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BEFORE THE ARIZONA CORPORATION COMMISSION

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GARY PIERCE
Chairman
BOB STUMP
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BRENDA BURNS
Commissioner

Arizona Corporation Commission

DOCKETED

MAR - 3 2011

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IN THE MATTER OF THE APPLICATION)
OF ARIZONA-AMERICAN WATER)
COMPANY - PARADISE VALLEY)
WATER DIVISION FOR AN INCREASE IN)
RATES)

DOCKET NO. W-01303A-98-0507

DECISION NO. 72208

ORDER

Open Meeting
February 17, 2011
Phoenix, Arizona

BY THE COMMISSION:

Introduction

1. Pursuant to Decision No. 61831 and Decision No. 71841, Arizona-American Water Company ("Az-Am" or "Company") filed an application on January 28, 2011, with the Arizona Corporation Commission ("Commission") revising its Central Arizona Project ("CAP") surcharge rate for its Paradise Valley Water District. The revised CAP surcharge rate requested is \$0.3401 per 1,000 gallons of usage, which consists of a surcharge of \$0.1755 per 1,000 gallons of usage to recover the under-collection of prior years' surcharge for the years 2006, 2007, and 2008, to be in effect for one year; plus a surcharge of \$0.1646 per 1,000 gallons of usage for the collection of the current annual CAP capital and delivery charges. The Company indicates that the under-collected portion from the prior years amounts to \$298,374.

2. The revised combined CAP surcharge of \$0.3401 per 1,000 gallons of usage is applicable to all residential customers' usage in excess of 45,000 gallons during any monthly billing cycle and for all usage of all non-residential customers except re-sale customers.

1 3. The current combined CAP surcharge is \$0.2441 per 1,000 gallons of usage and has
2 been in effect since August 1, 2010. Although Decision No. 61831 required the Company to file
3 an annual revision/update of the CAP surcharge by December 1 of each year to become effective
4 each following January 1, the Company failed to revise the CAP surcharge in a timely manner.
5 Decision No. 71841 now requires that the Company file an annual revision/update of the CAP
6 surcharge by January 31 of each year to become effective the following March 1.

7 **Background**

8 4. On August 14, 1998, Az-Am filed with the Commission a rate increase application
9 seeking a general rate increase and also seeking a revision to its CAP surcharge mechanism.
10 Decision No. 61831 authorized the current calculation methodology which allows the Company to
11 collect its current CAP capital and delivery charges. For the first five years of the revised CAP
12 surcharge there was an additional charge attributed to deferred CAP charges. These deferred
13 charges, having now been fully collected, are no longer a component of the current CAP surcharge
14 calculation. Decision No. 71841 altered the filing requirements due to the Company's failure to
15 timely file the annual revision/update.

16 5. The Commission established the CAP surcharge to aid the Company in its efforts to
17 utilize renewable sources of water and minimize its use of ground water.

18 **Calculation of CAP Surcharge**

19 6. Decision No. 61831 indicates that both Staff and the Residential Utility Consumer
20 Office ("RUCO") should review and approve any proposed surcharge changes or true-up. Staff's
21 review of the Company's filing indicated a problem with the Company's calculations.

22 7. The Company's application indicates the Company's request to collect the prior
23 years' under collected balance of \$298,374 in the next year. Decision No. 71841 indicated the
24 Commission's desire that the prior years' under collected balance be recovered over a three-year
25 period. The under collected balance grew over several years due to the Company's failure to
26 timely file the annual revision/update. Staff recommends that the Commission continue the same
27 recovery period determined in Decision No. 71841. Therefore, Staff has recalculated the prior
28 years' uncollected balance portion of the CAP surcharge as follows:

1 Company as filed: Balance: \$298,374/
 2 Divisor: 1,700,168 (annual sales in 1,000 gallons)
 3 Result: \$0.1755/1,000 gallons of usage

4 Staff as revised: Balance: \$298,374/
 (1,700,168/12 = monthly sales)
 5 Divisor: 4,108,749 (29 months left of 36 months)
 6 Result: \$0.0726/1,000 gallons of usage

7 8. The Company requests that the new surcharge rate becomes effective March 1,
 8 2011.

9 9. Staff recommends a combined CAP surcharge amount of \$0.2372 per 1,000 gallons
 10 of usage. This combined rate indicates the prior years' surcharge amount of \$0.0726 and current
 11 year's surcharge amount of \$0.1646.

12 10. Staff further recommends that, should the Company again fail to timely file its
 13 revision to the CAP surcharge, it not be allowed to collect any under-collection from a prior period
 14 or, if an over-collection occurs due to non-filing, be required to immediately refund the over-
 15 collections, including appropriate interest to be determined by the Commission.

16 11. Staff continues to believe that the Company should incorporate, in its next rate
 17 application filed for the Paradise Valley Water District, the inclusion in base rates of the CAP
 18 capital and delivery charges and the elimination of the CAP surcharge.

19 12. Staff also recommends that the Company notify its customers of the revised CAP
 20 surcharge tariff approved herein in the March billing cycle.

21 13. Staff's recommendations as set forth herein are reasonable and should be adopted.

22 CONCLUSIONS OF LAW

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

25 ...
 26 2. The Commission has jurisdiction over the Company and of the subject matter of the
 27 application.

28 3. Approval of a CAP surcharge is consistent with the Commission's authority under
 the Arizona Constitution, Arizona statutes, and applicable case law.

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

3 ORDER

4 IT IS THEREFORE ORDERED that the application by Arizona-American Water
5 Company for the implementation of its revised CAP surcharge is approved as discussed herein.

6 IT IS FURTHER ORDERED that Arizona-American Water Company shall file a revised
7 CAP surcharge tariff showing both the \$0.0726 and \$0.1646 per 1,000 gallon surcharges effective
8 March 1, 2011.

9 IT IS FURTHER ORDERED that Arizona-American Water Company shall notify its
10 customers of the revised CAP surcharge tariff approved herein its March 2011 billing cycle.

11 IT IS FURTHER ORDERED that, should Arizona-American Water Company fail to
12 timely file its annual CAP surcharge revision, it will not be allowed to collect any under-collection
13 from a prior period or, if an over-collection occurs due to late or non-filing, it will immediately
14 refund the over-collections, including appropriate interest to be determined by the Commission.

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IT IS FURTHER ORDERED that Arizona-American Water Company shall incorporate, in its next rate application filed for the Paradise Valley Water District, the inclusion in base rates of the CAP capital and delivery charges and the elimination of the CAP surcharge.

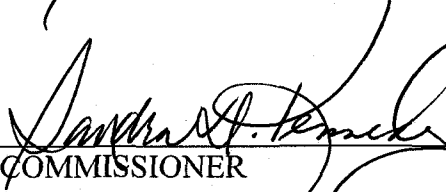
IT IS FURTHER ORDERED that this Decision shall become effective immediately.

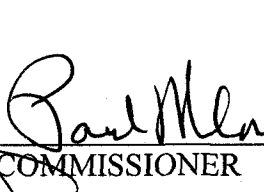
BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION


CHAIRMAN

EXCUSED
COMM. STUMP

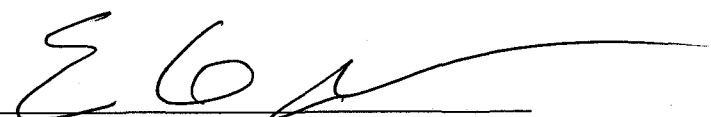
COMMISSIONER


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IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 3rd day of MARCH, 2011.


ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:DWC:lhmfJFW

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