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BEFORE THE ARIZONA CORPORATION COMMISSION

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2003 DEC -5 A 10: 06

AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS SUN CITY WEST WATER AND WASTE WATER DISTRICTS.

DOCKET NO.
WS-01303A-02-0867

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS SUN CITY WATER AND WASTE WATER DISTRICTS.

DOCKET NO.
W-01303A-02-0868

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WATER DISTRICT AND ITS HAVASU WATER DISTRICT.

DOCKET NO.
W-01303A-02-0869

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR 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, ITS AGUA FRIA WATER DISTRICT AND ITS ANTHEM/AGUA FRIA WASTE WATER DISTRICT.

DOCKET NO.
WS-01303A-02-0870

Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
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,
ITS AGUA FRIA WATER DISTRICT AND ITS
ANTHEM/AGUA FRIA WASTE WATER
DISTRICT.

DOCKET NO.
W-01303A-02-0908

NOTICE OF FILING TESTIMONY SUMMARY

Pursuant to the revised procedural order in this matter dated June 6, 2003, the ARIZONA UTILITY INVESTORS ASSOCIATION (AUIA) hereby submits its summary of the rebuttal testimony of Walter W. Meek.

Respectfully submitted, this 5th day of December, 2003.



Walter W. Meek, President

CERTIFICATE OF SERVICE

An original and 13 copies of the referenced testimony filed this 5th day of December, 2003, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Copies of the referenced testimony hand delivered this 5th day of December, 2003, to:

Timothy Sabo, Esq., Legal Division
Teena Wolfe, Esq., Hearing Division
Ernest Johnson, Esq., Utilities Division

A copy of the referenced testimony was mailed this 5th day of December, 2003, to:

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Walter W. Meek

SUMMARY OF THE REBUTTAL TESTIMONY OF WALTER W. MEEK

Investor Considerations

Mr. Meek first discusses investor types and describes the criteria that a typical investor would consider in deciding whether to invest in a utility company's stock.

Unique Risk factors

Mr. Meek takes issue with Staff Witness Joel Reiker's assertions that unique, company-specific risk factors do not affect the cost of capital because they can be overcome by portfolio diversification. He also argues that beta is an insufficient measure of risk for most investors. Mr. Meek also introduces a stock rating system recently adopted by Smith Barney/Citigroup, which ultimately relies heavily on company-specific risk analysis to arrive at its buy-sell recommendations. He argues that to the degree that such recommendations influence the sale of securities, the market does, indeed price unique risks. Further, Mr. Meek advocates some use of comparable earnings in determining a company's cost of equity for ratemaking purposes and he argues that an evaluation of firm-specific risks is necessary to apply a comparable earnings test.

Cost of Equity

Mr. Meek argues that Staff's cost of equity recommendation is unrealistically low, especially compared with rates of return that are actually occurring in the marketplace among comparable water and gas utilities. Staff's DCF and CAPS modeling produced results that are 160 basis points below the actual returns on equity that are reported for Staff's sample of proxy utility companies. Mr. Meek does not agree that Staff's models include data that typical investors would rely on to make investment decisions.

Regulatory Risk

Specific to the larger issue of the importance of unique risk, Mr. Meek asserts that regulatory commissions and the decisions they make can produce a significant impact on the investment risk associated with a particular utility stock. Examples cited by Mr. Meek include the new requirements governing arsenic concentrations in water supplies and the effects of regulatory lag.

Fair Value Rate Base

Mr. Meek argues that the Commission should adopt a fair value rate base in this case that is derived from a calculation of reconstruction cost new less depreciation (RCND) rather than a backward-looking calculation based on original cost less depreciation (OCLD or book value). He asserts that the appropriate standard, in order to provide investors with a reasonable rate of return, is to apply a rate base that reflects the value of the company's property at the time rates are set. Neither OCLD nor some hybrid of it meets that standard.