br. at 17, citing to page 10 of the Procedural Order issued in this docket on March 18, 2010.

²⁶⁸ Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at Exhibit DMH-2, pp. 8-9.

1 City Water district in PWS No. 07-099 to below 10 percent by December 31, 2010 or before it files
 2 its next rate case, CC&N, or financing application, whichever comes first. Staff further recommends
 3 that the Company continue tracking the water loss for PWS No. 07-099 for three years and submit
 4 the data collected every six months, with the first water loss tracking report for PWS No. 07-099 to
 5 be filed as a compliance item in this docket within 180 days of this Order.

6 Because water loss for the Sun City Water district exceeded 10 percent during the test year,
 7 Staff believes that the cost of purchased power and fuel and chemicals used to pump and treat water
 8 above the acceptable water loss threshold of 10 percent does not provide a benefit to ratepayers.²⁶⁹
 9 Staff recommends that these costs therefore be disallowed, and proposed an adjustment decreasing
 10 fuel and power expense by \$19,511, and chemicals expense by \$367.²⁷⁰

11 The Company does not object to the water loss tracking requirements recommended by Staff,
 12 but opposes Staff's recommended expense disallowance.²⁷¹ The Company argues that Staff's
 13 recommendation for the reduction to operating expenses fails to recognize the efforts Arizona-
 14 American has undertaken to reduce water loss in all its districts.²⁷² The Company states that at the
 15 time of the hearing, the Company had reduced water loss in the Sun City Water district to 8.31
 16 percent,²⁷³ and that it has complied with the requirements of Decision No. 70351.²⁷⁴ The Company
 17 argues that due to its efforts, it should not be penalized by an expense disallowance.²⁷⁵

18 There is no dispute that the Company has undertaken measures to reduce water loss since
 19 the issuance of Decision No. 70351 in 2008. However, the 11.1 percent water loss existed during
 20 the 2008 test year, and the water loss problem had been ongoing since the prior test year of 2006,
 21 during which the Sun City Water district was already experiencing a water loss of 10 percent. By
 22 2008, the test year for this case, instead of correcting the district's water loss, the Company had
 23 allowed it to increase to 11.1 percent. We agree with Staff that the Sun City Water district's
 24

25 ²⁶⁹ Staff Br. at 6-7.

26 ²⁷⁰ Direct Testimony of Staff witness Gerald Becker (Exh. S-9) at 31-32.

27 ²⁷¹ Co. Br. at 17; Co. Reply Br. at 7.

28 ²⁷² Co. Br. at 16; Co. Reply Br. at 6.

²⁷³ Co. Reply Br. at 6, citing to Direct Testimony of Company witness Bradley Cole (Exh. A-23) at 17, Exh. A-26, and Phase I Tr. at 556.

²⁷⁴ Co. Reply Br. at 7-8.

²⁷⁵ *Id.* at 7.

1 customers should not be burdened with fuel and power and chemical expenses to treat the excess
2 lost water over 10 percent. Staff's reporting requirements and expense disallowance
3 recommendations are reasonable and will be adopted.
4

5 7. Bad Debt Expense

6 The Company and Staff agreed that bad debt expense should be normalized based on the
7 Company's three year experience.²⁷⁶ However, Staff disagrees with the Company's calculation of
8 bad debt expense, and recommends that its calculation of allowable expense be adopted instead.²⁷⁷
9 Staff asserts that the Company calculated the bad debt expense based on net write-offs without
10 giving consideration to the accrued provision.²⁷⁸ Staff argues that the Company's proposed
11 methodology for computing bad debt expense departs from the two established methodologies for
12 treating uncollectible accounts: (1) the direct charge-off method under which uncollectibles and any
13 associated, subsequent recoveries are recorded directly, or "charged off" to bad debt expense; and
14 (2) the allowance method by which a company systematically records expense to bad debt expense
15 with an offset to an allowance for doubtful accounts, and by which, unlike the charge-off method,
16 the charge offs and any subsequent recoveries are then made to the allowance for doubtful accounts
17 account, rather than to the bad debt expense account.²⁷⁹ According to Staff, the Company used a
18 kind of hybrid method in this case whereby its charge-offs, as well as its systematic provision for
19 bad debts, were both reflected in the bad debt expense account.²⁸⁰

20 The Company did not brief the issue. Staff's recommended bad debt expense amounts,
21 which correct the Company's erroneous calculations, are reasonable and will be adopted.

22 8. Tank Maintenance Expense (Sun City Water)

23 The Company requested approval to establish a tank maintenance reserve account to address
24 ongoing tank maintenance requirements in its Sun City Water district.²⁸¹ In 2009, the Company
25

26 ²⁷⁶ Staff Br. at 5.

27 ²⁷⁷ *Id.* at 5.

28 ²⁷⁸ *Id.* at 6.

²⁷⁹ *Id.*

²⁸⁰ *Id.*

²⁸¹ Direct Testimony of Company witness Bradley Cole (Exh. A-23) at 16.

1 commissioned a consultant to examine the condition of the tanks in the Sun City Water district and
 2 provide a recommendation for maintenance.²⁸² Based on the recommendation, the Company plans
 3 to commence a tank maintenance program for all the tanks in this district over the next fourteen
 4 years, beginning with those most in need of maintenance.²⁸³

5 Staff recommends that instead of establishment of a tank maintenance reserve account, the
 6 Company be authorized to include the known and measurable costs associated with tank
 7 maintenance as a normalized expense, in the amount of \$362,000.²⁸⁴ Staff's witness testified that
 8 Staff supports the Company's planned program of regular tank maintenance because of the long
 9 term benefits that accrue to ratepayers by reducing long term capital costs.²⁸⁵ The Company is in
 10 agreement with Staff's recommendation.²⁸⁶

11 RUCO opposes the establishment of a tank maintenance expense reserve fund, but did not
 12 object to the normalization adjustment proposed by Staff.²⁸⁷

13 We agree with RUCO and Staff that establishment of a tank maintenance expense reserve
 14 fund for the Sun City Water district is not appropriate at this time and will not authorize such an
 15 account. However the Company has demonstrated that it will begin, in the Sun City Water district, a
 16 program with demonstrated known and measurable ongoing expense amounts that are reasonable
 17 and will provide long term system benefits. Staff's recommendation for normalized tank
 18 maintenance expense is based on those demonstrated known and measurable ongoing expense
 19 amounts. The normalized expense amount recommended by Staff is reasonable and will be adopted
 20 for purposes of this proceeding.

21
 22 9. Tank Maintenance Deferral Account (Anthem Water)

23 The Company also requests authority to establish a deferral account to allow it to defer tank
 24 maintenance expenses for the Anthem Water district until the next rate case for the district, at which

25
 26 ²⁸² *Id.* at 15; Exh. A-35.

²⁸³ Direct Testimony of Company witness Bradley Cole (Exh. A-23) at 16.

²⁸⁴ Staff Br. at 6, citing to Phase I Tr. at 815, 962-963.

²⁸⁵ Phase I Tr. at 815.

²⁸⁶ Co. Reply Br. at 16.

²⁸⁷ RUCO Br. at 21-22; RUCO Reply Br. at 9.

1 time the Company may seek recovery of the deferred amounts.²⁸⁸ RUCO does not oppose the
 2 establishment of such a deferral account, as the Company already has such an account in place for
 3 the Sun City Water district.²⁸⁹ We agree with the Company that establishment of such an account is
 4 appropriate, and find that it is reasonable and in the public interest to authorize the Company to
 5 establish a deferral account to allow it to defer tank maintenance expenses for the Anthem Water
 6 district until the next rate case for the district, at which time the Company may present evidence in
 7 support of recovery of the deferred expense amounts for consideration.
 8

9 **D. Operating Income Summary**

	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Adjusted Test Year Revenues	\$7,492,744	\$9,283,101	\$8,637,123	\$5,940,381	\$5,661,710
Adjusted Test Year Operating Expenses	\$6,946,819	\$8,376,912	\$8,426,742	\$5,874,766	\$5,257,168
Adjusted Test Year Operating Income	\$545,925	\$906,189	\$210,381	\$65,615	\$404,542

15 **V. COST OF CAPITAL**

16 The final rate of return recommendations are as follows:

	Cost of Debt	Cost of Equity	Capital Structure Equity/Debt	Weighted Average Cost of Capital
Company	4.91%	10.70%	38.86% / 61.14%	7.20%
RUCO	5.02%*	9.50%	39.15% / 60.85%*	6.77%
Council				6.37%**
Staff	4.91%	10.70%	38.86% / 61.14%	7.20%

22 * long-term and short-term debt combined.

23 ** The Council did not perform a cost of capital analysis. The Council originally based
 24 its rate of return recommendation of 6.77 percent on that recommended by RUCO.²⁹⁰
 25 However, in its Reply Brief, the Council states a belief that a 6.37 percent rate of return
 26 is reasonable and appropriate.²⁹¹

27 ²⁸⁸ Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 10.

28 ²⁸⁹ RUCO Reply Br. at 10.

²⁹⁰ Council Br. at 14.

²⁹¹ *Id.* at 15-16.

1
2 **A. Capital Structure**

3 The Company's application proposed a capital structure of 45.15 percent equity and 58.85
4 percent debt, excluding short-term debt.²⁹² However, in order to limit the number of issues in this
5 case, the Company agreed in its rebuttal testimony to accept Staff's cost of capital
6 recommendations.²⁹³ RUCO recommends a capital structure of approximately 13.29 percent short-
7 term debt, 47.56 percent long-term debt and 39.15 percent equity.²⁹⁴ Staff recommends a capital
8 structure of 38.86 percent equity and 61.14 percent debt, which includes short-term debt.²⁹⁵

9 There is very little difference between the capital structures recommended by RUCO and
10 Staff's witnesses.²⁹⁶ For purposes of this proceeding, we adopt a capital structure for the Company
11 consisting of 38.86 percent equity and 61.14 percent debt, which includes short-term debt.

12 **B. Cost of Debt**

13 The Company's application stated a cost of debt of 5.468 percent.²⁹⁷ The Company agreed
14 to accept Staff's recommended cost of debt of 4.91 percent.²⁹⁸ RUCO recommends a cost of short-
15 term debt of 3.41 percent, and a cost of long-term debt of 5.47 percent.²⁹⁹ RUCO's witness notes
16 that RUCO's recommended combined long-term and short-term debt cost of debt would be 5.02
17 percent, and would produce the same WACC as that produced by the separated debt costs.³⁰⁰

18 A 4.91 percent cost of debt is reasonable and will be adopted for purposes of this rate case.

19 **C. Cost of Equity**

20 Unlike the cost of debt, which is based on actual costs, Arizona-American's cost of equity
21 must be estimated. The Company, RUCO and Staff each presented a witness who testified as to the
22 analysis used to reach their estimated cost of equity recommendations. Each witness used data from
23 selected sample groups of publicly traded companies in order to perform the estimates.

24 ²⁹² Direct Testimony of Company witness Thomas Broderick (Exh. A-6) at 8-10.

²⁹³ Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 4; Phase I Tr. at 490.

25 ²⁹⁴ Surrebuttal Testimony of RUCO witness William Rigsby (Exh. R-4) at 3.

²⁹⁵ Direct Testimony of Staff witness Juan Manrique (Exh. S-3) at 10.

26 ²⁹⁶ Surrebuttal Testimony of RUCO witness William Rigsby (Exh. R-4) at 3.

²⁹⁷ Direct Testimony of Company witness Thomas Broderick (Exh. A-6) at 8-10.

27 ²⁹⁸ Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 15-16; Direct Testimony of Staff witness
Juan Manrique (Exh. S-3) at Schedule JCM-1.

28 ²⁹⁹ Surrebuttal Testimony of RUCO witness William Rigsby (Exh. R-4) at 4.

³⁰⁰ *Id.* at 5.

1
2 The Company contends that the cost of equity analysis of its witness, which included two
3 versions of the Discounted Cash Flow ("DCF") model, three versions of the Capital Asset Pricing
4 model ("CAPM"), and an after-tax weighted average cost of capital ("ATWACC") analysis,
5 supports a 12.25 percent cost of equity.³⁰¹ However, in order to limit the number of issues in this
6 case, the Company agreed in its rebuttal testimony to accept Staff's cost of capital
7 recommendations,³⁰² and proposes a cost of equity of 10.7 percent.³⁰³

8 The analysis of Staff's witness included use of two DCF models and a CAPM. Staff's
9 average DCF and CAPM results produce a 9.9 percent cost of equity capital, which after Staff's 80
10 basis point risk adjustment, produces Staff's recommendation of 10.7 percent as the Company's
11 estimated cost of equity.³⁰⁴

12 RUCO's witness also used a DCF and CAPM analysis, and based on the results, RUCO
13 recommends a cost of equity of 9.50 percent.³⁰⁵

14 The Company contends that Staff's analysis supports a cost of equity of 10.7 percent.³⁰⁶ The
15 Company points out that Staff's resulting weighted average cost of capital of 7.2 percent is lower
16 than the 7.33 percent approved for the Company in Decision No. 71410, the Company's most recent
17 rate Decision, but that the recommendation recognizes the level of risk in the Company's capital
18 structure, and is within the range of returns allowed by other jurisdictions and within the range of
19 what credit rating agencies consider appropriate for a utility such as Arizona-American.³⁰⁷

20 The Company is critical of RUCO's cost of equity analysis and asserts that its resulting 6.7
21 percent weighted average cost of capital is unreasonable, lacks support, and should not be
22 adopted.³⁰⁸ The Company argues that RUCO's recommendation fails to recognize the impact of the
23 current financial crisis on the cost of equity and the need to attract necessary investment.³⁰⁹

24 ³⁰¹ Co. Br. at 36, citing to Direct Testimony of Company witness Benet Willesden (Exh. A-20) at 36-37, Appendix B and
65-69.

25 ³⁰² Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 4; Phase I Tr. at 490.

26 ³⁰³ Co Br. at 35.

27 ³⁰⁴ Schedule JCM-3.

28 ³⁰⁵ Surrebuttal Testimony of RUCO witness William Rigsby (Exh. R-4) at 5.

³⁰⁶ Co. Br. at 39.

³⁰⁷ *Id.*

³⁰⁸ *Id.* at 36.

³⁰⁹ *Id.* at 37.

1
2 RUCO objects to the Company's claim that RUCO's cost of equity recommendation lacks
3 support.³¹⁰ RUCO contends that its recommendation recognizes the impact of the current financial
4 crisis on the cost of capital, because the risk associated with regulated utilities is lower than their
5 non-regulated counterparts.³¹¹ RUCO states that while the parties can argue over what is reasonable,
6 it can hardly be argued that RUCO's recommendation lacks support, as RUCO performed the same
7 type of cost of capital analysis as Staff, and the Company has accepted Staff's recommendation.³¹²
8 RUCO states that neither RUCO nor Staff's cost of capital recommendation lacks support based on
9 the evidence in the record.³¹³

10 The Company's witness testified that the facts that financial markets are in turmoil and that
11 stock market volatility has increased dramatically mean that equity investors face increased
12 uncertainty, which leads them to seek lower risk investments or to demand a higher expected rate of
13 return before they are willing to invest their money, and in part, this is an explanation of why market
14 prices have fallen.³¹⁴ While RUCO argues that the lower risk of regulated utilities is attractive to
15 investors in a bad economic climate, and that the Company's parent relies on low cost debt financing
16 to fund its capital improvements,³¹⁵ neither argument addresses the undisputed fact that Arizona-
17 American faces more risk than many comparable companies because it has more debt in its capital
18 structure.

19 Article 15, Section 3 of the Arizona Constitution provides in relevant part that the
20 Commission "shall have full power to, and shall, prescribe just and reasonable classifications to be
21 used and just and reasonable rates and charges to be made and collected, by public service
22 corporations within the State for service rendered therein." In determining just and reasonable rates,
23 the Commission has broad discretion subject to the obligation to ascertain the fair value of the
24 utility's property, and establishing rates that "meet the overall operating costs of the utility and
25

26 ³¹⁰ RUCO Reply Br. at 18.

27 ³¹¹ *Id.* at 19.

28 ³¹² *Id.* at 18-19.

³¹³ *Id.* at 19.

³¹⁴ Rebuttal Testimony of Company witness Benet Willesden (Exh. 21) at 4.

³¹⁵ RUCO Reply Br. at 19.

1 produce a reasonable rate of return.”³¹⁶ Under the Arizona Constitution, a utility company is entitled
 2 to a fair rate of return on the fair value of its properties, “no more and no less.”³¹⁷ The oft cited
 3 *Hope, Bluefield, and Duquesne* cases³¹⁸ provide that the return determined by the Commission must
 4 be equal to an investment with similar risks made at generally the same time, and should be
 5 sufficient under efficient management to enable the Company to maintain its credit standing and
 6 raise funds needed for the proper discharge of its duties.

7
 8 Staff’s cost of equity recommendation accounts for the facts that Arizona-American’s capital
 9 structure is more leveraged than that of the average capital structure of the water utilities in Staff’s
 10 proxy group of publicly-traded water utilities, and that its stockholders accordingly bear more risk
 11 than those otherwise similar utilities.³¹⁹ Using a methodology that incorporates capital structure
 12 theory with the CAPM to estimate the effect of the Company’s 38.86 percent equity and 61.14
 13 percent debt capital structure on its cost of equity, Staff calculated a financial risk adjustment of 0.8
 14 percent in order to reflect the Company’s actual financial risk, and added it to Staff’s average
 15 estimate of the sample’s cost of equity.³²⁰

16 We find that of the proposed cost of equity estimates, Staff’s is the more reasonable because
 17 it properly accounts for the level of risk in the Company’s capital structure. Applying the 10.70
 18 percent cost of equity and 4.91 percent cost of debt to the capital structure adopted herein results in
 19 an overall weighted average cost of capital for Arizona-American of 7.2 percent.

20 D. Cost of Capital Summary

	Percentage	Cost	Weighted Cost
Short-Term and Long-Term Debt	61.1%	4.91%	3.0%
Common Equity	38.9%	10.70%	4.2%
Weighted Average Cost of Capital			7.2%

24 ³¹⁶ *Scates, et al. v. Arizona Corp. Comm’n*, 11 8 Ariz. 53 1, 534, 578 P.2d 612 (Ct. App. 1978).

25 ³¹⁷ *Litchfield Park Service Co. v. Arizona Corp. Comm’n*, 78 Ariz. 431, 434, 874 P.2d 988 (Ct. App. 1994), citing
Arizona Corp. Comm’n v. Citizens Utilities Co., 120 Ariz. 184 (Ct. App. 1978).

26 ³¹⁸ *Federal Power Commission et al. v. Hope Natural Gas Co.*, 320 U.S. 591 (1944); *Bluefield Waterworks &*
Improvement Co. v. Public Service Commission of West Virginia, et al., 262 U.S. 679 (1923); *Duquesne Light Co. v.*
Barasch, 488 U.S. 299 (1989).

27 ³¹⁹ Direct Testimony of Staff witness Juan Manrique (Exh. S-3) at 41. Staff chose six publicly-traded water utilities that
 receive the majority of their earnings from regulated operations to serve as a proxy for Arizona-American. *Id.* at 21.

28 ³²⁰ Direct Testimony of Staff witness Juan Manrique (Exh. S-3) at 41.

1 **VI. REVENUE REQUIREMENT**

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

4 **Anthem Water**

5 Based on our findings herein, we determine that the Anthem Water district's gross revenue
6 should increase by \$5,928,181, or 79.12 percent.

Fair Value Rate Base	\$57,248,934
Adjusted Operating Income	545,925
Required Fair Value Rate of Return	7.20%
Required Operating Income	4,121,923
Operating Income Deficiency	3,575,999
Gross Revenue Conversion Factor	1.6578
Gross Revenue Increase	\$ 5,928,181

12 **Sun City Water**

13 Based on our findings herein, we determine that the Sun City Water district's gross revenue
14 should increase by \$1,843,078, or 19.85 percent.

Fair Value Rate Base	\$28,192,680
Adjusted Operating Income	906,189
Required Fair Value Rate of Return	7.20%
Required Operating Income	2,029,873
Operating Income Deficiency	1,123,684
Gross Revenue Conversion Factor	1.6402
Gross Revenue Increase	\$ 1,843,078

20 **Anthem/Agua Fria Wastewater**

21 Based on our findings herein, we determine that the Anthem/Agua Fria Wastewater district's
22 gross revenue should increase by \$5,031,198, or 58.25 percent.

Fair Value Rate Base	\$45,115,225
Adjusted Operating Income	210,381
Required Fair Value Rate of Return	7.20%
Required Operating Income	3,248,296
Operating Income Deficiency	3,037,915
Gross Revenue Conversion Factor	1.6561
Gross Revenue Increase	\$ 5,031,198

1 **Sun City Wastewater**

2 Based on our findings herein, we determine that the Sun City Wastewater district's gross
3 revenue should increase by \$1,725,339, or 29.04 percent.

4	Fair Value Rate Base	\$15,488,742
5	Adjusted Operating Income	65,615
6	Required Fair Value Rate of Return	7.20%
7	Required Operating Income	1,115,189
8	Operating Income Deficiency	1,049,574
	Gross Revenue Conversion Factor	1.6438
	Gross Revenue Increase	\$ 1,725,339

9 **Sun City West Wastewater**

10 Based on our findings herein, we determine that the Sun City West Wastewater district's
11 gross revenue should increase by \$1,475,588, or 26.06 percent.

12	Fair Value Rate Base	\$18,098,487
13	Adjusted Operating Income	404,542
14	Required Fair Value Rate of Return	7.20%
15	Required Operating Income	1,303,091
16	Operating Income Deficiency	898,549
	Gross Revenue Conversion Factor	1.6422
	Gross Revenue Increase	\$ 1,475,588

17 **VII. RATE DESIGN**

18 **A. Consolidation**

19 **1. Company**

20 Arizona-American states that this proceeding has made clear that for various reasons, the
21 benefits of consolidation are championed by certain parties, and not accepted by other parties.³²¹
22 The Company states that while it will never be possible to convince all parties that consolidation is
23 beneficial, this proceeding is the best opportunity to do so,³²² and that ample evidence exists in the
24 record to support its implementation.³²³ The Company states that if the Commission determines that
25 it is appropriate to implement rate consolidation in this proceeding, it will use its best efforts to
26

27 ³²¹ Co. Br. at 45.

28 ³²² *Id.*

³²³ Co. Reply Br. at 26.

1 ensure that consolidation is implemented effectively in the manner ordered by the Commission.³²⁴

2
3 The Company believes that if consolidation is ordered in this proceeding, the best method to
4 achieve the full benefits of consolidation is a Company-wide consolidation.³²⁵ Arizona-American's
5 final rate design schedules include both stand-alone rates and the Company's Preferred
6 Consolidation Scenario One (Company Consolidation Model Version 4). For comparison purposes,
7 the Company provided, as part of its final rate design schedules, the consolidation scenarios
8 requested at the hearing by Chairman Mayes, which set forth consolidation if Sun City is excluded
9 and if both Sun City and Sun City West are excluded.³²⁶

10 The Company lists important features of its Preferred Consolidation Scenario One (Company
11 Consolidation Model Version 4) as follows:

- 12 • it includes all of the Company's water and wastewater districts;
- 13 • it is proposed to occur in up to five "revenue neutral" steps;
- 14 • the residential 1-inch meter water monthly minimum charge is reduced to 1.25 times
15 the 5/8 and 3/4-inch meters charge;
- 16 • the consolidated non-potable water tariff is \$1.24 per 1,000 gallons in all steps; and
- 17 • beginning in Step 1, there are five residential rate tiers for all meter sizes, and three
18 commercial rate tiers for meter sizes two inches and smaller, and two commercial
19 rate tiers for larger commercial meters.

20 2. Council

21 The Council believes that rate consolidation is a long-term solution that, over the long haul
22 benefits all customers. The Council recommends that in order to achieve the maximum benefits of
23 consolidation, all of Arizona-American's water and wastewater districts be consolidated through a
24 five step implementation plan.³²⁷ The Council supports the Company's Preferred Consolidation
25 Scenario One (Company Consolidation Model Version 4).³²⁸

26 The Council cites as benefits of rate consolidation the following:

26 ³²⁴ Co. Br. at 45.

27 ³²⁵ *Id.* at 46; Co. Reply Br. at 26.

27 ³²⁶ Co. Br. at 46.

28 ³²⁷ Council Br. at 15; Council Reply Br. at 16.

³²⁸ *Id.*

- 1 • lower administrative costs through unified customer accounting and billing systems;
- 2 • reduction in the number of rate cases and associated expenses;
- 3 • elimination of distorted cost allocations among districts in rate filings;
- 4 • implementation of standard customer service policies and related service rates and
- 5 charges;
- 6 • improved rate stability and elimination of rate shock;
- 7 • reduced customer confusion with respect to the Company's currently differing rate
- 8 schedules;
- 9 • development and implementation of a targeted and comprehensive water
- 10 conservation program for all of its systems; and
- 11 • improved opportunities for future acquisitions, especially of troubled water
- 12 systems.³²⁹

13 The Council states that the benefits of consolidation are particularly true for older and
 14 smaller districts that may experience disproportionately higher rates without consolidation, pointing
 15 to the Company's testimony that customers residing in Sun City, despite their current opposition to
 16 consolidation, are likely to be the greatest beneficiaries of consolidation due to the aging
 17 infrastructure in the Sun City Water district.³³⁰ The Council states that the five residential tiers in
 18 the commodity rate component allow the Company to address the variation in customer use patterns
 19 across the various districts, and that that the five-step consolidation plan proposed by the Company
 20 will allow for a smoother transition and will reduce "rate shock" for customers in those districts
 21 whose rates will increase more than they would without consolidation.³³¹

22 In the event that Company-wide consolidation is not instituted in this proceeding, the
 23 Council prefers the current rate structure for the Anthem districts.³³² The Council asserts that partial
 24 consolidation is not consistent with the purposes of consolidation, and would not provide any
 25 meaningful improvement for Anthem residents over the current stand-alone rate design.³³³

26 ³²⁹ Council Br. at 16.

27 ³³⁰ Council Reply Br. at 16, citing to Phase II Tr. at 347-52.

28 ³³¹ Council Br. at 17.

³³² *Id.* at 18.

³³³ *Id.* at 15.

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3. Paradise Valley

Paradise Valley states that now is not the opportune time to implement rate consolidation for the Company's districts.³³⁴ Paradise Valley contends consolidation should be more thoroughly analyzed in a future case, with more detailed information identified from the outset of the process.³³⁵

Paradise Valley believes that consolidation should not be implemented in this case due to lack of clarity and inadequate direction in Decision No. 71410 as to how the consideration of consolidation should be accomplished, and due to the lack of meaningful "Town Halls" conducted prior to the hearing, or other education of the affected customer base.³³⁶ Due to the numerous factors presented in this case, Paradise Valley contends it is nearly impossible for any customer to predict how consolidation would affect that customer, what factors would be considered in the final analysis, and which scenario might be selected by the Commission.³³⁷ Further, Paradise Valley contends that the lack of a defined consolidation scenario has made the probability of having a meaningful Town Hall discussion on rate consolidation minimal.³³⁸ Paradise Valley would prefer that the Commission identify a rate consolidation proposal which would provide a basis for customers to use their individual consumption data to analyze how that proposal would impact them, prior to Town Hall meetings.³³⁹

Aside from procedural issues, however, Paradise Valley argues that consolidation is not likely to result in any customer benefits, but only in a shifting of costs from one set of customers to others, and that consolidation may even lead to higher customer rates in general.³⁴⁰ Paradise Valley's witness testified that the Town Council of Paradise Valley does not support the concept of rate consolidation, as it does not believe there is any purpose for consolidating the Paradise Valley Water district with other Arizona-American districts at this time, including assisting with funding needed system upgrades or needed capital improvements, which it believes can be made regardless

25 ³³⁴ Paradise Valley Br. at 4.

26 ³³⁵ *Id.* at 8, 14. Paradise Valley noted that only five residents attended the Town Hall the Company conducted in Paradise Valley on July 12, 2010 at 5:30 p.m.

27 ³³⁶ Paradise Valley Br. at 14.

28 ³³⁷ *Id.* at 6.

³³⁸ *Id.* at 9.

³³⁹ *Id.*

³⁴⁰ *Id.*

1 of consolidation.³⁴¹ Paradise Valley argues that public policy goals such as water conservation can
 2 be better addressed in individual rate cases.³⁴² Paradise Valley contends that any comparison
 3 between the state-wide rates of APS and the rate consolidation of the Company's unique districts is
 4 flawed, because Arizona-American's districts have varying needs and requirements and have no
 5 centralized grid or physical interconnection between their geographically separate facilities.³⁴³
 6

7 Paradise Valley believes that the only business logic behind rate consolidation is simplicity
 8 for regulators, because the Company already treats its districts as if they are one in its cost
 9 allocations, such that the only savings would be bookkeeping costs.³⁴⁴ Paradise Valley states that
 10 the centralization of the districts' rate bases could actually lead to overall customer rate increases as
 11 it would make it more difficult for customers to dissect the information discrete to their locality in
 12 order to voice their opinion,³⁴⁵ and customers would be less likely to question costs when ratepayers
 13 from other districts are going to help pay them.³⁴⁶ Conversely, Paradise Valley argues that if the
 14 "combined customer" does request a vigorous vetting of requested improvements in each district,
 15 consolidation could lead to the result of pitting customers of one district against those of another.³⁴⁷
 16

16 4. Resorts

17 The Resorts state that under the Company's Preferred Consolidation Scenario One
 18 (Company Consolidation Model Version 4), consolidated rates would raise the revenue requirement
 19 on the Paradise Valley Water district by about 10 percent, but that the individual resorts' estimated
 20 rate increase would be 32 percent.³⁴⁸ The Resorts claim that they would be unduly harmed by the
 21 increases in commodity charges.³⁴⁹ The Resorts state that under the Company's Preferred
 22 Consolidation Scenario One (Company Consolidation Model Version 4), the commercial class in the
 23

24 ³⁴¹ *Id.* at 10, citing to Direct Testimony of Paradise Valley witness James Bacon, Town Manager of Paradise Valley
 (Exh. PV-1) at 6 and Exhibit A.

25 ³⁴² Paradise Valley Br. at 10.

26 ³⁴³ *Id.* at 11.

27 ³⁴⁴ *Id.*

28 ³⁴⁵ Direct Testimony of Paradise Valley witness James Bacon, Town Manager of Paradise Valley (Exh. PV-1) at 8.

³⁴⁶ Paradise Valley Br. at 12.

³⁴⁷ *Id.* at 12-13.

³⁴⁸ Resorts Br. at 2, citing to Direct Testimony of Resorts witness John Thornton (Exh. RES-1) at 2 and Resorts Final
 Schedules, Attachment 2.

³⁴⁹ Resorts Br. at 3.

1 Paradise Valley Water district bears a 31.5 percent increase, while the residential class bears 3.3
 2 percent.³⁵⁰ The Resorts contend that both the Company's and Staff's system-wide consolidation
 3 proposed rates for the Resorts will exceed the costs of providing service in the Paradise Valley
 4 Water district,³⁵¹ and object to both proposals because no cost of service study was done to
 5 determine whether the proposed rates achieve fairness in the apportionment of total costs of service
 6 among different consumers.³⁵² The Resorts contend that if rate consolidation is implemented, they
 7 should be excluded from consolidation or in the alternative, a "Resort Class" or commercial class of
 8 service should be established that recognizes their unique status, and the fact that there is no other
 9 customer class with which the Resorts can be combined.³⁵³ The Resorts have therefore proposed
 10 modifications to the Company's Preferred Consolidation Scenario One (Company Consolidation
 11 Model Version 4) that would limit the rate impact of consolidation on the Resorts to 12 percent.³⁵⁴

12 Staff states that it does not believe the Resorts have met their burden of proof with respect to
 13 exclusion from any consolidation proposal the Commission might adopt, or that the Resorts have
 14 shown that their specific proposal serves the public interest.³⁵⁵ Staff contends that while at some
 15 point consideration of a special classification may be appropriate, the specifics associated with any
 16 special resort classification would require further review.³⁵⁶

17 The Company believes that the commercial tiers in its Preferred Consolidation Scenario One
 18 (Company Consolidation Model Version 4) should address the issues raised by the Resorts in
 19 relation to consolidation.³⁵⁷

20 5. W.R. Hansen

21 Mr. Hansen is opposed to any rate consolidation proposal, and offers six reasons why
 22 consolidation should be rejected:
 23

- 24 • centralization of production in concentrated plant facilities is not contemplated or

25 ³⁵⁰ *Id.*

³⁵¹ *Id.* at 4, citing to Direct Testimony of Resorts witness John Thornton (Exh. RES-1) at 20.

26 ³⁵² *Id.*

³⁵³ Resorts Br. at 6, citing to Direct Testimony of Resorts witness John Thornton (Exh. RES-1) at 24.

27 ³⁵⁴ *Id.*

³⁵⁵ Staff Reply Br. at 14.

28 ³⁵⁶ *Id.*

³⁵⁷ Co. Br. at 46.

1 plausible;

- 2 • cost savings of significant proportion are absent;
- 3 • there is no singular rate but a move toward a centralized average, resulting in a bonus
- 4 for Anthem and Tubac at the expense of Sun City and Mohave in particular;
- 5 • the current range of rates is too wide and the ages of the infrastructure in the districts
- 6 differs too widely;
- 7 • consolidation would encourage the Company to acquire poorly performing utilities
- 8 and burden existing customers with their costs; and
- 9 • spreading the cost of service entails legal impediments.³⁵⁸

6. Larry Woods

10 Mr. Woods opposes the implementation of rate consolidation, which he states is technically

11 not consolidation, but "rate leveling."³⁵⁹ Mr. Woods asserts that sources of water, age of processing

12 equipment, methods of purification, and distribution systems are locally unique and vary greatly

13 from district to district, and therefore there cannot be a case made that all ratepayers should be

14 charged the same rates for delivery of water to the faucet.³⁶⁰ Mr. Woods believes that the idea of

15 cost-sharing is different for a municipal utility than for a for-profit utility, whose goal is profit to the

16 shareholder, in contrast to a municipal utility, whose focus is service.³⁶¹ Mr. Woods is of the

17 opinion that situations such as that in the Tubac Water district, where a small group of residents is

18 forced to incur exorbitant costs that are outside their control, should be addressed by government.³⁶²

19 Mr. Woods also contends that if consolidation is approved, there will be increased acquisition

20 activities by Arizona-American of small water systems in states of disrepair, funded by current

21 ratepayers at no business risk to the Company.³⁶³

22 Mr. Woods states that he cannot identify any significant savings that would be had through

23 consolidation.³⁶⁴ He states that since a consolidated rate request would affect all ratepayers in all

24 districts, then potentially there could be intervenors from all districts in consolidated rate cases, and

25 ³⁵⁸ Hansen Br. at 1-3.

26 ³⁵⁹ Woods Br. at 1-2.

27 ³⁶⁰ *Id.* at 2.

28 ³⁶¹ *Id.* at 5.

³⁶² *Id.* at 5-6.

³⁶³ *Id.* at 4-6.

³⁶⁴ *Id.* at 6.

1 that the actual review of consolidated rate requests would result in more review and longer
 2 proceedings, as opposed to cost savings.³⁶⁵
 3

4 7. Marshall Magruder

5 Mr. Magruder proposes the following:

- 6 • rate consolidation for all water and wastewater districts in five steps over a five
 7 year period;
- 8 • adoption of either Magruder consolidated rates or a modified version of the
 9 Company's scenario one;
- 10 • implementation of a new \$500 fee for changing a water meter to a smaller size
 11 along with a safety certification recorded on the deed for such customers with fire
 12 sprinklers;
- 13 • cancellation of all low income programs with the exception of the Sun City Low
 14 Income Program proposed by the Company for condominium residents, and the
 15 institution of new similar programs for all multi-residential units served by the
 16 Company, along with a new low first residential tier at less than \$1:00/thousand
 17 gallons for the first 3,000 gallons;
- 18 • rate structure design to provide lowest rates for lowest consumption users and
 19 increasingly higher rates for the highest consumption users to conserve water by
 20 sending price signals to residential and commercial customers;
- 21 • conservation incentive rate structure with five residential and four commercial
 22 inclined block tiers, so customers can more easily use less water and move to a
 23 lower usage tier more easily;
- 24 • consolidation of all "Fees and Miscellaneous Charges;"
- 25 • consolidation for the Company's "Rules and Regulations" in one document;
- 26 • that the Company be required to submit within 90 days with a water demand side
 27 management ("DSM") adjustment not to exceed 2 percent, at least five water DSM
 programs in several rate classes including residential, commercial and large
 hotels/resorts and golf courses that include specified performance measurement
 objective criteria and goals for all rate categories, including customer water audits;
- 28 • that the Company provide a water loss DSM program including incentives for
 decreased water loss and penalties for increased water loss over 10 percent;
- that the Company activate a Citizens Advisory Committee with at least one person
 per small (less than 5,000 customers) district and at least two for larger districts
 representing different rate classes, with at least semi-annual meetings; that the
 Company establish a regular "Town Hall" schedule; that the Company publish a
 multi-page newsletter as a way to receive customer feedback and review rules and
 regulations and inform the public of water DSM programs and of ongoing projects

365 *Id.* at 3.

1 or Company changes that impact customers.³⁶⁶

2 8. RUCO

3 RUCO contends that rate consolidation would not be in the ratepayers' best interests in this
4 case, and that due to legal impediments, the passionate divisiveness among ratepayers, and public
5 policy constraints, rate consolidation should be rejected.³⁶⁷ RUCO points out that on brief, the
6 Company avoids stating a position on consolidation, but instead states that it "seeks the
7 Commission's leadership" on the issue.³⁶⁸ While the Company states that if consolidation is to be
8 accomplished, now is the best opportunity,³⁶⁹ RUCO disagrees. RUCO believes that now is a bad
9 time to implement consolidation due to the recent rate increase for several of the Company's
10 systems just last year, vehement ratepayer public comment in opposition, uninformed customers,
11 and a bad economic environment.³⁷⁰ RUCO contends that it cannot say when the best time would be
12 to approve rate consolidation for Arizona-American, but believes that a better time than the present
13 will be when there is one application before the Commission that includes all the districts based on a
14 single test year, with a single revenue requirement, when the public has had adequate notice and all
15 of the facts, and when there is more public support.³⁷¹

16 RUCO argues that it is impossible to consolidate rates without some initial subsidization of
17 some districts by other districts, and that while ratepayers may be willing to pay a little bit more in
18 the beginning, knowing the benefits will be returned to them in the future due to consolidation, there
19 will be ratepayer resistance to consolidation if the initial cost shift is too great.³⁷²

20 RUCO contends that neither of the Company's (three-step or five-step) rate consolidation
21 proposals resolve the following issues:

- 22 • the legal infirmity of consolidated rates based on some districts' fair value rate base
23 calculated on a 2007 test year and others based on a 2008 test year (RUCO argues
24 that in order to consolidate rates based on two different test years, the rate bases and
rates of return will have to be averaged or blended);

25 ³⁶⁶ Magruder Br. at 1-2; Magruder Reply Br. at 1, 9-10, 95.

26 ³⁶⁷ RUCO Reply Br. at 23.

27 ³⁶⁸ RUCO Reply Br. at 20; *see* Co. Br. at 45.

28 ³⁶⁹ *See* Co. Br. at 45.

³⁷⁰ RUCO Br. at 60-61 and RUCO Reply Br. at 21, citing to Tr. at 1092-94.

³⁷¹ RUCO Br. at 61.

³⁷² RUCO Br. at 65-66, citing to Direct Rate Design/Rate Consolidation Testimony of RUCO witness Jodi Jerich (Exh. R-14) at 22.

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- the violation of the Commission's rule that a utility's rates must be set based on a one-year historical test period;
 - the lack of conformity to the revenue neutrality requirement of Decision No. 71410 (RUCO argues that during the phase-in to consolidation proposed by the Company, the total revenue requirement is being constantly shifted among the districts, which RUCO argues does not comport with language in Decision No. 71410 requiring consideration of "a revenue neutral change to rate design");³⁷³
 - failure to mitigate "rate shock" for Anthem ratepayers until completion of all the steps;
 - impairment of the Commission's goal of water conservation because consolidated commodity rates distort the actual cost to deliver safe and reliable water to customers;³⁷⁴
 - failure to include sufficient safeguards to preserve adequate detail and recordkeeping so that the Commission can properly monitor and inspect the books;
 - increases in rates for ratepayers who recently received a rate increase in 2009 pursuant to Decision No. 71410; and
 - failure to provide rate stability, because ratepayers in the Sun City, Paradise Valley and Mohave districts will be caught in a continuous cycle of rate increases, and because the Company will likely be back requesting more rate increases before all the steps toward full implementation of consolidation are completed, which RUCO believes will cause ill will for the Company and the Commission.³⁷⁵

16 RUCO is also opposed to partial consolidation scenarios. RUCO states that if the intent of
 17 separating the Sun City and Sun City West districts from consolidation is to shield retired ratepayers
 18 living on fixed incomes from subsidizing rates for others, the effort fails, because there are retirees
 19 living on fixed incomes, as well as low-income ratepayers, living in other Arizona-American
 20 districts as well.³⁷⁶ RUCO also makes the point that keeping two of the largest systems out of a
 21 consolidated rate design only shifts more costs to ratepayers in other districts that also include
 22 retirees and low-income customers.³⁷⁷

23 The Company indicates that it does not believe RUCO's legal arguments create any
 24 impediment to consolidation.³⁷⁸

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26 ³⁷³ See Decision No. 71410 at 78.

³⁷⁴ Direct Rate Design/Rate Consolidation Testimony of RUCO witness Jodi Jerich (Exh. R-14) at 14.

27 ³⁷⁵ RUCO Reply Br. at 22-23.

³⁷⁶ RUCO Br. at 65.

³⁷⁷ *Id.*

28 ³⁷⁸ Co. Reply Br. at 26.

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2 The Council states that it opposes RUCO's policy arguments against consolidation.³⁷⁹ The
3 Council also discounts RUCO's legal arguments against consolidation, and contends that the
4 Commission has the authority and the discretion to consider the different test years, costs of equity
5 and costs of debt to which RUCO refers, with the objective of determining whether the rates and
6 charges under a given Company-wide rate consolidation proposal would result in just and reasonable
7 rates and charges.³⁸⁰ The Council states that it is not proposing to, and the Commission is not
8 required to, "average" the fair value determinations of the two rate cases, and that the passage of
9 time between the fair value determinations in Decision No. 71410 and this case is not such as to
10 make unreasonable the Commission's consideration of all the fair value determinations.³⁸¹ As to the
11 issue of revenue neutral consolidated rate designs, the Council states that as RUCO has noted, it is
12 mathematically impossible to create a consolidated rate design whereby each water and wastewater
13 district retains its individual revenue requirement, and that RUCO's interpretation that consolidation
14 violates the language of Decision No. 71410 requiring "revenue neutrality" cannot be reconciled
15 with the Commission's stated desire to explore consolidation.³⁸²

16 Staff states that the issues RUCO raised about the use of different test years and the
17 interpretation of the directive that consolidated rates be "revenue neutral" could be addressed, to the
18 extent they are valid, should the Commission desire to adopt a consolidated rate design proposal.³⁸³

19 9. Staff

20 Staff does not support consolidation of the rate design for all or some of the Company's
21 districts at this time, and recommends that the Commission adopt Staff's stand-alone rate design.³⁸⁴

22 In compliance with Decision No. 71410, Staff put forward consolidation proposals. Staff
23 presented three alternative consolidated rate design proposals, using the consolidation model
24 provided by the Company, should the Commission decide that consolidation was appropriate in this

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26 ³⁷⁹ Council Reply Br. at 19-20.

³⁸⁰ *Id.* at 18.

³⁸¹ *Id.*

³⁸² *Id.* at 19.

³⁸³ Staff Reply Br. at 14.

³⁸⁴ Staff Br. at 16; Staff Reply Br. at 13.

1 case.³⁸⁵ Staff presented three separate rate consolidation scenarios:

- 2 • Staff's Consolidation Scenario One is a total consolidation of all the Company's
- 3 respective water and wastewater districts in Arizona.³⁸⁶
- 4 • Staff's Consolidation Scenario Two consolidates the following water districts: Agua
- 5 Fria, Anthem, Tubac, Mohave, Havasu, and Paradise Valley as one consolidation,
- 6 and Sun City and Sun City West as a separate consolidation. Scenario Two also
- 7 consolidates the wastewater districts as follows: Sun City and Sun City West as one
- 8 consolidation, and Anthem/Agua Fria and Mohave as a separate consolidation.³⁸⁷
- 9 • Staff's Consolidation Scenario Three consolidates only water districts as follows:
- 10 Sun City and Sun City West together; Agua Fria, Anthem and Paradise Valley
- 11 together; and Tubac, Mohave and Havasu together.³⁸⁸

12 Staff states that it has always been concerned by the fact that the Company did not propose a

13 consolidated rate design in its direct case.³⁸⁹ Staff states that the Company has the burden of proof,

14 and the Company's failure to present a direct case in support of rate consolidation means that much

15 of the information Staff believes is needed to do a cost/benefit analysis was not in the record.³⁹⁰

16 Staff's witness Mr. Abinah identified the following factors that Staff believes should be considered:

- 17 • public health and safety;
- 18 • proximity and location;
- 19 • economies of scale/rate case expense;
- 20 • price shock/mitigation;
- 21 • public policy; and
- 22 • how other jurisdictions/municipalities are addressing the issue.³⁹¹

23 Staff also expressed concern that although the Company took action late in the proceeding to

24 address this concern to hold additional Town Hall meetings throughout its service territory where

25 such meetings had not previously been held, the Company had not complied with the Commission's

26 directive to hold Town Hall meetings in each district on the issue of rate consolidation at the time of

27 ³⁸⁵ Direct Testimony of Staff witness Jeffrey Michlik (Exh. S-15) at 21-23.

28 ³⁸⁶ *Id.* at 21-22 and Schedule JMM-3 and JMM-4.

³⁸⁷ *Id.* at 23-23 and Schedule JMM-5 and JMM-6.

³⁸⁸ *Id.* at 23 and Schedule JMM-7 and JMM-8.

³⁸⁹ Staff Br. at 22, citing to Direct Testimony of Staff witness Elijah Abinah (Exh. S-16) at 7; Staff Reply Br. at 13.

³⁹⁰ Staff Br. at 22, citing to Direct Testimony of Staff witness Elijah Abinah (Exh. S-16) at 6-7; Staff Reply Br. at 13.

³⁹¹ Staff Br. at 22, citing to Direct Testimony of Staff witness Elijah Abinah (Exh. S-16) at 4-5.

1
2 the hearing.³⁹²

3 **B. Stand-Alone Rate Design Proposals – Water Districts**

4 1. Arizona-American Stand-Alone Rate Design

5 With respect to a stand-alone rate design, the Company requests that the Commission
6 institute its rate design, which consists of a pro-rata increase to the existing rate design for the
7 districts.³⁹³

8 The Council states that if Company-wide consolidated rates are not adopted, the current rate
9 structure of the Anthem Water district should be retained, and that it prefers the Company's stand-
10 alone proposal to Staff's because it retains the current tier levels for all meter sizes and increases all
11 customers' bills by the same percentage rather than shifting revenues from residential to commercial
12 classes of customers.³⁹⁴

13 2. RUCO Stand-Alone Rate Design

14 RUCO's proposed rate design is generally the same as that proposed by the Company.
15 RUCO recommends that it be adopted.³⁹⁵

16 3. Staff Stand-Alone Rate Design Issues

17 a. Private Fire Rate

18 Consistent with its proposal adopted in other cases, Staff proposes a change to the private
19 fire rate for the Anthem and Sun City Water districts to the greater of \$10 or two percent of the
20 monthly minimum charge for the applicable meter size.³⁹⁶ The Company opposes the change,
21 arguing that it is unwarranted. The Company believes the change will lead to a dramatic shift of
22 revenues to other classes of customers.³⁹⁷

23 Staff recommends that its proposed Private Fire Rate be adopted in this case.³⁹⁸

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25 ³⁹² Staff Reply Br. at 13.

26 ³⁹³ Co. Br. at 42; Co. Reply Br. at 24.

27 ³⁹⁴ Council Reply Br. at 20.

28 ³⁹⁵ RUCO Br. at 67; RUCO Reply Br. at 24.

³⁹⁶ Phase II Tr. at 1259.

³⁹⁷ Co. Br. at 44.

³⁹⁸ Staff Reply Br. at 11.

1 Company believes that the initial breakpoints in Staff's alternative is too low, at 1,000 gallons per
 2 month for Sun City Water and 2,000 gallons per month for Anthem Water.⁴⁰⁸ The Company argues
 3 that the tiers are not appropriate for the Company's entire system, and that if the Commission wishes
 4 to move the Company to five tiers, the Company would prefer that the tiers included in its
 5 consolidated rate design be adopted instead, because they are appropriate for all the Company's
 6 districts.⁴⁰⁹

7
 8 d. Elimination of Capacity Reservation Charges

9 Staff recommends the elimination of the Capacity Reservation Charges for the Anthem
 10 Water district, as there were no associated revenues in the test year and no significant change is
 11 forecasted.⁴¹⁰ No other party briefed this issue.

12 4. 5/8 x 3/4-inch and 1-inch Meter Monthly Usage Charges for Anthem Water

13 Staff recommends against charging 1-inch meter customers the same rate as the 5/8 x 3/4-
 14 inch customers, because the average consumption of Anthem ratepayers with larger meter sizes is
 15 greater, at 11,203 gallons per month for 1-inch meter customers, in contrast to 9,616 gallons per
 16 month for 5/8 x 3/4-inch meter customers.⁴¹¹ Staff recommends that if it is determined appropriate
 17 to charge a single monthly usage charge for both meter sizes, with a lower monthly usage charge for
 18 1-inch meter residential customers, that the monthly usage charge for 5/8 x 3/4-inch customers
 19 should also be increased, and some adjustment should be made to the tier breakpoints.⁴¹²

20 C. **Stand-Alone Rate Design Proposals -- Wastewater Districts**

21 1. Anthem/Agua Fria Wastewater District Effluent Rate

22 DMB is the developer of a master planned community called Verrado located in the Town of
 23 Buckeye north of Interstate 10 in the southeastern foothills of the White Tank Mountains.⁴¹³ DMB
 24 requests that a specific rate be set for effluent produced by the Anthem/Agua Fria Wastewater
 25

26 ⁴⁰⁸ Co. Br. at 44-45.

27 ⁴⁰⁹ *Id.*

28 ⁴¹⁰ Direct Testimony of Staff witness Jeffrey Michlik (Exh. S-15) at 9.

⁴¹¹ Staff Reply Br. at 16.

⁴¹² *Id.*

⁴¹³ DMB Br. at 3.

1 district.⁴¹⁴ Currently, the Anthem/Agua Fria Wastewater district does not charge DMB for the
 2 effluent that it delivers. Instead, the Agua Fria Water district charges DMB for the effluent
 3 delivered by the Anthem/Agua Fria Wastewater district.⁴¹⁵ DMB submits that \$250 an acre-foot is
 4 an appropriate and reasonable rate for effluent, as it is consistent with the \$227 per acre-foot rate
 5 charged by Arizona-American for its Mohave Wastewater district and with effluent rates charged by
 6 other regulated sewer companies, and as it is slightly less than DMB's cost to use groundwater for
 7 turf irrigation and other non-potable uses.⁴¹⁶

8
 9 Corte Bella also urges the Commission to adopt an effluent water rate of \$250 per acre-foot
 10 for effluent produced by the Anthem/Agua Fria Wastewater district.⁴¹⁷ Anthem Golf concurs with
 11 DMB and Corte Bella that an effluent rate be set for effluent produced by the Anthem/Agua Fria
 12 Wastewater district.⁴¹⁸

13 Staff agrees that the effluent rate should be set at a level that encourages the use of effluent
 14 for turf irrigation.⁴¹⁹

15 The Company requests that the effluent rate of \$250 per acre-foot or \$0.77 per 1,000 gallons
 16 recommended by DMB for the Anthem/Agua Fria Wastewater district be adopted to govern the
 17 direct use of effluent only.⁴²⁰

18 2. Anthem/Agua Fria Wastewater District Rate Design

19 The Anthem/Agua Fria Wastewater district is the only Company wastewater district that
 20 currently has a volumetric charge incorporated into its residential rate structure. The volumetric rate
 21 is based on customers' water usage. The current monthly minimum charge for all residential
 22 customers is \$27.76 and the volumetric charge is \$3.4800 per 1,000 gallons with a 7,000 gallon per
 23 month ceiling, such that a customer using 7,000 gallons of water per month is charged the same
 24 amount as a customer using 29,000 gallons of water per month.⁴²¹ For commercial customers, the

25 ⁴¹⁴ *Id.* at 2.

26 ⁴¹⁵ *Id.* at 4, citing to Phase II Tr. at 184-85.

27 ⁴¹⁶ DMB Br. at 2-3, 8.

28 ⁴¹⁷ Corte Bella Br. at 2.

⁴¹⁸ Anthem Golf Reply Br. at 2.

⁴¹⁹ Staff Reply Br. at 15.

⁴²⁰ Co. Reply Br. at 25.

⁴²¹ Phase II Tr. at 1260-61.

1 minimum charges and commodity charges vary by meter size.

2
3 Staff recommends that the Company change its method of billing its residential wastewater
4 customers to the method currently used by some municipalities, with each residential customer
5 being billed based on that customer's average water usage for the months of January, February and
6 March.⁴²² The customer's billing would be reset every year based upon the customer's water usage
7 for these three months, at a rate of \$9.5966 per 1,000 gallons.⁴²³ Staff states that while the
8 Anthem/Agua Fria Wastewater district is the only wastewater district of the Company with
9 volumetric wastewater rates, the current volumetric rate design does not encourage conservation.⁴²⁴
10 Staff states that it proposed this wastewater rate design because water usage during winter months
11 provides a more accurate representation of the amount of wastewater being discharged from the
12 customer's home year-round, and results in a more appropriate basis for wastewater charges.⁴²⁵

13 The Company argues that Staff's proposed stand-alone rate design for the Anthem/Agua Fria
14 Wastewater district should be rejected because it would unduly increase the dependence of
15 wastewater revenues on water sales, which vary significantly from year to year, and which the
16 Company asserts are declining in Anthem.⁴²⁶ The Company argues that no party has fully analyzed
17 the potential significant water conservation effect of this proposal.⁴²⁷ At the same time, the
18 Company also argues that Staff's proposal would be likely to increase summer water usage.⁴²⁸

19 The Council agrees with the Company that Staff's rate design would increase the Company's
20 dependence on wastewater revenues based on water sales which vary significantly, and also argues
21 that a pure commodity rate as Staff proposes would inappropriately deviate from basic cost of
22 service principles.⁴²⁹

23 Staff responds that it is not aware of evidence in the record that water sales are declining in
24 Anthem, or that they vary significantly from year to year or more significantly than is typical or

25 ⁴²² Direct Testimony of Staff witness Jeffrey Michlik (Exh. S-15) at 12.

26 ⁴²³ *Id.*

27 ⁴²⁴ Staff Reply Br. at 10.

28 ⁴²⁵ Direct Testimony of Staff witness Jeffrey Michlik (Exh. S-15) at 11.

⁴²⁶ Co. Br. at 43.

⁴²⁷ *Id.*

⁴²⁸ Co. Br. at 44, citing to Rate Design Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-39) at 5.

⁴²⁹ Council Br. at 19.

1 experienced by other water companies.⁴³⁰ Staff contends that the months of January, February and
 2 March provide a more accurate representation of customers' water usage that the Company actually
 3 treats as wastewater.⁴³¹
 4

5 In an attempt to rebut Staff's position that the months of January, February and March would
 6 be a more accurate representation of water usage that is actually treated as wastewater, both the
 7 Company and the Council point to the requirement in the Anthem community that winter lawns be
 8 overseeded.⁴³² Staff states that while a document regarding the specifics of the overseeding
 9 requirement was filed in the docket, there is no evidence in the record as to how many customers the
 10 overseeding requirement would impact, and to what degree.⁴³³ As to the Council's recommended
 11 elimination of the commodity charge and reversion back to a fixed charge for all wastewater,⁴³⁴
 12 Staff believes this would constitute a significant step backwards on the issue of efficient use of
 13 water.⁴³⁵

14 **D. Deconsolidation of Anthem/Agua Fria Wastewater District**

15 The Council favors consolidation of all of Arizona-American's districts under Scenario
 16 One.⁴³⁶ However, the Council also takes the position that absent a consolidation of all of Arizona-
 17 American's districts, the Anthem/Agua Fria Wastewater district should be separated into two
 18 separate wastewater districts, with separate stand-alone rates set for each district.⁴³⁷ The Council
 19 argues that the rate design of the current Anthem/Agua Fria Wastewater district burdens Anthem
 20 community customers because it "in effect is a subsidization of Agua Fria wastewater customers
 21 under the existing rate design."⁴³⁸ The Council proposes that in the event the record in this
 22 proceeding does not contain sufficient data to generate stand-alone rate designs for its proposed
 23 separate wastewater districts, that a consolidated rate design be adopted on an interim basis and that

24 ⁴³⁰ Staff Reply Br. at 10-11.

25 ⁴³¹ *Id.* at 10.

26 ⁴³² Co. Br. at 44, citing to Exh. A-49; Council Br. at 19.

27 ⁴³³ Staff Br. at 19; Staff Reply Br. at 10.

28 ⁴³⁴ Council Br. at 19; Direct Rate Design Testimony of Council witness Dan Neidlinger (Exh, Anthem-18) at 4.

⁴³⁵ Staff Br. at 19.

⁴³⁶ Council Br. at 20.

⁴³⁷ *Id.* at 19-20; Council Reply Br. at 21.

⁴³⁸ Council Br. at 19-20, citing to Tr. 331-334.

1 this docket be kept open for the limited purpose of designing and implementing stand-alone revenue
2 requirements and rate designs for separate wastewater districts as soon as practicable, and in
3 advance of the Company's next rate proceeding.⁴³⁹
4

5 The Company contends that there is no evidence in the record in this case to support de-
6 consolidated revenue requirements for the district.⁴⁴⁰ Staff agrees.⁴⁴¹ The Company states that if the
7 Commission determines that it is appropriate, it does not object to future deconsolidation of the
8 district in the Company's next rate case, and requests direction from the Commission on whether to
9 file individual rate cases on a de-consolidated basis.⁴⁴²

10 The possible effects of granting the Council's request to de-consolidate the Anthem/Agua
11 Fria Wastewater district into two separate districts for ratemaking purposes are not known at this
12 time. While the Council proposes that the districts be de-consolidated "taking into account the
13 adjustment factors set forth on Anthem Rate Design Schedule 1 entitled 'Development of Stand-
14 Alone Rate Design Adjustment Factors'" attached as Exhibit E to its Closing Brief, the exhibit does
15 not provide adequate rate base or operating income information to inform a determination. We
16 agree with the Company and Staff that the issue raised by the Council requires further vetting before
17 a determination can be made. While the Council alternatively proposes that this proceeding be
18 continued in order to determine separate revenue requirements for separate wastewater districts prior
19 to the Company's next rate case, we find that Staff and the Company's proposal that the issue be
20 revisited in the next rate case is preferable. The Company and Staff's proposal will avoid the need
21 for an additional hearing, the additional filing of testimony, and the accompanying additional rate
22 case expense that the Council's proposal would require. In order to investigate the issue of separate
23 wastewater districts, we will direct that the next time the Company files a rate case involving the
24 Anthem/Agua Fria Wastewater district, it shall file schedules which will allow a comparison to be
25 made between the two possible courses of action in that future case: keeping the Anthem/Agua Fria
26

27 ⁴³⁹ Council Reply Br. at 21.

⁴⁴⁰ Co. Reply at 25.

⁴⁴¹ Staff Reply Br. at 14.

⁴⁴² Co. Reply Br. at 25-26.

1
2 Wastewater district as it is currently for ratemaking purposes, or separating it into two separate
3 districts.

4 **E. Conclusions**

5 1. Consolidation

6 As RUCO acknowledges, the goal of rate consolidation is admirable, but each case
7 considering rate consolidation must be considered independently based on the facts and
8 circumstances of the particular case. In this case, the facts demonstrate that the existing large
9 disparity in rates among the Company's districts presents an insurmountable impediment, at this
10 time, to statewide consolidation of rates for the Arizona-American water and wastewater districts.
11 We agree with RUCO that, while statewide rate consolidation would undoubtedly help to ameliorate
12 rate increases for some ratepayers in this case, when all other facts are considered, that amelioration
13 comes at too high a cost. The proponents of consolidation do not propose partial consolidation.
14 After careful consideration of the facts and arguments presented by the parties, we decline to order
15 the implementation of consolidated rates for the Arizona-American districts at this time.

16 2. Stand-Alone Rate Design Issues

17 Of the stand-alone rate design proposals presented, we find Staff's proposal to be the most
18 appropriate and reasonable, and will adopt it, as set forth in Exhibit A, attached hereto and
19 incorporated herein,

20 Exhibit A includes the five-tier water rate design provided by Staff for the Anthem Water
21 and Sun City Water districts. The adoption of Staff's five-tier rate design serves two purposes.
22 While we are not adopting consolidated rates in this case, Staff's alternative design moves the two
23 water districts from the current three-tier rate design to a five-tier rate design, so that if consolidation
24 is considered in the future, these two districts will already have a rate design more amenable to
25 consolidation. Also, unlike the Company's preferred five-tier rate design, Staff's lower first tier will
26 provide a "lifeline" level of rates suitable for low-income water users, as advocated by Mr.
27 Magruder.

28 Exhibit A adopts the private fire rate proposed by Staff, in accordance with our adoption of

1 similar private fire rates for other water utilities in the state.

2 Exhibit A also adopts Staff's proposed changes to the current volumetric rate design for the
3 Anthem/Agua Fria Wastewater district, based on the model used by many municipalities, and will
4 more accurately represent of the amount of wastewater being discharged from the customer's home.
5 After considering the record facts and the arguments of the Company, the Council, and Staff, we
6 find that Staff's wastewater rate design for the Anthem/Agua Fria Wastewater district will result in a
7 more appropriate and fairer basis to ratepayers for wastewater charges than the current rate design.
8 The current rate design results in the same residential wastewater charges for customers using 7,000
9 gallons of water a month as for those customers using many times more. The existence of a
10 volumetric rate design allows us to remedy this inequity. The change we adopt to the wastewater
11 rate design will allow customers to know more about how their water usage impacts their
12 wastewater billing, and will therefore give them more control over their wastewater bills. Staff's
13 recommendation is reasonable and appropriate and will be adopted.

14 Staff's recommendation that the Capacity Reservation Charges for the Anthem Water district
15 be eliminated is reasonable and will be adopted.

16 The requests of DMB, Corte Bella and Anthem Golf in regard to establishment of an effluent
17 rate are reasonable. We find that an effluent rate of \$250 per acre foot, or \$0.77 per 1,000 gallons
18 for all usage of non-potable effluent by the Anthem/Agua Fria Wastewater district, as agreed to by
19 the Company, is reasonable and it will be adopted. The new effluent rate for the Anthem/Agua Fria
20 Wastewater district is reflected on Exhibit A.

21 **VIII. OTHER ISSUES**

22 **A. Sun City Water Low Income Program**

23 At the hearing, in response to public comment regarding the applicability of the current Sun
24 City Low Income Program to condominium dwellers, the Company was asked to look into a means
25 of administering the program so that condominium dwellers can participate.

26 In a filing dated July 30, 2010, the Company submitted a proposal and recommended in a
27 post-hearing filing docketed on July 30, 2010 a means to administer the existing Sun City low
28

1 income program (presently a \$4 per month credit) to the many thousands of condominium⁴⁴³
 2 residents in the Sun City Water district. As requested during the hearing, the Company investigated
 3 and conducted outreach in relation to the Sun City Low Income Program and its applicability to
 4 condominium residents. The Company noted that condominium residents are not the direct
 5 customers of Arizona-American, but rather are served in groups, on larger water meters for which
 6 the name on the account is the condominium association or the management company that pays the
 7 bills for the condominium association. When a low income resident served in this way wishes to
 8 receive a low income water credit on a water bill, neither the resident nor the Company can require
 9 the association to provide that credit to the particular resident. To date, therefore, only single
 10 dwelling unit residents have been eligible for Sun City's Low Income Program.
 11

12 The Company states that following the hearing in this matter, the Company investigated and
 13 conducted outreach on three possible options, only one of which is viable at this time:

14 Option 1. The first (non-viable) option would involve the Company providing the low
 15 income credit as usual via the water bill and the association in turn providing that credit to the
 16 qualified low income resident, most likely through a reduction in the periodic homeowner's
 17 association fee. The association fee is the means by which a condominium resident pays for charges
 18 for water and many other services, such as landscaping, incurred by the association on behalf of its
 19 residents. The Company states that the associations with which the Company spoke do not want to
 20 undertake this responsibility, and that among their concerns are that they would be taking on a
 21 liability to accurately transmit low income credits.

22 Option 2. As an alternative to providing the low income credit via the water bill, a
 23 second (non-viable) option was investigated and would involve the Company periodically (quarterly
 24 or annually) providing checks to condominium residents who qualify for the low income program.
 25 The Company states that a number of computer system and logistics challenges make this option too
 26 expensive and unworkable, with the primary challenge being that this effort must occur outside of
 27

28 ⁴⁴³ The Company noted that the program can also include some other multi-housing situations such as mobile homes as appropriate.

1 the Company's billing systems, because the residents are not the Company's direct customers. The
 2 Company states that it would need to create and maintain a separate process and separate database
 3 with handoffs from various Company employees in order to accurately provide checks. First, local
 4 Company employees would need to determine in which association the resident resides and next
 5 determine the appropriate multi-dwelling water account number for that dweller. Next, other
 6 Service Company employees would need to set up a process and system to provide the resident a
 7 check to be periodically mailed to the resident. The local Company employees would later need to
 8 periodically re-contact each low income resident to ensure he/she is still residing in that unit. In
 9 addition, the credits provided under this program would need to be periodically totaled and added to
 10 the credits provided to single housing dwellers to be tracked against overall funding. That would
 11 require another set of accounting entries (probably monthly) to the regulatory asset used for that
 12 purpose. This process would involve the training of employees and the establishment of new
 13 responsibilities and would be subject to periodic internal or external audit. As a result, significant
 14 resources would need to be devoted to a relatively minor activity to ensure effectiveness and
 15 accuracy for this option.

16
 17 Option 3. As a viable alternative to the Company sending checks directly to residents,
 18 the Company states that it has on several occasions discussed with the Sun City Taxpayers
 19 Association ("SCTPA") a means of administering this program at a nominal cost. Under this
 20 alternative, the Company would periodically (probably semi-annually) provide the SCTPA with a
 21 lump sum of funding, (e.g., \$20,000) in order for the SCTPA to cut checks to qualified low income
 22 condominium residents. Essentially, SCTPA would handle all tasks described in the second option
 23 above. The Company states that key features of this option would include the following:

- 24 a. SCTPA would process \$4 credits for condominium residents only, as single
 housing residents would continue to be processed by the Company.⁴⁴⁴
- 25 b. SCTPA would establish accounting procedures to record information about
 26 each qualified condominium resident and low income credit amounts

27 ⁴⁴⁴ The Company stated that the credit amount may be increased or decreased by the Commission upon completion of
 28 future Sun City Water district rate cases. A condo resident's credit would equal the credit provided to single housing
 residents.

1 provided. SCTPA would maintain a separate bank account for this effort and
2 would periodically and also upon request make records available to the
3 Company or another intervenor for review in future rate cases (e.g.,
4 Commission Staff). SCTPA would only be reimbursed for reasonable direct
5 costs to administer this program (e.g., banking and record keeping fees) and
6 an allocation of SCTPA labor costs.

7 c. SCTPA would periodically inform the Company of the number of low income
8 participants in order for the Company to effectively monitor the 1,000
9 customer ceiling for this program. The Company would periodically
10 replenish the account via a lump sum as per anticipated requirements of the
11 program as communicated by SCTPA to the Company as regards near term
12 funding requirements.

13 d. The SCTPA (which annually prepares tax returns for approximately 4,000
14 residents) has informed the Company that this approach would help the
15 SCTPA to better identify persons eligible for some of its other low income
16 related programs (e.g., property tax assistance), and the Company believes
17 SCTPA would be a trustworthy and reliable partner.

18 The Company stated that while details still remain to be worked out between the Company
19 and the SCTPA, including a contract between them, they reached general agreement following a
20 July 29, 2010 meeting. The Company attached a copy of documents prepared by SCTPA and
21 provided to the Company as their response to earlier informal discussions. The Company stated that
22 while a few minor changes are anticipated to this document before it is final, the parties intend to
23 proceed to contracting in order to make the expansion of this important low income program to
24 condominium dwellers occur as soon as possible. The Company stated that it is very appreciative of
25 the SCTPA's receptiveness to this low income program.

26 The Commission commends the Company and the SCPTA in their joint efforts to extend the
27 benefit of the Sun City Low Income Program to condominium and other multi-housing dwellers. A
28 copy of the documents prepared by the SCPTA and attached to the Company's July 30, 2010 filing
are attached hereto as Exhibit B and incorporated herein by reference. We will direct the Company
to file within 60 days, or sooner if possible, an application for approval of changes to the Sun City
Low Income Program to extend the benefit of the Sun City Low Income Program to condominium
and other multi-housing dwellers, that generally incorporates the program outlined in Exhibit B, for
review by Staff. We will direct Staff to subsequently review the Company's Sun City Low Income
Program filing and to prepare and docket, within 60 days of the Company's filing, a Recommended

1 Order regarding the Company's proposed changes to the Sun City Low Income Program.

2 The Company states that the current Sun City Low Income Program assumes participation of
3 1,000 customers, and assuming the 50 percent discount for 5/8-inch low income customers, the
4 updated annual subsidy is \$54,000.⁴⁴⁵ Enrollment in the program is presently less than 1,000
5 customers and the fund is over-collected.⁴⁴⁶ The Company states that the current program's
6 balancing account feature allows the Company to late refund any over charge or recover any under
7 charge, and authorizes a surcharge which can be trued up annually.⁴⁴⁷ We find that the current high
8 block funding mechanism remains a reasonable means of funding the Sun City Low Income
9 Program, and will order the Company to continue it.

10
11 **B. Infrastructure Improvement Surcharge (Sun City Water)**

12 The Company proposed the institution of a surcharge to fund the replacement of existing
13 assets such as mains, hydrants, meters, tanks, and booster stations for the Sun City Water district.⁴⁴⁸
14 The Company states that much of Sun City's water infrastructure is fifty years old, and major
15 improvements will be required to continue provision of safe and reliable water service in this
16 district.⁴⁴⁹ Under the Company's Infrastructure Improvement Surcharge ("IIS") proposal, the
17 Company would assess, twice per year, assets that had been placed in service, and using the most
18 recently approved return on equity, depreciation rates, cost of debt, capital structure and revenue
19 gross-up factors, along with the estimated service life, the Company would calculate an appropriate
20 return on the assets and the depreciation expense on the assets.⁴⁵⁰ The total amount of the IIS would
21 be the return on and of the qualifying assets, calculated as a percentage of the base revenue
22 requirement from the prior rate case, capped at 10 percent.⁴⁵¹ Following the implementation of new
23 rates from any subsequent rate case, in which the assets would be subject to a prudency review, a
24 revised surcharge would be calculated removing from the surcharge qualifying assets included in the

25 ⁴⁴⁵ Rebuttal Testimony of Company witness Thomas Broderick to Staff's Rate Design Testimony (Exh. A-39) at 11.

26 ⁴⁴⁶ *Id.*

27 ⁴⁴⁷ *Id.*

28 ⁴⁴⁸ Direct Testimony of Company witness Christopher Buls (Exh. A-5) at 4.

⁴⁴⁹ Co. Br. at 39-40.

⁴⁵⁰ Direct Testimony of Company witness Christopher Buls (Exh. A-5) at 4.

⁴⁵¹ *Id.* at 6; Phase II Tr. at 435-436.

1 rate base in that case.⁴⁵² The Company's witness Mr. Townsley testified that this type of surcharge
 2 is used in other jurisdictions to replace aged infrastructure, and that the National Association of
 3 Regulatory Utility Commissioners ("NARUC") water subcommittee has endorsed such a surcharge
 4 mechanism as a regulatory best practice.⁴⁵³

5
 6 Mr. Townsley testified that the IIS would allow the Company to make prudent investments
 7 in replacing existing infrastructure and would alleviate large rate increases for customers.⁴⁵⁴ The
 8 Company asserts that although the types of replacements required for the Sun City Water district are
 9 ordinary, the costs for the replacements projected to occur are not ordinary, but quite large.⁴⁵⁵ The
 10 Company argues that the surcharge would allow the Company to earn a return on its investments in
 11 a timely manner, while at the same time alleviating "rate shock" it alleges will occur if all of the
 12 anticipated replacements in Sun City are addressed in one rate case without any intervening means
 13 to address the replacements in rates.⁴⁵⁶

14 RUCO opposes the IIS, and recommends that the request be denied. RUCO does not
 15 disagree with the Company that the Sun City Water district infrastructure is old and needs repair, but
 16 argues that the needed improvements are normal, common and routine for a water utility.⁴⁵⁷ RUCO
 17 states that the costs in question are routine, are not extraordinary, have not been shown to be
 18 volatile, have not yet been incurred, and their amount is not known at this point.⁴⁵⁸ RUCO argues
 19 that the recovery of expenditures for plant additions and improvements therefore does not warrant
 20 the extraordinary ratemaking device of an adjustor mechanism,⁴⁵⁹ but that the Company should
 21 instead seek recovery of the costs in a rate case where all of the rate case elements can be
 22 considered.⁴⁶⁰

23 Staff also opposes approval of the IIS. Staff's witness testified that ordinary infrastructure

24 _____
 25 ⁴⁵² Direct Testimony of Company witness Buls (Exh. A-5) at 4-6.

26 ⁴⁵³ Phase II Tr. at 15-22.

27 ⁴⁵⁴ *Id.*

28 ⁴⁵⁵ Co. Reply Br. at 24.

⁴⁵⁶ *Id.*

⁴⁵⁷ RUCO Reply Br. at 14.

⁴⁵⁸ RUCO Br. at 36.

⁴⁵⁹ *Id.* at 33, 36.

⁴⁶⁰ RUCO Reply Br. at 14.

1 improvements of the types contemplated by the Company's proposal should instead be handled in
 2 the normal fashion through a rate case after making the investment.⁴⁶¹ Like RUCO, Staff does not
 3 believe that the Company has offered any reasons to justify its request of extraordinary treatment of
 4 routine plant in service improvements.⁴⁶²

5
 6 Staff and RUCO both argue that while the Commission has approved surcharge mechanisms
 7 in circumstances such as the imposition of arsenic treatment standards by the U. S. Environmental
 8 Protection Agency ("EPA") which have required significant investment by water companies, that the
 9 Commission has reserved the use of adjustment mechanisms to extraordinary circumstances to
 10 mitigate the effect of uncontrollable price volatility or uncertainty in the marketplace.⁴⁶³

11 The Company admits the surcharge would cover routine investments in such items as meters,
 12 mains, hydrants, tanks and booster stations, and while the Company proposed a cap on the increase
 13 between rate cases, the Company has not quantified the amount of the proposed surcharge.⁴⁶⁴ We
 14 agree with RUCO and Staff that the recovery of expenditures for plant additions and improvements
 15 does not warrant the extraordinary ratemaking device of an adjustor mechanism, and will therefore
 16 not grant the request for institution of an IIS.

17 **C. Anthem/Agua Fria Water District Facilities Hook-Up Fee Tariff**

18 Staff proposed several revisions to the Company's hook-up fee tariff for the Anthem/Agua
 19 Fria Wastewater district to include certain reporting requirements now required by the Commission,
 20 and to add additional lateral fees.⁴⁶⁵ The Company accepted the modifications.⁴⁶⁶ Staff's proposed
 21 revisions are reasonable, and the Company should file revised tariffs conforming with those
 22 appearing in Hearing Exhibit S-7 at DMH-3, Figure 6 and DMH-4, Figure 7 at the time it files new
 23 schedules of rates and charges.

24
 25
 26 ⁴⁶¹ Direct Testimony of Staff witness Jeffrey Michlik (Exh. S-15) at 9.

⁴⁶² *Id.*

⁴⁶³ Staff Br. at 11; RUCO Br. at 33.

⁴⁶⁴ Phase II Tr. at 433-434.

⁴⁶⁵ Direct Testimony of Staff witness Dorothy Hains (Exh. S-7) at DMH-3, Figure 6 and DMH-4, Figure 7.

⁴⁶⁶ Rebuttal Testimony of Company witness Thomas Broderick (Exh. A-7) at 18.

D. Depreciation Rates

Staff recommends that the Company be required to use the depreciation rates delineated by district on the schedule attached hereto and incorporated herein as Exhibit C. Staff's recommendation is reasonable and will be adopted.

* * * * *

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

FINDINGS OF FACT

Procedural History

1. On July 2, 2009, Arizona-American filed with the Commission an application for rate increases for its Anthem Water district, Sun City Water district, Anthem/Agua Fria Wastewater district, Sun City Wastewater district and Sun City West Wastewater district. The application was accompanied by the pre-filed direct testimony of eleven Company witnesses.

2. On July 13, 2009, Arizona-American filed a supplement to its application.

3. On August 21, 2009, Arizona-American filed an additional supplement to its application.

4. On August 24, 2009, Staff filed a Letter of Sufficiency indicating that Arizona-American has satisfied the requirements of A.A.C. R14-2-103 and classifying the Company as a Class A utility.

5. On August 26, 2009, a procedural order was issued setting a procedural conference to provide an opportunity for discussion of a hearing schedule, public notice, and other procedural issues prior to the issuance of a rate case procedural order.

6. On August 27, 2009, RUCO filed an Application to Intervene, which was granted at the procedural conference held on September 3, 2009.

7. On September 2, 2009, the procedural conference was convened as scheduled. Appearances were entered by counsel for the Company, RUCO, and Staff. At the procedural

1 conference, the Company indicated its plans to file a separate rate consolidation application.⁴⁶⁷
2 Based on that indication, the issue of appropriate customer notice of a rate consolidation proposal
3 was brought to the attention of the parties present.⁴⁶⁸ The procedural conference was recessed to
4 allow the parties time to meet and discuss an appropriate form of notice.
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6 8. On September 3, 2009, the procedural conference reconvened as requested by the
7 parties. The Company stated that it intended to proceed with the application as filed, and not to file
8 the rate consolidation application discussed the previous day.⁴⁶⁹ The Company agreed to prepare a
9 form of public notice of the application in cooperation with RUCO and Staff, and to file it for
10 consideration.

11 9. On September 14, 2009, Arizona-American filed a proposed form of notice as was
12 discussed at the September 2 and 3, 2009 procedural conference. The filing indicated that Staff had
13 found it acceptable and that RUCO did not expect to have comments on it. The proposed form of
14 notice made no mention of rate consolidation and was to be provided only to customers of the
15 Anthem Water district, Sun City Water district, Anthem/Agua Fria Wastewater district, Sun City
16 Wastewater district and Sun City West Wastewater district.

17 10. On September 24, 2009, a procedural order was issued setting a hearing on the
18 application for April 19, 2010, setting associated procedural deadlines, and requiring the Company
19 to provide public notice of the application. The Company was ordered to provide notice of the
20 application in the form proposed by the Company and agreed to by Staff.

21 11. On November 3, 2009, the Council filed an Application to Intervene, which was
22 granted by procedural order issued November 19, 2009.

23 12. On December 8, 2009, Decision No. 71410 was issued in the 08-0227 Docket.
24 Decision No. 71410 ruled on the Company's previous rate application for its Agua Fria Water
25 district, Havasu Water district, Mohave Water and Mohave Wastewater districts, Paradise Valley
26 Water district, Sun City West Water district and Tubac Water district. Decision No. 71410 stated

27 ⁴⁶⁷ Transcript of September 2, 2009 Procedural Conference at 5.

28 ⁴⁶⁸ *Id.* at 14-20.

⁴⁶⁹ *Id.* at 27.

1 that Docket No. 08-0227 would “remain open for the limited purpose of consolidation in the
2 Company’s next rate case with a separate docket in which a revenue-neutral change to rate design of
3 all Arizona-American Water Company’s water districts or other appropriate proposals or all
4 Arizona-American’s water and wastewater districts or other appropriate proposals may be
5 considered simultaneously, after appropriate public notice, with appropriate opportunity for
6 informed public comment and participation.”⁴⁷⁰
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8 13. On December 21, 2009, the Company filed affidavits of publication.

9 14. On December 29, 2009, the Company filed an affidavit of customer notice, indicating
10 that notice was provided as a bill insert to customers in the Company’s Anthem Water district, Sun
11 City Water district, Anthem/Agua Fria Wastewater district, Sun City Wastewater district, and Sun
12 City West Wastewater district.

13 15. On January 8, 2010, Mr. W.R. Hansen filed a Motion to Intervene.

14 16. On January 8, 2010, a Motion to Intervene was filed by PORA’s President.

15 17. On January 11, 2010, a Motion to Intervene was filed by Anthem Golf’s General
16 Manager.

17 18. On January 20, 2010, the Company docketed a Notice of Filing indicating that it had
18 provided to Staff, RUCO, and all intervenors a CD containing a rate consolidation spreadsheet
19 including formulas and databases to model different consolidation scenarios.

20 19. On January 22, 2010, notice was filed in this docket that PORA’s Board of Directors
21 had specifically authorized Larry Woods, its President, to represent it as an intervenor in this matter.

22 20. By procedural order issued January 25, 2010, PORA was granted intervention, and in
23 the discretion of the Commission, pursuant to Rule 31(d)(28) of the Rules of the Arizona Supreme
24 Court, Larry Woods was allowed to represent PORA before the Commission for purposes of this
25 proceeding.

26 21. On January 25, 2010, Staff filed a Motion for Extension, requesting an extension of
27 time to March 22, 2010, to file its rate design testimony, which was due to be filed by Staff and

28 ⁴⁷⁰ Decision No. 71410 at 78.

1 intervenors on March 8, 2010. The Motion for Extension indicated that the Company had agreed to
2 Staff's proposed extension of time.

3
4 22. By procedural order issued February 2, 2010, the deadlines for Staff and intervenors
5 to file rate design testimony, and for the Company to file rebuttal thereto, were extended. The
6 February 2, 2010 procedural order granted intervention to Mr. W.R. Hansen.

7 23. On February 2, 2010, WUAA filed a Motion to Intervene, which was granted by
8 procedural order issued February 16, 2010.

9 24. On February 18, 2010, RUCO filed a Motion to Extend the Time to File its Direct
10 Required Revenue Testimony, requesting a one week extension of time for RUCO to file its direct
11 testimony on issues other than rate design due to the amount of discovery on issues that had required
12 analysis, and indicating that counsel for the Company had informed RUCO that it did not object to
13 RUCO's proposed extension of time.

14 25. By procedural order issued February 19, 2010, RUCO's time extension request was
15 granted.

16 26. On February 19, 2010, a letter was filed by W.R. Hansen objecting to WUAA having
17 been granted intervention.

18 27. On February 22, 2010, Brownstein Hyatt Farber Schreck, LLP filed a Notice of
19 Appearance of Counsel for Anthem Golf indicating that its *pro hac vice* admission was pending.

20 28. On February 22, 2010, the direct testimony of Anthem Golf's witness Desi Howe was
21 docketed.

22 29. On February 24, 2010, a revised version of the letter filed by W.R. Hansen on
23 February 19, 2010 was filed.

24 30. On February 24, 2010, RUCO filed a Notice of Disclosure indicating that its Director
25 is the daughter of a member of the Anthem Community Council's Board of Directors.

26 31. On February 26, 2010, Staff filed a Request for an Extension of Time to File Direct
27 Testimony, requesting an additional one week extension of time to file its direct testimony in this
28 case due to new unresolved issues related to plant in one of the Company's districts, and that Staff

1 might need to request additional time, depending on information received from the Company.
2

3 32. On March 1, 2010, a procedural order was issued granting the requested time
4 extension and ordering Staff to convene representatives of all the parties to this case in order to
5 discuss possible changes to other filing deadlines in this proceeding, and to request a procedural
6 conference at which alternative scheduling proposals might be discussed by all parties if necessary.

7 33. On March 1, 2010, the Resorts filed a Motion to Intervene. The Resorts are
8 customers of the Company's Paradise Valley Water district. In the filing, the Resorts stated that on
9 February 10, 2010, the Resorts learned that this case was pending, and were provided an agenda to a
10 meeting at the offices of the Company entitled "Rate Consolidation Scenarios." The Resorts
11 attached a copy of the agenda to their Motion to Intervene, and stated that it informed them that Staff
12 would be making a rate consolidation proposal on March 22, 2010, in this docket, and that
13 responsive testimony to Staff's proposal would be due on or about April 5, 2010. The Resorts stated
14 that February 10, 2010, was the first time that the Resorts had notice that a possible consolidated rate
15 structure would be developed for the Commission's consideration in this case that would then be
16 applied to the Company's other districts. The Resorts noted that there might be other Arizona-
17 American customers in other districts that had not been provided notice of this proceeding, and
18 might be directly and substantially affected by rate consolidation. The Resorts requested a waiver of
19 the intervention deadline based upon lack of notice, and that they be granted intervention.

20 34. On March 2, 2010, the Council filed its response to Staff's February 26, 2010
21 Request for an Extension of Time to File Direct Testimony.

22 35. On March 5, 2010, Arizona-American filed its Response to the Resorts' Motion to
23 Intervene and Request for Additional Intervention. In its Response, Arizona-American did not
24 object to the granting of intervention and also requested that the intervenors from the 08-0227
25 Docket be granted intervention in this case.⁴⁷¹

26
27 ⁴⁷¹ The following parties were intervenors in the 08-0227 Docket: RUCO, Clearwater Hills Improvement Association
28 ("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,

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2 36. On March 5, 2010, Staff filed a Motion for Extension and Request for Procedural
3 Conference. Staff stated that in accordance with the March 1, 2010 Procedural Order, Staff met with
4 the parties to discuss any proposed schedule changes. Staff included a proposed schedule in its
5 filing.

6 37. On March 8, 2010, the Council filed its Support for the Commission Staff's Motion
7 for Extension and Request for Procedural Conference.

8 38. On March 8, 2010, the Council filed the direct testimony of Council witness Dan L.
9 Neidlinger.

10 39. On March 8, 2010, Staff filed the direct testimony of Staff witnesses Gerald Becker,
11 Dorothy Hains, Juan Manrique and Garry McMurry.

12 40. On March 8, 2010, RUCO filed the direct testimony of RUCO witnesses William A.
13 Rigsby and Ralph C. Smith.

14 41. On March 9, 2010, a procedural order was issued granting the Resorts' Motion to
15 Intervene and Staff's Motion for Extension and Request for Procedural Conference. The procedural
16 order stated that in light of the Resorts' indication that Staff planned to file a rate consolidation
17 proposal with its rate design testimony in this docket, the notice issues initially raised at the
18 September 2, 2009, procedural conference must be properly addressed. A procedural conference
19 was set to commence on March 12, 2010, for the purpose of discussing proper and appropriate
20 notice related to any rate consolidation proposal made in this docket.

21 42. On March 10, 2009, Thomas J. Ambrose filed a letter in this docket requesting that
22 his name be removed for all intervenor listings related to any and all dockets pertaining to the
23 Arizona-American Water Company, including but not limited to this docket.

24 43. On March 12, 2010, Paradise Valley filed a Motion to Intervene, which stated that the
25 first time it had notice that a possible consolidated rate structure would be developed for the
26 Commission's consideration in this case that would then be applied to the other districts was

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28 Don Grubbs, Liz Grubbs, Mike Kleman, Jacquelyn Valentino, Louis Wilson, Ikuko Whiteford, Marshall Magruder, the
Camelback Inn and Sanctuary on Camelback Mountain, Tom Sockwell, Andy Panasuk, Thomas J. Ambrose, and PORA.

1 February 10, 2010.

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3 44. On March 12, 2010, the procedural conference was convened as scheduled.
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Appearances were entered through counsel for the Company, the Council, the Resorts, RUCO, and Staff. Counsel for Paradise Valley also appeared, and was granted intervention. At the procedural conference, Staff confirmed that it planned to file rate consolidation proposals with testimony on March 29, 2010. Staff stated that while it was unknown at that time what Staff's recommendation would be, any Staff rate consolidation proposal would likely affect customers in all of Arizona-American's districts. Some parties present expressed the concern that a solution to the rate consolidation notice issue should not delay the scheduled April 19, 2010, commencement of the hearing on the Company's application. The parties were informed that in order to allow an appropriate opportunity for informed public comment, intervention, and full participation of any party wishing to participate in the rate consolidation portion of the upcoming hearing, that portion of the hearing would have to be delayed. Staff was directed to proceed with its proposed March 29, 2010, filing of testimony and exhibits on rate design/rate consolidation, and the Company was directed to file its rebuttal testimony on rate design/rate consolidation on April 5, 2010, as proposed. The parties were informed that a procedural schedule for the filing of intervenors' responsive testimony to rate design/rate consolidation testimony would be forthcoming. The Company agreed to draft a form of public notice for provision to all its customers, and to circulate the draft among the parties for comments prior to filing an agreed-upon form of notice by March 19, 2010. Due to the need to provide public notice to all customers, the Company agreed that further consideration of the Company's request for additional intervention was not necessary.

23 45. On March 15, 2010, Robert J. Saperstein, local counsel for Anthem Golf, filed a
24 Motion to Associate Counsel *Pro Hac Vice*.

25 46. Also on March 15, 2010, the Council docketed a Notice of Filing Revised Exhibit.

26 47. On March 16, 2010, the Company filed a Notice of Filing Form of Notice. The
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Company indicated that it had circulated the attached proposed form of notice to all parties, and had incorporated all comments received from the parties at the time of filing.

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2 48. On March 18, 2010, a procedural order was issued bifurcating the hearing in this
3 matter into two phases, with Phase II to include Commission consideration of rate design and rate
4 consolidation issues, and setting the hearing on Phase II issues to commence on May 18, 2010. The
5 procedural order directed the Company to mail to each of its customers in all its districts public
6 notice of the bifurcation, the new intervention deadline for Phase II, and the hearing dates and filing
7 deadlines for both Phase I and Phase II of the proceedings. The ordered form of notice was based on
8 the Company's March 16, 2010 filing. The notice stated that intervenors who would be participating
9 in Phase II of the hearing would be required to appear at the prehearing conference scheduled for
10 April 16, 2010. The procedural order also granted admission *pro hac vice* to Bradley J. Herrema.

11 49. On March 19, 2010, W.R. Hansen docketed comments on the proposed form of
12 notice.

13 50. On March 22, 2010, the Company filed the rebuttal testimony of its witnesses Paul
14 Townsley, Thomas M. Broderick, Joseph E. Gross, Sandra L. Murrey, Miles H. Kiger, Linda J.
15 Gutowski and Bente Villadsen.

16 51. On March 23, 2010, the Company filed revised rebuttal schedules in support of the
17 positions of its witnesses' rebuttal testimony filed on March 22, 2010.

18 52. On March 23, 2010, a procedural order was issued setting a public comment session
19 to be held by Commissioners in Anthem, Arizona, on April 7, 2010, in order to allow customers of
20 Arizona-American to provide public comment for the record in this case at Anthem, and ordering
21 the Company to provide public notice thereof.

22 53. On March 24, 2010, Marshall Magruder filed a Motion to Intervene, which was
23 granted by procedural order issued April 8, 2010.

24 54. On March 29, 2010, Staff filed the direct testimony of its witness Jeffrey A. Michlik
25 on rate design and rate consolidation.

26 55. On March 30, 2010, Staff filed the direct testimony of its witness Elijah O. Abinah on
27 rate design and rate consolidation.

28 56. On March 30, 2010, the Company filed a Notice of Filing Affidavit of Customer

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Notice as required by the March 18, 2010 procedural order.

57. On March 31, 2020, the Company requested issuance of a procedural order allowing its witness Bente Villadsen to appear telephonically at the hearing. The request was granted by procedural order issued April 13, 2010.

58. On April 1, 2010, Arizona-American filed a Motion to Extend Deadline to File Rebuttal Testimony, in which the Company requested two additional days, until April 7, 2010, to file its rebuttal testimony on the issue of rate design, including Staff's rate consolidation proposals. Arizona-American indicated in its request that none of the parties had an objection to the extension.

59. On April 2, 1010, a procedural order was issued granting the Company's request for a deadline extension.

60. On April 6, 2010, DMB filed a Motion to Intervene.

61. On April 7, 2010, W.R. Hansen filed his rate design and rate consolidation rebuttal testimony.

62. On April 7, 2010, the Company filed the rate design and rate consolidation rebuttal testimony of its witnesses Thomas M. Broderick and Constance E. Heppenstall.

63. On April 7, 2010, the Commission conducted a public comment as scheduled in Anthem, Arizona.

64. On April 13, 2010, Larry D. Woods filed a Motion to Intervene.

65. On April 14, 2010, Corte Bella and W. R. Hansen each filed a Motion to Intervene.

66. On April. 14, 2010, Anthem Golf filed a Notice of Errata.

67. On April 15, 2010, Philip H. Cook filed a Motion to Intervene.

68. On April 15, 2010, the Company filed a Notice of Adoption of Testimony and Certain Corrections.

69. On April 15, 2010, the Council filed the surrebuttal testimony of its witness Dan L. Neidlinger.

70. On April 15, 2010, Staff filed the surrebuttal testimony of its witnesses Gerald Becker, Dorothy Hains and Garry McMurry.

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2 71. On April 15, 2010, the Company filed a Notice of Filing Testimony Summaries.

3 72. On April 15, 2010, RUCO filed the surrebuttal testimony of its witnesses William A.
4 Rigsby and Ralph C. Smith.

5 73. On April 16, 2010, RUCO filed the revised surrebuttal testimony of its witness
6 William A. Rigsby.

7 74. On April 16, 2010, the Council filed a Prehearing Memorandum on Disputed Refund
8 Payment Issue.

9 75. On April 16, 2010, the prehearing conference was held as scheduled. During the
10 prehearing conference, entities who had timely filed requests for intervention in order to participate
11 in Phase II of the hearing in this matter appeared. The parties requesting intervention in Phase II of
12 this proceeding were informed that their participation would be limited to the procedural parameters
13 set forth in the March 18, 2010 procedural order, and that aside from the effects of possible rate
14 consolidation, the rate designs of the Company's districts other than its Anthem Water District, Sun
15 City Water District, Anthem/Agua Fria Wastewater District, Sun City Wastewater District, and Sun
16 City West Wastewater District will not be revisited in this proceeding.

17 76. On April 19, 2010, a procedural order was issued granting intervention to DMB,
18 Larry D. Woods, Corte Bella and Philip H. Cook subject to the procedural parameters set forth in the
19 March 18, 2010 procedural order.

20 77. On April 19, 2010, the Council filed Summaries of Direct and Surrebuttal Testimony
21 of Dan. L. Neidlinger.

22 78. On April 19, 2010, Phase I of the hearing in this matter commenced.

23 79. On April 20, 2010, RUCO filed a Notice of Filing Testimony Summary.

24 80. On April 20, 2010, Staff filed a Notice of Filing Testimony Summaries.

25 81. On April 20, 2010, Senator David Braswell, State Senator for Legislative District 6,
26 filed a letter stating that he was opposed to the Company's proposed water and sewer rate increases
27 for its Anthem customers.

28 82. On April 21, 2010, Staff filed a Notice of Filing Testimony Summaries.

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2 83. On April 22, 2010, a filing signed by "Glenn W. Smith, Treasurer," and "Richard Alt,
3 Leader," was docketed. The filing requested intervention for Scottsdale Citizens for Sustainable
4 Water ("SWAT"), and stated that SWAT is a representative for 17 homeowners associations.

5 84. On April 27, 2010, Arizona-American filed its Response to Motion to Intervene in
6 which it requested that SWAT's Motion to Intervene be denied. The Company stated that the
7 intervention request was not docketed until April 22, 2010, well past the April 15, 2010, deadline for
8 intervention of Phase II of this proceeding. Arizona-American also stated that contrary to the
9 requirements of Rule 31(d)(28) of the Rules of the Arizona Supreme Court, it did not appear from
10 the filing that SWAT had authorized representation by a lay person in this proceeding,

11 85. On April 27, 2010, RUCO filed a Notice of Filing Testimony Summaries.

12 86. On April 27, 2010, W.R. Hansen filed a Notice of Errata.

13 87. On April 29, 2010, Phase I of the hearing in this matter concluded.

14 88. On May 3, 2010, a letter from the Commission's Utilities Division Director was
15 docketed. In the letter, the Utilities Division Director recommended and requested that a public
16 comment session be scheduled in Sun City, Arizona due to the number of requests from customers
17 of the Company's Sun City Water Division for a public comment session in Sun City regarding the
18 pending rate case and the proposed rate consolidation, as well as the number of written complaints
19 and/or inquiries received from Sun City Water customers.

20 89. On May 3, 2010, a procedural order was issued scheduling a local public comment
21 session to be held by the Commissioners on May 17, 2010, in Sun City, Arizona in order to allow
22 customers to make comments regarding the pending rate case and the proposed rate consolidation.

23 90. On May 3, 2010, the Resorts filed the rate design and rate consolidation direct
24 testimony of their witness John S. Thornton.

25 91. On May 3, 2010, RUCO filed the rate design and rate consolidation direct testimony
26 of its witnesses Jodi A. Jerich and Rodney L. Moore.

27 92. On May 3, 2010, the Council filed the rate design and rate consolidation direct
28 testimony of its witness Dan L. Neidlinger.

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2 93. On May 3, 2010, Paradise Valley filed the rate design and rate consolidation direct
3 testimony of its witness Paradise Valley Town Manager James C. Bacon.

4 94. On May 3, 2010, W.R. Hansen filed his rate design and rate consolidation direct
5 testimony.

6 95. On May 3, 2010, Marshall Magruder filed his rate design and rate consolidation
7 direct testimony.

8 96. On May 3, 2010, Larry D. Woods filed his rate design and rate consolidation direct
9 testimony.

10 97. On May 3, 2010, Anthem Golf filed the rate design and rate consolidation testimony
11 of its witness Desi Howe.

12 98. On May 4, 2010, RUCO filed a Notice of Errata.

13 99. On May 4, 2010, the Company filed a Motion for Protective Order.

14 100. On May 5, 2010, the Company filed a Notice of Filing Form of Protective Order.

15 101. On May 5, 2010, the same filing docketed on April 22, 2010 was filed, but with an
16 additional page attached. The attached page stated in part that “. . . SWAT has authorized Richard
17 Alt, President and Glenn Smith, Treasurer, to file necessary papers to qualify as Interveners in the
18 Rate Consolidation Request of Arizona-American Water Company . . .”

19 102. On May 6, 2010, a procedural order was issued conditionally granting intervention to
20 SWAT. SWAT’s intervention was made conditional on SWAT filing, no later than May 17, 2010, a
21 document demonstrating compliance with the conditions required by Rule 31(d)(28) of the Rules of
22 the Arizona Supreme Court, or in the alternative, filing no later than May 17, 2010, a notice of
23 appearance of counsel. The procedural order further provided that if SWAT filed the required
24 documents to make its conditional intervention effective, it would be allowed to participate in this
25 proceeding through its appointed representative, subject to the parameters of the March 18, 2010
26 procedural order issued in this docket. The procedural order stated that in the event SWAT did not
27 file the required documents to make its conditional intervention effective, its individual members
28 could appear at the commencement of Phase II of this proceeding on May 18, 2010, and orally

1 provide public comment on their own behalf.
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3 103. Following issuance of the May 6, 2010 procedural order, no further filings were made
4 by Glenn W. Smith, Richard Alt, or any other person representing SWAT.

5 104. On May 6, 2010, a procedural order was issued approving the protective order which
6 was attached thereto as Exhibit A.

7 105. Parties filing executed copies of the protective order include the Council, W.R.
8 Hansen, Marshall Magruder, RUCO, and Staff. The Company also filed copies of the protective
9 order executed by Arizona Court Reporting Service.

10 106. On May 6, 2010, the Company filed a late-filed exhibit consisting of email
11 correspondence between the Company and the Daisy Mountain Fire District.

12 107. On May 7, 2010, the Company filed the redacted testimony of its witness James
13 Jenkins regarding the impact on the Company of a proposal made by the Council's witness Dan L.
14 Neidlinger to phase in the Pulte advance repayments made during the 2008 test year and March
15 2010.

16 108. On May 11, 2010, RUCO filed a late-filed exhibit regarding the Company's Arizona
17 pension costs.

18 109. On May 11, 2010, Paradise Valley filed a Notice of Errata.

19 110. On May 11, 2010, the Company filed an objection to the revenue requirement
20 testimony of RUCO's witness Rodney L. Moore set forth on page 5 of Mr. Moore's rate design
21 testimony.

22 111. On May 14, 2010, DMB filed a Notice of Filing Summary of Testimony.

23 112. On May 14, 2010, the Company filed the rate design and rate consolidation rebuttal
24 testimony of Company witnesses Thomas M. Broderick and Constance E. Heppenstall.

25 113. On May 14, 2010, Marshall Magruder filed his rate design and rate consolidation
26 rebuttal testimony.

27 114. On May 17, 2010, the Company filed a Notice of Filing Testimony Summaries.

28 115. On May 14, 2010, Marshall Magruder filed a Summary of Testimony.

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- 116. On May 18, 2010, the Council filed a Notice of Filing Testimony Summary.
- 117. On May 18, 2010, Anthem Golf filed a Notice of Filing Testimony Summary.
- 118. On May 18 and 19, 2010, the Council filed Testimony Summaries.
- 119. On May 18, 2010, Phase II of the hearing in this matter commenced as scheduled.
- 120. On May 19, 2010, the Council filed a copy of a May 17, 2010 letter from Jack Noblitt, President of its Board of Directors, to Jodi L. Jerich, Director of RUCO.
- 121. On May 20, 2010, RUCO filed a Notice of Filing Testimony Summaries.
- 122. On May 21, 2010, Staff filed a Notice of Filing Testimony Summaries.
- 123. On May 26, 2010, the Company filed as a late-filed exhibit a description of its community outreach in relation to rate consolidation.
- 124. On May 27, 2010, the Company filed the rate consolidation scenarios requested by Commissioner Mayes during Phase II of the hearing.
- 125. On June 3, 2010, Phase II of the hearing in this matter concluded.
- 126. On June 4, 2010, Supervisor Tom Sockwell, Mohave County District 2 Supervisor, filed a letter in opposition to rate consolidation.
- 127. On June 9, 2010, the Company filed as a late-filed exhibit its responses to Staff's data requests relating to rate consolidation.
- 128. On June 11, 2010, the Company filed its revenue requirement final schedules.
- 129. On June 17, 2010, the Company filed the redacted version of the evidentiary hearing transcript Volume 3, Phase II, dated May 20, 2010.
- 130. On June 18, 2010, Staff filed its revenue requirement final schedules.
- 131. On June 18, 2010, the Council filed its revenue requirement final schedules.
- 132. On June 22, 2010, a letter from the Sun City Grand Community Association ("Association") was docketed. The Association's letter requested that "either the district of which the Association is a part (the Agua Fria Water District) be permanently removed from the rate consolidation proposal, or that the Association be granted a reasonable extension of time to file a motion to intervene in this matter."

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133. On June 24, 2010, RUCO filed its revenue requirement final schedules.

134. On June 25, 2010, the Company filed a Response to the Association's June 22, 2010 filing. The Company viewed the June 22, 2010 letter as a request for intervention, and recommended that such request be denied as untimely. The Company further noted that intervention is not necessary for the Association to express its opposition to consolidation

135. On June 25, 2010, Staff filed its rate design and rate consolidation final schedules.

136. On June 25, 2010, the Company filed its stand-alone rate design final schedules.

137. On June 25, 2010, the Resorts filed their rate design and rate consolidation final schedules.

138. On June 28, 2010, a June 24, 2010, letter from Jack Noblitt, President of the Council's Board of Directors, to the Commissioners and Mr. Broderick was filed.

139. On June 28, 2010, Marshall Magruder filed final rate design and rate consolidation schedules.

140. On June 30, 2010, the Company filed a Notice of Additional Town Hall Meetings indicating that it had scheduled additional town hall meetings in Lake Havasu City (July 6, 2010), Bullhead City (July 7, 2010), Sun City (July 9, 2010), Scottsdale (July 12, 2010), Tubac (July 13, 2010), Surprise (July 14, 2010), Sun City West (July 15, 2010), and Anthem (July 26, 2010), to discuss the issue of rate consolidation.

141. On June 30, 2010, a copy of the June 22, 2010, letter docketed by the Sun City Grand Community Association was mailed to all parties of record.

142. On July 1, 2010, the Company filed revised revenue requirement and stand-alone rate design schedules for its Sun City Wastewater district.

143. On July 2, 2010, the Council filed a Notice of Filing Rate Design Schedules.

144. On July 6, 2010, the Company filed a notice of change of address for its July 7, 2010 town hall meeting on rate consolidation issues for Bullhead City.

145. On July 6, 2010, the Company filed revised revenue requirement schedules for its Sun City Water district.

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2 146. On July 8, 2010, the Council filed a Notice of Errata to its June 28, 2010 filing.

3 147. On July 12, 2010, Staff filed a Notice of Errata Regarding Rate Design Schedules for
4 the Sun City Water District.

5 148. On July 12, 2010, a filing was docketed by Ekmark & Ekmark, LLC. The filing
6 stated that the firm represented the Association with respect to matters of general counsel, and that
7 the Association had retained different counsel to represent the Association with respect to this
8 matter. The July 12, 2010 filing stated that the June 22, 2010 filing was made "on behalf of the
9 Association in order to provide a public comment with respect to the pending water rate case."

10 149. On July 14, 2010, a procedural order was issued indicating that that the Association's
11 June 22, 2010, letter expressing its opposition to rate consolidation in this proceeding would be
12 considered public comment by the Association in the record of this case.

13 150. On July 16, 2010, closing briefs were filed by the Company, the Council, Paradise
14 Valley, W.R. Hansen, Larry Woods, Marshall Magruder, DMB, Corte Bella, RUCO, and Staff.

15 151. On July 20, 2010, Paradise Valley filed a Notice of Errata.

16 152. On July 30, 2010, the Company filed a Notice Regarding Town Hall Meetings
17 indicating that it had completed the town hall meetings set forth in its June 30, 2010 filing. Attached
18 to the Notice was an example of the slide presentation made at the meetings and the handout
19 distributed to attendees of the meetings.

20 153. On July 30, 2010, the Company filed a recommendation regarding the administration
21 of its Sun City district low-income program to condominium and other multi-housing residents, in
22 addition to the already-eligible single dwelling unit residents.

23 154. On August 6, 2010, reply briefs were filed by the Company, the Council, Anthem
24 Golf, Marshall Magruder, DMB, Corte Bella, RUCO, and Staff.

25 155. On August 16, 2010, Marshall Magruder filed a Notice of Errata.

26 156. On October 1, 2010, RUCO filed a Notice of Filing Withdrawal of Phase-In
27 Proposal. RUCO stated that subsequent to filing its closing brief, it became apparent to RUCO that
28 due to carrying costs and other costs that allow the Company full recovery of its revenue

1
2 requirement, no version of RUCO's proposal, or modification to it, would actually result in a rate
3 design more beneficial to Anthem's ratepayers than RUCO's stand-alone rate design, and
4 accordingly, RUCO withdraws its alternate phase-in proposal.

5 157. On November 2, 2010, a letter dated October 13, 2010 addressed to the
6 Commissioners from the Council was filed. The letter stated that it listed the Council's enacted and
7 planned water conservation measures for the Anthem community. The letter invited Commissioners
8 to contact the Council.

9 158. On November 9, 2010, RUCO and the Council filed a Notice of Joint Filing of
10 Supplemental Information.

11 159. On November 12, W.R. Hansen filed a Notice of Change of Email Address.

12 160. Approximately 3,681 written public comments were filed in this docket, including
13 petition signatures, in opposition to the Company's requested rate increases in the districts. Many
14 comments were related to rate consolidation. While a few public comments were filed in support of
15 rate consolidation, the great majority of public comments filed expressed opposition to rate
16 consolidation.

17 **Determinations**

18 161. Arizona-American is a wholly owned subsidiary of American Water Works, the
19 largest investor-owned water and wastewater utility in the United States. American Water Works
20 owns a number of regulated water and wastewater subsidiaries that operate in 32 states, in addition
21 to non-regulated subsidiaries. American Water Works raises debt capital for its subsidiaries through
22 its financing subsidiary American Water Capital Corp. Arizona-American operates twelve water
23 and wastewater systems in Arizona. Arizona-American is Arizona's largest investor-owned water
24 and wastewater utility, operating twelve water and wastewater systems in Arizona, serving
25 approximately 150,000 customers located in portions of Maricopa, Mohave, and Santa Cruz
26 Counties.

27 162. During the test year, the Anthem Water district served approximately 8,700
28 customers in the Anthem Community, the Sun City Water district served approximately 23,000

1 customers in Sun City, the Town of Youngtown, and small sections of Peoria and Surprise, the
2 Anthem/Agua Fria Wastewater district served approximately 10,121 customers in the Anthem,
3 Verrado, and Russell Ranch communities, the Sun City Wastewater district served approximately
4 21,965 customers in Sun City, the Town of Youngtown, and small sections of Peoria and Surprise,
5 and the Sun City West Wastewater district served approximately 14,968 customers in Sun City West
6 and the Corte Bella community.
7

8 **Anthem Water**

9 163. For the Anthem Water district, Applicant recommends a revenue requirement of
10 \$13,455,431, which is an increase of \$5,962,687, or 79.58 percent, over its adjusted test year
11 revenues of \$7,492,744. Applicant's recommendation for the Anthem Water district would result in
12 an approximate \$37.37 increase for the average 5/8 x 3/4 inch water meter residential customer,
13 from \$37.22 per month to \$74.59 per month, or approximately 100.40 percent. Under the
14 Company's proposal, a median usage (8,000 gallons/month) Anthem Water district residential
15 customer on a 5/8 x 3/4-inch meter would experience an increase of \$33.46, approximately 100.39
16 percent, from \$33.33 per month to \$66.79 per month, or approximately 100.39 percent.

17 164. For the Anthem Water district, RUCO recommends a revenue requirement of
18 \$12,516,000, which is an increase of \$5,023,268, or 67.04 percent, over its adjusted test year
19 revenues of \$7,492,732. RUCO's recommendation for the Anthem Water district would result in an
20 approximate \$27.34 increase for the average (9,616 gallons/month) 5/8 x 3/4 inch water meter
21 residential customer, from \$37.22 per month to \$64.56 per month, or approximately 73.46 percent.
22 A median usage (8,000 gallons/month) Anthem Water district residential customer on a 5/8 x 3/4-
23 inch meter would experience an increase of \$24.48, approximately 73.45 percent, from \$33.33 per
24 month to \$57.81 per month.

25 165. For the Anthem Water district, Staff recommends a revenue requirement of
26 \$13,420,925, which is an increase of \$5,928,181, or 79.12 percent, over its adjusted test year
27 revenues of \$7,492,744. Staff's recommendation for the Anthem Water district would result in an
28 approximate \$28.62 increase for the average (9,616 gallons/month) 5/8 x 3/4 inch water meter

1 residential customer, from \$37.22 per month to \$65.84 per month, or approximately 76.90 percent.
2 A median usage (8,000 gallons/month) Anthem Water district residential customer on a 5/8 x 3/4-
3 inch meter would experience an increase of \$22.67, approximately 68.02 percent, from \$33.33 per
4 month to \$56.00 per month. Staff's alternative 5-tier rate design would result in an approximate
5 \$24.09 increase for the average (9,616 gallons/month) 5/8 x 3/4 inch water meter residential
6 customer, from \$37.22 per month to \$61.31 per month, or approximately 64.72 percent. A median
7 usage (8,000 gallons/month) Anthem Water district residential customer on a 5/8 x 3/4-inch meter
8 would experience an increase of \$18.67, approximately 56.02 percent, from \$33.33 per month to
9 \$52.00 per month.

10
11 166. The fair value rate base of the Anthem Water district is \$57,248,934.

12 167. A fair value rate of return for the Anthem Water district of 7.20 percent is reasonable
13 and appropriate.

14 168. The revenue increases requested by the Applicant for the Anthem Water district
15 would produce an excessive return on FVRB.

16 169. The gross revenues of the Anthem Water district should increase by \$5,928,181.

17 170. The revenue requirement authorized herein for the Anthem Water district is
18 \$13,420,925, which is an increase of \$5,928,181, or 79.12 percent, over adjusted test year revenues
19 of \$7,492,744. Under the rates adopted herein, an average usage (9,616 gallons/month) Anthem
20 Water district residential customer on a 5/8 x 3/4-inch meter will experience an increase of \$24.09,
21 approximately 64.72 percent, from \$37.22 per month to \$61.31 per month. A median usage (8,000
22 gallons/month) Anthem Water district residential customer on a 5/8 x 3/4-inch meter will experience
23 an increase of \$18.67, approximately 56.02 percent, from \$33.33 per month to \$52.00 per month.

24 171. According to Staff, the Maricopa County Environmental Services Division
25 ("MCESD") has determined that the Anthem Water district is currently delivering water that meets
26 the water quality standards required by Title 18, Chapter 4 of the Arizona Administrative Code.

27 172. The Anthem Water district is located within the Phoenix Active Management Area
28 ("AMA") and the Arizona Department of Water Resources ("ADWR") has determined that it is in

1 compliance with the ADWR requirements governing water providers.

2
3 173. It is reasonable and in the public interest to authorize the Company to establish a
4 deferral account to allow it to defer tank maintenance expenses for the Anthem Water district until
5 the next rate case for the district, at which time the Company may present evidence in support of
6 recovery of the deferred expense amounts for consideration.

7 **Sun City Water**

8 174. For the Sun City Water district, Applicant recommends a revenue requirement of
9 \$11,161,011, which is an increase of \$1,877,910, or 20.23 percent, over its adjusted test year
10 revenues of \$9,283,101. Applicant's recommendation for the Sun City Water district would result in
11 an approximate \$4.64 increase for the average (7,954 gallons/month) 5/8 x 3/4 inch water meter
12 residential customers, from \$16.73 per month to \$21.37 per month, or approximately 27.74 percent.

13 175. For the Sun City Water district, RUCO recommends a revenue requirement of
14 \$9,787,589, which is an increase of \$504,488, or 5.43 percent, over its adjusted test year revenues of
15 \$9,283,101. RUCO's recommendation for the Sun City Water district would result in an
16 approximate \$1.22 increase for the average (7,954 gallons/month) 5/8 x 3/4 inch water meter
17 residential customers, from \$16.73 per month to \$17.95 per month, or approximately 7.29 percent.

18 176. For the Sun City Water district, Staff recommends a revenue requirement of
19 \$11,126,179, which is an increase of \$1,843,078, or 19.85 percent, over its adjusted test year
20 revenues of \$9,283,101. Staff's recommendation for the Sun City Water district would result in an
21 approximate \$1.42 increase for the average (7,954 gallons/month) 5/8 x 3/4 inch water meter
22 residential customer, from \$16.73 per month to \$18.15 per month, or approximately 8.49 percent.
23 Staff's alternative 5-tier rate design would result in an approximate \$2.16 increase for the average
24 (7,954 gallons/month) 5/8 x 3/4 inch water meter residential customer, from \$16.73 per month to
25 \$18.89 per month, or approximately 12.91 percent.

26 177. The fair value rate base of the Sun City Water district is \$28,192,680.

27 178. A fair value rate of return for the Sun City Water district of 7.20 percent is reasonable
28 and appropriate.

1
2 179. The revenue increases requested by the Applicant for the Sun City Water district
3 would produce an excessive return on FVRB.

4 180. The gross revenues of the Sun City Water district should increase by \$1,843,078.

5 181. The revenue requirement authorized herein for the Sun City Water district is
6 \$11,126,179, which is an increase of \$1,843,078, or 19.85 percent, over its adjusted test year
7 revenues of \$9,283,101.

8 182. Under the rates adopted herein, an average usage (7,954 gallons/month) Sun City
9 Water district residential customer on a 5/8 x 3/4-inch meter will experience an increase of \$2.16,
10 approximately 12.91 percent, from \$16.73 per month to \$18.89 per month.

11 183. According to Staff, MCESD has determined that the Sun City Water district is
12 currently delivering water that meets the water quality standards required by Title 18, Chapter 4 of
13 the Arizona Administrative Code.

14 184. The Sun City Water district is located within the Phoenix AMA and ADWR has
15 determined that it is in compliance with the ADWR requirements governing water providers.

16 185. It is reasonable and in the public interest to require the Company to reduce water loss
17 in the Sun City Water district's PWS No. 07-099 to below 10 percent before it files its next rate
18 case, CC&N, or financing application, whichever comes first, and to require that the Company
19 continue tracking the water loss for PWS No. 07-099 for three years and submit the data collected
20 every six months, with the first water loss tracking report for PWS No. 07-099 to be filed as a
21 compliance item in this docket within 180 days of this Order.

22 186. It is reasonable and in the public interest to require the Company to file, within 60
23 days, or sooner if possible, for review by Staff, an application for approval of changes to the Sun
24 City Low Income Program that generally incorporate the program outlined in Exhibit B, in order to
25 extend the benefit of the Sun City Low Income Program to condominium and other multi-housing
26 dwellers.

27 187. It is reasonable and in the public interest to require Staff to review the Company's
28 Sun City Low Income Program and to prepare and docket, within 60 days of the Company's filing, a

1 Recommended Order regarding the Company's proposed changes to the Sun City Low Income
2 Program.
3

4 188. It is reasonable and in the public interest to authorize the Company to continue the
5 current high block funding mechanism for the Sun City Low Income Program.

6 **Anthem/Agua Fria Wastewater**

7 189. For the Anthem/Agua Fria Wastewater district, Applicant recommends a revenue
8 requirement of \$13,929,889, which is an increase of \$5,292,887, or 68.21 percent, over its adjusted
9 test year revenues of \$8,637,002. Applicant's recommendation for the Anthem/Agua Fria
10 Wastewater district would result in an approximate \$38.74 increase for an average water usage
11 (5,632 gallons per month) 5/8 x 3/4 inch water meter residential customer, from \$47.36 per month
12 to \$86.10 per month, or approximately 81.80 percent.

13 190. For the Anthem/Agua Fria Wastewater district, RUCO recommends a revenue
14 requirement of \$13,684,829, which is an increase of \$5,047,706, or 58.44 percent, over its adjusted
15 test year revenues of \$8,637,123. RUCO's recommendation for the Anthem/Agua Fria Wastewater
16 district would result in an approximate \$28.72 increase for an average water usage (5,632 gallons
17 per month) 5/8 x 3/4 inch water meter residential customer, from \$47.36 per month to \$76.08 per
18 month, or approximately 60.64 percent.

19 191. For the Anthem/Agua Fria Wastewater district, Staff recommends a revenue
20 requirement of \$13,668,321, which is an increase of \$5,031,198, or 58.25 percent, over its adjusted
21 test year revenues of \$8,637,123. Staff's recommendation for the Anthem/Agua Fria Wastewater
22 district would result in an approximate \$6.69 increase for an average water usage (5,632 gallons per
23 month) 5/8 x 3/4 inch water meter residential customer, from \$47.36 per month to \$54.05 per month,
24 or approximately 14.13 percent.

25 192. The fair value rate base of the Anthem/Agua Fria Wastewater district is \$45,115,225.

26 193. A fair value rate of return for the Anthem/Agua Fria Wastewater district of 7.20
27 percent is reasonable and appropriate.

28 194. The revenue increases requested by the Applicant for the Anthem/Agua Fria

1 Wastewater district would produce an excessive return on FVRB.
2

3 195. The gross revenues of the Anthem/Agua Fria Wastewater district should increase by
4 \$5,031,198.

5 196. The revenue requirement authorized herein for the Anthem/Agua Fria Wastewater
6 district is \$13,668,321, which is an increase of \$5,031,198, or 58.25 percent, over its adjusted test
7 year revenues of \$8,637,123.

8 197. Under the rates adopted herein, an average water usage (5,632 gallons per month)
9 Anthem/Agua Fria Wastewater district residential customer with a 5/8 x 3/4-inch water meter will
10 experience an increase of \$6.69, approximately 14.13 percent, from \$47.36 per month to \$54.05 per
11 month.

12 198. According to Staff, Anthem/Agua Fria Wastewater district is in full compliance with
13 Arizona Department of Environmental Quality ("ADEQ") requirements for operation and
14 maintenance, operator certification, and discharge permit limits.

15 199. It is reasonable and appropriate to require that the next time the Company files a rate
16 case involving the Anthem/Agua Fria Wastewater district, it shall file schedules which will allow a
17 comparison to be made between the two possible courses of action in that future case: keeping the
18 Anthem/Agua Fria Wastewater district as it is currently for ratemaking purposes, or separating it
19 into two separate districts.

20 200. It is reasonable and appropriate to require the Company to file, at the time it files new
21 schedules of rates and charges, revised hook-up fee tariffs for its Anthem/Agua Fria Wastewater
22 district that conform with those appearing in Hearing Exhibit S-7 at DMH-3, Figure 6 and DMH-4,
23 Figure 7.

24 **Sun City Wastewater**

25 201. For the Sun City Wastewater district, Applicant recommends a revenue requirement
26 of \$7,906,547, which is an increase of \$1,965,520, or 33.08 percent, over its adjusted test year
27 revenues of \$5,941,027. Applicant's recommendation for the Sun City Wastewater district would
28 result in an approximate \$5.14 increase for the average 5/8 x 3/4 inch water meter residential

1 customers, from \$13.69 per month to \$18.83 per month, or approximately 37.55 percent.

2
3 202. For the Sun City Wastewater district, RUCO recommends a revenue requirement of
4 \$7,435,703, which is an increase of \$1,495,322, or 25.17 percent, over its adjusted test year revenues
5 of \$5,940,381. RUCO's recommendation for the Sun City Wastewater district would result in an
6 approximate \$4.01 increase for the average 5/8 x 3/4 inch water meter residential customers, from
7 \$13.69 per month to \$17.70 per month, or approximately 29.29 percent.

8 203. For the Sun City Wastewater district, Staff recommends a revenue requirement of
9 \$7,665,720, which is an increase of \$1,725,339, or 29.04 percent, over its adjusted test year revenues
10 of \$5,940,381. Staff's recommendation for the Sun City Wastewater district would result in an
11 approximate \$4.37 increase for the average 5/8 x 3/4 inch water meter residential customers, from
12 \$13.69 per month to \$18.06 per month, or approximately 31.92 percent.

13 204. The fair value rate base of the Sun City Wastewater district is \$15,488,742.

14 205. A fair value rate of return for the Sun City Wastewater district of 7.20 percent is
15 reasonable and appropriate.

16 206. The revenue increases requested by the Applicant for the Sun City Wastewater
17 district would produce an excessive return on FVRB.

18 207. The gross revenues of the Sun City Wastewater district should increase by
19 \$1,725,339.

20 208. The revenue requirement authorized herein for the Sun City Wastewater district is
21 \$7,665,720, which is an increase of \$1,725,339, or 29.04 percent, over its adjusted test year revenues
22 of \$5,940,381.

23 209. Under the rates adopted herein, a Sun City Wastewater district residential customer
24 with a 5/8 x 3/4-inch water meter will experience an increase of \$4.37, approximately 31.92 percent,
25 from \$13.69 per month to \$18.06 per month.

26 210. The typical ADEQ compliance status is not applicable for the Sun City Wastewater
27 district because the Company's system in that district does not include a wastewater treatment plant.
28 The wastewater collected in the district is transported to a City of Tolleson wastewater treatment

1 plant for treatment and disposal.

2 **Sun City West Wastewater**

3
4 211. For the Sun City West Wastewater district, Applicant recommends a revenue
5 requirement of \$7,161,933, which is an increase of \$1,500,223, or 26.50 percent, over its adjusted
6 test year revenues of \$5,661,710. Applicant's recommendation for the Sun City West Wastewater
7 district would result in an approximate \$6.54 increase for the average 5/8 x 3/4 inch water meter
8 residential customers, from \$25.01 per month to \$31.55 per month, or approximately 26.15 percent.

9 212. For the Sun City West Wastewater district, RUCO recommends a revenue
10 requirement of \$6,419,979, which is an increase of \$758,269, or 13.39 percent, over its adjusted test
11 year revenues of \$5,661,710. RUCO's recommendation for the Sun City West Wastewater district
12 would result in an approximate \$3.36 increase for the average 5/8 x 3/4 inch water meter residential
13 customers, from \$25.01 per month to \$28.37 per month, or approximately 13.43 percent.

14 213. For the Sun City West Wastewater district, Staff recommends a revenue requirement
15 of \$7,137,298, which is an increase of \$1,475,588, or 26.06 percent, over its adjusted test year
16 revenues of \$5,661,710. Staff's recommendation for the Sun City West Wastewater district would
17 result in an approximate \$6.51 increase for the average 5/8 x 3/4 inch water meter residential
18 customers, from \$25.01 per month to \$31.52 per month, or approximately 26.03 percent.

19 214. The fair value rate base of the Sun City West Wastewater district is \$18,098,487.

20 215. A fair value rate of return for the Sun City West Wastewater district of 7.20 percent is
21 reasonable and appropriate.

22 216. The revenue increases requested by the Applicant for the Sun City West Wastewater
23 district would produce an excessive return on FVRB.

24 217. The gross revenues of the Sun City West Wastewater district should increase by
25 \$1,475,588.

26 218. The revenue requirement authorized herein for the Sun City West Wastewater
27 district is \$7,137,298, which is an increase of \$1,475,588, or 26.06 percent, over its adjusted test
28 year revenues of \$5,661,710.

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2 219. Under the rates adopted herein, a Sun City West Wastewater district residential
3 customer with a 5/8 x 3/4-inch water meter will experience an increase of \$6.51, approximately
4 26.03 percent, from \$25.01 per month to \$31.52 per month.

5 220. According to Staff, the Sun City West Wastewater is in full compliance with ADEQ
6 requirements for operation and maintenance, operator certification, and discharge permit limits.

7 221. It is reasonable and appropriate to require the Company to utilize the depreciation
8 rates Staff recommends that are delineated by district on the schedule attached hereto and
9 incorporated herein as Exhibit C.

10 **CONCLUSIONS OF LAW**

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

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

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

16 4. The fair value of Arizona-American's Anthem Water district rate base is
17 \$57,248,934, and applying a 7.20 percent fair value rate of return on this fair value rate base
18 produces rates and charges that are just and reasonable.

19 5. The fair value of Arizona-American's Sun City Water district rate base is
20 \$28,192,680, and applying a 7.20 percent fair value rate of return on this fair value rate base
21 produces rates and charges that are just and reasonable.

22 6. The fair value of Arizona-American's Anthem/Agua Fria Wastewater district rate
23 base is \$45,115,225, and applying a 7.20 percent fair value rate of return on this fair value rate base
24 produces rates and charges that are just and reasonable.

25 7. The fair value of Arizona-American's Sun City Wastewater district rate base is
26 \$15,488,742, and applying a 7.20 percent fair value rate of return on this fair value rate base
27 produces rates and charges that are just and reasonable.

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

1
2 \$18,098,487, and applying a 7.20 percent fair value rate of return on this fair value rate base
3 produces rates and charges that are just and reasonable.

4 9. The rates and charges approved herein are just and reasonable.

5 10. The rate design approved herein is just and reasonable.

6 11. It is reasonable and appropriate to require that the next time the Company files a rate
7 case involving the Anthem/Agua Fria Wastewater district, it shall file schedules which will allow a
8 comparison to be made between the two possible courses of action in that future case: keeping the
9 Anthem/Agua Fria Wastewater district as it is currently for ratemaking purposes, or separating it
10 into two separate districts.

11 12. It is reasonable and appropriate to require the Company to file, at the time it files new
12 schedules of rates and charges, revised hook-up fee tariffs for its Anthem/Agua Fria Wastewater
13 district that conform with those appearing in Hearing Exhibit S-7 at DMH-3, Figure 6 and DMH-4,
14 Figure 7.

15 13. It is reasonable and in the public interest to authorize the Company to establish a
16 deferral account to allow it to defer tank maintenance expenses for the Anthem Water district until
17 the next rate case for the district, at which time the Company present evidence in support of
18 recovery of the deferred expense amounts for consideration.

19 14. It is reasonable and in the public interest to require the Company to reduce water loss
20 in the Sun City Water district's PWS No. 07-099 to below 10 percent before it files its next rate
21 case, CC&N, or financing application, whichever comes first, and to require that the Company
22 continue tracking the water loss for PWS No. 07-099 for three years and submit the data collected
23 every six months, with the first water loss tracking report for PWS No. 07-099 to be filed as a
24 compliance item in this docket within 180 days of this Order.

25 15. It is reasonable and in the public interest to require the Company to file, within 60
26 days, or sooner if possible, for review by Staff, an application for approval of changes to the Sun
27 City Low Income Program that generally incorporate the program outlined in Exhibit B, in order to
28 extend the benefit of the Sun City Low Income Program to condominium and other multi-housing

1 dwellers.

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3 16. It is reasonable and in the public interest to require Staff to review the Company's
4 Sun City Low Income Program and to prepare and docket, within 60 days of the Company's filing, a
5 Recommended Order regarding the Company's proposed changes to the Sun City Low Income
6 Program.

7 17. It is reasonable and in the public interest to authorize the Company to continue the
8 current high block funding mechanism for the Sun City Low Income Program.

9 18. It is reasonable and in the public interest to require the Company to utilize the
10 depreciation rates Staff recommends that are delineated by district on the schedule attached hereto
11 and incorporated herein as Exhibit C.

12 **ORDER**

13 IT IS THEREFORE ORDERED that Arizona-American Water Company is hereby authorized
14 and directed to file with the Commission, on or before December 31, 2010, the schedules of rates and
15 charges attached hereto and incorporated herein as Exhibit A, which shall be effective for all service
16 rendered on and after January 1, 2011.

17 IT IS FURTHER ORDERED that Arizona-American Water Company shall notify its
18 customers of the revised schedules of rates and charges authorized herein by means of an insert in
19 their next regularly scheduled billing in a form and manner acceptable to the Commission's Utilities
20 Division Staff.

21 IT IS FURTHER ORDERED that the next time Arizona-American Water Company files a
22 rate case involving the Anthem/Agua Fria Wastewater district, it shall file schedules which will allow
23 a comparison to be made between the two possible courses of action in that future case: keeping the
24 Anthem/Agua Fria Wastewater district as it is currently for ratemaking purposes, or separating it into
25 two separate districts.

26 IT IS FURTHER ORDERED that Arizona-American Water Company shall file, at the time it
27 files new schedules of rates and charges, revised hook-up fee tariffs for its Anthem/Agua Fria
28 Wastewater district that conform with those appearing in Hearing Exhibit S-7 at DMH-3, Figure 6

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and DMH-4, Figure 7.

IT IS FURTHER ORDERED that Arizona-American Water Company shall file, within 60 days, or sooner if possible, for review by Staff, an application for approval of changes that generally incorporate the program outlined in Exhibit B, to the Sun City Low Income Program in order to extend the benefit of the Sun City Low Income Program to condominium and other multi-housing dwellers.

IT IS FURTHER ORDERED that Staff shall review the Company's Sun City Low Income Program filing and shall prepare and docket, within 60 days of the Company's filing, a Recommended Order regarding the Company's proposed changes to the Sun City Low Income Program.

IT IS FURTHER ORDERED that Arizona-American Water Company is hereby authorized to continue the current high block funding mechanism for the Sun City Low Income Program.

IT IS FURTHER ORDERED that Arizona-American Water Company is hereby authorized to establish a deferral account to allow it to defer tank maintenance expenses for the Anthem Water district until the next rate case for the Anthem Water district, at which time Arizona-American Water Company may present evidence in support of recovery of the deferred expense amounts for consideration.

IT IS FURTHER ORDERED that Arizona-American Water Company shall reduce water loss in the Sun City Water district's PWS No. 07-099 to below 10 percent before it files its next rate case, CC&N, or financing application, whichever comes first; and shall continue tracking the water loss for PWS No. 07-099 for three years and submit the data collected every six months; and shall file within 180 days, with the Commission's Docket Control, as a compliance item in this docket, the first water loss tracking report for PWS No. 07-099.

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2 IT IS FURTHER ORDERED that Arizona-American Water Company shall utilize the
3 depreciation rates delineated by district on the schedule attached hereto and incorporated herein as
4 Exhibit C.

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

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

7
8 _____
9 CHAIRMAN COMMISSIONER

10 _____
11 COMMISSIONER COMMISSIONER COMMISSIONER

12
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 the
16 Commission to be affixed at the Capitol, in the City of Phoenix,
17 this _____ day of _____, 2010.

18 _____
19 ERNEST G. JOHNSON
20 EXECUTIVE DIRECTOR

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23 DISSENT _____

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28 DISSENT _____

1 SERVICE LIST FOR: ARIZONA-AMERICAN WATER COMPANY
2 ANTHEM WATER DISTRICT, SUN CITY WATER
3 DISTRICT, ANTHEM/AGUA FRIA WASTEWATER
DISTRICT, SUN CITY WASTEWATER DISTRICT,
AND SUN CITY WEST WASTEWATER DISTRICT.

4 DOCKET NOS.: W-01303A-09-0343 AND SW-01303A-09-0343

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27
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EXHIBIT A**ANTHEM WATER****MONTHLY USAGE CHARGE****Residential and Commercial**

5/8" x 3/4" Meter	\$ 25.00
1" Meter	62.50
1-1/2" Meter	125.00
2" Meter	200.00
3" Meter	400.00
4" Meter	625.00
6" Meter	1,250.00
8" Meter	2,000.00

Private Fire

Private Fire 3" Meter	\$10.00
Private Fire 4" Meter	12.50
Private Fire 6" Meter	25.00
Private Fire 8" Meter	40.00
Private Fire 10" Meter	57.50

COMMODITY CHARGES: (per 1,000 gallons)**Residential (All Meter Sizes)**

First 2,000 gallons	\$1.5000
2,001 to 5,000 gallons	3.0000
5,001 to 9,000 gallons	5.0000
9,001 to 21,000 gallons	7.0000
Over 21,000 gallons	8.5350

Commercial**5/8 x 3/4" Meter**

First 9,000 gallons	\$5.0000
Over 9,000 gallons	8.5350

1" Meter

First 18,000 gallons	5.0000
Over 18,000 gallons	8.5350

1 1/2" Meter

First 34,000 gallons	5.0000
Over 34,000 gallons	8.5350

2" Meter

First 53,000 gallons	5.0000
Over 53,000 gallons	8.5350

3" Meter

First 107,000 gallons	5.0000
Over 107,000 gallons	8.5350

EXHIBIT A**ANTHEM WATER****4" Meter**

First 168,000 gallons	5.0000
Over 168,000 gallons	8.5350

6" Meter

First 340,000 gallons	5.0000
Over 340,000 gallons	8.5350

8" Meter

First 547,000 gallons	5.0000
Over 547,000 gallons	8.5350

Interruptible	\$5.5243
Wholesale (Phoenix) OWU	0.5381
Potable Irrigation	2.5648

SERVICE LINE AND METER INSTALLATION CHARGES:
 (Refundable Pursuant to A.A.C. R14-2-405)

<u>Meter Size</u>	<u>Service Line Charges</u>	<u>Meter Charges</u>	<u>Total Charges</u>
5/8" x 3/4" Meter	\$370.00	\$130.00	\$500.00
3/4" Meter	370.00	205.00	575.00
1" Meter	420.00	240.00	660.00
1-1/2" Meter	450.00	450.00	900.00
2" Turbine	580.00	945.00	1,525.00
2" Compound	580.00	1,640.00	2,220.00
3" Turbine	745.00	1,420.00	2,165.00
3" Compound	765.00	2,195.00	2,960.00
4" Turbine	1,090.00	2,270.00	3,360.00
4" Compound	1,120.00	3,145.00	4,265.00
6" Turbine	1,610.00	4,425.00	6,035.00
6" Compound	1,630.00	6,120.00	7,750.00
Over 6"	Cost	Cost	Cost

SERVICE CHARGES:

Reconnection (During business hours)	\$60.00
Reconnection (After business hours)	90.00
Insufficient Funds, NSF Fee	25.00
Customer Requested Meter Reread (if not in error)	10.00
Meter Test Charge (Less than 3% difference)	30.00

EXHIBIT A**SUN CITY WATER****MONTHLY USAGE CHARGE:****Residential and Commercial**

5/8" x 3/4" Low Income	\$ 4.50
5/8" x 3/4" Meter	9.00
1" Meter	22.50
1-1/2" Meter	45.00
2" Meter	72.00
3" Meter	144.00
4" Meter	225.00
6" Meter	450.00
8" Meter	720.00

<u>Public Interruptible – Peoria</u>	8.39
<u>Irrigation – 2"</u>	79.75

Private Fire

Private Fire 3"	10.00
Private Fire 4"	10.00
Private Fire 6"	10.00
Private Fire 8"	14.40
Private Fire 10"	20.70
Private Hydrant - Peoria	8.45

COMMODITY CHARGES: (per 1,000 gallons)**Residential (All Meters)**

First 1,000 gallons	\$0.7500
1,001 to 3,000 gallons	1.1000
3,001 to 9,000 gallons	1.4000
9,001 to 12,000 gallons	1.7000
Over 12,000 gallons	2.0460

Commercial**5/8 x 3/4" Meter**

First 10,000 gallons	\$1.4000
Over 10,000 gallons	2.0460

1" Meter

First 20,000 gallons	\$1.4000
Over 20,000 gallons	2.0460

1 1/2" Meter

First 40,000 gallons	\$1.4000
Over 40,000 gallons	2.0460

EXHIBIT A**SUN CITY WATER****2" Meter**

First 64,000 gallons

Over 64,000 gallons

\$1.4000

2.0460

3" Meter

First 131,000 gallons

Over 131,000 gallons

\$1.4000

2.0460

4" Meter

First 205,000 gallons

Over 205,000 gallons

\$1.4000

2.0460

6" Meter

First 415,000 gallons

Over 415,000 gallons

41.4000

2.0460

8" Meter

First 670,000 gallons

Over 670,000 gallons

\$1.4000

2.0460

Public Interruptible – Peoria

\$1.1956

Irrigation – 2"

1.2900

Irrigation – Raw

1.0316

Central AZ Project – Raw

\$0.8480

Private Hydrant – Peoria

1.1956

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable Pursuant to A.A.C. R14-2-405)

<u>Meter Size</u>	<u>Service Line Charges</u>	<u>Meter Charges</u>	<u>Total Charges</u>
5/8" x 3/4" Meter	\$370.00	\$130.00	\$500.00
3/4" Meter	370.00	205.00	575.00
1" Meter	420.00	240.00	660.00
1-1/2" Meter	450.00	450.00	900.00
2" Turbine	580.00	945.00	1,525.00
2" Compound	580.00	1,640.00	2,220.00
3" Turbine	745.00	1,420.00	2,165.00
3" Compound	765.00	2,195.00	2,960.00
4" Turbine	1,090.00	2,270.00	3,360.00
4" Compound	1,120.00	3,145.00	4,265.00
6" Turbine	1,610.00	4,425.00	6,035.00
6" Compound	1,630.00	6,120.00	7,750.00
Over 6"	Cost	Cost	Cost

EXHIBIT A**SUN CITY WATER****SERVICE CHARGES:**

Reconnection (During business hours)	\$30.00
Reconnection (After business hours)	40.00
Insufficient Funds, NSF Fee	25.00
Customer Requested Meter Reread (if not in error)	5.00
Meter Test Charge	10.00

Groundwater Savings Fee

Residential (Per Unit)	\$1.565
Non-residential (Per 1,000 gallons)	\$0.119200

DOCKET NO. W-01303A-09-0343 ET AL.
EXHIBIT A

ANTHEM/AGUA FRIA WASTEWATER

Monthly Usage Charge:

Residential	
Commercial 5/8"	\$ 44.48
Commercial 3/4"	66.72
Commercial 1"	89.06
Commercial LG	178.05

Commodity Charge (Per 1,000 gallons water usage)

Residential	\$9.5968
Commercial 5/8"	5.5760
Commercial 3/4"	5.5760
Commercial 1"	5.5760
Commercial LG	5.5760
Wholesale Phoenix	5.5760

Effluent Charge:

All gallons (Per Acre-foot)	\$250.00
All gallons (Per 1,000 gallons)	0.77

Annual Fee for Industrial Discharge Service

<=50,000 gallons water per month	\$ 500.00
> 50,000 gallons water per month	1,000.00

Sewer Facilities Hook-Up Fees

Fee per Equivalent Residential Unit ("ERU")	765.00
ERU Schedule:	
Single Family Home	1.00
Apartment Units	0.50
Commercial Units (per acre)	4.00
Resorts (per room)	0.50

SERVICE CHARGES:

Establishment during business hours	\$30.00
Establishment after business hours	45.00
Reconnection (delinquent)	40.00
Reconnection after hours	55.00
NSF Check	15.00
Late Fee (Per Month)	1.50%

DOCKET NO. W-01303A-09-0343 ET AL.
EXHIBIT A

SUN CITY WASTEWATER

Monthly Usage Charge

Residential

Single Unit 5/8" x 3/4"	\$ 18.06
Single Unit 1"	46.74
Single Unit 1 1/2"	93.48
Single Unit =>2"	149.56
Single Unit Non Water	18.70
Multi-Unit All Water	18.70
Multi-Unit Non Water	18.70

Commercial

WC	\$ 5.63
DW	42.92
WM	10.45
WR	21.25
RR	10.91
Paradise Park I/U	8,688.62
Single Unit 5/8" x 3/4"	9.18
Single Unit 1"	22.96
Single Unit 1 1/2"	45.90
Single Unit 2"	73.44
Single Unit > 2"	73.44
Single Unit Non Water	73.44
Multi-Unit 5/8 x 3/4"	9.18
Multi-Unit 1"	22.96
Multi-Unit 1 1/2"	45.90
Multi-Unit 2"	73.44
Multi-Unit > 2"	73.44
Multi-Non Water	73.44
Larger user => 2"	73.44

Commercial Volumetric Charge

(Per 1,000 gallons water usage) \$1.2828

Paradise Park I/U Volumetric Charge

(Per 1,000 gallons water usage) 1.8720

Annual Fee for Industrial Discharge Service:

<= 50,000 gallons water per month	\$500.00
> 50,000 gallons water per month	1,000.00

EXHIBIT A**SUN CITY WEST WASTEWATER****Monthly Usage Charge****Residential**

Single Unit 5/8" x 3/4"	\$ 31.56
Single Unit 1"	78.81
Single Unit 1 1/2"	157.81
Single Unit =>2"	252.18
S Unit Non Water	31.52
M all Unit	31.52

Commercial

WC	\$ 11.86
DW	95.12
WM	22.20
WR	46.50
S Unit 5/8" x 3/4"	17.97
S Unit 1"	44.93
S Unit 1 1/2"	89.88
S Unit 2"	143.81
S Unit > 2"	143.81
S Unit Non Water	143.81
M Unit 5/8 x 3/4"	17.97
M Unit 1"	44.93
M Unit 1 1/2"	89.88
M Unit 2"	143.81
S Unit >2"	143.81
S Unit LU => 2"	143.81

Commercial Volumetric Charge

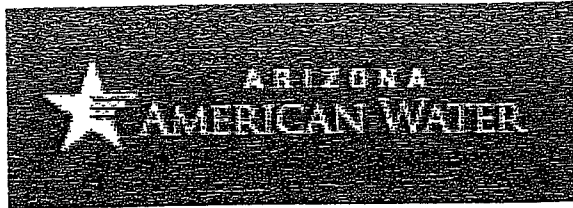
(Per 1,000 gallons water usage) \$2.6499

Annual Fee for Industrial Discharge Service:

<= 50,000 gallons water per month	\$500.00
> 50,000 gallons water per month	1,000.00

SERVICE CHARGES:

During Normal Business hours	\$30.00
During Non-Business hours	40.00
Insufficient Funds (NSF) charge	25.00



SUN CITY TAXPAYERS ASSOCIATION



Community Action for Seniors

Sun City/Youngtown Low Income Assistance Program For Condominium Residents

Planning Meeting
SCTA Office
July 29, 2010

Sun City Taxpayers Association
10195 W. Coggins Drive
Sun City, AZ 85351



SUN CITY TALENTS ASSOCIATION



Community Action for Seniors

SCTA Board Oversight Chairperson + A pool of eight (8) people will be needed.

Get the word out

- Newspaper stories
- SCTA "tips"
- Flyers to condo residents with help from Condo Association



Dedicated phone line w/answering service



Screen applicants

- Send out information packet w/application
- Set up appointment for SCTA office visit
- Complete benefits check up
- LIAP for AAW



Computer spreadsheet with all pertinent information



Write check for \$4/month (twice a year)



Verify resident still living there before next check is written



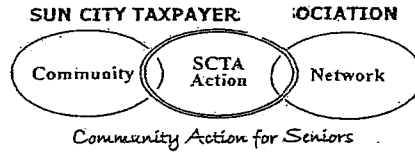
Submit monthly written report to AAW



Meet personally every quarter to review and adjust program



Bill AAW quarterly for misc. expenses (phone, postage, etc.)



APPLICATION: Sun City/Youngtown Low Income Assistance Program For Condominium Residents (Program is for residential customers and their domestic water service)

Section 1—Customer Information

Association Name _____ Customer Assoc. Account # _____ (Located on Bill)

Mailing Address _____

City _____ Zip Code _____

Management Company _____

Individual (Customer) Name _____

Home Address _____ (Individual Address)

City _____ Zip Code _____

Daytime Phone # _____ Individual Resident (Must list all three) # _____ Condo Assoc. (Chairperson) # _____ (Management Company)

Section 2—Program Eligibility for Condo Owners

Are you Eligible?

Each applicant for the Low Income Assistance Program must meet all four criteria below to be eligible for the program. Please check all boxes that apply:

- Full time/permanent Sun City/Youngtown Resident (Drivers license or AZ car license for I.D.)
Over 65 years old (one member of family)
All Annual income does not exceed \$16,245 for single-person household (\$21,855 for two-person household)
Receive domestic water service from Arizona-American Water

I state the information I have provided in this application is true and correct. I agree to provide proof of income,

X _____ Arizona American Water Customer Signature

_____ Date

Mail or deliver to confirming agent: Sun City Taxpayers Association 10195 W. Coggins Drive Sun City, AZ 85351

DECISION NO. _____

EXHIBIT "C"

DEPRECIATION RATES FOR WATER SYSTEMS –Anthem Water District

NARUC Acct	Company's Account #.	Depreciable Plant	Decision # 70372	Company's proposed rate (%)	Rate (%)
301	301000	Organization	0	0	0
302	302000	Franchises	0	0	0
303	303200	Land & Ld Rights SS	0	0	0
	303300	Land & Ld Rights P	0	0	0
	303500	Land & Ld Rights TD	0	N/A	0
	303600	Land & Land Rights AG	0	N/A	0
304	304100	Struct & Imp SS	2.50	2.50	2.50
	304200	Struct & Imp P	1.67	1.67	1.67
	304300	Struct & Imp WT	1.67	1.67	1.67
	304400	Struct & Imp TD	1.67	1.67	1.67
	304510	Struct & Imp AG Cap Lease	0	N/A	0
	304600	Struct & Imp Offices	1.67	1.67	1.67
	304620	Struct & Imp Leasehold	1.67	0	1.67
	304700	Struct & Imp Store, Shop, Gar	0.00	N/A	0.00
305	305000	Collect & Impounding	1.67	2.50	2.50
306	306000	Lake, River & Other Intakes	2.50	2.50	2.50
307	307000	Wells & Springs	2.52	2.52	2.52
308	308000	Infiltration Galleries & Tunne	N/A	6.67	2.00 ³
310	310100	Power Generation Equip Other	N/A	4.42	4.42
311	311200	Pump Equip Electric	4.42	4.42	4.42
	311300	Pump Equip Diesel	N/A	4.42	4.42
	311500	Pump Equip Other	4.42	4.42	4.42
320	320100	WT Equip Non-Media	4.00	7.06 ⁴	7.06
	320200	WT Equip Filter Media	N/A	5.00 ⁴	5.00
330	330000	Dist Reservoirs & Standpipe	1.67	1.67	1.67
331	331001	TD Mains Not Classified by size	1.53	1.56	1.53
	331100	TD Mains 4-inch & Less	1.53	1.53	1.53
	331200	TD Mains 6-inch to 8-inch	1.53	1.53	1.53
	331300	TD Mains 10-inch to 16-inch	1.53	1.53	1.53
333	333000	Services	2.48	2.48	2.48
334	334100	Meters	2.51	6.67 ⁴	6.67
	334200	Meter Installations	2.51	2.51	2.51
	334300	Meter Vaults	N/A	2.51	2.51
335	335000	Hydrants	1.99	2.00	2.00
336	N/A	Backflow Prevention Devices	N/A	N/A	6.67
340	340100	Office Furniture & Equip	4.59	4.55	4.55
	340200	Comp & Periph Equip	4.59	10.00	10.00
	340300	Computer Software	N/A	25.00 ⁴	25.00
	340330	Comp Software Other	N/A	25.00 ⁴	25.00

Arizona-American Water Company
Anthem Water Division

341	341100	Trans Equip Lt Duty Trks	25.00	20.00 ⁴	20.00
	341200	Trans Equip Hvy Duty Trks	25.00	15.00 ⁴	15.00
	341300	Transportation Equipment – Other ¹	N/A	25.00	20.00
	341400	Trans Equip Other ²	25.00	16.67	16.67
342	342000	Stores Equipment	0.00	N/A	0.00
343	343000	Tools, Shop, Garage Equip	1.53	4.14	4.14
344	344000	Laboratory Equipment	3.71	3.71	3.71
345	345000	Power Operated Equipment	1.53	5.14	5.14
346	346100	Comm Equip Non-Telephone	9.76	10.28	10.28
	346190	Remote Control & Instrumentation	N/A	9.76	9.76
	346200	Comm Equip Telephone	9.76	9.76	9.76
	346300	Comm Equip Other	7.91	4.93	4.93
347	347000	Misc Equipment	0.00	6.19	6.19

- Notes:
1. Per the Company, this account reflects transportation automobiles.
 2. Per the Company, this account reflects transportation equipment other than trucks, such as trailers and cars, etc.
 3. Per the Company's response to Data Request No. STF 14.8, this account includes source water supply facilities, such as, the CAP pumping station and pipeline from the CAP canal to the Anthem Water Treatment Plant. The depreciation rate is consistent with that of Account Nos. 331400 and 30900 used in the Sun City Water District.
 4. Approved in Decision No. 71410.

DEPRECIATION RATES FOR SUN CITY WATER DISTRICT

NARUC Acct #	Company's Account #.	Depreciable Plant	Decision # 70351	Rate (%) Sun City Water proposed	Rate (%)
301	301000	Organization	0	0	0
302	302000	Franchises	0	0	0
303		Land & Land Rights	0		0
	303200	Land & Land Rights SS	0	0	0
	303300	Land & Land Rights P	0	0	0
	303500	Land & Land Right TD	0	0	0
	303600	Land & Land Right AG	0	0	0
304		Structures & Improvements			
	304100	Structure & Improvement SS	2.50	2.50	2.50
	304200	Structure & Improvement P	1.67	1.67	1.67
	304300	Structures and Improvements WT	1.67	1.67	1.67
	304400	Structure & Improvement TD	2.00	2.00	2.00
	304500	Structure & Improvement AG	N/A	3.99 ^{1,2}	3.99
	304600	Structure & Improvement office	4.63	4.63	4.63
	304620	Structure & Improvement Leasehold	N/A	N/A	0
	304800	Structure & Improvement Misc	1.67	1.67	1.67
305	305000	Collection & Impounding reservoirs	2.50	2.50	2.50
307	307000	Wells & Springs	2.52	2.52	2.52
309	309000	Supply Mains	N/A	2.00	2.00
310		Power Generation Equip	4.42	4.42	4.42
	310100	Power Generation Equip Other	N/A	4.42	4.42
311		Pumping Equipment			
	311200	Pump Equipment Electric	4.42	4.42	4.42
	311300	Pump Equipment Diesel	5.00	5.00	5.00
	311400	Pump Equipment Hydraulic	N/A	4.42	4.42
	311500	Pump Equipment Other – pump parts ¹	5.01	5.01	5.01
320		Water Treatment			
	320100	Water Treatment Equipment Non-Media	4.00	7.06 ²	7.06
330		Distribution Reservoirs & Standpipes			
	330000	Distribution Reservoirs & Standpipes	1.67	1.67	1.67
331		Transmission and Distribution			
	331001	TD mains not classified by size	1.53	1.53	1.53
	331100	TD mains 4-inch & less	1.53	1.53	1.53
	331200	TD mains 6-inch to 8-inch	1.53	1.53	1.53
	331300	TD mains 10-inch to 16-inch	1.53	1.53	1.53
	331400	TD mains 18-inch & Grtr	N/A	2.00 ²	2.00
333	333000	Services	2.48	2.48	2.48
334		Meters			
	334100	Meters	2.51	6.67 ²	6.67 ⁵
	334200	Meter installations	2.51	2.51	2.51
335	335000	Hydrants	2.00	2.00	2.00
336	N/A	Backflow Prevention Devices	6.67	N/A	6.67
339		Other Plant & Misc Equipment			
	339100	Other P/E Intangible	0	0	0
	339500	Other P/E TD ³	2.00	20.00	0.00 ³

340	340100	Office Furniture & Equipments	4.59	4.59	4.59
	340200	Computer & periph equipment	4.59	10.00 ²	10.00
	340300	Computer Software	N/A	25.00 ²	25.00
	340310	Computer Software	N/A	25.00 ²	25.00
	340325	Computer Software Custom	N/A	25.00 ²	25.00
	340330	Computer Software other	N/A	25.00 ²	25.00
	340500	Other Office Equip – ice/water machine ¹	N/A	7.13 ¹	7.13
341	Transportation Equipment				
	341100	Transportation Equip, Lt Duty Trucks	25.00	20.00 ²	20.00
	341200	Transportation Equip, heavy Duty Trucks	25.00	15.00 ²	15.00
	341400	Trans Equip – Other – trailer for flatbed backhoe	N/A	16.67	16.67
342	342000	Store Equipments	3.91	3.91	3.91
343	343000	Tools Shop & Garage Equipments	4.02	4.02	4.02
344	344000	Lab equipments	3.71	3.71	3.71
345	345000	Power operated equipments	5.20	5.20	5.20
346	Communication Equipments				
	346100	Communication Equip non-telephone	10.30	10.30	10.30
	346190	Remote Control & Instrument	10.30	10.30	10.30
	346200	Communication Equip - Telephone	10.30	10.30	10.30
	346300	Communication Equip Other	4.93	4.93	4.93
347	347000	Misc Equipment	0.0	6.19 ⁴	6.19

Notes:

1. Per the District's response to Data Request STF 14.1-14.7.
2. Referred to Decision #71410.
3. This account is for easement/right of way, the depreciation rate should be 0%.
4. According to the District, this account only includes an eye wash drench for Well #5.1 that was in service in May 2009.
5. Per the District's February 18 and 19 e-mails, the Company had begun its 15-year automatic meter replacement program in 2009. The depreciation rate for meter should be 6.67%.

DEPRECIATION RATES FOR ANTHEM/AGUA FRIA WASTEWATER DISTRICT

NARUC Acct #	Co.'s Account	Description	Decision # 70372	Co's proposed rate (%)	Depreciation Rate (%)
304	304100 ¹	Struct & Imp SS	2.50%	0	0
304	304200 ¹	Struct & Imp P	N/A	0	0
304	304510 ¹	Struct & Imp AG Cap Lease	N/A	0	0
304	304600 ¹	Struct & Imp Offices	N/A	0	0
304	304620 ¹	Struct & Imp Leasehold	N/A	0	0
304	304800 ¹	Struct & Imp Misc	N/A	0	0
307	307000 ¹	Wells & Springs	N/A	0	0
340	340100 ¹	Office Furniture & Equip	N/A	0	0
340	340200 ¹	Comp & Periph Equip	0%	10.00	10.00
340	340300 ¹	Computer Software	N/A	0	0
340	340330 ¹	Comp Software Other	N/A	0	0
340	340500 ¹	Other Office Equipment	N/A	0	0
341	341100 ¹	Trans Equip Lt Duty Trucks	N/A	20.00	20.00
341	341200 ¹	Trans Equip Hvy Duty Trks	25.00%	15.00	15.00
341	341400 ¹	Trans Equip Other ²	25.00%	16.67	16.67
343	343000 ¹	Tools, Shop, Garage Equip	4.47%	4.47	4.47
344	344000 ¹	Lab Equipment	N/A	0	0
346	346100 ¹	Comm Equip Non-Telephone	N/A	0	0
346	346200 ¹	Comm Equip Telephone	N/A	0	0
346	346300 ¹	Comm Equip Other	N/A	0	0
347	347000 ¹	Misc Equipment	N/A	0	0
352	352000	WW Franchises	0.00%	0	0
353	353200	WW Land & Ld Rights Coll	0.00%	0	0
353	353500	WW Land & Ld Rights Gen	0.00%	0	0
354	354200	WW Struct & Imp Coll	2.50%	1.67	1.67
354	354300	WW Struct & Imp SPP	N/A	0	0
354	354400	WW Struct & Imp TDP	0.00%	1.67	1.67
354	354500	WW Struct & Imp Gen	1.67%	1.68	1.67
355	355500	WW power gen equip RWTP	N/A	5.00	4.42
		WW Collection Sewers		2.07	2.07
360	360000	Forced	2.04%		2.04
361	361100	WW Collecting Mains	2.04%	2.04	2.04
362	362000	WW Special Coll Struct	8.40%	2.04	2.04
363	363000	WW Services Sewer	2.04%	2.04	2.04
364	364000	WW Flow Measuring Devices	5.42%	10.00	10.00
370	370000	WW Receiving Wells	5.42%	5.00	5.42
371	371100	WW Pump Equip Elect	5.42%	5.42	5.42
371	371200	WW Pump Equip Oth Power	5.42%	5.42	5.42
380	380000	WW TD Equipment	5.00%	5.00	5.00
380	380050	WW TD Equip Grit Removal	5.00%	5.00	5.00

380	380100	WW Equip Sed Tanks/Acc	5.00%	5.00	5.00
380	380200	WW TD Equip Sludge/Effl RMV	N/A	5.00	5.00
380	380250	WW TD Equip Sludge Dig Tnk	5.00%	5.00	5.00
380	380300	WW TD Equip Sludge Dry/Filt	5.00%	5.00	5.00
380	380400	WW TD Equip Aux Effl Trmt	N/A	5.00	5.00
380	380500	WW TD Equip Chem Trmt Plt	5.00%	5.00	5.00
380	380600	WW TD Equip Oth Disp	5.00%	5.00	5.00
380	380625	WW TD Gen Trmt	N/A	8.40	5.00
370	380650	WW TD Equip Influent Lift Station	N/A	8.40	5.00
381	381000	WW Plant Sewers	N/A	5.00	5.00
382	382000	WW Outfall Sewer Line	N/A	5.00	5.00
389	389100	WW Oth Plt & Misc Equip Int	0.00%	4.98	4.98
390	390000	WW Office Furniture & Equip	4.59%	4.59	4.59
391	391000	WW Trans Equipment	N/A	20.00	20.00
392	392000	WW Stores Equipment	N/A	3.96	3.96
393	393000	WW Tool Shop & Garage Equip	4.47%	4.47	4.47
394	394000	WW Laboratory Equipment	3.71%	3.71	3.71
395	395000	WW Power Operated Equip	5.88%	5.02	5.02
396	396000	WW Communication Equip	10.30%	10.30	10.30
397	397000	WW Misc Equipment	N/A	5.10	5.10
398	398000	WW Other Tangible Plant	0.00%	0.00	0.00

- Notes: 1. Per Company's response to Data Request No. STF 14.12 & 14.13, the account reflects allocation of Arizona Corporate plant.
2. Per Company, the account reflects any transportation equipments that are not light truck or heavy truck; it could be trailer, mules, etc.

DEPRECIATION RATES FOR SUN CITY WASTEWATER DISTRICT

NARUC Acct #	Company's Acct #.	Depreciable Plant	Decision #70209	Rate (%) Sun City Sewer District proposed	Rate (%)
304	304510 ¹	Struct & Imp AG Cap Lease	N/A	0	0
	304600 ¹	Struct & Imp Office	N/A	0	0
	304620 ¹	Struct & Imp Leaseholds	N/A	0	0
340	340100 ¹	Office furniture & Equip	N/A	0	0
	340200 ¹	Computer & periph equip	N/A	0	0
	340300 ¹	Computer software	N/A	0	0
	340330 ¹	Computer software & other	N/A	0	0
341	341100 ¹	Trans equip lt duty trucks	N/A	0	0
343	343000 ¹	Tools, shop, garage equip	N/A	0	0
346	346100 ¹	Comm equip non-telephone	N/A	0	0
	346300 ¹	Comm. Equip other	N/A	0	0
347	347000 ¹	Misc equip	N/A	0	0
351	351000	Wastewater ("WW") Organization	0	0	0
352	352000	WW Franchise	0	0	0
353	353200	WW Collection: Land & Land Rights	0	0	0
354	354200	WW Structures and Improvements: collection	2.50	2.50	2.50
	354500	WW Structures and Improvements general	2.00	2.00	2.00
355	355400	WW Power Generation Equipment	3.33	3.33	3.33
360	360000	WW Force Mains	2.07	2.07	2.07
361	361100	WW collection Mains	2.03	2.03	2.03
362	362000	WW special collection structures	8.40	8.40	8.40
363	363000	WW sewer service connections	2.04	2.04	2.04
364	364000	Flow Measuring Devices	10.00	10.00	10.00
365	N/A	Flow Measuring Installations	5.00	N/A	5.00
370	N/A	WW Receiving Wells	N/A	N/A	3.33
371	371100	WW pump equipment: electric	5.42	5.42	5.42
380	380050	Treatment & Disposal Equipment: Grit Removal	2.00	2.00	2.00
	380100	WW Treatment & Disposal Equipment: Sedimentation tanks/ACC		2.00	2.00
	380600	WW Treatment & Disposal Equipment other disposal		2.00	2.00
	380625	WW Treatment & Disposal Equip general treatment		2.00	2.00
	380650	WW Treatment & Disposal Equipment :Influent lift station	2.00	2.00	2.00
382	382000	WW Outfall Sewer Line	2.00	2.00	2.00
389	389100	WW Other Plant & Misc Equipment Int	4.98	4.98	4.98
	389600	WW oth Plt & Misc Equip	N/A	4.98	4.98
390	390000	WW Office Furniture & Equipments	4.59	4.59	4.59
390.1	N/A	WW Computer Equipments	4.55	N/A	4.55
391	391000	WW transportation equipment	25.00	20.00	20.00
393	393000	Wastewater Tools, Shop, Garage Equipment	4.47	4.47	4.47
394	394000	Lab equipments	3.71	N/A	0.00
395	N/A	Power Operated Equipment	5.14	N/A	0.00
396	396000	WW Communication Equipment	10.28	10.28	10.28
397	397000	WW Misc Equipment	5.10	5.10	5.10
398	398000	WW other tangible plant	10.30	0.00	0.00

Notes: 1. Per the Company response to Data Request No. STF 14.12 these accounts contain plant allocated to corporate use.

DECISION NO. _____

Figure 6 Depreciation Rates for Sun City West Wastewater

NARUC Acct #	Company's Acct #.	Depreciable Plant	Decision # 70209	Rate (%) Sun City West Sewer District proposed	Staff Recommended Rate (%)
304	304100 ¹	Structure & Imp SS	2.50 ²	2.50	2.50
304	304200 ¹	Structure & Imp P	1.67 ²	1.67	1.67
304	304510 ¹	Structure & Imp AG & Cap lease	N/A ²	0	0
304	304600 ¹	Structure & Imp Office	4.63 ²	1.67	1.67
304	304620 ¹	Structure & Imp leasehold	1.67	4.63	4.63
304	304800 ¹	Structure & Improvement Misc	0 ²	4.63	1.67
307	307000 ¹	Wells & Springs	2.52 ²	2.52	2.52
340	340100 ¹	Office Furniture & Equip	4.59 ²	4.04	4.04
340	340200 ¹	Comp & Periph Equip	10 ²	10	10
340	340300 ¹	Computer Software	0 ²	25.00	25.00
340	340330 ¹	Computer Software Other	0 ²	25.00	25.00
340	340500 ¹	Other Office Equip	0 ²	0	0
341	341100 ¹	Transportation Equip - light duty trucks	25.00 ²	20.00	20.00
343	343000 ¹	Tools, shop and garage	4.02 ²	4.47	4.47
344	344000 ¹	Lab equip	3.71 ²	0	0
346	346100 ¹	Comm. Equip - non-telephone	10.30 ²	0	0
346	346300 ¹	Comm. Equip other	4.93 ²	0	0
347	347000 ¹	Misc equipment	N/A ²	0	0
351	351000	Wastewater ("WW") Organization	0	0	0
352	352000	WW Franchise	0	0	0
353	353200	WW Collection: Land & Land Rights	0	0	0
	353500	WW general: Land & Land Rights	0	0	0
354	354200	WW Collection: Structures and Improvements	5.00	5.00	5.00
	354300	WW Structures and Improvements: System Pump Plant	5.00	5.00	5.00
	354400	WW Structures and Improvements: TDP	N/A	N/A	0
	354500	WW Collection: Structures and Improvements general	1.67	1.67	1.67
355	355200	WW Power Generation Equipment - Collection	3.33	N/A	0.00
	355300	WW Power Generation Equipment - SPP	N/A	3.33	3.33
360	360000	WW Force Mains	2.07	2.07	2.07
361	361100	WW collection Mains	2.04	2.04	2.04
362	362000	WW special collection structures	8.40	8.40	8.40
363	363000	WW sewer service connections	2.04	2.04	2.04
364	364000	Flow Measuring Devices	10.00	N/A	10.00
365	N/A	Flow Measuring Installations	5.00	N/A	5.00
370	370000	WW Receiving Wells	N/A	N/A	3.33
	380650	WW Treatment & Disposal Equipment :Influent lift station	5.00	5.00	5.00
371	371100	WW pump equipment: electric	5.42	10.00	10.00
375	380400	WW Treatment & Disposal Equipment Aux Effluent Treatment	5.00	5.00	5.00
380			5.00		
	380000	Treatment & Disposal Equipment		5.00	5.00
	380050	Treatment & Disposal Equipment: Grit Removal		5.00	5.00
	380100	WW Treatment & Disposal Equipment: Sedimentation tanks/ACC		5.00	5.00
	380200	Treatment & Disposal Equipment: Sludge/Effluent removal		5.00	5.00
	380250	Treatment & Disposal Equipment: Sludge digester tank		5.00	5.00

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	380300	Treatment & Disposal Equipment: sludge dry/filter		5.00	5.00
	380350	Treatment & Disposal Equipment: sec trmt filt		5.00	5.00
	380400	WW Treatment & Disposal Equipment Aux Effluent Treatment		5.00	5.00
	380500	Treatment & Disposal Equipment: chemical treatment plant		5.00	5.00
	380600	WW Treatment & Disposal Equipment – other disp		5.00	5.00
	380625	WW TD Equip – Gen Trmt		5.00	5.00
381	381000	WW Plant Sewers	N/A	N/A	5.00
382	382000	WW Outfall Line	5.00	5.00	5.00
389	389100	WW Other Plant & Misc Equipment Int	4.98	6.67	4.98
390	390000	WW Office Furniture & Equipments	4.59	4.59	4.59
	390100	WW Computer Equip	N/A	10.00	10.00
390.1	N/A	Computer Equipments	4.55	N/A	4.55
391	391000	WW transportation equipment	25.00	20.00	20.00
392	392000	WW stores equipment	3.91	3.91	3.91
393	393000	Wastewater Tools, Shop, Garage Equipment	4.47	4.47	4.47
394	394000	Lab equipments	3.71	10.00	10.00
395	395000	Power Operated Equipment	5.02	5.02	5.02
396	396000	Communication Equipment	10.30	10.30	10.30
397	397000	WW Misc Equipment	5.10	5.10	5.10
398	398000	WW other Tangible Plant	N/A	N/A	0.00

Notes: 1. Per the Company response to Data Request No. STF 14.12 these accounts contain plant allocated to corporate use.
2. Rates are approved for the Arizona American Water Company Sun City West Water District in Decision #70209.