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BEFORE THE ARIZONA CORPORATION COM.

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Arizona Corporation Commission  
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8 IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
9 INC., AN ARIZONA CORPORATION, FOR  
AUTHORITY TO IMPLEMENT ARSENIC  
10 COST RECOVERY MECHANISMS FOR ITS  
AGUA FRIA WATER, SUN CITY WEST  
11 WATER, HAVASU WATER, AND TUBAC  
WATER DISTRICTS.

Docket No. W-01303A-05-0280

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

Docket No. WS-01303A-02-0867

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

Docket No. W-01303A-02-0869

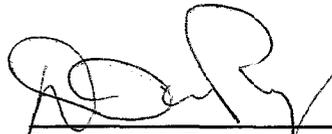
**NOTICE OF FILING**

1 IN THE MATTER OF THE APPLICATION OF  
2 ARIZONA-AMERICAN WATER COMPANY,  
3 INC., AN ARIZONA CORPORATION, FOR A  
4 DETERMINATION OF THE CURRENT FAIR  
5 VALUE OF ITS UTILITY PLANT AND  
6 PROPERTY AND FOR INCREASES IN ITS  
7 RATES AND CHARGES BASED THEREON  
8 FOR UTILITY SERVICE BY ITS ANTHEM  
9 WATER DISTRICT, ITS AGUA FRIA WATER  
10 DISTRICT, AND ITS ANTHEM/AGUA FRIA  
11 WASTEWATER DISTRICT.

12 **NOTICE OF FILING**

13 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing  
14 the Direct Testimony of Marylee Diaz Cortez in the above-referenced matter.

15 RESPECTFULLY SUBMITTED this 1st day of July, 2005.

16  
17 

18 Daniel W. Pozefsky  
19 Attorney

20 AN ORIGINAL AND THIRTEEN  
21 COPIES of the foregoing filed this 1st day  
22 of July, 2005 with:

23 Docket Control  
24 Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

1 COPY of the foregoing hand delivered/  
mailed this 1st day of July, 2005 to:

2 Teena Wolfe  
3 Administrative Law Judge  
Arizona Corporation Commission  
4 1200 West Washington Street  
Phoenix, Arizona 85007

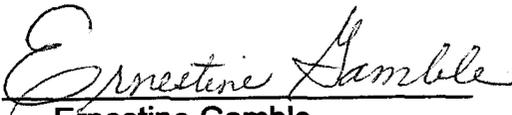
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Phoenix, Arizona 85004

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24

By   
Ernestine Gamble  
Legal Secretary

**ARIZONA-AMERICAN WATER COMPANY, INC.**

**DOCKET NO. W-01303A-05-0280 et al.**

**DIRECT TESTIMONY  
OF  
MARYLEE DIAZ CORTEZ**

**ON BEHALF OF  
THE  
RESIDENTIAL UTILITY CONSUMER OFFICE**

**JULY 1, 2005**

1	Introduction .....	1
2	The Proposed ACRM .....	1
3	Hook-up Fee .....	4
4	Conclusion .....	5
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1 **Introduction**

2 Q. Please state your name, occupation, and business address.

3 A. My name is Marylee Diaz Cortez. I am a Certified Public Accountant. I  
4 am the Chief of Accounting and Rates for the Residential Utility Consumer  
5 Office (RUCO) located at 1110 W. Washington, Suite 220, Phoenix,  
6 Arizona 85007.

7  
8 Q. Please state your educational background and qualifications in the field of  
9 utility regulation.

10 A. Appendix I, which is attached to this testimony, describes my educational  
11 background and includes a list of the rate case and regulatory matters in  
12 which I have participated.

13  
14 Q. What is the purpose of your testimony?

15 A. The purpose of my testimony is to address Arizona American Water's  
16 ("AZ-AM" or "Company") request for an Arsenic Cost Recovery  
17 Mechanism (ACRM) for its Agua Fria, Havasu, and Sun City West Water  
18 Districts and provide RUCO's recommendations.

19

20 **The Proposed ACRM**

21 Q. Please describe AZ-AM's proposed ACRM.

22 A. The Company's proposed ACRM is patterned after the ACRM that was  
23 authorized for Arizona Water Company's Northern Division in Decision No.

1           66400. Specifically, the ACRM is a step increase mechanism designed to  
2           recover the Company's incremental investment in arsenic treatment plant,  
3           depreciation, return, and O&M costs associated with media  
4           replacement/regeneration/waste disposal. Under the proposed  
5           mechanism, recovery of the Company's arsenic plant investment would  
6           not begin until the plant was in-service and O&M cost recovery would not  
7           begin until the Company incurred 12 months of arsenic expense  
8           experience. Thus, the step increase would be based solely on actual  
9           costs that are known and measurable.

10

11   Q.   How would the ACRM work?

12   A.   Once the Company completed a treatment plant it would be required to file  
13       a rate request for a step increase. The ACRM would allow the Company  
14       to file two such step increase requests in 2006 and 2007. Requests for  
15       step increases would be subject to an earning test, and no increase would  
16       be granted if the earnings test demonstrated that AZ-AM was earning in  
17       excess of its authorized rate of return. AZ-AM indicates that it plans to file  
18       a full rate case for the Agua Fria and Sun City West districts in 2008, and  
19       for the Havasu district in 2009.

20

21   Q.   What specific provisions of the ACRM does RUCO consider essential?

22   A.   All the provisions are important but compliance with the law and regulatory  
23       precedent hinges on the following key provisions:

- 1           1) The ACRM is being established in the context of a general  
2           rate case proceeding (in Decision No. 67593 the  
3           Commission reopened AZ-AM's recent rate case proceeding  
4           to allow the consideration of the ACRM);
- 5           2) The Company must pass an earnings test that demonstrates  
6           it is not overearning in order to be eligible for step increases;
- 7           3) Step increases only take place upon the Commission  
8           making a revised finding of fair value rate base; and
- 9           4) Recoverable costs are narrowly defined, and will be actual  
10          known and measurable amounts.

11

12 Q. Is RUCO recommending approval of AZ-AM's requested ACRM?

13 A. Substantially, yes. The mechanism itself, as proposed by AZ-AM, is  
14 identical to the ACRMs authorized by the Commission for Arizona Water,  
15 and to that extent, RUCO recommends approval<sup>1</sup>. AZ-AM, however, has  
16 made an additional request in the instant case that was not a part of  
17 Arizona Water's authorized ACRM. RUCO does not support that  
18 additional expense.

19

20

21

22

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<sup>1</sup> RUCO's support for the ACRM is based on its understanding that AZ-AM will be required to file full rate case application by the dates it indicated it would file.

1 **Hook-up Fee**

2 Q. What is AZ-AM's additional request?

3 A. The Company is proposing that a hook-up fee be established for its  
4 Havasu district that would be used as a Contribution in Aid of Construction  
5 for the arsenic plant.

6

7 Q. Is the Company proposing a hook-up fee for the Sun City West and Aqua  
8 Fria districts?

9 A. No. AZ-AM has only proposed a hook-up fee for its Havasu district. The  
10 amount proposed is \$781 and would be collected from new customers  
11 requesting new service.

12

13 Q. Do the Company's estimates for the required Havasu step increases  
14 include an offset for the estimated amount of hook-up fee collections?

15 A. No, not as currently proposed by the Company. Schedule 5 of the  
16 Company's application shows the revenue requirement calculation for  
17 each of the three district's requested step increases. The Company has  
18 made no adjustment to its Havasu step increase calculation to recognize  
19 the hook-up fees. Thus, it is unclear if the Company intends to reduce the  
20 amount of the Havasu step increase by the hook-up fee collection at the  
21 time it actually files for the step increases. Suffice to say, the estimates  
22 filed in the current application give no consideration of the proposed hook-  
23 up fees.

1 Q. Is it appropriate to use a hook-up fee as a source of funding for the  
2 arsenic treatment plant?

3 A. No. Hook-up fees are generally used as a method of funding plant that is  
4 related to growth. In effect, when a new customer pays a hook-up fee that  
5 fee serves to fund the portion of incremental plant that is required to serve  
6 that additional customer. Under those circumstances, use of a hook-up is  
7 appropriate because it allows growth to pay for itself. However, the  
8 Havasu arsenic plant is not growth related, and it is inappropriate to use a  
9 hook-up fee to fund non-growth related plant. If the Havasu customer  
10 base were to remain static, the arsenic plant would still have to be built to  
11 meet the new arsenic standard. If a hook-up fee were approved, new  
12 customers would pay for the arsenic plant through the ACRM step  
13 increases, the same as current customers, and through the hook-up fee.  
14 Because existing customers and new customers are similarly situated with  
15 respect to the arsenic plant, new customers should not be required to pay  
16 for arsenic plant twice.

17

18 **Conclusion**

19 Q. Please summarize RUCO's recommendations.

20 A. RUCO recommends that the ACRM be approved, subject to all of the  
21 terms and conditions of the ACRM that was approved for Arizona Water  
22 Company in Decision No. 66400. Further, RUCO recommends denial of  
23 the proposed hook-up fee for the Havasu district.

1 Q. Does this conclude your direct testimony?

2 A. Yes.

## APPENDIX I

### Qualifications of Marylee Diaz Cortez

- EDUCATION:** University of Michigan, Dearborn  
B.S.A., Accounting 1989
- CERTIFICATION:** Certified Public Accountant - Michigan  
Certified Public Accountant - Arizona
- EXPERIENCE:** Audit Manager  
Residential Utility Consumer Office  
Phoenix, Arizona 85007  
July 1994 - Present

Responsibilities include the audit, review and analysis of public utility companies. Prepare written testimony, schedules, financial statements and spreadsheet models and analyses. Testify and stand cross-examination before Arizona Corporation Commission. Advise and work with outside consultants. Work with attorneys to achieve a coordination between technical issues and policy and legal concerns. Supervise, teach, provide guidance and review the work of subordinate accounting staff.

Senior Rate Analyst  
Residential Utility Consumer Office  
Phoenix, Arizona 85004  
October 1992 - June 1994

Responsibilities included the audit, review and analysis of public utility companies. Prepare written testimony and exhibits. Testify and stand cross-examination before Arizona Corporation Commission. Extensive use of Lotus 123, spreadsheet modeling and financial statement analysis.

Auditor/Regulatory Analyst  
Larkin & Associates - Certified Public Accountants  
Livonia, Michigan  
August 1989 - October 1992

Performed on-site audits and regulatory reviews of public utility companies including gas, electric, telephone, water and sewer throughout the continental United States. Prepared integrated proforma financial statements and rate models for some of the largest public utilities in the United States. Rate models consisted

of anywhere from twenty to one hundred fully integrated schedules. Analyzed financial statements, accounting detail, and identified and developed rate case issues based on this analysis. Prepared written testimony, reports, and briefs. Worked closely with outside legal counsel to achieve coordination of technical accounting issues with policy, procedural and legal concerns. Provided technical assistance to legal counsel at hearings and depositions. Served in a teaching and supervisory capacity to junior members of the firm.

### **RESUME OF RATE CASE AND REGULATORY PARTICIPATION**

<b><u>Utility Company</u></b>	<b><u>Docket No.</u></b>	<b><u>Client</u></b>
Potomac Electric Power Co.	Formal Case No. 889	Peoples Counsel of District of Columbia
Puget Sound Power & Light Co.	Cause No. U-89-2688-T	U.S. Department of Defense - Navy
Northwestern Bell-Minnesota	P-421/EI-89-860	Minnesota Department of Public Service
Florida Power & Light Co.	890319-EI	Florida Office of Public Counsel
Gulf Power Company	890324-EI	Florida Office of Public Counsel
Consumers Power Company	Case No. U-9372	Michigan Coalition Against Unfair Utility Practices
Equitable Gas Company	R-911966	Pennsylvania Public Utilities Commission
Gulf Power Company	891345-EI	Florida Office of Public Counsel

Jersey Central Power & Light	ER881109RJ	New Jersey Department of Public Advocate Division of Rate Counsel
Green Mountain Power Corp.	5428	Vermont Department of Public Service
Systems Energy Resources	ER89-678-000 & EL90-16-000	Mississippi Public Service Commission
El Paso Electric Company	9165	City of El Paso
Long Island Lighting Co.	90-E-1185	New York Consumer Protection Board
Pennsylvania Gas & Water Co.	R-911966	Pennsylvania Office of Consumer Advocate
Southern States Utilities	900329-WS	Florida Office of Public Counsel
Central Vermont Public Service Co.	5491	Vermont Department of Public Service
Detroit Edison Company	Case No. U-9499	City of Novi
Systems Energy Resources	FA-89-28-000	Mississippi Public Service Commission
Green Mountain Power Corp.	5532	Vermont Department of Public Service
United Cities Gas Company	176-717-U	Kansas Corporation Commission

General Development Utilities	911030-WS & 911067-WS	Florida Office of Public Counsel
Hawaiian Electric Company	6998	U.S. Department of Defense - Navy
Indiana Gas Company	Cause No. 39353	Indiana Office of Consumer Counselor
Pennsylvania American Water Co.	R-00922428	Pennsylvania Office of Consumer Advocate
Wheeling Power Co.	Case No. 90-243-E-42T	West Virginia Public Service Commission Consumer Advocate Division
Jersey Central Power & Light Co.	EM89110888	New Jersey Department of Public Advocate Division of Rate Counsel
Golden Shores Water Co.	U-1815-92-200	Residential Utility Consumer Office
Consolidated Water Utilities	E-1009-92-135	Residential Utility Consumer Office
Sulphur Springs Valley Electric Cooperative	U-1575-92-220	Residential Utility Consumer Office
North Mohave Valley Corporation	U-2259-92-318	Residential Utility Consumer Office
Graham County Electric Cooperative	U-1749-92-298	Residential Utility Consumer Office

Graham County Utilities	U-2527-92-303	Residential Utility Consumer Office
Consolidated Water Utilities	E-1009-93-110	Residential Utility Consumer Office
Litchfield Park Service Co.	U-1427-93-156 & U-1428-93-156	Residential Utility Consumer Office
Pima Utility Company	U-2199-93-221 & U-2199-93-222	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-94-306	Residential Utility Consumer Office
Paradise Valley Water	U-1303-94-182	Residential Utility Consumer Office
Paradise Valley Water	U-1303-94-310 & U-1303-94-401	Residential Utility Consumer Office
Pima Utility Company	U-2199-94-439	Residential Utility Consumer Office
SaddleBrooke Development Co.	U-2492-94-448	Residential Utility Consumer Office
Boulders Carefree Sewer Corp.	U-2361-95-007	Residential Utility Consumer Office
Rio Rico Utilities	U-2676-95-262	Residential Utility Consumer Office
Rancho Vistoso Water	U-2342-95-334	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-95-491	Residential Utility Consumer Office
Citizens Utilities Co.	E-1032-95-473	Residential Utility Consumer Office
Citizens Utilities Co.	E-1032-95-417 et al.	Residential Utility Consumer Office

Paradise Valley Water	U-1303-96-283 & U-1303-95-493	Residential Utility Consumer Office
Far West Water	U-2073-96-531	Residential Utility Consumer Office
Southwest Gas Corporation	U-1551-96-596	Residential Utility Consumer Office
Arizona Telephone Company	T-2063A-97-329	Residential Utility Consumer Office
Far West Water Rehearing	W-0273A-96-0531	Residential Utility Consumer Office
SaddleBrooke Utility Company	W-02849A-97-0383	Residential Utility Consumer Office
Vail Water Company	W-01651A-97-0539 & W-01651B-97-0676	Residential Utility Consumer Office
Black Mountain Gas Company Northern States Power Company	G-01970A-98-0017 G-03493A-98-0017	Residential Utility Consumer Office
Paradise Valley Water Company Mummy Mountain Water Company	W-01303A-98-0678 W-01342A-98-0678	Residential Utility Consumer Office
Bermuda Water Company	W-01812A-98-0390	Residential Utility Consumer Office
Bella Vista Water Company Nicksville Water Company	W-02465A-98-0458 W-01602A-98-0458	Residential Utility Consumer Office
Paradise Valley Water Company	W-01303A-98-0507	Residential Utility Consumer Office
Pima Utility Company	SW-02199A-98-0578	Residential Utility Consumer Office
Far West Water & Sewer Company	WS-03478A-99-0144 Interim Rates	Residential Utility Consumer Office
Vail Water Company	W-01651B-99-0355 Interim Rates	Residential Utility Consumer Office

Far West Water & Sewer Company	WS-03478A-99-0144	Residential Utility Consumer Office
Sun City Water and Sun City West	W-01656A-98-0577 & SW-02334A-98-0577	Residential Utility Consumer Office
Southwest Gas Corporation ONEOK, Inc.	G-01551A-99-0112 G-03713A-99-0112	Residential Utility Consumer Office
Table Top Telephone	T-02724A-99-0595	Residential Utility Consumer Office
U S West Communications Citizens Utilities Company	T-01051B-99-0737 T-01954B-99-0737	Residential Utility Consumer Office
Citizens Utilities Company	E-01032C-98-0474	Residential Utility Consumer Office
Southwest Gas Corporation	G-01551A-00-0309 & G-01551A-00-0127	Residential Utility Consumer Office
Southwestern Telephone Company	T-01072B-00-0379	Residential Utility Consumer Office
Arizona Water Company	W-01445A-00-0962	Residential Utility Consumer Office
Litchfield Park Service Company	W-01427A-01-0487 & SW-01428A-01-0487	Residential Utility Consumer Office
Bella Vista Water Co., Inc.	W-02465A-01-0776	Residential Utility Consumer Office
Generic Proceedings Concerning Electric Restructuring Issues	E-00000A-02-0051	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-02-0707	Residential Utility Consumer Office
Qwest Corporation	RT-00000F-02-0271	Residential Utility Consumer Office

Arizona Public Service Company	E-01345A-02-0403	Residential Utility Consumer Office
Citizens/UniSource	G-01032A-02-0598 E-01032C-00-0751 E-01933A-02-0914 E-01302C-02-0914 G-01302C-02-0914	Residential Utility Consumer Office
Arizona-American Water Company	WS-01303A-02-0867	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-03-0437	Residential Utility Consumer Office
UniSource	E-04230A-03-0933	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-04-0407	Residential Utility Consumer Office
Qwest Communications, Inc.	T-01051B-03-0454 et al.	Residential Utility Consumer Office