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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY INC. FOR AN INCREASE IN ITS WATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY, ARIZONA	DOCKET NO. W-01412A-04-0736
IN THE MATTER OF THE APPLICATION OF VALLEY UTILITIES WATER COMPANY, INC. FOR AUTHORITY TO ISSUE PROMISSORY NOTE(S) AND OTHER EVIDENCES OF INDEBTEDNESS PAYABLE AT PERIODS OF MORE THAN TWELVE MONTHS AFTER THE DATE OF ISSUANCE.	DOCKET NO. W-01412A-04-0849 **NOTICE OF FILING**

Valley Water Utilities Company, by and through its undersigned counsel, hereby provides this Notice of Filing on behalf of the Company of the Summaries of Testimonies of Robert L. Prince, Ronald L. Kozoman and Thomas J. Bourassa in this proceeding.

Respectfully submitted this 12th day of July 2005.

SALLQUIST, DRUMMOND & O'CONNOR, P.C.

By: ____________________
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Original and fifteen copies of the foregoing filed this 12 day of July 2005:

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A copy of the foregoing mailed/hand delivered this 12 day of July 2005, to:

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VALLEY UTILITIES WATER COMPANY

Docket No. W-01412A-04-0736 & 0849

Summary of Testimony of Thomas J. Bourassa

Mr. Bourassa is a Certified Public Accountant who provides various accounting and consulting services to businesses, including utilities. He has prepared or has assisted in the preparation of rate applications for a number of Arizona water and wastewater utilities. In this rate proceeding, Mr. Bourassa was responsible for preparing, and is sponsoring, Schedules A through F of the standard filing requirements for Class B water utilities, as set forth in A.A.C. R14-2-103, and for the overall development of the revenue requirement for Valley Utilities Water Company ("Valley Utilities" or "Company") in this case.

Mr. Bourassa filed direct, rebuttal and rejoinder testimony, which generally addresses the following aspects of Valley Utilities' rate application:

(1) Revenue Requirement.
(2) Rate Base (original cost and fair value).
(3) Revenues and Expenses (including depreciation and taxes).
(4) Arsenic Recovery Surcharge Mechanism and Arsenic Operating and Maintenance Recovery Surcharge Mechanism.

A summary of the key issues addressed in Mr. Bourassa's pre-filed testimony follows:

I. REVENUE REQUIREMENT

The parties' respective revenue requirements as of the rejoinder stage of this proceeding are as follows:

	Revenue Req.	Revenue Incr.	% Increase
Staff - Surrebuttal	$ 957,511	$ 129,946	15.70%
Company Rejoinder	$ 957,511	$ 129,946	15.70%

As Mr. Bourassa explained in his pre-filed testimony, the Company's recommend revenue requirement is based on an operating margin approach since the rate base and equity is negative.

Mr. Bourassa testified to a two step increase in rates in the Company's direct filing. In the first step, the Company proposed a ten percent operating margin and a revenue requirement of $928,349, an increase over adjusted test year revenues of $100,784 or 12.18%. The goal of first step was to proposed revenues sufficient to service the proposed Water Infrastructure Financing Authority ("WIFA") loan for new arsenic treatment plant. In the second step, the Company proposed a ten percent operating margin and revenue requirement of $1,331,018, an increase over the first step proposed revenues of $402,669, or 43.37%. The overall increase over adjusted test year revenues from the two step proposal was $503,453, or 60.84%. The goal of the second step was to include in the revenue requirement both depreciation and arsenic remediation operating expenses.

In the Company's rebuttal filing, Mr. Bourassa explained the Company no longer proposed a two step increase. Instead, the Company adopted the Staff approach which included a ten percent operating margin and an arsenic recovery surcharge mechanism ("ARSM") to provide the Company with sufficient funds to service the proposed WIFA loan. The Company's rebuttal revenue requirement was $944,162, an increase over adjusted test year revenues of $116,597, or 14.09%. Mr. Bourassa testified, the revenue requirement would not be sufficient to meet the debt service coverage requirements of the WIFA loan with out the ARSM. Mr. Bourassa also explained that the ARSM for both the Company and did not include arsenic remediation operating expenses. He testified, the Company proposed an Arsenic Operating and Maintenance Recovery Surcharge Mechanism ("AOMRSM"). He explained the AOMRSM was designed to recover actual costs.

In the Company's rejoinder filing, Mr. Bourassa explained the Company's revenue requirement changed due to a correction of the tax rates employed in computing the revenue requirement. He testified, the Company's rejoinder revenue requirement was exactly the same as Staff's. He explained that both Staff and the Company continue to propose an ARSM. Mr. Bourassa testified the Company continued to propose an AOMRSM, while Staff did not. Mr. Bourassa argued the Company would not be able to pay for the arsenic remediation operating expenses without the AOMRSM.

II. RATE BASE

The parties' respective original cost rate bases ("OCRB") and fair value rate bases ("FVRB") as of the rejoinder stage of this proceeding are as follows:

	OCRB	FVRB
Staff - Surrebuttal	$(539,804)	$(539,804)
Company Rejoinder	$(543,488)	$(543,488)

Mr. Bourassa explained in his pre-filed testimony, the difference in rate bases between Staff and the Company is due to a difference in working capital. He testified, the Company accepted Staff's proposed increase to plant in service of $773 for a company sign.

III. REVENUES AND EXPENSES

Mr. Bourassa testified in his pre-filed testimony, the Company accepted all Staff's proposed adjustments to operating revenues and expenses. He explained there were minor differences in the depreciation expense, property tax expense, and income tax expense.

IV. ARSENIC RECOVERY SURCHARGE MECHANISM AND ARSENIC OPERATING AND MAINTENANCE RECOVERY SURCHARGE MECHANISM

A. Arsenic Recovery Surcharge Mechanism

Mr. Bourassa testified in the rebuttal filing the Company dropped its two step proposal, in part, because of Staff's recommended arsenic recovery surcharge mechanism ("ARSM"). He explained the ARSM was designed to provide the Company the principle and interest on the WIFA loan and the Company agreed with this approach. The ARSM would be treated as revenue, so it includes a gross-up for income taxes on the principle portion of the debt service. He explained the tax gross-up on the principle was required in order to provide the net cash flow to pay the principle and interest.

Mr. Bourassa explained the incremental revenue from the ARSM would be divided by the number of equivalent 5/8 inch meters to determine the annual 5/8 inch meter ARSM surcharge. This amount would then be divided by 12 to derive the monthly amount. For large meters, the equivalent 5/8 meter monthly ARSM would be multiplied by the meter capacity factor to determine the charge for that meter size.

Mr. Bourassa testified in his rejoinder testimony that he did not employ the correct tax rates in his rebuttal calculation of the ARSM surcharge. Mr. Bourassa explained that with the tax rate correction the ARSM was determined to be $185,306. This amount is slightly higher than Staff's amount of $185,247. Mr. Bourassa identified the monthly ARSM for a 5/8 inch meter would be $6.70 per month. He explained the ARSM would result in an overall increase on an average 5/8 inch customer bill of 37.94%.

B. Arsenic Operating and Maintenance Recovery Surcharge Mechanism

M. Bourassa testified in the rebuttal filing the Company proposed an arsenic operating and maintenance recovery surcharge mechanism ("AOMRSM"). He testified the projected operating and maintenance costs, which Staff found to be reasonable, were $216,600. Mr. Bourassa explained the AOMRSM was designed to recover only actual costs and that the $216,600 was used for his analysis of the financial impact as well as the impact on rates.

Mr. Bourassa testified the Company would determine the AOMRSM each year on a per 1,000 gallon basis by dividing the actual operating and maintenance costs by the annual gallons sold during the year. The total AOMRSM on the monthly customer bill would be the product of the surcharge time the customer's monthly usage (in 1,000 gallons). Mr. Bourassa provided an analysis of the impact of the AOMRSM. He explained the AOMRSM would be $0.84 per 1000 gallons based on the test year gallons sold and the projected $216,600. The average 5/8 inch customer would experience a AOMRSM of $7.77. He explained the overall increase on an average 5/8 inch customer bill, including the ARSM and AOMRSM, would be approximately 68%.

Mr. Bourassa testified that if the AOMRSM is denied, the Company would not be able to pay all the arsenic remediation operating and maintenance expenses. He testified the Company would have a net loss and negative cash flow based on the projected costs. Mr. Bourassa testified the shareholder does not have the financial capability of funding cash shortfalls for two to three years until the Company can get a decision on arsenic recovery in a subsequent case. He explained the Company would be left in the position of possibly falling out of compliance with the arsenic standard which may have a serious impact on the public health and safety. According to Mr. Bourassa, the arsenic operating and maintenance costs are a necessary expense for the provision of water service to customers and the Company should not be denied recovery.

VALLEY UTILITIES WATER COMPANY

Docket No. W-0142A-0736 & 0849

Summary of Testimony of Ronald L. Kozoman

Mr. Kozoman is a Certified Public Accountant who specializes in public utility accounting and regulatory matters. He is testifying on behalf of Valley Water Utilities Company on the issue of rate design.

Mr. Kozoman was employed by the Illinois Commerce Commission from 1977 to 1981 in various accounting and management positions, and testified in rate proceedings involving major Illinois utility companies. After moving to Arizona in 1981, Mr. Kozoman initially worked as a consultant, and then became an employee of the Arizona Corporation Commission ("ACC") and held the position of Chief Rate Analyst. While employed by the ACC, Mr. Kozoman testified on cost of capital and other issues in rate cases and other regulatory proceedings. After leaving the agency's employ, Mr. Kozoman worked as an independent consultant on behalf of utility companies, utility consumers and regulatory agencies. He has testified on numerous occasions before the ACC on rate design and cost of service issues, as well rate of return and regulatory accounting issues. Mr. Kozoman has also served as an instructor for the National Association of Regulatory Utility Commissioners at its Annual Regulatory Studies Program.

In this case, Mr. Kozoman developed Valley Water Utilities Company's proposed rate design. In his direct testimony, Mr. Kozoman proposed a design with three inverted commodity rate tiers, with varying break-over points based on meter size. Valley Water Utilities Company currently has a two tier inverted rate, with the same break-over points regardless of meter size.. In his rebuttal testimony, Mr. Kozoman explained that Valley Water Utilities Company would not accept all key elements of the rate design proposed by the ACC Utilities Division ("Staff"). In summary, Valley Water Utilities Company and Staff are in agreement on the following:

(1) Three inverted commodity rate tiers would apply to all residential customers on 5/8-inch meters and 3/4-inch meters.

(2) The break-over point should increase by customer class (i.e., by meter size) in order to reduce extreme shifts in revenue responsibility from customers on smaller meters to customers on larger meters.

Valley Water Utilities Company and Staff are not in agreement on the following:

(1) A lower or subsidized rate should not be offered to residential customers on smaller meters.

(2) Staff proposes three tier rates only for the residential customers on the 5/8-inch and the 3 /4 –inch meters. Valley Utilities, Water Company proposes three tier rates for all customers.

Mr. Kozoman explained that the commodity rates proposed by Staff are incorrectly designed, particularly in regard to the first tier commodity rates proposed by Staff for residential customers on 5/8-inch meters and 3/4-inch meters. Staff has proposed to lower the commodity rate applicable for the first 3,000 gallons of water from $2.20 to $1.50 (a reduction of 46% from the current rate) for residential customers on the 5/8-inch and 3/4-inch meters. Mr. Kozoman explained that this discounted commodity rate is analogous to a "lifeline", or a "low income". Mr. Kozoman is of the opinion that discounts should only be offered to customers who truly can't afford the charge for water. Mr. Kozoman states that Staff has provided no study showing that all residential customers on the 5/8-inch meters and the 3 /4-inch meters cannot afford the same first tier rate as all other customers. Staff's substantial discount creates a subsidy that must be paid for by other Valley Water Utilities Company customers.

The Company's rate design will provide an appropriate price signal to customers because the commodity rates will increase with greater water usage, while reducing the degree of revenue erosion and instability that results from an inverted-tier rate design.

Mr. Kozoman is of the opinion that the purpose of three tier inverted rates is intended to cause conservation, not create subsidiaries.

VALLEY UTILITIES WATER COMPANY

Docket No. W-01412A-04-0738 & 0849

SUMMARY OF TESTIMONY OF ROBERT L. PRINCE

Robert L. Prince, President of the Company, filed Rebuttal Testimony explaining that the Staff's proposed Rate Design is inappropriate for the Valley system because the 5/8 by ¾ inch and ¾ inch meter customers that will be affected by the Staff's proposed 3,000 gallons first-tier will have no incentive to conserve water. Further, the Staff's design will encourage 1 inch meter customers to "downsize" their meters, which will ultimately reduce the revenues that Staff's rate design is designed to generate.

Addition, the Staff's rate design is a clearly a "wealth transfer" policy that is inappropriate for the Commission to impose on the Company. Further, the downsizing of meters will result in customers being required to pay the recently authorized Arsenic Impact Fee for the new meters.

The Commission should adopt the Company's proposed rate design.