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PART III

SEE BAR CODE 0000021960 FOR PART I

SEE 0000022921 FOR PART II

EXHIBIT
R-29
admitted
PENGAD-Bayonne, N.J.

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-04-0650

SURREBUTTAL TESTIMONY

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MAY 25, 2005

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INTRODUCTION

Q. Please state your name for the record and by whom you are employed.

A. My name is Timothy James Coley. I am employed by the Residential Utility Consumer Office ("RUCO").

Q. Are you the same person named above that filed direct testimony in this docketed case (W-01445A-00-0650) before the Arizona Corporation Commission ("ACC") on behalf of RUCO?

A. Yes. I filed direct testimony regarding this case on April 20, 2005.

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of my surrebuttal testimony in this proceeding is to present RUCO's response to Arizona Water Company's (hereafter referred to as "AWC" or "Company") rebuttal testimonies filed by Ms. Sheryl L. Hubbard and Mr. Ralph J. Kennedy. My surrebuttal will supplement and complement my direct testimony, as well as RUCO's, on matters pertaining to the Company's rebuttal positions in this docket.

Q. Is there another witness on behalf of RUCO presenting responses to the Company's rebuttal testimonies?

A. Yes. RUCO witness, Mr. William A. Rigsby, will present RUCO's responses to the Company's rebuttal testimonies on the remaining issues

filed by AWC witnesses Mr. William M. Garfield, Mr. Michael J. Whitehead, Dr. Thomas M. Zepp, Mr. Ralph J. Kennedy, and Ms. Sheryl L. Hubbard.

Q. What areas will your surrebuttal testimony address?

A. I will provide surrebuttal testimony in the following areas:

1. RUCO's corrected lag days for the federal and state income taxes.
2. RUCO's annualization of the Company's revenues and expenses on a going forward basis.
3. Property taxes based on gross revenues utilizing the computational methodology agreed upon by the Arizona Department of Revenue (ADOR) and the Water Utilities Association of Arizona.
4. RUCO's two-tier rate design.

Q. Have you included any updated schedules and/or revenue requirements in this surrebuttal filing?

A. No. I maintain the same positions as filed in my direct testimony.

RATE BASE

Working Capital – Lead/Lag Days for Federal and State Income Taxes

Q. Did the Company address your corrections for its lag days for federal and state income taxes in its rebuttal testimony?

A. Yes. Company witness, Ms Hubbard, stated that RUCO continues to offer the same recommendation for federal and state income tax lag days of

61.95 and 99.80, respectively, as RUCO recommended in the Northern and Eastern Group cases, (Hubbarb Rebuttal Testimony at 12).

Q. Do you agree with Ms. Hubbard's statement that RUCO recommended federal and state income tax lag days of 61.95 and 99.80, respectively, in the Northern and Eastern Group?

A. Not entirely. The instant case, Western Group, is the first time RUCO has recommended a correction in the state income tax lag days.

Q. What is the basis of your correction to the Company's lead/lag days as filed in its rate application?

A. The basis of the correction is the same as I state in my direct testimony. A company's working capital requirement is the amount of cash the company must have on hand to cover expenses that must be paid before revenues are available, thus received, to make those expense payments.

Q. Do all public utility companies calculate lead/lag days in a similar manner?

A. Yes. First, it is not necessary to distinguish between a public utility company and any other form of company, private or public, to calculate the timing differences between when revenues are received and expenses must be paid to determine lead/lag days. Bankers and other creditors often calculate lead/lag days to compute cash working capital as an indicator of the short-run liquidity of a company to determine if it is

financially capable of making the installment loan payments. For the most part, all lead/lag studies concerning income taxes I have analyzed use similar methods with marginal differences resulting.

Q. How does AWC federal income tax lag days of 2.52 compare with other lead/lag studies that you have reviewed?

A. It is extremely lower than other utility companies that have filed lead/lag studies before this Commission.

Q. Can you provide some other utility companies' lead/lag study comparisons that had rate case proceedings before this Commission?

A. Yes. The table below illustrates four of the largest utilities in Arizona that recently had or are in the process of a rate case hearing before this Commission and compares federal/state income tax lag days.

Company	Federal Tax Lag Days	State Tax Lag Days
APS.....	60	62
Qwest.....	80	18
TEP.....	42.41 *	
SWG.....	37 *	

* Note: These Companies provided a composite federal and state lead/lag tax days study.

Q. Can you explain the enormous difference in income tax lag days between AWC and the companies used in your comparison?

A. Yes. In part, the methodology AWC uses assumes it makes payments on both federal and state income taxes on a monthly basis rather than when actually paid on a quarterly basis. The Company's study presumes a cash payment is being made when the Company records the expense on its books each month, not when the actual cash payment is made on a quarterly basis. Booking an expense is not cash payment of a liability. The correct computation of working capital is based on when the actual cash outlay is paid, not booked.

OPERATING INCOME

Annualization of Revenues and Expenses

Q. Did the Company disagree with your annualization of revenues and expenses?

A. Yes. The Company took issue with three areas of my revenue and expense annualization.

Q. What three areas of your revenue and expense annualization did the Company address in its rebuttal testimony?

A. First, Ms. Hubbard, in response to RUCO's criticism that AWC failed to recognize the Test Year-end number of customers in its calculation in determining revenues and expenses on a going forward basis, states

AWC did recognize the year-end level of customers. Second, the Company is critical of RUCO's use of average revenue per customer using all customer classes versus just the residential class. Third, the Company claimed that a regression analysis performed by RUCO was "theoretically questionable and outdated".

Q. Please respond to the Company's first argument that it has utilized the Test Year-end customers in its revenue annualization.

A. By utilizing the Test Year-end customers in its calculation, the Company understates the actual annual growth. The reason is because the Company is measuring the growth as the difference between Test Year average number of customers to the year-end number of customers, rather than measuring growth from the beginning of the Test Year to the end of the Test Year. Regarding its growth calculation the Company states, "During the test year, the Western Group served an average of 19,596 customers, a difference of 670 customers" from Test Year-end customer count of 20,266. The Company's use of an average Test Year customer count fails to recognize revenues and expenses associated with the Test Year growth of an additional 587 customers in the Western Group. The Company's customer count work papers provided in its rate application clearly indicate that the Test Year customer growth count was 1,257 rather than the Company's stated average of 670. The Company's

methodology only accounts for 6 months of growth rather than a year's worth of growth.

Q. Please respond to the Company's second criticism regarding your use of average revenue for all classes of customers.

A. I do not agree with the Company's argument. Even if I were to modify my calculation so it recognized only the residential average revenues as the Company proposes, the adjustment would still be greater than the Company's because the Company's average residential revenue is significantly understated when compared to the actual average residential revenue.

Q. Please provide an explanation to the Company's response concerning RUCO's regression analysis.

A. The Company complains that RUCO's regression analysis is "outdated". By this reasoning the Company's lead/lag study must also be outdated because it is also vintage 1999 (see Hubbard Direct Testimony page 20, line 16 and 17).

Property Tax

Q. Do you agree with the Company's modification to the Arizona Department of Revenue ("ADOR") property tax valuation method to determine the Western Group's property tax expense?

A. No, I do not. It has been and continues to be RUCO's position that a methodology solicited by the water utility association and adopted by a state agency charged with the expertise to determine property tax valuations should be respected until modified or changed by law or that agency. The ADOR property tax valuation method is the result of an agreement by the Arizona Water Association and ADOR to provide the utilities, as well as the Commission, guidance regarding projections of future property tax expense.

Q. Does RUCO agree that an increase in revenue will undoubtedly lead to an increase in property taxes?

A. No. According to ADOR, property tax rates have been decreasing the past several years. With the uncertainty of future tax rates, the Company may experience a tax expense decrease in future years. Besides, AWC has been ordered by the Commission to file a rate case with a Test Year ending 2006 to recover costs associated with the Arsenic Cost Recovery Mechanism ("ACRM").

Q. When will the Company pay the property tax impacted by the increased revenues approved in this case?

A. Assuming that the rates resulting from this case go into effect in the last quarter of 2005, it will not be until the end of 2006 before the Company will have one full year of operating revenues at the new rates. Thus, the 2006 revenues will not form the basis of the Company's "Full Cash Value" until 2007. The Company's first payment would not be due until October 2007, and the final payment will not be due until March 2008. Further, if the Company receives approval of its proposed ACRM mechanism a rate case will be required by 2007.

RATE DESIGN

Q. Please discuss the Company's rebuttal arguments regarding your recommended rate design.

A. Company witness, Mr. Kennedy, criticized RUCO's rate design on the grounds that it fails to recognize and adjust rates for price elasticity, fails to provide any protection to the Company for the increased revenue volatility that results from the tiered rate design, fails to justify an intentional subsidy in pricing the first block of water for the 5/8" X 3/4" meter size, and inequitable rates for the larger meter sizes.

Q. Please describe RUCO's rationale for its rate design and tiered rates.

A. The Commission has strongly supported the use of tiered rates in recent years. Tiered rate structures may or may not effectively promote water conservation.

Q. Please further discuss Mr. Kennedy's price elasticity argument.

A. Many, if not all, of the arguments and issues presented by Mr. Kennedy are highly academic, speculative, and without empirical evidence. Any argument that I could raise would be laden with the same shortcomings. The full intent of a tiered rate structure is to send price signals that lead to conservation, but without hard empirical data to review and analyze, I cannot say if the customers' behavior will change for a short-term, long-term, or any at all for that matter. Accordingly, an adjustment at this time for lost revenues (or price elasticity) would be speculative at best and most certainly would not meet the "known and measurable" standard of ratemaking.

Q. Does this conclude your testimony on Arizona Water's Western Group systems?

A. Yes, it does.

EXHIBIT
PENGAD-Bayonne, N.J.
R-30
admitted

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-04-0650

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

REVENUE REQUIREMENTS

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 20, 2005

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INTRODUCTION

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

A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state your educational background and your qualifications in the field of utilities regulation.

A. Appendix I, which is attached to this testimony, describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present recommendations that are based on my analysis of Arizona Water Company's ("Arizona Water" or "Company") application for a permanent rate increase ("Application") for each of the five water systems that comprise the Company's Western Group. Arizona Water's Application was filed with the Arizona Corporation Commission ("ACC" or "Commission") on September 8, 2004. The Company has chosen the period ended December 31, 2003 as the test year ("Test Year") for this proceeding.

Q. What are the five water systems that comprise Arizona Water's Western Group?

A. The Western Group is comprised of the Ajo Heights ("Ajo"), Casa Grande, Coolidge, Stanfield, and White Tank systems.

Q. What systems will you provide direct testimony on?

A. My direct testimony will concentrate on the rate base and revenue issues associated with the Casa Grande and Stanfield systems. RUCO witness Timothy J. Coley will file direct testimony on revenue and rate base issues associated with the Ajo, Coolidge and White Tank systems.

Q. Were you responsible for conducting an analysis of Arizona Water's proposed rate design?

A. No. Mr. Coley will address the rate design issues associated with the case and present RUCO's recommended rate design for the five Western Group systems in his direct testimony.

Q. Did you perform a cost of capital analysis to determine a recommended rate of return on the Company's invested capital?

A. Yes, I did. I have also filed, under separate cover, direct testimony on the cost of capital issues associated with this proceeding. As is common in cases that involve an operating segment or wholly owned subsidiary of a public utility, my cost of capital analysis was performed on a total company

basis as opposed to concentrating on the Western Group alone or on any one particular system within the Western Group.

Q. Please describe how you conducted your analysis of Arizona Water's Application.

A. I reviewed Arizona Water's Application and analyzed various accounting records that were provided to RUCO by the Company. During the course of my audit, I also obtained copies of various documents that are kept on file at the ACC. Other pertinent information and source documents were collected through a series of written data requests submitted to the Company. After compiling the aforementioned information and materials, I performed an analysis that provided additional insight into the Company's rate base and operating income proposals. The recommendations on rate base, operating revenue, and operating expenses for the two systems covered in this testimony are based on the results of my analysis.

Q. Please identify the exhibits that you are sponsoring.

A. I am sponsoring a full set of separate schedules for each of the systems that I am testifying on. This includes Schedules WAR-1 through WAR-20.

Q. Does your silence on any of the issues or matters addressed in the Company's Application constitute RUCO's acceptance of the Company's position on such issues or matters?

A. No, it does not.

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Please summarize the recommendations and adjustments that you address in your testimony on operating revenues and operating expenses.

A. My testimony will address the following issues:

Rate Base:

Accumulated Depreciation - Plant – This adjustment calculates gross plant and accumulated depreciation levels over the time period since the Company's last rate case proceeding.

Restate Allocated Phoenix Office & Meter Shop and Accumulated Depreciation – This adjustment restates the Company-proposed level of allocated Phoenix Office and Meter Shop plant from a net figure to a gross figure, and breaks out the Company-proposed accumulated depreciation figure to reflect the amounts of accumulated depreciation that are associated with the Company's Phoenix Office and Meter Shop plant.

Accumulated Depreciation – Phoenix Office – This adjustment calculates gross plant and accumulated depreciation levels on Arizona Water's Phoenix Office, which is allocated to the five systems in the Western

Group, over the time period since the Company's last rate case proceeding.

Accumulated Depreciation – Meter Shop – This adjustment calculates gross plant and accumulated depreciation levels on Arizona Water's Meter Shop, which is allocated to the five systems in the Western Group, over the time period since the Company's last rate case proceeding.

Deferred CAP Charges – This adjustment, which decreases the Company-proposed Casa Grande, Coolidge, and White Tank system rate bases by $3,525,803, $1,046,011 and $506,268 respectively, reflects the $5,078,082 level of deferred Central Arizona Project ("CAP") charges that the Company seeks to earn a return on and recover in rates over a ten-year period. The adjustment reflects RUCO's recommendation to deny the recovery of deferred CAP charges associated with the Western Group systems.

Working Capital – This adjustment decreases the Company's requested level of cash working capital for the Casa Grande system by $206,992 and increases the requested level for the Stanfield system by $2,672. The adjustment is the result of RUCO's recalculation of Arizona Water's lead/lag study, which generated the Company-proposed level of cash working capital. The recalculation includes RUCO's expense level recommendations.

Remove Casa Grande Legal Expenses – This adjustment removes $824,374 in capitalized legal expenses from the Casa Grande system rate

base. The capitalized expenses are related to litigation between the Company and the City of Casa Grande.

Operating Revenue and Expense:

Remove Pro Forma CAP M&I Charges – The adjustment removes pro forma CAP water expenses on a going forward basis. The adjustment is part of RUCO's recommendation to deny the Company's request for recovery of deferred CAP charges over a ten-year period and to treat future CAP costs associated with the Casa Grande, Coolidge and White Tank systems as an operating expense.

Remove Amortization of Deferred CAP Charges – This adjustment is also part of RUCO's recommendation to deny the Company's request for recovery of deferred CAP charges over a ten-year period. The adjustment removes pro forma amortization expense from the Casa Grande, Coolidge and White Tank systems.

Revenue & Expense Annualization for 2003 – This adjustment annualizes revenues from water sales and various expense items based on the level of customers being served by the Company at the end of the Company's Test Year.

Purchased Power Expense – This adjustment increases purchased power expense for all five systems. The adjustment takes into consideration both the recent increase in rates granted to Arizona Public Service

Company ("APS") by the ACC and RUCO's recommended elimination of the Company's purchased power adjustor mechanism.

Depreciation & Amortization Expense – This adjustment calculates the Company's depreciation and amortization expense on a going forward basis.

Property Tax Expense – This adjustment calculates the appropriate level of property tax expense using the Arizona Department of Revenue's ("DOR") approved formula for calculating water utilities' property tax liabilities.

Income Tax Expense – This adjustment calculates the appropriate level of federal and state income tax expense given RUCO's recommended level of operating income.

Amortization of Rate Case Expense – This adjustment reflects RUCO's preliminary estimated rate case expense for the instant proceeding. RUCO's final estimate will be presented during the evidentiary hearing after the majority of the Company's rate case expense has been tabulated.

REVENUE REQUIREMENTS

Q. Please summarize the results of your analysis of Arizona Water's revenue requirements.

A. Based on the results of my audit, I am recommending that the level of revenue be increased by no more than $15,481 for Casa Grande, and

increased by no more than $534 for Stanfield. My recommended levels of revenue are exhibited in Schedule WAR-1 for each of the aforementioned systems. My original cost rate base ("OCRB") figures of $17,380,813 for Casa Grande, and $326,426 for Stanfield are exhibited in Schedule WAR-1 for each of these systems. My supporting original cost rate base ("OCRB") details for each of these systems, is based on the original costs that Arizona Water has agreed to accept as the Company's fair value rate base. My recommended adjusted operating incomes of $1,593,821 for Casa Grande, and $29,933 for Stanfield are also displayed in Schedule WAR-1. Schedule WAR-9 includes supporting detail for both of these operating income figures.

Q. What elements of operating revenue make up your recommended levels of total operating revenues?

A. My recommended decreases and increases in total operating revenue are comprised of water sales revenue recorded during the period ended December 31, 2003. I am recommending that total Company water sales revenues be increased to $7,381,685 for the Casa Grande system, and increased to $ 117,007 for the Stanfield system.

OVERVIEW OF THE FILING

Q. Please describe Arizona Water's rate application.

A. Arizona Water is requesting rate increases of $1,843,802 for the Casa Grande system, and $11,601 for the Stanfield system. As noted earlier Arizona Water's application is based on a test year ended December 31, 2003. As opposed to prior filings, which involved the Company's Northern and Eastern Groups, Arizona Water has chosen not to seek recovery of any plant placed into service after December 31, 2003. Thus, the inclusion of post-test year plant will not be an issue in this proceeding.

The Company is also seeking rate base treatment and the recovery of deferred CAP charges, incurred since 1986, over a ten-year period for the Casa Grande, Coolidge and White Tank systems. Arizona Water also seeks the recovery of future Casa Grande CAP water charges in rates on a going forward basis.

In regard to the recovery of costs associated with the U.S. Environmental Protection Agency's ("EPA") revised arsenic standard of 10 parts per billion (scheduled to go into effect in January 2006), the Company is seeking an arsenic recovery cost mechanism ("ACRM") that is similar to the one that was approved by the Commission in the prior Northern and Eastern Group rate case proceedings. According to Arizona Water's Application, the Casa Grande, Stanfield and White tank systems will be

impacted by the EPA's revised arsenic standard. Earlier this year, the Commission approved an Order, which adopted the recommendations of ACC Staff, on the Company's request for a modified ACRM.

Q Does RUCO oppose the Company's request for an ACRM in this case?

A. No.

Q Is Arizona Water seeking a continuance of the Company's purchased power adjustor mechanism ("PPAM") and purchased water adjustor mechanism ("PWAM") for the Western Group systems in this proceeding?

A. Yes.

Q. What is RUCO's position on continuing these mechanisms?

A. RUCO recommends that the Commission eliminate the PPAM and PWAM for the Western Group systems. RUCO's recommendation is consistent with the Commission's decision to eliminate these same adjustor mechanisms in the Company's Eastern Group rate case (Decision No. 66849, dated March 19, 2004).

Q. Does the Company's application adhere to generally accepted ratemaking principles and the Commission's own rules regarding the use of a historical test year?

A. Yes. The Commission's Rules require the use of a historical test year. In RUCO's opinion, Arizona Water's rate request for the Western Group adheres to those Rules (as noted earlier, the Company has elected not to seek recovery of post-test year plant in this proceeding[1]). The biggest areas of contention in this case involve the recovery of deferred CAP charges over a ten-year period, the recovery of future CAP charges as an operating expense, the elimination of both the PPAM and the PWAM, and the removal of capitalized legal expenses which have been booked to the Casa Grande plant in service account.

RATE BASE

Rate Base Adjustment #1 – Accumulated Depreciation - Plant

Q. Please explain your adjustment to the Company's plant in service account.

A. Rate Base Adjustment #1 calculates the level of gross plant placed into service since the Company's last rate case proceeding and increases and decreases the levels of Test Year accumulated depreciation for the five systems in the Western Group.

[1] RUCO vigorously opposed the Company's request for inclusion of post-test year plant in both the Northern and Eastern Group proceedings.

The calculation of my recommended plant in service figure for the two systems that I am providing testimony on is exhibited in Schedule WAR-4, pages 1 through 4. Schedule WAR-4 calculates plant additions and retirements that occurred from 1990 through the 2003 Test Year period. RUCO's calculated Test Year level of gross plant reconciled with the Company-proposed level for each of the systems in the Western Group. The adjustment results in an $889 increase in accumulated depreciation for Ajo, a $55,553 increase in accumulated depreciation for Casa Grande, a $131,867 decrease in accumulated depreciation for Coolidge, a $9,670 decrease in accumulated depreciation for Stanfield, and a $15,781 decrease in accumulated depreciation for White Tank.

Q. Do you agree with the Company's calculation of accumulated depreciation expense?

A. No. The Company's calculation of accumulated depreciation includes an additional six months of depreciation expense to reflect a full year of accumulated depreciation on new additions during the Test Year that are subject to the half-year convention.

Q. What is the half-year convention?

A. The half-year convention is a tax accounting concept that simplifies the procedure for recording depreciation expense on new assets placed into service during different times of the year. Under the half-year convention,

six months of depreciation expense is calculated on a new asset addition regardless of what date it goes into service. The same six-month's worth of depreciation is calculated on a new asset placed into service on January 1 as on a similar asset that goes into service on December 31.

Q. Was RUCO's calculation of accumulated depreciation performed under the half -year convention?

A. Yes. RUCO's adjusted accumulated depreciation figure for Test Year plant additions, including the Phoenix Office and Meter Shop allocations, only includes the six months of depreciation expense that should be recorded for plant additions under the half-year convention. The annual depreciation expense and accumulated depreciation balances from 1990 to the end of 2003 are exhibited in Schedule WAR-4.

Q. When should the unrecorded six months of depreciation be taken into account for ratemaking purposes?

A. A full year of depreciation expense should be calculated in order to arrive at the appropriate level of depreciation & amortization operating expense that the Company is entitled to receive in rates on a going forward basis. My calculation of pro forma depreciation & amortization expense using a full-year convention is exhibited in Schedule WAR-13.

Rate Base Adjustment #2 – Restate Allocated Phoenix Office & Meter Shop and Accumulated Depreciation

Q. Please explain the Company's method of recovering plant associated with the Phoenix Office and Meter Shop.

A. The Company calculates a set of annual allocation factors for each system within its three operating groups. The total Phoenix Office and Meter Shop plant is then multiplied by each system's allocation factor to determine how much Phoenix Office and Meter Shop plant should be allocated to a specific system. The allocation factors I have used in my recommended adjustment to accumulated depreciation associated with these assets are consistent with the factors used by Arizona Water.

Q. Please explain your adjustment that restates the Company-proposed level of allocated Phoenix Office and Meter Shop plant for the five Western Group systems.

A. The figures for allocated Phoenix Office & Meter Shop plant contained in the Company's application reflect amounts that are net of accumulated depreciation. My adjustment, which is exhibited in Schedule WAR-5, restates the Company-proposed level of allocated Phoenix Office and Meter Shop plant from a net figure to a gross figure, and then restates the Company-proposed accumulated depreciation figure to reflect the amounts of accumulated depreciation that are associated with the allocated Phoenix Office & Meter Shop plant.

Q. What was your rationale for making the adjustment to the Company-proposed level of allocated Phoenix Office and Meter Shop plant?

A. The main reason for the adjustment was to simply state the Company's proposed levels of allocated Phoenix Office & Meter Shop plant on the same gross basis as the plant in service. These two figures can be viewed as separate line items on Schedules WAR-2, TJC-2, WAR-3 and TJC-3. The adjustment has no net effect on rate base for the five Western Group systems.

Rate Base Adjustment #3 – Accumulated Depreciation – Phoenix Office

Q. Did RUCO perform a calculation similar to the one made in Rate Base Adjustment #1, to determine the appropriate Test Year level of allocated Phoenix Office plant in service?

A. Yes. As can be seen in Schedules WAR-6 and TJC-6, a similar analysis was performed on the Phoenix Office plant in service. The result of the analysis is an increase in allocated accumulated depreciation of $152 for Ajo, $3,309 for Casa Grande, $702 for Coolidge, $50 for Stanfield and $316 for White Tank.

Rate Base Adjustment #4 – Accumulated Depreciation – Meter Shop

Q. Did RUCO also perform a calculation similar to the one made in Rate Base Adjustment #1, to determine the appropriate Test Year level of allocated Meter Shop plant in service?

A. Yes. As can be seen in Schedules WAR-7 and TJC-7, the same analysis was performed on the Meter Shop plant in service. The result of the analysis is a decrease in allocated accumulated depreciation of $9 for Ajo, $192 for Casa Grande, $41 for Coolidge, $3 for Stanfield and $18 for White Tank.

Rate Base Adjustment #5 - Deferred CAP Charges

Q. Is Arizona Water seeking recovery of deferred CAP charges associated with the Company's Casa Grande, Coolidge and White Tank systems?

A. Yes. In its Application, Arizona Water requested rate base treatment for deferred CAP charges that the Company's Casa Grande, Coolidge and White Tank systems have incurred. Arizona Water is also requesting that the Company be permitted to amortize and recover these deferred CAP charges over a ten-year period as the Commission allowed it to do for the Apache Junction system in the prior Eastern Group proceeding. The Company is further requesting that it be permitted to treat all future CAP charges for the Casa Grande, Coolidge and White Tank systems as a regular operating expense.

Q. Does RUCO believe that the Commission should adopt the Company's proposal to recover and earn a rate of return on the deferred CAP charges as it was allowed to do in the prior Eastern Group proceeding?

A. No. RUCO's position on this matter sharply differs from the Company's. RUCO believes that the CAP situation in this proceeding is significantly different than the CAP situation that existed in the Eastern Group proceeding.

Q. Please explain these differences.

A. In the Eastern Group proceeding, the Company's Apache Junction system was utilizing almost all of its CAP allocation at the time of the proceeding. In the Western Group, only one of the three systems with CAP allocations is actually providing CAP water to its customers. That system, the Casa Grande system, is providing non-potable CAP water which, during the Test Year, amounted to approximately thirty percent of the Casa Grande system's total CAP allocation. The other two systems, Coolidge and White Tank, are not providing any CAP water to customers. In the case of the Casa Grande system, Arizona Water is recovering the costs for non-potable CAP deliveries through the Company's NP-260 Tariff.

Q. Does the Company have plans to utilize the full amount of CAP water allocated to the three systems in question?

A. The Company stated in its Application that it plans to utilize all of its CAP allocations for the three systems in question within the next ten to fifteen years. The Company also states that it has plans to build treatment facilities for the provision of potable CAP water in the Western Group, however, none of these facilities currently exist. In addition, Arizona Water has stated that the Company is not engaged in any recharge (i.e. groundwater replenishment) projects at the present time.

Q. Does RUCO believe that the Company should be able to recover the Western Group deferred CAP charges in rates?

A. No. With the exception of the Casa Grande customers that purchase non-potable CAP water under the Company's NP-260 tariff, the remaining Casa Grande, Coolidge and White Tank ratepayers receive no benefit from those system's CAP allocations, the CAP allocations are by definition non-used and useful in the provision of service. Since accepted ratemaking theory requires that non-used and useful investments be excluded from rates, RUCO believes that the Commission should deny the Company's request for recovery of deferred CAP charges for the Casa Grande, Coolidge, and White Tank systems. RUCO further believes that the Company-proposed level of amortized deferred CAP charges will place an additional undue hardship on the Company's Casa Grande and

White Tank ratepayers given the fact that those ratepayers will be facing increased charges for the removal of arsenic through the ACRM.

Q. What has been the Commission's policy on recovery of CAP deferrals and expenses?

A. The Commission has historically held that CAP water needs to be used and useful in the provision of service to be eligible for rate recovery. The following exemplifies the Commission's policies on CAP water recovery:

> CAP costs should not be recovered through rates until the utility is actually receiving CAP water. [Decision No. 58419, dated September 30, 1993 Paradise Valley Water Company]

and

> Because Citizens is not utilizing CAP water in the provision of service to its customers, its CAP allocation by definition is not "used" and "useful". Therefore, the costs of Citizens' CAP capital charges should not be borne by the ratepayers. Furthermore, because Citizens has no definite plans to use the CAP water, its proposal to use its CAP allocation is speculative and the use of this water cannot be considered to be a known and measurable event. Therefore, Citizens' request for M&I Capital Charges should be denied. [Decision No. 60172, dated May 7, 1997, Citizens Utilities Company].

Q. Are their any other reasons why RUCO opposes the Company's request for recovery of deferred CAP charges?

A. Yes. RUCO believes that the Company's request for recovery of deferred CAP charges at this point in time raises serious questions in terms of

intergenerational inequities. Given the fact that the Company wants to begin recovery of the deferred CAP charges prior to providing any treated water, the possibility exists that some percentage of ratepayers will never receive any benefit for what they will be charged for in rates. This is because the body of ratepayers that will actually receive treated CAP water are not necessarily the same body of ratepayers that will be required to pay for the recovery of the deferrals. Under a worst-case scenario, the Company may not actually bring treatment facilities on line until the end of its ten to fifteen year projection for using all of its CAP allocation. In this scenario, customers that die or leave the system could pay for CAP deferral recovery for years and not derive any real benefit for what they are being charged for in their rates. Delaying the recovery of deferred charges in rates until the time that the Company is actually providing treated potable CAP water to its customers, as the Commission did in the case of the Apache Junction system, makes more sense because the body of ratepayers that will be benefiting from the CAP water will be the customers that pay for it. If the Company's growth projections are realized, the recovery of the deferred charges would possibly be spread over a larger future customer base in the affected systems and, conceivably, the increase in rates would not be as high.

Q. Should the Company be permitted to recover future CAP charges as an operating expense?

A. No. As I stated earlier, since the Company is not actually utilizing the Casa Grande, Coolidge and White Tank system's CAP allocations, and ratepayers are not actually receiving the benefits associated with the CAP water (with the exception of the Casa Grande NP-260 Tariff customers), the Company should not be permitted to recover its future CAP charges in rates as an operating expense. Accordingly, I have removed the Company's pro forma amounts for CAP charges on a going forward basis in RUCO's recommended level of annual purchased water expense. I have also removed the Company's ten-year amortization of the deferred CAP charges (Operating Adjustment #1).

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Rate Base Adjustment #6 - Working Capital

Q. Has RUCO adjusted the Company-proposed working capital figures for the two systems in the Western Group that you are providing testimony on?

A. Yes. RUCO's working capital adjustments, exhibited in Schedule WAR-7, result in a decrease of $206,992 in the working capital requirements for Casa Grande and an increase of $2,672 for Stanfield.

A detailed discussion and explanation for RUCO's method for calculating this adjustment is contained in the testimony of RUCO witness Timothy J. Coley.

Rate Base Adjustment #7 – Remove Casa Grande Legal Expenses

Q. Please explain your $824,374 adjustment that decreases plant in service for the Casa Grande system.

A. The $824,374 adjustment removes capitalized legal expenses that Arizona Water recorded in a non-depreciable account titled "Intangibles, Miscellaneous." As presently booked, the capitalized amount of $824,374 will remain in rate base indefinitely and will provide the Company with a return on the full $824,374 in perpetuity. Under my recommended rate of return of 9.17 percent, this will result in an after tax operating income of $75,595 per year.

Q. Did Arizona Water request an accounting order from the ACC authorizing the Company to treat these legal costs in this manner?

A. No.

Q. What were these capitalized legal costs for?

A Based on my review of legal filings that were provided by the Company in response to a RUCO data request, the capitalized legal expenses were incurred as part of an attempt by the Company to block the City of Casa Grande from selling effluent water to the owners of the Desert Basin merchant power plant located within the Company's certificated area. According to the documents that I was provided with by the Company, and city council meeting minutes that have been posted on the City of Casa

Grande website, Arizona Water filed motions in federal and local courts, and with the ACC, to prevent the City of Casa Grande from carrying out its plans to enter into an effluent water sales agreement with Reliant Energy, Inc. ("Reliant Energy"), which was the original owner of the Desert Basin power plant located near Casa Grande. Salt River Project ("SRP") subsequently purchased the plant from Reliant Energy. The Company did not prevail in the majority of the litigation, but my recommendation is not based on that outcome.

Q. Does Arizona Water have the capability to provide effluent water in the Company's Casa Grande service territory?

A. No. Arizona Water is not engaged in the provision of wastewater service and does not produce effluent.

Q. If Arizona Water had blocked the City of Casa Grande from entering into the effluent sales agreement, what would the Company have sold to the Desert Basin power facility?

A. I can only speculate that Arizona Water would have sold either ground water or non-potable CAP water. I believe that the sale of either of these two water resources would have been a poor decision given the fact that effluent was available from the City of Casa Grande and that the need for conservation of ground water and Colorado River water had increased due to drought conditions that have existed over the last ten years. In fact

the Company raises groundwater conservation issues in this case. The only other option that I am aware of would have been for Arizona Water to purchase the effluent from the City of Casa Grande and then resell it to the owners of the Desert Basin facility.

Q. How should these legal expenses have been treated?

A. I believe that these expenses should have been treated as operating expenditures and should have been expensed during the periods that they were incurred in. Under this scenario, the Company's shareholders would have borne the burden of any resulting operating losses that would have occurred as a result of the Company's decision to litigate this matter.

Q. Would you have recommended recovery of these legal costs in rates had the Company booked them as operating period expense?

A. No. At best I would have disallowed them as a non-recurring expense and at worst, given the fact that the City of Casa Grande was in a position to sell effluent water and the funds could have been put to better use, I would have disallowed them as imprudent expenditures and a waste of utility resources.

Q. Why do you believe that the Commission should adopt your recommendation to remove the $824,374 from the Casa Grande system rate base?

A. Ratepayers should not have to provide the Company with a perpetual return on discretionary legal expenditures that provide no clear benefit to customers. Arizona Water made a business decision to pursue this matter in the courts of law to increase its water sales revenue and enrich its shareholders. Whether the Company had succeeded or failed in the effort is immaterial. In either instance ratepayers would have received no benefit from the outcome. Having failed in its attempts to block the City of Casa Grande from selling effluent water to the Desert Basin facility, Arizona Water now wants Casa Grande ratepayers to provide the Company's shareholders with a return in perpetuity on the funds that the Company's management spent on a highly questionable unnecessary purpose that provides ratepayers with no benefit whatsoever.

Q. Has the Commission shielded ratepayers from the unnecessary costs of litigation in the past?

A. Yes. The Commission has on many occasions shielded ratepayers from litigation costs. In the last Southwest Gas Corporation rate case, the Commission excluded the litigation costs of a failed merger with ONEOK, Inc. from rates (Decision No. 64172, dated October 30, 2001). In another instance, the Commission denied litigation costs associated with rate case

expense (which was in large part comprised of legal expenses) in a proceeding that involved Arizona-American Water Company (Decision No. 67093, dated June 30, 2004).

OPERATING INCOME

Operating Adjustment #1 – Remove Pro Forma CAP M&I Charges

Q. Has RUCO made adjustments to remove the Company's pro forma adjustment for CAP M&I charges?

A. Yes, as I explained earlier in my testimony on the deferred CAP charges, I have removed the Company's pro forma amounts for CAP M&I charges on a going forward basis. This is consistent with RUCO's recommendation that the Company not be permitted to rate base CAP deferred charges for the Casa Grande, Coolidge and White Tank systems. The adjustment can be viewed in Schedules WAR-10 and TJC-10. The adjustment results in a decrease in purchased water expense of $159,449 for Casa Grande, $56,000 for Coolidge, and $27,104 for White Tank.

Operating Adjustment #2 - Remove Amortization of Deferred CAP Charges

Q. Please explain your operating adjustment, which removes pro forma amortization expense on deferred CAP charges.

A. This is the final adjustment needed to remove pro forma amounts that are associated with the Company's request to recover deferred CAP charges in rates. The adjustment removes the amortization expense associated

with the Company's proposal to amortize the deferred CAP charges over a ten-year period. The adjustment results in a decrease in amortization expense of $352,580 for Casa Grande, $104,601 for Coolidge, and $50,627 for White Tank.

Operating Adjustment #3 - Revenue and Expense Annualization for 2003

Q. Has RUCO annualized revenues to take into account the change in customers during the 2003 Test Year?

A. Yes. Schedule WAR-11 for each of the systems I am providing testimony on presents RUCO's revenue and expense reconciliation based on the customer count in 2003. RUCO witness Timothy J. Coley discusses the adjustment in detail in his direct testimony on the Western Group systems.

Operating Adjustment #4 – Purchased Power

Q. Why has RUCO increased purchased power expense for all five systems in the Western Group?

A. The upward adjustment in purchased power expense for all five systems in the Western Group takes into consideration both the recent increase in rates granted to APS by the Commission, and RUCO's recommendation to eliminate the Company's PPAM. The adjustment, which can be viewed in detail in Schedules WAR-12 and TJC-12, increases, on a percentage basis, the amount of purchased power from APS by 3.50 percent. The 3.50 percent figure is the commercial rate increase authorized in the APS

settlement agreement, which was approved by the Commission on April 5, 2005.

Operating Adjustment #5 - Depreciation and Amortization Expense

Q. Have you calculated depreciation and amortization expense?

A. Yes. The calculation is exhibited in Schedule WAR-12. As explained earlier in my testimony, I have calculated a full year of depreciation and amortization expense based on RUCO's level of Test Year plant balances including allocated post-test year Phoenix Office and Meter Shop additions.

Q. How did you calculate your recommended levels of depreciation and amortization expense for each of the five systems in the Western Group?

A. As exhibited in Schedule WAR-13, my recommended levels of depreciation and amortization expense were calculated by applying the component depreciation rates, approved by the Commission in the Eastern Group proceeding, to the level of plant in service calculated on page 4 of Schedule WAR-4. A two percent composite rate of depreciation, also approved by the Commission in the Eastern Group proceeding, was applied to the Company's Test Year level of contributions in aid of construction ("CIAC") in order to arrive at the proper amount of amortization of CIAC to be deducted from depreciation expense. RUCO's calculation of depreciation and amortization expense takes leasehold

improvements into consideration and also considers the removal of amortization of deferred CAP charges that were discussed in RUCO's Operating Adjustment #2. Other than the removal of amortization of deferred CAP charges, RUCO's calculation of depreciation and amortization expense resulted in no increases or decreases for the five Western Group systems. The results of the calculation have been presented here largely for illustrative purposes.

Operating Adjustment #6 - Property Tax Expense

Q. Is RUCO recommending an adjustment to the Company-proposed levels of property tax expense for the Western Group systems?

A. Yes. The adjustment, exhibited in Schedule WAR-14, results in a $51,803 decrease for Casa Grande and an $866 decrease for Stanfield. The property tax calculation was made using the currently effective DOR formula. Please refer to the direct testimony of RUCO witness Timothy J. Coley for a detailed discussion on property tax issues in this case.

Operating Adjustment #7 - Income Tax Expense

Q. Have you calculated income tax expense based on RUCO's recommended adjusted operating income for each of the five Western Group systems?

A. Yes. This adjustment is shown on Schedules WAR-15 and TJC-15 for each of the five systems in the Western Group. The adjustment uses the

synchronized interest method for calculating the level of interest expense to be deducted from income taxes.

Operating Adjustment #8 - Amortization of Rate Case Expense

Q. Please explain your adjustments to rate case expense for each of the systems you are providing testimony on.

A. At this time I am not proposing an adjustment to the Company's requested level of rate case expense.

Q. Does this mean RUCO has adopted the Company's estimates in full?

A. No. RUCO has reviewed the amount of rate case expense billed to date and has decided that the prudent approach would be to wait until a final figure can be accurately calculated and compared to the Company's request. RUCO will present a final estimate on rate case expense amortization during the evidentiary hearing.

Q. Does this conclude your direct testimony on Arizona Water's Western Group systems?

A. Yes, it does.

Qualifications of William A. Rigsby

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 &1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Revenue Auditor II
Arizona Department of Revenue
Corporate Income Tax Audit Unit
Phoenix, Arizona
November 1993 – October 1994

Tax Examiner Technician I
Arizona Department of Revenue
Transaction Privilege Tax Audit Unit
Phoenix, Arizona
July 1991 – November 1993

Appendix 1

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

Utility Company	Docket No.	Type of Proceeding
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase

ARIZONA WATER COMPANY
CASA GRANDE SYSTEM
DOCKET NO. W-01445A-04-0650
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ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
REVENUE REQUIREMENTS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-1

LINE NO.	DESCRIPTION	(A) COMPANY REQUESTED	(B) RUCO RECOMMENDED
1	ADJUSTED RATE BASE	$ 21,996,652	$ 17,380,813
2	ADJUSTED OPERATING INCOME	1,180,182	1,584,337
3	CURRENT RATE OF RETURN (L2 / L1)	5.37%	9.12%
4	REQUIRED RATE OF RETURN	10.50%	9.17%
5	REQUIRED OPERATING INCOME (L4 • L1)	2,309,648	1,593,821
6	OPERATING INCOME DEFICIENCY (L5 - L2)	1,129,466	9,483
7	GROSS REVENUE CONVERSION FACTOR	1.63245	1.63249
8	GROSS REVENUE INCREASE	$ 1,843,802	$ 15,481
9	CURRENT REVENUES T/Y ADJUSTED	7,298,464	7,366,204
10	PROPOSED ANNUAL REVENUE (L8 + L9)	9,142,266	7,381,685
11	PERCENTAGE AVERAGE INCREASE	25.26%	0.21%

REFERENCES:
COLUMN (A): COMPANY SCHEDULE A-1
COLUMN (B): SCHEDULE WAR-1, PG. 2, WAR-2, WAR-9 AND WAR-16

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
GROSS REVENUE CONVERSION FACTOR

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-1

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUE	1.00000	
2	UNCOLLECTIBLES	0.00234	COMPANY SCH. C-3
3	SUB-TOTAL	0.99766	LINE 1 - LINE 2
4	LESS: TAX RATE	38.51%	NOTE (a)
5	TOTAL	0.61256	LINE 3 - LINE 4
6	REVENUE CONVERSION FACTOR	1.63249	LINE 1/LINE 5

NOTE (a):
CALCULATION OF EFFECTIVE TAX RATE

OPERATING INCOME BEFORE TAXES	100.00%
LESS: ARIZONA STATE TAX	6.97%
TAXABLE INCOME FEDERAL	93.03%
TIMES: FEDERAL INCOME TAX RATE	34.00%
SUBTOTAL	31.63%
ADD STATE TAX RATE	38.60%
LINE 3 ABOVE	99.77%
EFFECTIVE TAX RATE	38.51%

NOTE (b):

STATE INCOME TAX	$ 1,079
FEDERAL INCOME TAX	4,919
TOTAL INCOME TAX LIABILITY	$ 5,998

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE - ORIGINAL COST

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-2

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	PLANT IN SERVICE	$ 48,030,396	$ (824,374)	$ 47,206,022
2	PHOENIX OFFICE & METER SHOP ALLOCATION	947,818	110,516	1,058,334
3	DEFERRED CAP CHARGES	3,525,803	(3,525,803)	-
4	ACCUMULATED DEPRECIATION	(12,072,217)	(169,186)	(12,241,403)
5	NET PLANT IN SERVICE	$ 40,431,800	$ (4,408,847)	$ 36,022,953
6	CONSTRUCTION WORK IN PROGRESS (CWIP)	-	-	-
7	TOTAL NET PLANT	$ 40,431,800	$ (4,408,847)	$ 36,022,953
8	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(8,891,444)	-	(8,891,444)
9	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(7,754,812)	-	(7,754,812)
10	ACCUMULATED AMORTIZATION OF CIAC	1,348,820	-	1,348,820
11	DEFERRED INCOME TAXES	(3,387,966)	-	(3,387,966)
12	WORKING CAPITAL	250,254	(206,992)	43,262
13	TOTAL RATE BASE	$ 21,996,652	$ (4,615,839)	$ 17,380,813

REFERENCES:
COLUMN (A): COMPANY SCHEDULE B-1
COLUMN (B): SCHEDULE WAR-3
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
SUMMARY OF RATE BASE ADJUSTMENTS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-3

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED		(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) RUCO ADJUSTED
1	PLANT IN SERVICE	$48,030,396		$ -	$ -	$ -	$ -	$ -	$ -	$ (824,374)	$ 47,206,022
2	PHOENIX OFFICE & METER SHOP ALLOCATION	947,818	(a)		110,516						1,058,334
3	DEFERRED CAP CHARGES	3,525,803						(3,525,803)			-
4	ACCUMULATED DEPRECIATION	(12,072,217)		(55,553)	(110,516)	(3,309)	192				(12,241,403)
5	NET PLANT IN SERVICE	$40,431,800		$ (55,553)	$ -	$ (3,309)	$ 192	$(3,525,803)	$ -	$ (824,374)	$ 36,022,953
6	CONSTRUCTION WORK IN PROGRESS (CWIP)	-									-
7	TOTAL NET PLANT	$40,431,800		$ (55,553)	$ -	$ (3,309)	$ 192	$(3,525,803)	$ -	$ (824,374)	$ 36,022,953
8	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(8,891,444)									(8,891,444)
9	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(7,754,812)									(7,754,812)
10	ACCUMULATED AMORTIZATION OF CIAC	1,348,820									1,348,820
11	DEFERRED INCOME TAXES	(3,387,966)									(3,387,966)
12	WORKING CAPITAL	250,254							(206,992)		43,262
13	TOTAL RATE BASE	$21,996,652		$ (55,553)	$ -	$ (3,309)	$ 192	$(3,525,803)	$ (206,992)	$ (824,374)	$ 17,380,813

ADJUSTMENT #:	REFERENCE:
1. ACCUMULATED DEPRECIATION - PLANT	SCHEDULE WAR-4
2. RESTATE PHX. OFFICE & METER SHOP AND ACCUM. DEPR.	SCHEDULE WAR-5
3. ACCUMULATED DEPRECIATION - PHOENIX OFFICE	SCHEDULE WAR-6
4. ACCUMULATED DEPRECIATION - METER SHOP	SCHEDULE WAR-7
5. DEFERRED CAP CHARGES	TESTIMONY - WAR
6. WORKING CAPITAL	SCHEDULE WAR-8
7. REMOVE CASA GRANDE LEGAL EXPENSES	TESTIMONY - WAR

NOTES:
(a) NET OF ACCUMULATED DEPRECIATION

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1990 PLANT VALUE PER COMPANY	1990 ACCUM DEPR. PER COMPANY	1990 NET PLANT PER PRIOR ACC PER COMPANY	1991 ADDITIONS PER COMPANY	1991 (RETIREMENTS) PER COMPANY	1991 YEAR END PLANT VALUE PER RUCO	1991 DEPRECIATION EXPENSE PER RUCO	1991 ACCUMULATED DEPRECIATION PER RUCO	1991 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	3,018	0	3,018	0	0	3,018	0	0	3,018
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	54,497	0	54,497	0	(305)	54,192	0	(305)	54,497
7	314.0	SOURCE OF SUPPLY: WELLS	957,655	200,039	757,616	679	(12,051)	946,283	23,038	211,026	735,257
8	320.0	PUMPING PLANT: LAND*	4,513	0	4,513	1,500	0	6,013	0	0	6,013
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	10,113	2,112	8,001	0	0	10,113	245	2,357	7,756
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	1,332,394	278,316	1,054,078	152,186	(124,905)	1,359,675	32,574	185,985	1,173,690
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	77,688	16,228	61,460	0	(77,688)	0	940	(60,520)	60,520
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	2,602	544	2,058	0	0	2,602	63	606	1,996
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	35,419	7,398	28,021	7,102	0	42,521	943	8,342	34,179
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	62,548	0	62,548	226	(723)	62,051	0	(723)	62,774
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	1,675,943	350,078	1,325,865	6,058	(74,539)	1,607,462	39,729	315,268	1,292,194
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	11,930,722	2,492,141	9,438,581	652,214	(17,264)	12,565,672	296,406	2,771,284	9,794,388
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	216,234	45,168	171,066	15,209	(127)	231,316	5,415	50,456	180,860
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	2,273,030	474,800	1,798,230	91,952	(5,755)	2,359,228	56,050	525,096	1,834,131
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	605,214	126,420	478,794	18,773	(13,245)	610,743	14,713	127,888	482,854
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	684,473	142,976	541,497	18,825	(1,105)	702,194	16,779	158,650	543,544
24	389.1	GENERAL PLANT: LAND - OFFICE*	8,772	0	8,772	0	0	8,772	0	0	8,772
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	76,899	16,063	60,836	230	0	77,129	1,864	17,927	59,202
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	108,404	22,644	85,760	0	0	108,404	2,623	25,267	83,137
29	390.3	GENERAL PLANT: MISC. BUILDINGS	4,076	851	3,225	0	0	4,076	99	950	3,126
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	18,664	3,899	14,765	0	0	18,664	452	4,350	14,314
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	19,223	4,015	15,208	484	0	19,707	471	4,486	15,221
32	391.2	GENERAL PLANT: OFFICE FURNITURE	13,957	2,915	11,042	286	0	14,243	341	3,257	10,986
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	1,384	289	1,095	589	0	1,973	41	330	1,643
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	67,371	14,073	53,298	885	0	68,256	1,641	15,714	52,542
35	395.0	GENERAL PLANT: LAB EQUIPMENT	172	36	136	0	0	172	4	40	132
36	396.0	GENERAL PLANT: POWER EQUIPMENT	44,589	9,314	35,275	595	0	45,184	1,086	10,400	34,784
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	171,167	35,754	135,413	0	0	171,167	4,142	39,896	131,271
38	397.1	GENERAL PLANT: MOBILE RADIOS	5,470	1,143	4,327	3,718	0	9,188	177	1,320	7,868
39	397.2	GENERAL PLANT: AUTO CONTROLS	28,980	6,053	22,927	2,093	0	31,073	727	6,780	24,292
40	398.0	GENERAL PLANT: MISC.	1,634	341	1,293	0	0	1,634	40	381	1,253
41		TOTALS	$20,496,825	$4,253,612	$16,243,213	$973,603	($327,706)	$21,142,723	$500,603	$4,426,510	$16,716,213
42											
43											

44														
45			1992	1992	1992	1992	1992	1992			1993	1993	1993	1993
46	ACCT.		ADDITIONS	(RETIREMENTS)	YEAR END	DEPRECIATION	ACCUMULATED	YEAR END	1993	1993	YEAR END	DEPRECIATION	ACCUMULATED	YEAR END
47	NO.	PLANT ACCOUNT NAME	PER COMPANY	PER COMPANY	PLANT VALUE PER RUCO	EXPENSE PER RUCO	DEPRECIATION PER RUCO	NET PLANT PER RUCO	ADDITIONS PER COMPANY	(RETIREMENTS) PER COMPANY	PLANT VALUE PER RUCO	EXPENSE PER RUCO	DEPRECIATION PER RUCO	NET PLANT PER RUCO
48														
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
50	302.0	INTANGIBLES: FRANCHISES*	0	0	3,018	0	0	3,018	0	0	3,018	0	0	3,018
51	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	5,168	0	5,168	0	0	5,168
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	54,192	0	(305)	54,497	2,503	0	56,695	0	(305)	57,000
55	314.0	SOURCE OF SUPPLY: WELLS	3,525	0	949,808	22,943	233,969	715,839	759	0	950,567	24,610	258,578	691,989
56	320.0	PUMPING PLANT: LAND*	0	0	6,013	0	0	6,013	0	0	6,013	0	0	6,013
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	10,113	245	2,602	7,511	0	0	10,113	262	2,864	7,249
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	176,288	(48,758)	1,487,205	34,447	171,675	1,315,530	124,953	(104,491)	1,507,667	38,784	105,967	1,401,700
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	(60,520)	60,520	0	0	0	0	(60,520)	60,520
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	2,602	63	669	1,933	0	0	2,602	67	737	1,865
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	92,909	(1,376)	134,054	2,137	9,102	124,952	30,155	0	164,209	3,863	12,965	151,244
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	62,051	0	(723)	62,774	1,942	0	63,993	0	(723)	64,716
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	22,230	0	1,629,692	39,170	354,438	1,275,254	16,542	0	1,646,234	42,423	396,861	1,249,373
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	110,147	(6,727)	12,669,092	305,341	3,069,897	9,599,195	380,089	(71,122)	12,978,059	332,131	3,330,906	9,647,153
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	9,596	(540)	240,372	5,707	55,624	184,748	14,161	0	254,533	6,409	62,033	192,500
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	160,809	(7,669)	2,512,368	58,946	576,374	1,935,994	117,648	(7,757)	2,622,259	66,493	635,110	1,987,149
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	26,516	(7,641)	629,618	15,008	135,256	494,362	2,328	(2,853)	629,093	16,300	148,703	480,390
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	25,053	(599)	726,648	17,289	175,340	551,308	2,321	(3,321)	725,648	18,807	190,826	534,821
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	8,772	0	0	8,772	0	0	8,772	0	0	8,772
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	77,129	1,867	19,793	57,336	0	0	77,129	1,998	21,791	55,338
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	794	0	109,198	2,633	27,900	81,298	0	0	109,198	2,828	30,728	78,470
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	4,076	99	1,049	3,027	0	0	4,076	106	1,154	2,922
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	18,664	452	4,802	13,862	0	0	18,664	483	5,285	13,379
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	7,379	0	27,086	566	5,053	22,033	2,599	0	29,685	735	5,788	23,897
80	391.2	GENERAL PLANT: OFFICE FURNITURE	70	0	14,313	346	3,602	10,711	0	0	14,313	371	3,973	10,340
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	1,973	48	377	1,596	0	0	1,973	51	429	1,544
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	3,011	0	71,267	1,688	17,402	53,865	746	0	72,013	1,855	19,258	52,755
83	395.0	GENERAL PLANT: LAB EQUIPMENT	496	0	668	10	50	618	0	0	668	17	68	600
84	396.0	GENERAL PLANT: POWER EQUIPMENT	551	0	45,735	1,100	11,500	34,235	4,154	(469)	49,420	1,232	12,264	37,156
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	171,167	4,142	44,039	127,128	0	(381)	170,786	4,428	48,086	122,700
86	397.1	GENERAL PLANT: MOBILE RADIOS	937	0	10,125	234	1,554	8,571	0	0	10,125	262	1,816	8,309
87	397.2	GENERAL PLANT: AUTO CONTROLS	16,676	0	47,749	954	7,734	40,015	7,801	0	55,550	1,338	9,072	46,478
88	398.0	GENERAL PLANT: MISC.	7,903	(1,847)	7,690	113	(1,353)	9,043	2,707	0	10,397	234	(1,119)	11,516
89		TOTALS	$664,890	($75,157)	$21,732,456	$515,546	$4,866,898	$16,865,557	$716,576	($190,394)	$22,258,638	$566,088	$5,242,593	$17,016,045

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1994 ADDITIONS PER COMPANY	1994 (RETIREMENTS) PER COMPANY	1994 YEAR END PLANT VALUE PER RUCO	1994 DEPRECIATION EXPENSE PER RUCO	1994 ACCUMULATED DEPRECIATION PER RUCO	1994 YEAR END NET PLANT PER RUCO	1995 ADDITIONS PER COMPANY	1995 (RETIREMENTS) PER COMPANY	1995 YEAR END PLANT VALUE PER RUCO	1995 DEPRECIATION EXPENSE PER RUCO	1995 ACCUMULATED DEPRECIATION PER RUCO	1995 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	3,018	0	0	3,018	0	0	3,018	0	0	3,018
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	1,410	0	6,578	0	0	6,578	12,621	0	19,199	0	0	19,199
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	56,695	0	(305)	57,000	0	0	56,695	0	(305)	57,000
7	314.0	SOURCE OF SUPPLY: WELLS	187,789	0	1,138,356	27,052	285,630	852,726	255,427	0	1,393,783	32,791	318,421	1,075,362
8	320.0	PUMPING PLANT: LAND*	0	0	6,013	0	0	6,013	0	0	6,013	0	0	6,013
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	2,447	0	12,560	294	3,157	9,403	4,635	0	17,195	385	3,543	13,652
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	170,149	(29,122)	1,648,694	40,875	117,720	1,530,974	123,049	(115,542)	1,656,201	42,798	44,976	1,611,225
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	(60,520)	60,520	0	0	0	0	(60,520)	60,520
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	2,602	67	804	1,798	3,193	0	5,795	109	913	4,882
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	9,483	0	173,692	4,376	17,340	156,352	904	0	174,596	4,510	21,851	152,745
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	63,993	0	(723)	64,716	0	0	63,993	0	(723)	64,716
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	28,952	(36,643)	1,638,543	42,538	402,756	1,235,787	6,490	0	1,645,033	42,522	445,278	1,199,755
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	540,698	(13,407)	13,505,350	342,960	3,660,459	9,844,891	796,148	(24,531)	14,276,967	359,781	3,995,709	10,281,258
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	18,108	0	272,641	6,827	68,860	203,781	28,107	(14)	300,734	7,425	76,271	224,463
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	225,189	(5,987)	2,841,461	70,755	699,878	2,141,582	451,038	(36,353)	3,256,146	78,964	742,489	2,513,656
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	33,562	(8,094)	654,561	16,623	157,232	497,328	4,469	(7,710)	651,320	16,911	166,433	484,886
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	42,736	(499)	767,885	19,341	209,668	558,216	63,411	(6,173)	825,123	20,629	224,125	600,998
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	8,772	0	0	8,772	0	0	8,772	0	0	8,772
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	3,272	0	80,401	2,040	23,831	56,570	2,725	0	83,126	2,118	25,949	57,177
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	109,198	2,828	33,557	75,641	5,945	0	115,143	2,905	38,462	76,681
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	4,076	106	1,260	2,816	0	0	4,076	106	1,365	2,711
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	18,664	483	5,769	12,895	0	0	18,664	483	6,252	12,412
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	11,331	0	41,016	916	6,703	34,313	22,030	0	63,046	1,348	8,051	54,995
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	14,313	371	4,344	9,969	3,316	0	17,629	414	4,757	12,872
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	1,973	51	480	1,493	0	0	1,973	51	531	1,442
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	4,479	(805)	75,687	1,913	20,365	55,322	1,039	0	76,726	1,974	22,339	54,387
35	395.0	GENERAL PLANT: LAB EQUIPMENT	105	0	773	19	86	687	0	0	773	20	106	667
36	396.0	GENERAL PLANT: POWER EQUIPMENT	4,446	0	53,866	1,338	13,601	40,265	0	0	53,866	1,395	14,996	38,870
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	170,786	4,423	52,509	118,277	0	0	170,786	4,423	56,933	113,853
38	397.1	GENERAL PLANT: MOBILE RADIOS	4,324	0	14,449	318	2,134	12,314	3,039	0	17,488	414	2,548	14,940
39	397.2	GENERAL PLANT: AUTO CONTROLS	137	0	55,687	1,441	10,512	45,174	7,551	0	63,237	1,540	12,052	51,185
40	398.0	GENERAL PLANT: MISC.	926	0	11,323	281	(838)	1,119	1,592	0	12,915	314	(524)	13,438
41		TOTALS	$1,289,543	($94,557)	$23,453,624	$588,235	$5,736,270	$17,706,311	$1,796,726	($190,323)	$25,060,029	$624,331	$6,170,278	$18,889,750

ACCT. NO.	PLANT ACCOUNT NAME	1996 ADDITIONS PER COMPANY	1996 (RETIREMENTS) PER COMPANY	1996 YEAR END PLANT VALUE PER RUCO	1996 DEPRECIATION EXPENSE PER RUCO	1996 ACCUMULATED DEPRECIATION PER RUCO	1996 YEAR END NET PLANT PER RUCO	1997 ADDITIONS PER COMPANY	1997 (RETIREMENTS) PER COMPANY	1997 YEAR END PLANT VALUE PER RUCO	1997 DEPRECIATION EXPENSE PER RUCO	1997 ACCUMULATED DEPRECIATION PER RUCO	1997 YEAR END NET PLANT PER RUCO
301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
302.0	INTANGIBLES: FRANCHISES*	0	0	3,018	0	0	3,018	0	0	3,018	0	0	3,018
303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	1,738	0	20,937	0	0	20,937	536	0	21,473	0	0	21,473
310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	56,695	0	(305)	57,000	0	(1,020)	55,675	0	(1,325)	57,000
314.0	SOURCE OF SUPPLY: WELLS	1,494	0	1,395,277	36,118	354,539	1,040,738	313,463	(106)	1,708,634	40,196	394,629	1,314,005
320.0	PUMPING PLANT: LAND*	0	0	6,013	0	0	6,013	0	0	6,013	0	0	6,013
321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	5,262	(468)	21,989	507	3,582	18,406	24,986	0	46,974	893	4,475	42,499
325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	40,741	(25,648)	1,671,294	43,091	62,419	1,608,875	346,586	(62,433)	1,955,447	46,966	48,953	1,906,494
328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	(60,520)	60,520	0	0	0	0	(60,520)	60,520
330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	5,795	150	1,063	4,732	0	0	5,795	150	1,213	4,582
332.0	WATER TREATMENT PLANT: EQUIPMENT	1,127	0	175,723	4,537	26,387	149,336	917	0	176,640	4,563	30,950	145,690
340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	63,993	0	(723)	64,716	0	(204)	63,789	0	(927)	64,716
340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	1,645,033	42,606	487,885	1,157,148	0	0	1,645,033	42,606	530,491	1,114,542
343.0	TRANSMISSION & DISTRIBUTION: MAINS	699,266	(22,647)	14,953,586	378,536	4,351,598	10,601,988	859,801	(32,637)	15,780,751	398,010	4,716,971	11,063,780
344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	24,580	0	325,314	8,107	84,378	240,936	49,874	0	375,188	9,072	93,450	281,738
345.0	TRANSMISSION & DISTRIBUTION: SERVICES	368,737	(32,526)	3,592,357	88,688	798,851	2,793,705	361,869	(35,282)	3,918,944	97,271	860,641	3,058,302
346.0	TRANSMISSION & DISTRIBUTION: METERS	35,329	(9,429)	677,220	17,205	174,209	503,011	31,435	(4,243)	704,412	17,892	187,859	516,553
348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	68,922	(1,203)	892,842	22,248	245,169	647,672	67,747	0	960,589	24,002	269,171	691,417
389.1	GENERAL PLANT: LAND - OFFICE*	0	0	8,772	0	0	8,772	0	0	8,772	0	0	8,772
389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
390.1	GENERAL PLANT: OFFICE BUILDINGS	18,226	(354)	100,998	2,384	27,979	73,019	5,732	0	106,730	2,690	30,669	76,060
390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	126,815	0	241,958	4,624	41,086	200,872	3,088	0	245,046	6,307	47,393	197,653
390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	4,076	106	1,471	2,605	0	0	4,076	106	1,577	2,499
391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	18,664	483	6,736	11,928	0	0	18,664	483	7,219	11,445
391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	8,810	0	71,856	1,747	9,798	62,058	6,234	0	78,090	1,942	11,740	66,350
391.2	GENERAL PLANT: OFFICE FURNITURE	4,254	0	21,883	512	5,269	16,614	5,650	0	27,532	640	5,909	21,623
393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	3,421	0	5,394	95	626	4,768	0	0	5,394	140	766	4,628
394.0	GENERAL PLANT: GARAGE EQUIPMENT	2,513	0	79,239	2,020	24,359	54,880	2,702	0	81,941	2,087	26,446	55,495
395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	773	20	126	647	259	0	1,032	23	150	883
396.0	GENERAL PLANT: POWER EQUIPMENT	1,222	0	55,088	1,411	16,407	38,681	4,026	0	59,114	1,479	17,886	41,228
397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	170,786	4,423	61,356	109,430	0	0	170,786	4,423	65,779	105,007
397.1	GENERAL PLANT: MOBILE RADIOS	5,036	0	22,523	518	3,066	19,457	2,403	0	24,926	614	3,680	21,246
397.2	GENERAL PLANT: AUTO CONTROLS	16,303	0	79,540	1,849	13,901	65,638	1,350	0	80,890	2,078	15,979	64,911
398.0	GENERAL PLANT: MISC.	2,930	0	15,844	372	(152)	524	10,294	0	26,138	544	392	25,745
	TOTALS	$1,436,724	($92,275)	$26,404,477	$662,359	$6,740,362	$19,648,643	$2,098,951	($135,924)	$28,367,504	$705,177	$7,309,616	$21,057,888

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1998 ADDITIONS PER COMPANY	1998 (RETIREMENTS) PER COMPANY	1998 YEAR END PLANT VALUE PER RUCO	1998 DEPRECIATION EXPENSE PER RUCO	1998 ACCUMULATED DEPRECIATION PER RUCO	1998 YEAR END NET PLANT PER RUCO	1999 ADDITIONS PER COMPANY	1999 (RETIREMENTS) PER COMPANY	1999 YEAR END PLANT VALUE PER RUCO	1999 DEPRECIATION EXPENSE PER RUCO	1999 ACCUMULATED DEPRECIATION PER RUCO	1999 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	3,018	0	0	3,018	0	0	3,018	0	0	3,018
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	525	0	21,998	0	0	21,998	5,083	0	27,081	0	0	27,081
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	55,675	0	(1,325)	57,000	10,691	0	66,366	0	(1,325)	67,691
7	314.0	SOURCE OF SUPPLY: WELLS	783	0	1,709,417	44,264	438,893	1,270,524	978,133	(27,371)	2,660,179	56,586	468,108	2,192,071
8	320.0	PUMPING PLANT: LAND*	0	0	6,013	0	0	6,013	0	0	6,013	0	0	6,013
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	42,716	(1,075)	88,616	1,756	5,157	83,459	124	0	88,740	2,297	7,453	81,286
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	44,753	(15,340)	1,984,860	51,027	82,640	1,902,220	230,383	(58,705)	2,156,538	53,631	77,566	2,078,972
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	(60,520)	60,520	0	0	0	0	(60,520)	60,520
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	5,795	150	1,363	4,432	14,720	0	20,515	341	1,704	18,811
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	3,103	0	179,743	4,615	35,566	144,177	2,529	0	182,272	4,688	40,254	142,018
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	733	0	64,522	0	(927)	65,449	365	0	64,887	0	(927)	65,814
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	11,791	0	1,656,824	42,759	573,250	1,083,574	0	0	1,656,824	42,912	616,162	1,040,662
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	904,214	(22,093)	16,662,872	420,145	5,115,023	11,547,849	842,150	(22,364)	17,482,658	442,185	5,534,843	11,947,814
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	61,765	0	436,953	10,517	103,967	332,986	34,452	0	471,405	11,763	115,730	355,675
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	493,598	(27,092)	4,385,460	107,542	941,091	3,444,359	459,909	(41,384)	4,803,975	119,003	1,018,710	3,785,265
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	47,542	(4,961)	746,993	18,796	201,693	545,299	46,917	(4,916)	788,994	19,891	216,668	572,325
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	139,279	(1,593)	1,098,275	26,662	294,241	804,034	90,719	(1,923)	1,187,071	29,595	321,913	865,158
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	8,772	0	0	8,772	0	0	8,772	0	0	8,772
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	106,730	2,764	33,433	73,296	1,054	0	107,784	2,778	36,211	71,572
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	245,046	6,347	53,740	191,306	0	0	245,046	6,347	60,086	184,960
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	4,076	106	1,682	2,394	0	0	4,076	106	1,788	2,288
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	18,664	483	7,702	10,962	0	0	18,664	483	8,186	10,478
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	916	0	79,006	2,034	13,774	65,232	4,132	0	83,138	2,100	15,874	67,264
32	391.2	GENERAL PLANT: OFFICE FURNITURE	2,080	0	29,612	740	6,649	22,963	25	0	29,637	767	7,416	22,221
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	5,394	140	906	4,488	40	0	5,434	140	1,046	4,388
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	5,790	0	87,731	2,197	28,643	59,088	8,968	0	96,699	2,388	31,032	65,667
35	395.0	GENERAL PLANT: LAB EQUIPMENT	85	0	1,117	28	177	940	0	0	1,117	29	206	911
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	59,114	1,531	19,417	39,697	0	0	59,114	1,531	20,948	38,166
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	170,786	4,423	70,203	100,583	0	0	170,786	4,423	74,626	96,160
38	397.1	GENERAL PLANT: MOBILE RADIOS	734	0	25,660	655	4,335	21,325	4,035	0	29,695	717	5,052	24,643
39	397.2	GENERAL PLANT: AUTO CONTROLS	568	0	81,458	2,102	18,081	63,377	9,872	0	91,330	2,238	20,319	71,011
40	398.0	GENERAL PLANT: MISC.	219	0	26,357	680	1,072	(392)	2,846	0	29,203	719	1,791	27,411
41		TOTALS	$1,761,194	($72,154)	$30,056,545	$752,464	$7,989,926	$22,040,942	$2,747,147	($156,663)	$32,647,029	$807,658	$8,640,921	$24,006,107
42														
43														
44														
45														

46 / 47	ACCT. NO.	PLANT ACCOUNT NAME	2000 ADDITIONS PER COMPANY	2000 (RETIREMENTS) PER COMPANY	2000 YEAR END PLANT VALUE PER RUCO	2000 DEPRECIATION EXPENSE PER RUCO	2000 ACCUMULATED DEPRECIATION PER RUCO	2000 YEAR END NET PLANT PER RUCO	2001 ADDITIONS PER COMPANY	2001 (RETIREMENTS) PER COMPANY	2001 YEAR END PLANT VALUE PER RUCO	2001 DEPRECIATION EXPENSE PER RUCO	2001 ACCUMULATED DEPRECIATION PER RUCO	2001 YEAR END NET PLANT PER RUCO
48														
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
50	302.0	INTANGIBLES: FRANCHISES*	0	0	3,018	0	0	3,018	0	0	3,018	0	0	3,018
51	303.0	INTANGIBLES: MISC.*	427,432	0	427,432	0	0	427,432	224,505	0	651,937	0	0	651,937
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	3,864	0	30,945	0	0	30,945	992	0	31,937	0	0	31,937
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	27,091	0	93,457	0	(1,325)	94,782	0	0	93,457	0	(1,325)	94,782
55	314.0	SOURCE OF SUPPLY: WELLS	34,513	0	2,694,692	69,346	537,454	2,157,238	7,371	0	2,702,063	69,888	607,342	2,094,721
56	320.0	PUMPING PLANT: LAND*	0	0	6,013	0	0	6,013	0	0	6,013	0	0	6,013
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	88,740	2,298	9,752	78,988	1,794	0	90,534	2,322	12,073	78,460
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	45,733	(11,506)	2,190,765	56,298	122,357	2,068,408	108,120	(38,438)	2,260,447	57,643	141,563	2,118,884
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	(60,520)	60,520	0	0	0	0	(60,520)	60,520
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	23,037	0	43,552	830	2,534	41,018	25,679	0	69,231	1,461	3,994	65,237
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	32,043	(88,056)	126,259	3,995	(43,807)	170,066	19,122	(26,024)	119,357	3,181	(66,650)	186,007
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	64,887	0	(927)	65,814	0	0	64,887	0	(927)	65,814
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	1,656,824	42,912	659,074	997,750	51,372	(18,084)	1,690,113	43,343	684,333	1,005,779
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	1,416,895	(22,686)	18,876,867	470,856	5,983,013	12,893,853	2,480,239	(9,784)	21,347,322	520,903	6,494,132	14,853,189
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	87,160	0	558,565	13,338	129,068	429,497	37,640	(2,570)	593,635	14,921	141,419	452,216
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	745,371	(47,010)	5,502,336	133,467	1,105,167	4,397,169	1,032,554	(23,711)	6,511,179	155,575	1,237,031	5,274,148
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	66,627	(3,445)	852,176	21,253	234,476	617,699	76,753	(5,181)	923,748	22,998	252,294	671,454
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	192,828	(1,909)	1,377,990	33,218	353,221	1,024,768	340,859	(1,872)	1,716,977	40,080	391,429	1,325,547
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	8,772	0	0	8,772	0	0	8,772	0	0	8,772
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	107,784	2,792	39,003	68,781	2,576	0	110,360	2,825	41,828	68,532
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	245,046	6,347	66,433	178,613	0	0	245,046	6,347	72,780	172,266
77	390.3	GENERAL PLANT: MISC. BUILDINGS	7,413	0	11,489	202	1,989	9,500	0	0	11,489	298	2,287	9,202
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	18,664	483	8,669	9,995	0	0	18,664	483	9,153	9,511
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	4,351	0	87,489	2,210	18,084	69,406	4,360	0	91,849	2,322	20,406	71,443
80	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	29,637	768	8,184	21,453	3,667	0	33,304	815	8,999	24,305
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	5,493	0	10,927	212	1,258	9,669	1,987	0	12,914	309	1,566	11,348
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	4,295	0	100,994	2,560	33,592	67,402	3,448	0	104,442	2,660	36,252	68,190
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	1,117	29	235	882	275	0	1,393	33	268	1,125
84	396.0	GENERAL PLANT: POWER EQUIPMENT	695	0	59,810	1,540	22,488	37,321	0	0	59,810	1,549	24,037	35,772
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	170,786	4,423	79,049	91,737	0	0	170,786	4,423	83,473	87,313
86	397.1	GENERAL PLANT: MOBILE RADIOS	2,669	0	32,365	804	5,856	26,509	5,745	0	38,110	913	6,769	31,341
87	397.2	GENERAL PLANT: AUTO CONTROLS	6,480	0	97,810	2,449	22,768	75,042	18,787	0	116,597	2,777	25,545	91,053
88	398.0	GENERAL PLANT: MISC.	2,552	0	31,755	789	2,581	(1,791)	674	0	32,429	831	3,412	29,017
89		TOTALS	$3,136,543	($174,612)	$35,608,960	$873,417	$9,339,726	$26,238,268	$4,448,520	($125,664)	$39,931,816	$958,899	$10,172,961	$29,758,854

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	2002 ADDITIONS PER COMPANY	2002 (RETIREMENTS) PER COMPANY	2002 YEAR END PLANT VALUE PER RUCO	2002 DEPRECIATION EXPENSE PER RUCO	2002 ACCUMULATED DEPRECIATION PER RUCO	2002 YEAR END NET PLANT PER RUCO	2003 ADDITIONS PER COMPANY	2003 (RETIREMENTS) PER COMPANY	2003 YEAR END PLANT VALUE PER RUCO	2003 DEPRECIATION EXPENSE PER RUCO	2003 ACCUMULATED DEPRECIATION PER RUCO	2003 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	3,018	0	0	3,018	0	0	3,018	0	0	3,018
3	303.0	INTANGIBLES: MISC.*	114,163	0	766,100	0	0	766,100	58,274	0	824,374	0	0	824,374
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	13,024	0	44,961	0	0	44,961	22,231	0	67,192	0	0	67,192
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	408	0	93,865	0	(1,325)	95,190	0	0	93,865	0	(1,325)	95,190
7	314.0	SOURCE OF SUPPLY: WELLS	1,449	0	2,703,512	70,002	677,344	2,026,168	7,906	0	2,711,418	70,123	747,467	1,963,951
8	320.0	PUMPING PLANT: LAND*	0	0	6,013	0	0	6,013	0	0	6,013	0	0	6,013
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	1,074	0	91,607	2,359	14,432	77,175	0	0	91,607	2,373	16,805	74,802
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	103,819	(43,874)	2,320,392	59,322	157,010	2,163,382	99,380	(25,185)	2,394,588	61,059	192,885	2,201,703
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	(60,520)	60,520	0	0	0	0	(60,520)	60,520
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	69,231	1,793	5,787	63,444	1,307	0	70,538	1,810	7,597	62,941
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	2,382	0	121,739	3,122	(63,528)	185,266	11,929	0	133,668	3,308	(60,220)	193,888
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	64,887	0	(927)	65,814	0	0	64,887	0	(927)	65,814
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	11,321	(2,771)	1,698,663	43,885	725,447	973,216	1,084	0	1,699,747	44,009	769,456	930,290
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	1,632,949	(49,823)	22,930,448	573,397	7,017,707	15,912,741	2,680,465	(29,286)	25,581,626	628,231	7,616,652	17,964,975
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	84,132	(81)	677,686	16,464	157,802	519,884	172,312	0	849,998	19,784	177,585	672,413
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	856,509	(26,747)	7,340,940	179,385	1,389,669	5,951,271	1,393,545	(62,313)	8,672,173	207,370	1,534,726	7,137,447
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	106,611	(674)	1,029,685	25,297	276,917	752,768	177,158	(1,626)	1,205,217	28,942	304,232	900,984
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	269,252	(1,624)	1,984,605	47,935	437,741	1,546,863	410,855	(4,838)	2,390,622	56,659	489,563	1,901,059
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	8,772	0	0	8,772	0	0	8,772	0	0	8,772
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	583	0	110,943	2,866	44,694	66,249	0	0	110,943	2,873	47,567	63,375
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	1,329	0	246,375	6,364	79,144	167,231	0	0	246,375	6,381	85,525	160,850
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	11,489	298	2,584	8,905	0	0	11,489	298	2,882	8,607
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	18,664	483	9,636	9,028	0	0	18,664	483	10,119	8,545
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	7,541	0	99,390	2,477	22,883	76,508	6,800	0	106,190	2,662	25,545	80,645
32	391.2	GENERAL PLANT: OFFICE FURNITURE	2,021	0	35,325	889	9,888	25,437	1,328	0	36,653	932	10,820	25,833
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	12,914	334	1,901	11,013	0	0	12,914	334	2,235	10,679
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	12,593	0	117,035	2,868	39,120	77,915	13,544	0	130,579	3,207	42,327	88,252
35	395.0	GENERAL PLANT: LAB EQUIPMENT	2,103	0	3,496	63	331	3,164	1,758	0	5,254	113	444	4,809
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	59,810	1,549	25,586	34,223	0	0	59,810	1,549	27,136	32,674
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	170,786	4,423	87,896	82,890	0	0	170,786	4,423	92,319	78,467
38	397.1	GENERAL PLANT: MOBILE RADIOS	6,904	0	45,014	1,076	7,845	37,169	768	0	45,782	1,176	9,021	36,761
39	397.2	GENERAL PLANT: AUTO CONTROLS	16,798	0	133,395	3,237	28,782	104,613	26,174	0	159,570	3,794	32,576	126,994
40	398.0	GENERAL PLANT: MISC.	3,293	0	35,722	883	4,295	(3,412)	10,421	(75)	46,068	1,059	5,278	40,790
41		TOTALS	$3,250,257	($125,594)	$43,056,479	$1,050,772	$11,098,139	$31,923,500	$5,097,240	($123,322)	$48,030,397	$1,152,953	$12,127,770	$35,902,626
42														
43		BALANCES PER COMPANY									$ 48,030,396		$ 12,072,217	
44														
45		BALANCES PER RUCO									$ 48,030,397		$ 12,127,770	
46														
47		TOTAL ADJUSTMENTS									$ 1		$ 55,553	

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJ. #2 - RESTATE ALLOCATED PHOENIX OFFICE & METER SHOP AND ACCUMULATED DEPRECIATION

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-5

LINE NO.	DESCRIPTION	TEST YEAR COMPANY
1	GROSS PHOENIX OFFICE PLANT	$ 4,999,117
2	GROSS METER SHOP	113,608
3	GROSS PHOENIX OFFICE PLANT & METER SHOP	$ 5,112,725
4	TIMES: ALLOCATION FACTOR	0.2070
5	ALLOCATED GROSS PHOENIX OFFICE PLANT & METER SHOP	$ 1,058,334
6	NET ALLOCATED PHOENIX OFFICE PLANT & METER SHOP	947,818
7	RUCO ADJUSTMENT TO PHOENIX OFFICE & METER SHOP ALLOCATION AND ACCUMULATED DEPRECIATION	$ 110,516

REFERENCES:
LINE 1: COMPANY SCHEDULE B-2 PAGE 7
LINE 2: COMPANY SCHEDULE B-2 PAGE 8
LINE 3: LINE 1 + LINE 2
LINE 4: COMPANY SCHEDULE B-1 PAGE 1
LINE 5: LINE 3 x LINE 4
LINE 6: COMPANY SCHEDULE B-1 PAGE 1 (SUM OF LINES 6 AND 7)
LINE 7: LINE 5 - LINE 6

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION - PHOENIX OFFICE

LINE NO	ACCT. NO.	PLANT ACCOUNT NAME	1990 PLANT VALUE PER COMPANY	1990 ACCUM DEPR. PER COMPANY	1990 NET PLANT PER PRIOR ACC PER COMPANY	1991 ADDITIONS PER COMPANY	1991 (RETIREMENTS) PER COMPANY	1991 YEAR END PLANT VALUE PER RUCO	1991 DEPRECIATION EXPENSE PER RUCO	1991 ACCUMULATED DEPRECIATION PER RUCO	1991 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$651	$0	$651	$0	$0	$651	$0	$0	$651
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	8,496	0	8,496	0	0	8,496	0	0	8,496
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	530,962	1,901	529,061	10,977	0	541,939	424	2,325	539,614
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	3,478	378	3,100	542	0	4,020	91	468	3,552
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	547,751	59,472	488,279	0	(1,399)	546,352	13,239	71,311	475,041
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	898,103	97,511	800,592	115,709	0	1,013,812	23,134	120,645	893,167
32	391.2	GENERAL PLANT: OFFICE FURNITURE	89,500	9,717	79,783	5,125	0	94,625	2,228	11,945	82,680
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	2,470	0	2,470	30	30	2,440
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	27,037	2,936	24,101	83	0	27,120	855	3,591	23,529
35	395.0	GENERAL PLANT: LAB EQUIPMENT	51	6	45	0	0	51	1	7	44
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	(510)	(510)	(6)	(516)	6
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	41,418	4,497	36,921	0	0	41,418	1,002	5,499	35,919
38	397.1	GENERAL PLANT: MOBILE RADIOS	8,656	940	7,716	1,344	0	10,000	226	1,166	8,834
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	3,939	428	3,511	0	0	3,939	95	523	3,416
41		TOTALS	$2,160,042	$177,785	$1,982,257	$136,250	($1,909)	$2,294,383	$41,119	$216,995	$2,077,388

ACCT. NO.	PLANT ACCOUNT NAME	1992 ADDITIONS PER COMPANY	1992 (RETIREMENTS) PER COMPANY	1992 YEAR END PLANT VALUE PER RUCO	1992 DEPRECIATION EXPENSE PER RUCO	1992 ACCUMULATED DEPRECIATION PER RUCO	1992 YEAR END NET PLANT PER RUCO	1993 ADDITIONS PER COMPANY	1993 (RETIREMENTS) PER COMPANY	1993 YEAR END PLANT VALUE PER RUCO	1993 DEPRECIATION EXPENSE PER RUCO	1993 ACCUMULATED DEPRECIATION PER RUCO	1993 YEAR END NET PLANT PER RUCO
301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	541,939	424	2,749	539,190	12,076	0	554,015	454	3,203	550,812
390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	4,020	97	566	3,454	0	0	4,020	104	670	3,350
391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	546,352	13,222	84,533	461,819	0	(2,779)	543,573	14,115	95,869	447,704
391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	123,305	0	1,137,117	26,026	146,672	990,445	209,346	(107)	1,346,356	32,161	178,726	1,167,630
391.2	GENERAL PLANT: OFFICE FURNITURE	3,614	(1,810)	96,429	2,312	12,447	83,982	2,749	(3,458)	95,720	2,488	11,477	84,243
393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	2,470	60	90	2,380	0	0	2,470	64	154	2,316
394.0	GENERAL PLANT: GARAGE EQUIPMENT	30	0	27,150	657	4,247	22,903	684	0	27,834	712	4,960	22,874
395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	51	1	8	43	0	0	51	1	9	42
396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(12)	(529)	19	0	0	(510)	(13)	(542)	32
397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	41,418	1,002	6,502	34,916	4,091	0	45,509	1,126	7,627	37,882
397.1	GENERAL PLANT: MOBILE RADIOS	1,775	0	11,775	263	1,429	10,346	0	0	11,775	305	1,734	10,041
397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
398.0	GENERAL PLANT: MISC.	0	0	3,939	95	618	3,321	0	0	3,939	102	720	3,219
	TOTALS	$128,724	($1,810)	$2,421,297	$44,147	$259,332	$2,161,965	$228,946	($6,344)	$2,643,899	$51,618	$304,607	$2,339,292

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION - PHOENIX OFFICE

LINE NO.	ACCT. NO	PLANT ACCOUNT NAME	1994 ADDITIONS PER COMPANY	1994 (RETIREMENTS) PER COMPANY	1994 YEAR END PLANT VALUE PER RUCO	1994 DEPRECIATION EXPENSE PER RUCO	1994 ACCUMULATED DEPRECIATION PER RUCO	1994 YEAR END NET PLANT PER RUCO	1995 ADDITIONS PER COMPANY	1995 (RETIREMENTS) PER COMPANY	1995 YEAR END PLANT VALUE PER RUCO	1995 DEPRECIATION EXPENSE PER RUCO	1995 ACCUMULATED DEPRECIATION PER RUCO	1995 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	17,033	0	571,048	454	3,656	567,392	9,407	0	580,455	454	4,110	576,345
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	4,020	104	774	3,246	0	0	4,020	104	878	3,142
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	(5,960)	537,613	14,001	103,910	433,703	0	0	537,613	13,924	117,834	419,779
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	110,780	(100)	1,457,036	36,304	214,929	1,242,107	265,498	0	1,722,534	41,175	256,105	1,466,429
32	391.2	GENERAL PLANT: OFFICE FURNITURE	15,186	0	110,906	2,676	14,153	96,753	7,313	0	118,219	2,967	17,120	101,099
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	2,470	64	218	2,252	0	0	2,470	64	282	2,188
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	27,834	721	5,680	22,154	203	0	28,037	724	6,404	21,633
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	51	1	11	40	0	0	51	1	12	39
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(555)	45	0	0	(510)	(13)	(568)	58
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	45,509	1,179	8,806	36,703	4,564	0	50,073	1,238	10,044	40,029
38	397.1	GENERAL PLANT: MOBILE RADIOS	2,306	0	14,081	335	2,069	12,012	0	0	14,081	365	2,434	11,647
39	397.2	GENERAL PLANT: AUTO CONTROLS	468	0	468	6	6	462	0	0	468	12	18	450
40	398.0	GENERAL PLANT: MISC	0	0	3,939	102	822	(720)	0	0	3,939	102	924	3,015
41		TOTALS	$145,773	($6,060)	$2,783,612	$55,933	$354,480	$2,425,295	$286,985	$0	$3,070,597	$61,117	$415,597	$2,655,000

ACCT. NO	PLANT ACCOUNT NAME	1996 ADDITIONS PER COMPANY	1996 (RETIREMENTS) PER COMPANY	1996 YEAR END PLANT VALUE PER RUCO	1996 DEPRECIATION EXPENSE PER RUCO	1996 ACCUMULATED DEPRECIATION PER RUCO	1996 YEAR END NET PLANT PER RUCO	1997 ADDITIONS PER COMPANY	1997 (RETIREMENTS) PER COMPANY	1997 YEAR END PLANT VALUE PER RUCO	1997 DEPRECIATION EXPENSE PER RUCO	1997 ACCUMULATED DEPRECIATION PER RUCO	1997 YEAR END NET PLANT PER RUCO
301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
314.0	SOURCE OF SUPPLY: WELLS	604	0	604	8	8	596	0	(604)	0	8	(588)	588
320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
390.1	GENERAL PLANT: OFFICE BUILDINGS	9,971	0	590,426	454	4,563	585,863	11,226	0	601,652	454	5,017	596,635
390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	4,020	104	982	3,038	0	0	4,020	104	1,086	2,934
391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	(24,401)	513,212	13,608	107,041	406,171	0	(725)	512,487	13,283	119,599	392,888
391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	78,774	(17,770)	1,783,538	45,404	283,739	1,499,799	269,995	(3,869)	2,049,664	49,640	329,509	1,720,155
391.2	GENERAL PLANT: OFFICE FURNITURE	24,572	0	142,791	3,380	20,500	122,291	9,326	0	152,117	3,819	24,320	127,797
393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	2,470	64	346	2,124	0	0	2,470	64	410	2,060
394.0	GENERAL PLANT: GARAGE EQUIPMENT	1,050	0	29,087	740	7,144	21,943	0	0	29,087	753	7,897	21,190
395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	51	1	13	38	0	0	51	1	15	36
396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(581)	71	0	0	(510)	(13)	(595)	85
397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	50,073	1,297	11,341	38,732	0	0	50,073	1,297	12,638	37,435
397.1	GENERAL PLANT: MOBILE RADIOS	5,743	0	19,824	439	2,873	16,951	6,062	0	25,886	592	3,465	22,421
397.2	GENERAL PLANT: AUTO CONTROLS	743	0	1,211	22	40	1,171	0	0	1,211	31	71	1,140
398.0	GENERAL PLANT: MISC.	1,227	0	5,166	118	1,042	(924)	396	0	5,562	139	1,181	4,381
	TOTALS	$122,684	($42,171)	$3,151,110	$65,625	$439,051	$2,707,011	$297,005	($5,198)	$3,442,917	$70,172	$504,024	$2,938,893

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION - PHOENIX OFFICE

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1998 ADDITIONS PER COMPANY	1998 (RETIREMENTS) PER COMPANY	1998 YEAR END PLANT VALUE PER RUCO	1998 DEPRECIATION EXPENSE PER RUCO	1998 ACCUMULATED DEPRECIATION PER RUCO	1998 YEAR END NET PLANT PER RUCO	1999 ADDITIONS PER COMPANY	1999 (RETIREMENTS) PER COMPANY	1999 YEAR END PLANT VALUE PER RUCO	1999 DEPRECIATION EXPENSE PER RUCO	1999 ACCUMULATED DEPRECIATION PER RUCO	1999 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	(588)	588	0	0	0	0	(588)	588
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	32,375	0	634,027	454	5,471	628,556	9,331	0	643,358	454	5,924	637,434
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	10,262	0	14,282	237	1,323	12,959	0	0	14,282	370	1,693	12,589
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	(197)	512,290	13,271	132,673	379,617	0	0	512,290	13,268	145,941	366,349
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	67,502	(406,605)	1,710,561	48,695	(28,401)	1,738,962	196,237	(220,044)	1,686,754	43,995	(204,449)	1,891,203
32	391.2	GENERAL PLANT: OFFICE FURNITURE	12,072	0	164,189	4,096	28,416	135,773	2,700	0	166,889	4,287	32,703	134,186
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	2,470	64	473	1,997	1,235	0	3,705	80	553	3,152
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	197	0	29,284	756	8,653	20,631	0	0	29,284	758	9,411	19,873
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	51	1	16	35	926	0	977	13	29	948
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(608)	98	0	0	(510)	(13)	(621)	111
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	50,073	1,297	13,934	36,139	0	0	50,073	1,297	15,231	34,842
38	397.1	GENERAL PLANT: MOBILE RADIOS	2,284	0	28,170	700	4,165	24,005	46,675	0	74,845	1,334	5,499	69,346
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	1,211	31	103	1,108	0	0	1,211	31	134	1,077
40	398.0	GENERAL PLANT: MISC.	295	0	5,857	148	1,329	(1,181)	123	0	5,980	153	1,482	4,498
41		TOTALS	$124,987	($406,802)	$3,161,102	$69,737	$166,959	$2,988,434	$257,227	($220,044)	$3,198,285	$66,029	$12,944	$3,185,341

ACCT. NO.	PLANT ACCOUNT NAME	2000 ADDITIONS PER COMPANY	2000 (RETIREMENTS) PER COMPANY	2000 YEAR END PLANT VALUE PER RUCO	2000 DEPRECIATION EXPENSE PER RUCO	2000 ACCUMULATED DEPRECIATION PER RUCO	2000 YEAR END NET PLANT PER RUCO	2001 ADDITIONS PER COMPANY	2001 (RETIREMENTS) PER COMPANY	2001 YEAR END PLANT VALUE PER RUCO	2001 DEPRECIATION EXPENSE PER RUCO	2001 ACCUMULATED DEPRECIATION PER RUCO	2001 YEAR END NET PLANT PER RUCO
301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	(588)	588	0	0	0	0	(588)	588
320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
390.1	GENERAL PLANT: OFFICE BUILDINGS	73,580	0	716,938	454	6,378	710,560	11,791	0	728,729	454	6,831	721,898
390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	14,282	370	2,063	12,219	0	0	14,282	370	2,433	11,849
391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	512,290	13,268	159,210	353,080	0	0	512,290	13,268	172,478	339,812
391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	312,681	0	1,999,435	47,736	(156,713)	2,156,148	377,076	(93,632)	2,282,879	55,456	(194,889)	2,477,768
391.2	GENERAL PLANT: OFFICE FURNITURE	14,611	0	181,500	4,512	37,215	144,285	1,983	0	183,483	4,727	41,941	141,542
393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	3,705	96	649	3,056	0	0	3,705	96	745	2,960
394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	29,284	758	10,170	19,114	709	0	29,993	768	10,938	19,055
395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	977	25	55	922	0	0	977	25	80	897
396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(634)	124	0	0	(510)	(13)	(647)	137
397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	50,073	1,297	16,528	33,545	0	0	50,073	1,297	17,825	32,248
397.1	GENERAL PLANT: MOBILE RADIOS	2,507	0	77,352	1,971	7,470	69,882	0	3,950	81,302	2,055	13,474	67,828
397.2	GENERAL PLANT: AUTO CONTROLS	343	0	1,554	38	170	1,384	0	0	1,554	40	210	1,344
398.0	GENERAL PLANT: MISC.	0	0	5,980	155	1,637	(1,482)	0	0	5,980	155	1,792	4,188
	TOTALS	$403,722	$0	$3,602,007	$70,665	$83,608	$3,512,574	$391,559	($89,682)	$3,903,884	$78,697	$72,623	$3,831,261

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION - PHOENIX OFFICE

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	2002 ADDITIONS PER COMPANY	2002 (RETIREMENTS) PER COMPANY	2002 YEAR END PLANT VALUE PER RUCO	2002 DEPRECIATION EXPENSE PER RUCO	2002 ACCUMULATED DEPRECIATION PER RUCO	2002 YEAR END NET PLANT PER RUCO	2003 ADDITIONS PER COMPANY	2003 (RETIREMENTS) PER COMPANY	2003 YEAR END PLANT VALUE PER RUCO	2003 DEPRECIATION EXPENSE PER RUCO	2003 ACCUMULATED DEPRECIATION PER RUCO	2003 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	(588)	588	0	0	0	0	(588)	588
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	7,215	0	735,944	454	7,285	728,659	548,941	0	1,284,885	454	7,739	1,277,146
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	14,282	370	2,803	11,479	0	0	14,282	370	3,173	11,109
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	512,290	13,268	185,746	326,544	0	0	512,290	13,268	199,015	313,275
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	504,040	(153,472)	2,633,447	63,666	(284,695)	2,918,142	195,986	(75,130)	2,754,303	69,771	(290,053)	3,044,356
32	391.2	GENERAL PLANT: OFFICE FURNITURE	710	0	184,193	4,761	46,703	137,490	54,624	0	238,817	5,478	52,181	186,636
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	3,705	96	841	2,864	0	0	3,705	96	937	2,768
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	29,993	777	11,714	18,279	457	0	30,450	783	12,497	17,953
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	977	25	105	872	0	0	977	25	130	847
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(661)	151	0	0	(510)	(13)	(674)	164
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	50,073	1,297	19,122	30,951	0	0	50,073	1,297	20,419	29,654
38	397.1	GENERAL PLANT: MOBILE RADIOS	2,762	0	84,064	2,141	15,616	68,448	7,874	0	91,938	2,279	17,895	74,043
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	1,554	40	250	1,304	0	0	1,554	40	291	1,263
40	398.0	GENERAL PLANT: MISC.	1,226	0	7,206	171	1,963	(1,792)	0	0	7,206	187	2,150	5,056
41		TOTALS	$515,953	($153,472)	$4,266,365	$87,054	$6,205	$4,253,125	$807,882	($75,130)	$4,999,117	$94,035	$25,110	$4,974,007
42														
43		BALANCES PER COMPANY									$ 4,999,117		$ 9,125	
44														
45		BALANCES PER RUCO									$ 4,999,117		$ 25,110	
46														
47		DIFFERENCE									$ -		$ 15,985	
48														
49		TIMES: ALLOCATION FACTOR									0.2070		0.2070	
50														
51		TOTAL ADJUSTMENTS									$ -		$ 3,309	

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION - METER SHOP

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1990 PLANT VALUE PER COMPANY	1990 ACCUM DEPR. PER COMPANY	1990 NET PLANT PER PRIOR ACC PER COMPANY	1991 ADDITIONS PER COMPANY	1991 (RETIREMENTS) PER COMPANY	1991 YEAR END PLANT VALUE PER RUCO	1991 DEPRECIATION EXPENSE PER RUCO	1991 ACCUMULATED DEPRECIATION PER RUCO	1991 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	80	0	80	0	0	80	0	0	80
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	2,050	370	1,680	0	0	2,050	50	420	1,630
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	6,066	1,095	4,971	0	0	6,066	147	1,242	4,824
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	43	8	35	0	0	43	1	9	34
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	16,566	2,992	13,574	0	0	16,566	401	3,392	13,174
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	742	134	608	0	0	742	18	152	590
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	14,969	2,703	12,266	0	0	14,969	362	3,065	11,904
35	395.0	GENERAL PLANT: LAB EQUIPMENT	2,981	538	2,443	0	0	2,981	72	610	2,371
36	396.0	GENERAL PLANT: POWER EQUIPMENT	1,458	263	1,195	0	0	1,458	35	299	1,159
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0
41		TOTALS	$44,955	$8,104	$36,851	$0	$0	$44,955	$1,086	$9,190	$35,765

46 ACCT. NO.	47 PLANT ACCOUNT NAME	1992 ADDITIONS PER COMPANY	1992 (RETIREMENTS) PER COMPANY	1992 YEAR END PLANT VALUE PER RUCO	1992 DEPRECIATION EXPENSE PER RUCO	1992 ACCUMULATED DEPRECIATION PER RUCO	1992 YEAR END NET PLANT PER RUCO	1993 ADDITIONS PER COMPANY	1993 (RETIREMENTS) PER COMPANY	1993 YEAR END PLANT VALUE PER RUCO	1993 DEPRECIATION EXPENSE PER RUCO	1993 ACCUMULATED DEPRECIATION PER RUCO	1993 YEAR END NET PLANT PER RUCO
49 301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
50 302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
51 303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
52 310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
53 310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54 310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
55 314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
56 320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
57 321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
58 325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
59 328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
60 330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61 331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
62 332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	50	469	1,581	0	0	2,050	53	523	1,527
63 340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
64 340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65 341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66 342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
67 343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	147	1,389	4,677	0	0	6,066	157	1,546	4,520
68 344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
69 345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	43	1	10	33	0	0	43	1	11	32
70 346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
71 348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
72 389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73 389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74 389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75 390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
76 390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	16,566	401	3,793	12,773	0	0	16,566	429	4,222	12,344
77 390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
78 391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	18	170	572	0	0	742	19	189	553
79 391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
80 391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
81 393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
82 394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	14,969	362	3,428	11,541	333	0	15,302	392	3,820	11,482
83 395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	72	683	2,298	0	0	2,981	77	760	2,221
84 396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	35	334	1,124	0	0	1,458	38	372	1,086
85 397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
86 397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
87 397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
88 398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
89	TOTALS	$0	$0	$44,955	$1,086	$10,276	$34,679	$333	$0	$45,288	$1,167	$11,442	$33,846

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION - METER SHOP

LINE NO	ACCT. NO.	PLANT ACCOUNT NAME	1994 ADDITIONS PER COMPANY	1994 (RETIREMENTS) PER COMPANY	1994 YEAR END PLANT VALUE PER RUCO	1994 DEPRECIATION EXPENSE PER RUCO	1994 ACCUMULATED DEPRECIATION PER RUCO	1994 YEAR END NET PLANT PER RUCO	1995 ADDITIONS PER COMPANY	1995 (RETIREMENTS) PER COMPANY	1995 YEAR END PLANT VALUE PER RUCO	1995 DEPRECIATION EXPENSE PER RUCO	1995 ACCUMULATED DEPRECIATION PER RUCO	1995 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	53	576	1,474	0	0	2,050	53	629	1,421
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	157	1,703	4,363	0	0	6,066	157	1,860	4,206
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	43	1	12	31	0	0	43	1	13	30
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	16,566	429	4,652	11,914	0	0	16,566	429	5,081	11,485
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	19	208	534	0	0	742	19	228	514
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	227	0	15,529	399	4,219	11,310	4,710	0	20,239	463	4,682	15,557
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	77	837	2,144	0	0	2,981	77	914	2,067
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	38	409	1,049	0	0	1,458	38	447	1,011
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
41		TOTALS	$227	$0	$45,515	$1,174	$12,616	$32,899	$4,710	$0	$50,225	$1,238	$13,854	$36,371

46 / 47	ACCT. NO.	PLANT ACCOUNT NAME	1996 ADDITIONS PER COMPANY	1996 (RETIREMENTS) PER COMPANY	1996 YEAR END PLANT VALUE PER RUCO	1996 DEPRECIATION EXPENSE PER RUCO	1996 ACCUMULATED DEPRECIATION PER RUCO	1996 YEAR END NET PLANT PER RUCO	1997 ADDITIONS PER COMPANY	1997 (RETIREMENTS) PER COMPANY	1997 YEAR END PLANT VALUE PER RUCO	1997 DEPRECIATION EXPENSE PER RUCO	1997 ACCUMULATED DEPRECIATION PER RUCO	1997 YEAR END NET PLANT PER RUCO
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
50	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
51	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
55	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
56	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	53	682	1,368	0	0	2,050	53	735	1,315
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	157	2,017	4,049	0	0	6,066	157	2,175	3,891
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	(34)	9	1	(20)	29	1,258	0	1,267	17	(4)	1,271
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	16,566	429	5,510	11,056	344	0	16,910	434	5,943	10,967
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	19	247	495	0	0	742	19	266	476
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
80	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	1,867	0	22,106	548	5,231	16,875	17,090	0	39,196	794	6,024	33,172
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	77	991	1,990	0	0	2,981	77	1,069	1,912
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	38	485	973	0	0	1,458	38	523	935
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
86	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
87	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
88	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
89		TOTALS	$1,867	($34)	$52,058	$1,322	$15,142	$36,916	$18,692	$0	$70,750	$1,588	$16,731	$54,019

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION - METER SHOP

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1998 ADDITIONS PER COMPANY	1998 (RETIREMENTS) PER COMPANY	1998 YEAR END PLANT VALUE PER RUCO	1998 DEPRECIATION EXPENSE PER RUCO	1998 ACCUMULATED DEPRECIATION PER RUCO	1998 YEAR END NET PLANT PER RUCO	1999 ADDITIONS PER COMPANY	1999 (RETIREMENTS) PER COMPANY	1999 YEAR END PLANT VALUE PER RUCO	1999 DEPRECIATION EXPENSE PER RUCO	1999 ACCUMULATED DEPRECIATION PER RUCO	1999 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	53	788	1,262	0	0	2,050	53	841	1,209
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	157	2,332	3,734	0	0	6,066	157	2,489	3,577
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	(472)	795	27	(449)	1,244	0	(1,222)	(427)	5	(1,666)	1,239
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	4,898	0	21,808	501	6,445	15,363	0	0	21,808	505	7,009	14,799
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	19	285	457	0	0	742	19	304	438
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	1,541	0	40,737	1,035	7,060	33,677	817	0	41,554	1,066	8,125	33,429
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	77	1,146	1,835	0	0	2,981	77	1,223	1,758
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	38	560	898	0	0	1,458	38	598	860
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
41		TOTALS	$6,439	($472)	$76,717	$1,908	$18,166	$58,551	$817	($1,222)	$76,312	$1,980	$18,924	$57,388

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	2000 ADDITIONS PER COMPANY	2000 (RETIREMENTS) PER COMPANY	2000 YEAR END PLANT VALUE PER RUCO	2000 DEPRECIATION EXPENSE PER RUCO	2000 ACCUMULATED DEPRECIATION PER RUCO	2000 YEAR END NET PLANT PER RUCO	2001 ADDITIONS PER COMPANY	2001 (RETIREMENTS) PER COMPANY	2001 YEAR END PLANT VALUE PER RUCO	2001 DEPRECIATION EXPENSE PER RUCO	2001 ACCUMULATED DEPRECIATION PER RUCO	2001 YEAR END NET PLANT PER RUCO
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
50	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
51	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
55	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
56	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	53	894	1,156	0	0	2,050	53	947	1,103
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	157	2,646	3,420	0	0	6,066	157	2,803	3,263
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	(427)	(11)	(1,677)	1,250	0	0	(427)	(11)	(1,688)	1,261
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS	1,654	0	1,654	21	21	1,633	476	0	2,130	49	70	2,060
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	4,465	0	26,273	623	7,632	18,641	2,168	0	28,441	709	8,341	20,100
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	19	324	418	0	0	742	19	343	399
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	831	0	831	11	11	820	0	0	831	22	32	799
80	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	1,088	0	1,088	14	14	1,074
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	11,551	0	53,105	1,226	9,351	43,754	559	0	53,664	1,383	10,734	42,930
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	77	1,300	1,681	0	0	2,981	77	1,377	1,604
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	38	636	822	0	0	1,458	38	674	784
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
86	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
87	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
88	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
89		TOTALS	$18,501	$0	$94,813	$2,214	$21,138	$73,675	$4,291	$0	$99,104	$2,509	$23,647	$75,457

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION - METER SHOP

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	2002 ADDITIONS PER COMPANY	2002 (RETIREMENTS) PER COMPANY	2002 YEAR END PLANT VALUE PER RUCO	2002 DEPRECIATION EXPENSE PER RUCO	2002 ACCUMULATED DEPRECIATION PER RUCO	2002 YEAR END NET PLANT PER RUCO	2003 ADDITIONS PER COMPANY	2003 (RETIREMENTS) PER COMPANY	2003 YEAR END PLANT VALUE PER RUCO	2003 DEPRECIATION EXPENSE PER RUCO	2003 ACCUMULATED DEPRECIATION PER RUCO	2003 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	53	1,000	1,050	0	0	2,050	53	1,053	997
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	157	2,960	3,106	0	0	6,066	157	3,117	2,949
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	426	0	(1)	(6)	(1,694)	1,693	0	0	(1)	(0)	(1,694)	1,693
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	2,130	55	126	2,004	0	0	2,130	55	181	1,949
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	6,902	0	35,343	826	9,167	26,176	0	0	35,343	915	10,082	25,261
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	19	362	380	0	0	742	19	381	361
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	1,377	0	2,208	39	72	2,136	1,033	0	3,241	71	142	3,099
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	1,088	28	42	1,046	0	0	1,088	28	70	1,018
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	53,664	1,390	12,124	41,540	4,766	0	58,430	1,452	13,575	44,855
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	77	1,455	1,526	0	0	2,981	77	1,532	1,449
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	38	711	747	0	0	1,458	38	749	709
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
41		TOTALS	$8,705	$0	$107,809	$2,677	$26,325	$81,484	$5,799	$0	$113,608	$2,865	$29,190	$84,418
42														
43		BALANCES PER COMPANY									$ 113,607		$ 30,118	
44														
45		BALANCES PER RUCO									$ 113,608		$ 29,190	
46														
47		DIFFERENCE									$ 1		$ (928)	
48														
49		TIMES: ALLOCATION FACTOR									0.2070		0.2070	
50														
51		TOTAL ADJUSTMENTS									$ 0		$ (192)	

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	CASH WORKING CAPITAL PER COMPANY	$ (34,386)	COMPANY SCH. B-5, PG. 1
2	CASH WORKING CAPITAL PER RUCO	(241,378)	SCH. WAR-8, PG. 3
3	DECREASE IN CASH WORKING CAPITAL	$ (206,992)	LINE 2 - LINE 1
4	MATERIALS & SUPPLIES PER COMPANY	$ 62,214	COMPANY SCH. B-5, PG. 1
5	MATERIALS & SUPPLIES PER RUCO	62,214	
6	MATERIALS & SUPPLIES ADJUSTMENT	$ -	LINE 5 - LINE 4
7	PREPAYMENTS PER COMPANY AND SPECIAL DEPOSITS	$ 87,597	COMPANY SCH. B-5, PG. 1
8	PREPAYMENTS PER RUCO	87,597	
9	PREPAYMENTS ADJUSTMENT	$ -	LINE 8 - LINE 7
10	REQUIRED BANK BALANCES PER COMPANY	$ 134,829	COMPANY SCH. B-5, PG. 1
11	REQUIRED BANK BALANCES PER RUCO	134,829	
12	REQUIRED BANK BALANCE ADJUSTMENT	$ -	LINE 11 - LINE 10
13	TOTAL WORKING CAPITAL ADJUSTMENT	$ (206,992)	LINES 3, 6, 9 & 12

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL
LEAD/LAG CALCULATION

LINE NO.	DESCRIPTION	(A) EXPENSES PER COMPANY	(B) RUCO ADJUSTMENTS	(C) ADJUSTED EXPENSES	(D) (LEAD)/LAG DAYS	(E) $ DAYS
1	PURCHASED POWER	798,786	$ 23,471	$ 822,257	35.77	$ 29,412,126
2	PAYROLL	1,253,342	-	1,253,342	14.00	17,546,788
3	PURCHASED WATER	498,013	(159,449)	338,564	(19.99)	(6,767,894)
4	CHEMICALS	106,752	-	106,752	(31.45)	(3,357,350)
5	PROPERTY & LIABILITY INSURANCE	42,909	-	42,909	(45.27)	(1,942,490)
6	WORKER'S COMPENSATION	16,717	-	16,717	(46.50)	(777,341)
7	HEALTH INSURANCE	255,475	-	255,475	(8.92)	(2,278,837)
8	OTHER O&M EXPENSES	987,629	(699,797)	287,832	(9.27)	(2,668,200)
9	DEPRECIATION & AMORTIZATION	-	-	-	N/A	N/A
10	FEDERAL INCOME TAXES	537,526	82,447	619,973	61.95	38,409,979
11	STATE INCOME TAXES	196,721	(60,151)	136,570	99.80	13,629,681
12	DEFERRED INCOME TAXES	-	-	-	N/A	N/A
13	FICA TAXES	91,127	-	91,127	14.00	1,275,778
14	FUTA & SUTA TAXES	2,127	-	2,127	83.10	176,754
15	PROPERTY TAXES	1,014,452	(453,617)	560,835	212.00	118,897,023
16	REG., CONTRACT, & MISCELLANEOUS FEES	111,940	-	111,940	(98.83)	(11,063,055)
17	SALES & OCCUPATION TAXES	645,209	-	645,209	37.53	24,214,703
18	PENSION EXPENSE	103,726	-	103,726	34.72	3,601,375
19	SUBTOTAL	$ 6,662,452	$ (1,267,097)	$ 5,395,355 *		$ 218,309,040
20	SYNCHRONIZED INTEREST	489,294	(98,885)	390,409	91.25	35,624,858
21	TOTAL	$ 7,151,746	$ (1,365,982)	$ 5,785,764	43.89	$ 253,933,898

REFERENCES:
COLUMN (A): COMPANY SCHEDULE B-6, W/P B6-1, PAGE 1 OF 5
COLUMN (B): DIFFERENCE BETWEEN COLUMN (A) AND SCHEDULE WAR-9 COLUMN (E)
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): LINES 1 THRU 9 AND 11 THRU 17 - COMPANY SCHEDULE B-6, W/P B6-1, PAGE 1 OF 5
COLUMN (D): LINE 10 AND 11 - SCHEDULE WAR-8, PAGE 4 OF 5 AND PAGE 5 OF 5, LINE 7 RESPECTIVELY
COLUMN (E): COLUMN (C) x COLUMN (D)

NOTE
N/A = NON CASH CHARGES EXCLUDED FROM WORKING CAPITAL CALCULATION
* RUCO RECOMMENDED LEVEL OF OPERATING EXPENSE - SCHEDULE WAR-9, COLUMN (E), LINE 16 MINUS LINE 12

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL
CALCULATION OF CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	AVERAGE EXPENSE LAG	43.89	SCH. WAR-8, PG. 2
2	AVERAGE REVENUE COLLECTION LAG	27.56	CO. SCH. B-6, PG. 2
3	EXCESS EXPENSE OVER REVENUE LAG	(16.33)	LINE 2 - LINE 1
4	TOTAL EXPENSES	$ 5,395,355	SCH. WAR-8, PG. 2
5	CASH WORKING CAPITAL REQUIREMENT	(241,378)	(LINE 3 X LINE 4)/365 DAYS
6	PER COMPANY	$ (34,386)	CO. SCH. B-6, PG. 1
7	INCREASE (DECREASE) IN WORKING CAPITAL	$ (206,992)	LINE 5 - LINE 6

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL
CALCULATION OF FEDERAL INCOME TAX LAG

LINE NO.	(A) PAYMENT DATE	-	(B) SERVICE PERIOD MIDPOINT	=	(C) (LEAD)/LAG DAYS	X	(D) PAYMENT AMOUNT	=	(E) DOLLAR DAYS
1	04/12/99		07/01/99		(80.00)		$ 397,000		$ (31,760,000)
2	06/11/99		07/01/99		(20.00)		50,000		(1,000,000)
3	09/14/99		07/01/99		75.00		486,000		36,450,000
4	12/14/99		07/01/99		166.00		970,000		161,020,000
5	03/14/00		07/01/99		257.00		(240,000)		(61,680,000)
6	TOTALS						$ 1,663,000		$ 103,030,000
7	INCOME TAX LAG				61.95				

REFERENCE
COMPANY'S WORKPAPERS SCHEDULE B-6, W/P EL-11, PAGE 2 OF 2

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL
CALCULATION OF STATE INCOME TAX LAG

LINE NO.	(A) PAYMENT DATE	-	(B) SERVICE PERIOD MIDPOINT	=	(C) (LEAD)/LAG DAYS	X	(D) PAYMENT AMOUNT	=	(E) DOLLAR DAYS
1	04/15/99		07/01/99		(77.00)		$ 50,000		$ (3,850,000)
2	06/15/99		07/01/99		(16.00)		12,000		(192,000)
3	09/15/99		07/01/99		76.00		112,000		8,512,000
4	12/15/99		07/01/99		167.00		220,000		36,740,000
5	04/15/00		07/01/99		289.00		(9,983)		(2,885,087)
6	TOTALS						$ 384,017		$ 38,324,913
7	INCOME TAX LAG				99.80				

REFERENCE
COMPANY'S WORKPAPERS SCHEDULE B-6, W/P EL-12, PAGE 2 OF 2

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
OPERATING INCOME - TEST YEAR AND RUCO PROPOSED

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-9

LINE NO.	DESCRIPTION	(A) COMPANY TEST YEAR AS FILED	(B) RUCO TEST YEAR ADJUSTMENTS	(C) RUCO TEST YEAR AS ADJUSTED	(D) RUCO PROPOSED CHANGES	(E) RUCO RECOMMENDED
	REVENUES - WATER:					
1	REVENUE FROM WATER SALES	$ 7,298,464	$ 67,740	$ 7,366,204	$ 15,481	$ 7,381,685
2	OTHER REVENUES	622,917	-	622,917		622,917
3	TOTAL OPERATING REVENUES	$ 7,921,381	$ 67,740	$ 7,989,121	$ 15,481	$ 8,004,602
	OPERATING EXPENSES:					
4	PURCHASED WATER	$ 498,013	$ (159,449)	$ 338,564	$ -	$ 338,564
5	OTHER	45,935	12,349	58,284		58,284
6	PURCHASED POWER	810,343	11,914	822,257		822,257
7	PURCHASED GAS	-	-	-		-
8	OTHER	286,696	(8,342)	278,354		278,354
9	WATER TREATMENT	187,995	2,242	190,237		190,237
10	TRANSMISSION & DISTRIBUTION	786,616	(30,887)	755,729		755,729
11	CUSTOMER ACCOUNTS	604,959	(2,837)	602,122		602,122
12	SALES	2,962	-	2,962		2,962
13	ADMINISTRATIVE & GENERAL	952,718	-	952,718		952,718
14	DEPRECIATION & AMORTIZATION	1,368,007	(352,580)	1,015,427		1,015,427
15	PROPERTY TAXES	612,639	(51,803)	560,835		560,835
16	OTHER TAXES	76,751	-	76,751		76,751
17	FEDERAL INCOME TAXES	439,020	176,034	615,054	4,919	619,973
18	STATE INCOME TAXES	68,546	66,945	135,491	1,079	136,570
19	TOTAL OPERATING EXPENSES	$ 6,741,199	$ (336,416)	$ 6,404,783	$ 5,998	$ 6,410,781
20	NET INCOME	$ 1,180,182	$ 404,155	$ 1,584,337	$ 9,483	$ 1,593,821

REFERENCES:
COLUMN (A): CO. SCH. C-1, PG. 1
COLUMN (B): SCH. WAR-10
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): SCH. WAR-1, PAGE 2 OF 2
COLUMN (E): COLUMN (C) + COLUMN (D)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
SUMMARY OF OPERATING ADJUSTMENTS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-10

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ. #1	(C) ADJ. #2	(D) ADJ. #3	(E) ADJ. #4	(F) ADJ. #5	(G) ADJ. #6	(H) ADJ. #7	(I) RUCO ADJUSTED
	REVENUES - WATER:									
1	REVENUE FROM WATER SALES	$ 7,298,464	$ -	$ -	$ 67,740	$ -	$ -	$ -	$ -	$ 7,366,204
2	OTHER REVENUES	622,917								622,917
3	TOTAL OPERATING REVENUES	$ 7,921,381	$ -	$ -	$ 67,740	$ -	$ -	$ -	$ -	$ 7,989,121
	OPERATING EXPENSES:									
4	PURCHASED WATER	$ 498,013	$ (159,449)	$ -	$ -	$ -	$ -	$ -	$ -	$ 338,564
5	OTHER	45,935			12,349					58,284
6	PURCHASED POWER	810,343				11,914				822,257
7	PURCHASED GAS	-								-
8	OTHER	286,696			(8,342)					278,354
9	WATER TREATMENT	187,995			2,242					190,237
10	TRANSMISSION & DISTRIBUTION	786,616			(30,887)					755,729
11	CUSTOMER ACCOUNTS	604,959			(2,837)					602,122
12	SALES	2,962								2,962
13	ADMINISTRATIVE & GENERAL	952,718								952,718
14	DEPRECIATION & AMORTIZATION	1,368,007		(352,580)			(0)			1,015,427
15	PROPERTY TAXES	612,639						(51,803)		560,835
16	OTHER TAXES	76,751								76,751
17	FEDERAL INCOME TAXES	439,020							176,034	615,054
18	STATE INCOME TAXES	68,546							66,945	135,491
19	TOTAL OPERATING EXPENSES	$ 6,741,199	$ (159,449)	$ (352,580)	$(27,475)	$ 11,914	$ (0)	$ (51,803)	$ 242,979	$ 6,404,783
20	NET INCOME	$ 1,180,182	$ 159,449	$ 352,580	$ 95,215	$(11,914)	$ 0	$ 51,803	$ (242,979)	$ 1,584,337

ADJUSTMENT #:	REFERENCE:
1. REMOVE PRO FORMA CAP M&I CHARGES	TESTIMONY WAR
2. REMOVE AMORTIZATION OF DEFERRED CAP CHARGES	TESTIMONY WAR
3. REVENUE AND EXPENSE ANNUALIZATION FOR 2003	SCHEDULE WAR-11
4. PURCHASED POWER	SCHEDULE WAR-12
5. DEPRECIATION AND AMORTIZATION EXPENSE	SCHEDULE WAR-13
6. PROPERTY TAX EXPENSE	SCHEDULE WAR-14
7. INCOME TAX EXPENSE	SCHEDULE WAR-15

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
OPERATING ADJ. #3 - REVENUE AND EXPENSE ANNUALIZATION FOR 2003

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-11

LINE NO.	DESCRIPTION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
1	YEAR END CUSTOMERS - 2003	14,981	14,981	14,981	14,981	14,981	14,981	14,981	14,981	14,981	14,981	14,981	14,981
2	2003 CUSTOMERS	13,868	13,961	14,052	14,179	14,282	14,413	14,565	14,629	14,702	14,846	14,985	14,981
3	INCREASE IN CUSTOMERS - 2003	1,113	1,020	929	802	699	568	416	352	279	135	(4)	-
4	AVERAGE REVENUE FOR THE MONTH	$ 34.15	$ 34.81	$ 31.33	$ 38.93	$ 43.55	$ 48.61	$ 55.72	$ 48.92	$ 45.02	$ 44.71	$ 43.34	$ 34.24
5	INCREASE IN REVENUES	$ 38,008	$ 35,507	$ 29,101	$ 31,223	$ 30,440	$ 27,613	$ 23,179	$ 17,219	$ 12,559	$ 6,035	$ (173)	$ -
6	TOTAL INCREASE IN REVENUE	250,712											
7	INCREASE IN REVENUE PER COMPANY	182,972											
8	REVENUE ADJUSTMENT PER RUCO	$ 67,740											
9	GALLONS SOLD PER AVERAGE CUSTOMER	14,871	15,180	12,837	17,810	20,925	24,055	28,584	23,999	22,110	21,501	20,527	14,672
10	INCREASE IN CUSTOMERS	1,113	1,020	929	802	699	568	416	352	279	135	(4)	0
11	INCREASE IN GALLONS	16,551,950	15,483,981	11,925,842	14,283,926	14,626,798	13,663,287	11,890,765	8,447,658	6,168,578	2,902,575	(82,107)	0
12	TOTAL INCREASE IN GALLONS	115,863,253											
13	PUMPING COST PER GALLON	0.000314											
14	INCREASE IN PUMPING COST PER RUCO	36,381	Line 12 X Line 13										
15	INCREASE IN PUMPING COST PER COMPANY	24,032											
16	PUMPING COST ADJUSTMENT PER RUCO	$ 12,349											
17	WATER TREATMENT COSTS PER GALLON	0.000057											
18	INCREASE IN WATER TREATMENT COSTS PER RUCO	6,604	Line 12 X Line 17										
19	INCREASE IN WATER TREATMENT COST PER CO.	4,362											
20	WATER TREATMENT COST ADJUSTMENT PER RUCO	$ 2,242											
21	SOURCE OF SUPPLY COST PER GALLON	0											
22	INCREASE IN SOURCE OF SUPPLY COST	0											
23	INCREASE IN SOURCE OF SUPPLY COST PER CO.	8,342											
24	SOURCE OF SUPPLY ADJUSTMENT PER RUCO	$ (8,342)											
25	TRANSMISSION & DISTRIBUTION COST PER GALLON	0											
26	INCREASE IN TRANSMISSION & DISTRIBUTION COST	0											
27	INCREASE IN T & D COST PER CO.	30,887											
28	T & D ADJUSTMENT PER RUCO	$ (30,887)											
29	TOTAL INCREASE IN BILLS	6,309											
30	MONTHLY ACCOUNTING COST PER BILL	3.37											
31	INCREASE IN ACCOUNTING COST PER RUCO	21,231											
32	INCREASE IN ACCOUNTING COST PER COMPANY	24,068											
33	ACCOUNTING COST ADJUSTMENT PER RUCO	$ (2,837)											

REFERENCES:
LINE #1 - COMPANY'S RATE FILING, BOOK 2 OF 2 - 2003 CUSTOMER COUNT
LINE #2 - COMPANY'S RATE FILING, BOOK 2 OF 2 - 2003 CUSTOMER COUNT
LINE #3 - LINE #1 MINUS LINE #2
LINE #4 - TOTAL MONTH REV. MINUS OTHER REV. LESS SALES TAX / TOTAL MONTHLY CUSTOMERS FOR TEST-YEAR
LINE #5 - LINE #3 MULTIPLIED BY LINE #4
LINE #6 - SUMMATION OF LINE #5
LINE #7 - COMPANY'S WORKPAPERS C2-5, RATE FILING - BOOK 1 OF 2
LINE #8 - LINE #6 MINUS LINE #7
LINE #9 - GALLONS SOLD / MONTHLY CUSTOMERS, COMPANY'S RATE FILING, BOOK 2 OF 2
LINE #10 - LINE #3
LINE #11 - LINE #9 X LINE #10
LINE #12 - SUMMATION OF LINE #11
LINE #13 - CO. W/P C2-5a, PAGE 3 OF 4
LINE #14 - LINE #12 X LINE #13
LINE #15 - COMPANY'S WORKPAPERS, W/P C2-5
LINE #16 - LINE #14 MINUS LINE #15
LINE #17 - CO. W/P C2-5a, PAGE 3 OF 4
LINE #19 - COMPANY'S W/P's, W/P C2-5, 2 OF 2
LINE #20 - LINE #18 MINUS LINE #19
LINE #21 - RUCO'S ANALYSIS
LINE #23 - CO. W/P C2-5a, PAGE 1 OF 4
LINE #25 - RUCO'S ANALYSIS
LINE #27 - CO. W/P C2-5a, PAGE 1 OF 4
LINE #29 - SUMMATION OF LINE #'s 3 OR 10
LINE #30 - CO. W/P C2-5a, PAGE 4 OF 4 / 12
LINE #31 - LINE #29 X LINE #30
LINE #32 - CO. W/P C2-5a, PAGE 1 OF 4
LINE #33 - LINE #31 MINUS LINE #32

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
OPERATING ADJ. #4 - PURCHASED POWER

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-12

LINE NO.	DESCRIPTION	
1	ACTUAL TEST YEAR PURCHASED POWER FROM APS	$ 334,273
2	TEST YEAR PURCHASED POWER FROM OTHER SERVICE PROVIDERS	461,498
3	TOTAL TEST YEAR PURCHASED POWER (LINE 1 + LINE 2)	$ 795,771
4	PERCENTAGE OF TEST YEAR PURCHASED POWER FROM APS (LINE 1 ÷ LINE 3)	42.01%
5	COMPANY PROPOSED LEVEL OF PURCHASED POWER EXPENSE (LINE 3 X LINE 4)	$ 810,343
6	TIMES: PERCENTAGE OF TEST YEAR PURCHASED POWER FROM APS (LINE 4)	42.01%
7	PERCENTAGE OF PURCHASED POWER SUBJECT TO APS INCREASE (LINE 5 X LINE 6)	$ 340,394
8	TIMES APS COMMERCIAL RATE INCREASE	3.50%
9	INCREASE IN APS PORTION OF PURCHASED POWER (LINE 7 X LINE 8)	$ 11,914

REFERENCES:
LINE 1: COMPANY WORKPAPER EL-2 PAGE 2 OF 2
LINE 2: COMPANY WORKPAPER EL-2 PAGE 2 OF 2
LINE 5: COMPANY APPLICATION SCHEDULE C1 PAGE 2 OF 3
LINE 8: ACC DECISION NO. 67744, DATED APRIL 7, 2005 - APS SETTLEMENT AGREEMENT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
OPERATING ADJ. #5 - DEPRECIATION AND AMORTIZATION EXPENSE

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-13

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	(A) ACTUAL TEST YEAR BALANCE PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED BALANCE	(D) COMPONENT DEPRECIATION RATES	(E) RUCO RECOMMENDED DEPRECIATION EXPENSE
1	301.0	INTANGIBLES: ORGANIZATION*	$ -	$ -	$ -	0.00%	$ -
2	302.0	INTANGIBLES: FRANCHISES*	3,018	-	3,018	0.00%	-
3	303.0	INTANGIBLES: MISC.*	824,374	-	824,374	0.00%	-
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	67,192	-	67,192	0.00%	-
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	-	-	-	0.00%	-
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	93,865	-	93,865	0.00%	-
7	314.0	SOURCE OF SUPPLY: WELLS	2,711,417	1	2,711,418	3.13%	84,867
8	320.0	PUMPING PLANT: LAND*	6,013	-	6,013	0.00%	-
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	91,607	-	91,607	2.86%	2,620
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	2,394,587	1	2,394,588	5.88%	140,802
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	-	-	-	4.00%	-
12	330.0	WATER TREATMENT PLANT: LAND*	-	-	-	0.00%	-
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	70,538	0	70,538	2.50%	1,763
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	133,666	2	133,668	2.86%	3,823
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	64,886	1	64,887	0.00%	-
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	-	-	-	0.00%	-
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	-	-	-	2.00%	-
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	1,699,748	(2)	1,699,747	2.00%	33,995
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	25,581,627	(1)	25,581,626	1.79%	457,911
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	849,998	-	849,998	2.00%	17,000
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	8,672,173	(1)	8,672,173	2.38%	206,398
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	1,205,217	(1)	1,205,217	4.55%	54,837
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	2,390,623	(1)	2,390,622	1.82%	43,509
24	389.1	GENERAL PLANT: LAND - OFFICE*	8,772	-	8,772	0.00%	-
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	-	-	-	0.00%	-
26	389.3	GENERAL PLANT: LAND - MISC.*	-	-	-	0.00%	-
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	110,943	(1)	110,943	2.50%	2,774
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	246,375	0	246,375	2.50%	6,159
29	390.3	GENERAL PLANT: MISC. BUILDINGS	11,489	-	11,489	2.50%	287
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	18,664	-	18,664	6.67%	1,245
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	106,190	(0)	106,190	6.67%	7,083
32	391.2	GENERAL PLANT: OFFICE FURNITURE	36,653	-	36,653	6.67%	2,445
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	12,913	1	12,914	5.00%	646
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	130,579	0	130,579	4.00%	5,223
35	395.0	GENERAL PLANT: LAB EQUIPMENT	5,253	1	5,254	5.00%	263
36	396.0	GENERAL PLANT: POWER EQUIPMENT	59,810	(1)	59,810	6.67%	3,989
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	170,786	-	170,786	6.67%	11,391
38	397.1	GENERAL PLANT: MOBILE RADIOS	45,782	(0)	45,782	6.67%	3,054
39	397.2	GENERAL PLANT: AUTO CONTROLS	159,570	(1)	159,570	6.67%	10,643
40	398.0	GENERAL PLANT: MISC.	46,069	(1)	46,068	3.33%	1,534
41							
42		TEST YEAR PLANT IN SERVICE TOTALS	$ 48,030,397	$ (1)	$ 48,030,397		$ 1,104,262
43							
44		GROSS DEPRECIABLE PHOENIX OFFICE AND METER SHOP ALLOCATION	1,058,334	-	1,058,334		$ 51,718
45							
46		GROSS LEASHOLD IMPROVEMENTS	262,346	-	262,346 **		$ 14,543
47							
48		DEFERRED CAP CHARGES	3,525,803	(3,525,803)	-		$ -
49							
50		TEST YEAR TOTALS	$ 52,876,880	$ (3,525,804)	$ 49,351,077		$ 1,170,523
51							
52							
53		LESS:					
54		AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION @ 2.00% COMPOSITE RATE ***					155,096
55							
56		TOTAL PRO FORMA DEPRECIATION & AMORTIZATION EXPENSE PER RUCO					$ 1,015,427
57							
58		DEPRECIATION & AMORTIZATION EXPENSE PER COMPANY					$ 1,368,007
59							
60		LESS:					
61		10-YEAR AMORTIZATION OF DEFERRED CAP CHARGES					352,580
62							
63		DEPRECIATION & AMORTIZATION EXPENSE PER COMPANY EXCLUDING 10-YEAR AMORTIZATION OF DEFERRED CAP CHARGES					$ 1,015,427
64							
65		DEPRECIATION & AMORTIZATION EXPENSE ADJUSTMENT (LINE 56 - LINE 63)					$ (0)

REFERENCES:
COLUMN (A): COMPANY SCHEDULE E-5 PAGE 1 OF 3
COLUMN (B): COLUMN (C) - COLUMN (A)
COLUMN (C): RUCO SCHEDULE WAR-4, PAGE 4
COLUMN (D): COMPANY SCHEDULE C-2, W/P C2-15b, PAGE 1 OF 4
COLUMN (E): COLUMN (C) x COLUMN (D)

NOTE:
* NON-DEPRECIABLE PLANT ASSETS
** PHOENIX OFFICE LEASEHOLD IMPROVEMENTS x ALLOCATION FACTOR = $1,267,373 x 0.2070 = $262,346
*** TEST YEAR ADJUSTED CIAC x 2.00% COMPOSITE RATE OF DEPRECIATION = $7,754,812 x 2.00% = $155,096

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
OPERATING ADJ. #6 - PROPERTY TAX EXPENSE

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-14

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUES - 2001	$ 6,924,261	COMPANY SCH. C-2, W/P C2-16a
2	REVENUES - 2002	7,620,542	COMPANY SCH. C-2, W/P C2-16a
3	REVENUES - 2003	7,703,445	COMPANY SCH. C-2, W/P C2-16a
4	TOTAL	$ 22,248,248	SUM LINES 1, 2, & 3
5	3 YEAR AVERAGE	$ 7,416,083	LINE 4/3 YEARS
6	MULTIPLIER FOR REVENUES (2 X LAST 3 YRS. AVERAGE REVENUE)	x 2	ADOR VALUATION FACTOR
7	REVENUES FOR FULL CASH VALUE	$ 14,832,165	LINE 5 X 2 (MULTIPLIER FOR REVENUES)
8	ADD: 10% OF CWIP BALANCE	14,629	COMPANY SCH. B-2, PG. 2; LINE 4 X 10%
9	LESS: LICENSED VEHICLES	201,384	COMPANY SCH. C-2, W/P C2-16a
10	FULL CASH VALUE	$ 14,645,411	LINE 7 + LINE 8 MINUS LINE 9
11	ASSESSMENT RATIO	25%	PER ADOR VALUATION METHOD
12	ASSESSED VALUE	$ 3,661,353	LINE 10 X LINE 11
13	PROPERTY TAX RATE	15.3177%	PER TAX BILLS
14	PROPERTY TAXES PAYABLE PER RUCO	$ 560,835	LINE 12 X LINE 13
15	PROPERTY TAXES PER COMPANY	612,639	COMPANY SCH. C-1, PG. 1
16	ADJUSTMENT	$ (51,803)	LINE 14 MINUS LINE 15

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
OPERATING ADJ. #7 - INCOME TAXES

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-15

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
	FEDERAL INCOME TAXES:		
1	OPERATING INCOME BEFORE INCOME TAXES	$ 2,334,882	SCH. WAR-9
	LESS:		
2	ARIZONA STATE TAX	135,491	LINE 11
3	INTEREST EXPENSE	390,409	NOTE (a)
4	FEDERAL TAXABLE INCOME	$ 1,808,982	LINE 1 - LINES 2 & 3
5	FEDERAL INCOME TAX RATE	34.00%	TAX RATE
6	FEDERAL INCOME TAX EXPENSE	$ 615,054	LINE 4 X LINE 5
7	FEDERAL INCOME TAXES PER COMPANY FILING	439,020	COMPANY SCH. C-1, PG. 1
8	RUCO FEDERAL INCOME TAX ADJUSTMENT	$ 176,034	LINE 6 - LINE 7
	STATE INCOME TAXES:		
9	OPERATING INCOME BEFORE INCOME TAXES	$ 2,334,882	LINE 1
	LESS:		
10	INTEREST EXPENSE	390,409	NOTE (A)
11	STATE TAXABLE INCOME	$ 1,944,473	LINE 7 - LINE 8
12	STATE TAX RATE	6.968%	TAX RATE
13	STATE INCOME TAX EXPENSE	$ 135,491	LINE 9 X LINE 10
14	STATE INCOME TAXES PER COMPANY FILING	68,546	COMPANY SCH. C-1, PG. 1
15	RUCO STATE INCOME TAX ADJUSTMENT	$ 66,945	LINE 13 - LINE 14

NOTE (a):
INTEREST SYCHRONIZATION

ADJUSTED RATE BASE	$ 17,380,813
WEIGHTED COST OF DEBT	2.25%
	$ 390,409

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRANDE SYSTEM
COST OF CAPITAL

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-16

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) ADJUSTMENT	(C) ADJUSTED BALANCE	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	LONG-TERM DEBT	$ 22,200,000	$ -	$ 22,200,000	26.65%	8.43%	2.25%
2	SHORT-TERM DEBT	-	-	-	0.00%	0.00%	0.00%
3	COMMON EQUITY	61,116,374	-	61,116,374	73.35%	9.44%	6.92%
4	TOTAL	$ 83,316,374	$ -	$ 83,316,374	100.00%		9.17%

REFERENCES:
COLUMN (A): COMPANY SCH. D - 1
COLUMN (B): TESTIMONY, WAR
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): COLUMN (C) ÷ COLUMN (C), LINE 5
COLUMN (E): TESTIMONY, WAR
COLUMN (F): COLUMN (D) x COLUMN (E)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRAND SYSTEM
PROPOSED RATES

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-17

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
1	**MONTHLY MINIMUM USAGE CHARGE:**			
2				
3	(RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS)			
4	5/8 X 3/4 - INCH	$10.36	$13.03	$10.40
5	1 - INCH	24.86	31.92	24.96
6	2 - INCH	62.15	91.21	62.39
7	3 - INCH	103.58	162.88	104.92
8	4 - INCH	207.16	293.18	207.96
9	6 - INCH	362.53	553.78	363.93
10	8 - INCH	362.53	749.23	363.93
11	10 - INCH	673.27	1,237.72	675.87
12				
13	**GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:**			
14				
15	RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS	1,000	0	0
16				
17	**TIER 1**			
18				
19	**COMMODITY RATE (PER 100 GAL. OVER MINIMUM) - 0 TO 4,000 GALLONS:**	$ 0.15590	$ 0.18250	$ 0.10000
20				
21	**COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 0 TO 4,000 GALLONS:**	$ 1.55900	$ 1.82500	$ 1.00000
22				
23	**TIER 2**			
24				
25	**COMMODITY RATE (PER 100 GAL. OVER MINIMUM) - OVER 4,000 GALLONS:**	$ 0.15590	$ 0.18250	$ 0.15910
26				
27	**COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 4,000 GALLONS:**	$ 1.55900	$ 1.82500	$ 1.59100

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRAND SYSTEM
MONTHLY MINIMUM CHARGES

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-18

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO PROPOSED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	$ 10.36	$ 13.03	$ 2.67	25.77%	$ 10.40	$ 0.04	0.39%
2	1 - INCH	24.86	31.92	7.06	28.40%	24.96	0.10	0.40%
3	2 - INCH	62.15	91.21	29.06	46.76%	62.39	0.24	0.39%
4	3 - INCH COMMERCIAL	103.58	162.88	59.30	57.25%	104.92	1.34	1.29%
5	4 - INCH COMMERCIAL	207.16	293.18	86.02	41.52%	207.96	0.80	0.39%
6	6 - INCH	362.53	553.78	191.25	52.75%	363.93	1.40	0.39%
7	8 - INCH	362.53	749.23	386.70	106.67%	363.93	1.40	0.39%
8	10 - INCH	673.27	1,237.72	564.45	83.84%	675.87	2.60	0.39%
9	GALLONS INCLUDED IN MONHTLY MINIMUM CHARGE	1,000	0			0		

REFERENCES
COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
COLUMN (E): TESTIMONY WAR
COLUMN (F): COLUMN (E) - COLUMN (A)
COLUMN (G): COLUMN (F) ÷ COLUMN (A)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRAND SYSTEM
BILLING ANALYSIS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-19

PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 1 - INCH	(C) 2 - INCH	(D) 3 - INCH	(E) 4 - INCH	(F) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	$10.36	$24.86	$62.15	$103.58	$207.16	$362.53	$362.53	$0.00
2	1,000	10.36	24.86	62.15	103.58	207.16	362.53	362.53	0.00
3	2,000	11.92	26.42	63.71	105.14	208.72	364.09	364.09	0.00
4	3,000	13.48	27.98	65.27	106.70	210.28	365.65	365.65	0.00
5	4,000	15.04	29.54	66.83	108.26	211.84	367.21	367.21	0.00
6	5,000	16.60	31.10	68.39	109.82	213.40	368.77	368.77	0.00
7	6,000	18.16	32.66	69.95	111.38	214.96	370.33	370.33	0.00
8	7,000	19.71	34.21	71.50	112.93	216.51	371.88	371.88	0.00
9	8,000	21.27	35.77	73.06	114.49	218.07	373.44	373.44	0.00
10	9,000	22.83	37.33	74.62	116.05	219.63	375.00	375.00	0.00
11	10,000	24.39	38.89	76.18	117.61	221.19	376.56	376.56	0.00
12	15,000	32.19	46.69	83.98	125.41	228.99	384.36	384.36	0.00
13	20,000	39.98	54.48	91.77	133.20	236.78	392.15	392.15	0.00
14	25,000	47.78	62.28	99.57	141.00	244.58	399.95	399.95	0.00
15	50,000	86.75	101.25	138.54	179.97	283.55	438.92	438.92	0.00
16	75,000	125.73	140.23	177.52	218.95	322.53	477.90	477.90	0.00
17	100,000	164.70	179.20	216.49	257.92	361.50	516.87	516.87	0.00
18	125,000	203.68	218.18	255.47	296.90	400.48	555.85	555.85	0.00
19	150,000	242.65	257.15	294.44	335.87	439.45	594.82	594.82	0.00
20	175,000	281.63	296.13	333.42	374.85	478.43	633.80	633.80	0.00
21	200,000	320.60	335.10	372.39	413.82	517.40	672.77	672.77	0.00
22									
23	AVG. NO. OF CUST:	13,802	622	263	23	20	16	1	N/A
24									
25	AVG. USE (GAL.):	10,666	31,339	170,216	353,507	1,177,280	2,760,484	394,083	N/A
26	MONTHLY BILL:	$25.43	$72.16	$325.96	$653.14	$2,040.98	$4,664.57	$975.35	N/A
27									
28	MEDIAN USE (GAL.) :	7,718	14,931	80,129	100,456	97,537	97,275	96,000	N/A
29	MONTHLY BILL:	$20.83	$46.58	$185.51	$258.63	$357.66	$512.62	$510.64	N/A

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRAND SYSTEM
BILLING ANALYSIS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-19

RUCO PROPOSED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 1 - INCH	(C) 2 - INCH	(D) 3 - INCH	(E) 4 - INCH	(F) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	$10.40	$24.96	$62.39	$104.92	$207.96	$363.93	$675.87	$0.00
2	1,000	11.40	25.96	63.39	105.92	208.96	364.93	676.87	0.00
3	2,000	12.40	26.96	64.39	106.92	209.96	365.93	677.87	0.00
4	3,000	13.40	27.96	65.39	107.92	210.96	366.93	678.87	0.00
5	4,000	14.40	28.96	66.39	108.92	211.96	367.93	679.87	0.00
6	5,000	15.99	30.55	67.98	110.51	213.55	369.52	681.46	0.00
7	6,000	17.58	32.14	69.57	112.10	215.14	371.11	683.05	0.00
8	7,000	19.17	33.73	71.16	113.69	216.73	372.70	684.64	0.00
9	8,000	20.76	35.32	72.75	115.28	218.32	374.29	686.23	0.00
10	9,000	22.36	36.92	74.35	116.88	219.92	375.89	687.83	0.00
11	10,000	23.95	38.51	75.94	118.47	221.51	377.48	689.42	0.00
12	15,000	31.90	46.46	83.89	126.42	229.46	385.43	697.37	0.00
13	20,000	39.86	54.42	91.85	134.38	237.42	393.39	705.33	0.00
14	25,000	47.81	62.37	99.80	142.33	245.37	401.34	713.28	0.00
15	50,000	87.59	102.15	139.58	182.11	285.15	441.12	753.06	0.00
16	75,000	127.36	141.92	179.35	221.88	324.92	480.89	792.83	0.00
17	100,000	167.14	181.70	219.13	261.66	364.70	520.67	832.61	0.00
18	125,000	206.91	221.47	258.90	301.43	404.47	560.44	872.38	0.00
19	150,000	246.69	261.25	298.68	341.21	444.25	600.22	912.16	0.00
20	175,000	286.46	301.02	338.45	380.98	484.02	639.99	951.93	0.00
21	200,000	326.24	340.80	378.23	420.76	523.80	679.77	991.71	0.00
22									
23	AVG. NO. OF CUST:	13,802	622	263	23	20	16	1	0
24									
25	AVG. USE (GAL.):	10,666	31,339	170,216	353,507	1,177,280	2,760,484	394,083	N/A
26	MONTHLY BILL:	$25.01	$72.46	$330.84	$664.99	$2,078.65	$4,753.50	$1,300.49	N/A
27									
28	MEDIAN USE (GAL.) :	7,718	14,931	80,129	100,456	97,537	97,275	96,000	N/A
29	MONTHLY BILL:	$20.32	$46.35	$187.51	$262.38	$360.78	$516.33	$826.24	N/A

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRAND SYSTEM
BILLING ANALYSIS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-19

RUCO PROPOSED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 1 - INCH	(C) 2 - INCH	(D) 3 - INCH	(E) 4 - INCH	(F) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	$0.04	$0.10	$0.24	$1.34	$0.80	$1.40	$313.34	$0.00
2	1,000	1.04	1.10	1.24	2.34	1.80	2.40	314.34	0.00
3	2,000	0.48	0.54	0.68	1.78	1.24	1.84	313.78	0.00
4	3,000	(0.08)	(0.02)	0.12	1.22	0.68	1.28	313.22	0.00
5	4,000	(0.64)	(0.58)	(0.44)	0.66	0.12	0.72	312.66	0.00
6	5,000	(0.61)	(0.54)	(0.41)	0.69	0.16	0.76	312.70	0.00
7	6,000	(0.57)	(0.51)	(0.37)	0.73	0.19	0.79	312.73	0.00
8	7,000	(0.54)	(0.48)	(0.34)	0.76	0.22	0.82	312.76	0.00
9	8,000	(0.51)	(0.45)	(0.31)	0.79	0.25	0.85	312.79	0.00
10	9,000	(0.48)	(0.42)	(0.28)	0.82	0.28	0.88	312.82	0.00
11	10,000	(0.45)	(0.38)	(0.24)	0.86	0.31	0.92	312.86	0.00
12	15,000	(0.28)	(0.23)	(0.08)	1.02	0.48	1.07	313.02	0.00
13	20,000	(0.12)	(0.06)	0.08	1.18	0.63	1.24	313.18	0.00
14	25,000	0.04	0.10	0.23	1.34	0.80	1.40	313.34	0.00
15	50,000	0.84	0.89	1.04	2.13	1.60	2.20	314.14	0.00
16	75,000	1.64	1.69	1.84	2.94	2.39	3.00	314.94	0.00
17	100,000	2.43	2.49	2.63	3.74	3.20	3.79	315.74	0.00
18	125,000	3.24	3.30	3.44	4.53	4.00	4.60	316.54	0.00
19	150,000	4.04	4.09	4.24	5.34	4.79	5.40	317.34	0.00
20	175,000	4.83	4.89	5.04	6.14	5.60	6.20	318.14	0.00
21	200,000	5.63	5.69	5.84	6.94	6.40	7.00	318.94	0.00
22									
23	AVG. NO. OF CUST:	13,802	622	263	23	20	16	1	0
24									
25	AVG. USE (GAL.):	10,666	31,339	170,216	353,507	1,177,280	2,760,484	394,083	N/A
26	MONTHLY BILL:	($0.42)	$0.30	$4.88	$11.85	$37.67	$88.93	$325.15	N/A
27									
28	MEDIAN USE (GAL.) :	7,718	14,931	80,129	100,456	97,537	97,275	96,000	N/A
29	MONTHLY BILL:	($0.52)	($0.23)	$2.00	$3.75	$3.12	$3.71	$315.61	N/A

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRAND SYSTEM
BILLING ANALYSIS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-19

RUCO PROPOSED CHANGES EXPRESSED AS A PERCENTAGE

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 1 - INCH	(C) 2 - INCH	(D) 3 - INCH	(E) 4 - INCH	(F) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	0.4%	0.4%	0.4%	1.3%	0.4%	0.4%	86.4%	0.0%
2	1,000	10.0%	4.4%	2.0%	2.3%	0.9%	0.7%	86.7%	0.0%
3	2,000	4.0%	2.0%	1.1%	1.7%	0.6%	0.5%	86.2%	0.0%
4	3,000	-0.6%	-0.1%	0.2%	1.1%	0.3%	0.4%	85.7%	0.0%
5	4,000	-4.2%	-2.0%	-0.7%	0.6%	0.1%	0.2%	85.1%	0.0%
6	5,000	-3.6%	-1.8%	-0.6%	0.6%	0.1%	0.2%	84.8%	0.0%
7	6,000	-3.2%	-1.6%	-0.5%	0.7%	0.1%	0.2%	84.4%	0.0%
8	7,000	-2.7%	-1.4%	-0.5%	0.7%	0.1%	0.2%	84.1%	0.0%
9	8,000	-2.4%	-1.3%	-0.4%	0.7%	0.1%	0.2%	83.8%	0.0%
10	9,000	-2.1%	-1.1%	-0.4%	0.7%	0.1%	0.2%	83.4%	0.0%
11	10,000	-1.8%	-1.0%	-0.3%	0.7%	0.1%	0.2%	83.1%	0.0%
12	15,000	-0.9%	-0.5%	-0.1%	0.8%	0.2%	0.3%	81.4%	0.0%
13	20,000	-0.3%	-0.1%	0.1%	0.9%	0.3%	0.3%	79.9%	0.0%
14	25,000	0.1%	0.2%	0.2%	0.9%	0.3%	0.3%	78.3%	0.0%
15	50,000	1.0%	0.9%	0.7%	1.2%	0.6%	0.5%	71.6%	0.0%
16	75,000	1.3%	1.2%	1.0%	1.3%	0.7%	0.6%	65.9%	0.0%
17	100,000	1.5%	1.4%	1.2%	1.4%	0.9%	0.7%	61.1%	0.0%
18	125,000	1.6%	1.5%	1.3%	1.5%	1.0%	0.8%	56.9%	0.0%
19	150,000	1.7%	1.6%	1.4%	1.6%	1.1%	0.9%	53.3%	0.0%
20	175,000	1.7%	1.7%	1.5%	1.6%	1.2%	1.0%	50.2%	0.0%
21	200,000	1.8%	1.7%	1.6%	1.7%	1.2%	1.0%	47.4%	0.0%
22									
23	AVG. NO. OF CUST:	13,802	622	263	23	20	16	1	0
24									
25	AVG. USE (GAL.):	10,666	31,339	170,216	353,507	1,177,280	2,760,484	394,083	N/A
26	MONTHLY BILL:	-1.7%	0.4%	1.5%	1.8%	1.8%	1.9%	25.0%	N/A
27									
28	MEDIAN USE (GAL.) :	7,718	14,931	80,129	100,456	97,537	97,275	96,000	N/A
29	MONTHLY BILL:	-2.5%	-0.5%	1.1%	1.4%	0.9%	0.7%	38.2%	N/A

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CASA GRAND SYSTEM
REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-20

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE	
1	5/8 X 3/4 - INCH	$1,722,438	$2,475,077	$ 4,197,514	
2	1 - INCH	186,351	356,641	542,993	
3	2 - INCH	196,591	846,443	1,043,034	
4	3 - INCH	29,483	157,415	186,897	
5	4 - INCH	50,118	450,843	500,962	
6	6 - INCH	68,783	829,640	898,423	
7	8 - INCH	4,367	7,495	11,863	
13	10 - INCH	0	0	0	
14					
15	TOTALS	$ 2,258,131	$ 5,123,554	$ 7,381,685	(a)
16					
17	PERCENTAGE OF TOTAL REVENUE	31.00%	69.00%	100.00%	

NOTE (a):

RUCO REQUIRED REVENUE		$ 8,004,602
LESS:		
FIRE SPRINKLER REVENUE	$ 9,098	
FIRE HYDRANT REVENUE	-	
MISCELLANEOUS REVENUE	524,652	
RENT - WATER PROPERTY REVENUE	-	
OTHER WATER REVENUE	89,167	
TOTAL		$ 622,917
REVENUE TO BE GENERATED FROM WATER SALES		$ 7,381,685

ARIZONA WATER COMPANY
STANFIELD SYSTEM
DOCKET NO. W-01445A-04-0650
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WAR - 5	RATE BASE ADJ. #2 - RESTATE ALLOCATED PHOENIX OFFICE & METER SHOP AND ACCUMULATED DEPRECIATION
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ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
REVENUE REQUIREMENTS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-1

LINE NO.	DESCRIPTION	(A) COMPANY REQUESTED	(B) RUCO RECOMMENDED
1	ADJUSTED RATE BASE	$ 314,131	$ 326,426
2	ADJUSTED OPERATING INCOME	25,878	29,512
3	CURRENT RATE OF RETURN (L2 / L1)	8.24%	9.04%
4	REQUIRED RATE OF RETURN	10.50%	9.17%
5	REQUIRED OPERATING INCOME (L4 * L1)	32,984	29,933
6	OPERATING INCOME DEFICIENCY (L5 - L2)	7,106	421
7	GROSS REVENUE CONVERSION FACTOR	1.63245	1.26758
8	GROSS REVENUE INCREASE	$ 11,601	$ 534
9	CURRENT REVENUES T/Y ADJUSTED	115,201	116,474
10	PROPOSED ANNUAL REVENUE (L8 + L9)	126,802	117,007
11	PERCENTAGE AVERAGE INCREASE	10.07%	0.46%

REFERENCES:
COLUMN (A): COMPANY SCHEDULE A-1
COLUMN (B): SCHEDULE WAR-1, PG. 2, WAR-2, WAR-9 AND WAR-16

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUE	1.00000	
2	UNCOLLECTIBLES	0.00234	COMPANY SCH. C-3
3	SUB-TOTAL	0.99766	LINE 1 - LINE 2
4	LESS: TAX RATE	20.88%	NOTE (a)
5	TOTAL	0.78890	LINE 3 - LINE 4
6	REVENUE CONVERSION FACTOR	1.26758	LINE 1/LINE 5

NOTE (a):
CALCULATION OF EFFECTIVE TAX RATE

OPERATING INCOME BEFORE TAXES	100.00%
LESS: ARIZONA STATE TAX	6.97%
TAXABLE INCOME FEDERAL	93.03%
TIMES: FEDERAL INCOME TAX RATE	15.00%
SUBTOTAL	13.95%
ADD STATE TAX RATE	20.92%
LINE 3 ABOVE	99.77%
EFFECTIVE TAX RATE	20.88%

NOTE (b):

STATE INCOME TAX	$ 37
FEDERAL INCOME TAX	75
TOTAL INCOME TAX LIABILITY	$ 113

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE - ORIGINAL COST

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-2

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	PLANT IN SERVICE	$ 602,560	$ -	$ 602,560
2	PHOENIX OFFICE & METER SHOP ALLOCATION	14,195	1,655	15,849
3	DEFERRED CAP CHARGES	-	-	-
4	ACCUMULATED DEPRECIATION	(195,716)	7,969	(187,747)
5	NET PLANT IN SERVICE	$ 421,038	$ 9,623	$ 430,661
6	CONSTRUCTION WORK IN PROGRESS (CWIP)	-	-	-
7	TOTAL NET PLANT	$ 421,038	$ 9,623	$ 430,661
8	ADVANCES IN AID OF CONSTRUCTION (AIAC)	-	-	-
9	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(49,164)	-	(49,164)
10	ACCUMULATED AMORTIZATION OF CIAC	7,813	-	7,813
11	DEFERRED INCOME TAXES	(62,528)	-	(62,528)
12	WORKING CAPITAL	(3,029)	2,672	(357)
13	TOTAL RATE BASE	$ 314,131	$ 12,295	$ 326,426

REFERENCES:
COLUMN (A): COMPANY SCHEDULE B-1
COLUMN (B): SCHEDULE WAR-3
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
SUMMARY OF RATE BASE ADJUSTMENTS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-3

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) RUCO ADJUSTED
1	PLANT IN SERVICE	$ 602,560	$ -	$ -	$ -	$ -	$ -	$ -	$ 602,560
2	PHOENIX OFFICE & METER SHOP ALLOCATION	14,195 (a)		1,655					15,849
3	DEFERRED CAP CHARGES	-							-
4	ACCUMULATED DEPRECIATION	(195,716)	9,670	(1,655)	(50)	3			(187,747)
5	NET PLANT IN SERVICE	$ 421,038	$ 9,670	$ -	$ (50)	$ 3	$ -	$ -	$ 430,661
6	CONSTRUCTION WORK IN PROGRESS (CWIP)	-							-
7	TOTAL NET PLANT	$ 421,038	$ 9,670	$ -	$ (50)	$ 3	$ -	$ -	$ 430,661
8	ADVANCES IN AID OF CONSTRUCTION (AIAC)	-							-
9	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(49,164)							(49,164)
10	ACCUMULATED AMORTIZATION OF CIAC	7,813							7,813
11	DEFERRED INCOME TAXES	(62,528)							(62,528)
12	WORKING CAPITAL	(3,029)						2,672	(357)
13	TOTAL RATE BASE	$ 314,131	$ 9,670	$ -	$ (50)	$ 3	$ -	$ 2,672	$ 326,426

ADJUSTMENT #:	REFERENCE:
1. ACCUMULATED DEPRECIATION - PLANT	SCHEDULE WAR-4
2. RESTATE PHX. OFFICE & METER SHOP AND ACCUM. DEPR.	SCHEDULE WAR-5
3. ACCUMULATED DEPRECIATION - PHOENIX OFFICE	SCHEDULE WAR-6
4. ACCUMULATED DEPRECIATION - METER SHOP	SCHEDULE WAR-7
5. NOT USED	N/A
6. WORKING CAPITAL	SCHEDULE WAR-8

NOTES:
(a) NET OF ACCUMULATED DEPRECIATION

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1990 PLANT VALUE PER COMPANY	1990 ACCUM DEPR. PER COMPANY	1990 NET PLANT PER PRIOR ACC PER COMPANY	1991 ADDITIONS PER COMPANY	1991 (RETIREMENTS) PER COMPANY	1991 YEAR END PLANT VALUE PER RUCO	1991 DEPRECIATION EXPENSE PER RUCO	1991 ACCUMULATED DEPRECIATION PER RUCO	1991 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	600	0	600	0	0	600	0	0	600
7	314.0	SOURCE OF SUPPLY: WELLS	92,203	12,320	79,883	85	0	92,288	2,232	14,552	77,736
8	320.0	PUMPING PLANT: LAND*	200	0	200	0	0	200	0	0	200
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	155,360	20,759	134,601	5,537	0	160,897	3,827	24,586	136,311
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	39,824	5,321	34,503	0	0	39,824	964	6,285	33,539
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	82,777	11,061	71,716	14,616	0	97,393	2,180	13,241	84,152
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	268	36	232	0	0	268	6	42	226
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	23,276	3,110	20,166	5,635	(968)	27,943	620	2,762	25,181
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	16,707	2,232	14,475	560	(392)	16,876	406	2,247	14,628
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	4,441	593	3,848	4,802	0	9,243	166	759	8,484
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	600	80	520	0	0	600	15	95	505
29	390.3	GENERAL PLANT: MISC. BUILDINGS	712	95	617	0	0	712	17	112	600
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	0	0	0	0	0	0	0
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	534	71	463	0	0	534	13	84	450
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	0	0	0	0	0	0	0
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	0	0	0	0	0
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	534	71	463	0	0	534	13	84	450
41		TOTALS	$418,036	$55,751	$362,285	$31,235	($1,360)	$447,911	$10,459	$64,850	$383,061

ACCT. NO.	PLANT ACCOUNT NAME	1992 ADDITIONS PER COMPANY	1992 (RETIREMENTS) PER COMPANY	1992 YEAR END PLANT VALUE PER RUCO	1992 DEPRECIATION EXPENSE PER RUCO	1992 ACCUMULATED DEPRECIATION PER RUCO	1992 YEAR END NET PLANT PER RUCO	1993 ADDITIONS PER COMPANY	1993 (RETIREMENTS) PER COMPANY	1993 YEAR END PLANT VALUE PER RUCO	1993 DEPRECIATION EXPENSE PER RUCO	1993 ACCUMULATED DEPRECIATION PER RUCO	1993 YEAR END NET PLANT PER RUCO
301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	153	0	153	0	0	153
310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	600	0	0	600	0	0	600	0	0	600
314.0	SOURCE OF SUPPLY: WELLS	0	0	92,286	2,233	16,786	75,502	13	0	92,301	2,390	19,176	73,125
320.0	PUMPING PLANT: LAND*	0	0	200	0	0	200	0	0	200	0	0	200
321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	725	(1,892)	159,730	3,860	26,573	133,156	772	(321)	160,181	4,143	30,395	129,785
328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	39,824	964	7,249	32,575	0	0	39,824	1,031	8,280	31,544
342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	47	0	97,440	2,357	15,598	81,842	0	0	97,440	2,524	18,122	79,318
343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	268	6	49	219	0	0	268	7	56	212
344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	94	(12)	28,025	677	3,427	24,598	2,297	(717)	29,605	746	3,456	26,149
345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	(126)	16,750	407	2,528	14,221	0	0	16,750	434	2,962	13,788
346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	9,243	224	983	8,260	0	0	9,243	239	1,222	8,021
348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	600	15	109	491	0	0	600	16	125	475
390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	712	17	130	582	0	0	712	18	148	564
390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	534	13	97	437	0	0	534	14	111	423
394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
397.2	GENERAL PLANT: AUTO CONTROLS	7,662	0	7,662	93	93	7,569	56	0	7,718	199	292	7,426
398.0	GENERAL PLANT: MISC.	0	0	534	13	97	437	0	0	534	14	111	423
	TOTALS	$8,528	($2,030)	$464,409	$10,899	$73,719	$380,690	$3,291	($1,038)	$456,662	$11,776	$84,456	$372,206

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1994 ADDITIONS PER COMPANY	1994 (RETIREMENTS) PER COMPANY	1994 YEAR END PLANT VALUE PER RUCO	1994 DEPRECIATION EXPENSE PER RUCO	1994 ACCUMULATED DEPRECIATION PER RUCO	1994 YEAR END NET PLANT PER RUCO	1995 ADDITIONS PER COMPANY	1995 (RETIREMENTS) PER COMPANY	1995 YEAR END PLANT VALUE PER RUCO	1995 DEPRECIATION EXPENSE PER RUCO	1995 ACCUMULATED DEPRECIATION PER RUCO	1995 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	38	0	191	0	0	191	139	0	330	0	0	330
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	600	0	0	600	0	0	600	0	0	600
7	314.0	SOURCE OF SUPPLY: WELLS	28	0	92,329	2,391	21,567	70,762	0	0	92,329	2,391	23,959	68,370
8	320.0	PUMPING PLANT: LAND*	0	0	200	0	0	200	0	0	200	0	0	200
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	(189)	159,992	4,146	34,353	125,639	0	0	159,992	4,144	38,496	121,495
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	10,727	0	10,727	139	139	10,588
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	39,824	1,031	9,312	30,512	0	0	39,824	1,031	10,343	29,481
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	248	0	97,688	2,527	20,649	77,039	0	0	97,688	2,530	23,179	74,509
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	268	7	63	205	0	0	268	7	70	198
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	1,219	(258)	30,566	779	3,978	26,588	0	0	30,566	792	4,769	25,797
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	16,750	434	3,396	13,354	0	(118)	16,632	432	3,710	12,921
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	9,243	239	1,461	7,782	0	0	9,243	239	1,701	7,542
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	600	16	140	460	0	0	600	16	156	444
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	712	18	166	546	0	0	712	18	185	527
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	534	14	125	409	0	0	534	14	139	395
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	7,718	200	492	7,226	0	0	7,718	200	692	7,026
40	398.0	GENERAL PLANT: MISC.	0	0	534	14	125	(111)	0	0	534	14	139	395
41		TOTALS	$1,533	($447)	$457,748	$11,816	$95,826	$361,402	$10,866	($118)	$468,496	$11,967	$107,675	$360,821

ACCT. NO.	PLANT ACCOUNT NAME	1996 ADDITIONS PER COMPANY	1996 (RETIREMENTS) PER COMPANY	1996 YEAR END PLANT VALUE PER RUCO	1996 DEPRECIATION EXPENSE PER RUCO	1996 ACCUMULATED DEPRECIATION PER RUCO	1996 YEAR END NET PLANT PER RUCO	1997 ADDITIONS PER COMPANY	1997 (RETIREMENTS) PER COMPANY	1997 YEAR END PLANT VALUE PER RUCO	1997 DEPRECIATION EXPENSE PER RUCO	1997 ACCUMULATED DEPRECIATION PER RUCO	1997 YEAR END NET PLANT PER RUCO
301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	44	0	374	0	0	374	12	0	386	0	0	386
310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	600	0	0	600	0	0	600	0	0	600
314.0	SOURCE OF SUPPLY: WELLS	0	0	92,329	2,391	26,350	65,979	0	0	92,329	2,391	28,741	63,588
320.0	PUMPING PLANT: LAND*	0	0	200	0	0	200	0	0	200	0	0	200
321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	1,243	0	1,243	16	16	1,227
325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	38,459	(10,493)	187,958	4,506	32,509	155,448	0	0	187,958	4,868	37,377	150,580
328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	10,727	278	417	10,310	0	0	10,727	278	695	10,032
340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	39,824	1,031	11,375	28,449	0	0	39,824	1,031	12,406	27,418
343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	97,688	2,530	25,709	71,979	0	0	97,688	2,530	28,239	69,449
344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	268	7	77	191	0	0	268	7	83	185
345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	(288)	30,279	788	5,270	25,009	1,406	(313)	31,372	798	5,755	25,617
346.0	TRANSMISSION & DISTRIBUTION: METERS	(386)	(108)	16,138	424	4,027	12,111	0	0	16,138	418	4,445	11,693
348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	9,243	239	1,940	7,303	0	0	9,243	239	2,180	7,063
389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	600	16	171	429	0	0	600	16	187	413
390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	712	18	203	509	0	0	712	18	222	490
391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	534	14	153	381	0	0	534	14	166	368
395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
397.2	GENERAL PLANT: AUTO CONTROLS	0	0	7,718	200	892	6,826	0	0	7,718	200	1,091	6,627
398.0	GENERAL PLANT: MISC.	0	0	534	14	153	(139)	0	0	534	14	166	368
	TOTALS	$38,117	($10,888)	$495,725	$12,457	$109,244	$385,961	$2,662	($313)	$498,074	$12,839	$121,770	$376,303

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1998 ADDITIONS PER COMPANY	1998 (RETIREMENTS) PER COMPANY	1998 YEAR END PLANT VALUE PER RUCO	1998 DEPRECIATION EXPENSE PER RUCO	1998 ACCUMULATED DEPRECIATION PER RUCO	1998 YEAR END NET PLANT PER RUCO	1999 ADDITIONS PER COMPANY	1999 (RETIREMENTS) PER COMPANY	1999 YEAR END PLANT VALUE PER RUCO	1999 DEPRECIATION EXPENSE PER RUCO	1999 ACCUMULATED DEPRECIATION PER RUCO	1999 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	11	0	397	0	0	397	101	0	498	0	0	498
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	600	0	0	600	0	0	600	0	0	600
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	92,329	2,391	31,133	61,196	0	0	92,329	2,391	33,524	58,805
8	320.0	PUMPING PLANT: LAND*	0	0	200	0	0	200	0	0	200	0	0	200
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	1,243	32	48	1,195	0	0	1,243	32	81	1,163
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	271	0	188,229	4,872	42,249	145,980	0	0	188,229	4,875	47,124	141,104
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	10,727	278	972	9,755	0	0	10,727	278	1,250	9,477
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	39,824	1,031	13,437	26,387	0	0	39,824	1,031	14,469	25,355
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	97,688	2,530	30,769	66,919	1,451	0	99,139	2,549	33,318	65,821
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	268	7	90	178	0	0	268	7	97	171
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	549	(201)	31,720	817	6,371	25,349	2,903	(344)	34,279	855	6,882	27,397
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	(23)	16,115	418	4,840	11,275	0	(23)	16,092	417	5,234	10,858
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	9,243	239	2,419	6,824	0	0	9,243	239	2,658	6,585
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	600	16	202	398	0	0	600	16	218	382
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	712	18	240	472	0	0	712	18	259	453
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	534	14	180	354	0	0	534	14	194	340
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	7,718	200	1,291	6,427	0	0	7,718	200	1,491	6,227
40	398.0	GENERAL PLANT: MISC.	0	0	534	14	180	(166)	0	0	534	14	194	340
41		TOTALS	$831	($224)	$498,681	$12,877	$134,423	$363,737	$4,455	($367)	$502,769	$12,936	$146,993	$355,776

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	2000 ADDITIONS PER COMPANY	2000 (RETIREMENTS) PER COMPANY	2000 YEAR END PLANT VALUE PER RUCO	2000 DEPRECIATION EXPENSE PER RUCO	2000 ACCUMULATED DEPRECIATION PER RUCO	2000 YEAR END NET PLANT PER RUCO	2001 ADDITIONS PER COMPANY	2001 (RETIREMENTS) PER COMPANY	2001 YEAR END PLANT VALUE PER RUCO	2001 DEPRECIATION EXPENSE PER RUCO	2001 ACCUMULATED DEPRECIATION PER RUCO	2001 YEAR END NET PLANT PER RUCO
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
50	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
51	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	79	0	577	0	0	577	19	0	596	0	0	596
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	600	0	0	600	0	0	600	0	0	600
55	314.0	SOURCE OF SUPPLY: WELLS	14,555	0	106,884	2,580	36,104	70,780	91	0	106,975	2,769	38,873	68,102
56	320.0	PUMPING PLANT: LAND*	0	0	200	0	0	200	0	0	200	0	0	200
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	1,243	32	113	1,131	0	0	1,243	32	145	1,098
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	188,229	4,875	51,999	136,229	0	0	188,229	4,875	56,874	131,354
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	6,778	0	6,778	88	88	6,690	0	0	6,778	176	263	6,515
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	13,763	(10,727)	13,763	317	(9,160)	22,923	0	0	13,763	356	(8,803)	22,566
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	39,824	1,031	15,500	24,324	513	0	40,337	1,038	16,538	23,799
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	99,139	2,568	35,886	63,253	0	0	99,139	2,568	38,454	60,685
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	268	7	104	164	0	0	268	7	111	157
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	499	(104)	34,673	893	7,671	27,003	1,069	0	35,742	912	8,583	27,160
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	1,053	0	17,145	430	5,664	11,480	0	(48)	17,097	443	6,059	11,037
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	9,243	239	2,898	6,345	0	0	9,243	239	3,137	6,106
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	600	16	234	366	0	0	600	16	249	351
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	712	18	277	435	0	0	712	18	296	416
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
80	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	534	14	208	326	0	0	534	14	222	312
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
86	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
87	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	7,718	200	1,691	6,027	0	0	7,718	200	1,891	5,827
88	398.0	GENERAL PLANT: MISC.	0	0	534	14	208	(194)	0	0	534	14	222	312
89		TOTALS	$36,726	($10,831)	$528,664	$13,322	$149,484	$378,659	$1,692	($48)	$530,308	$13,678	$163,114	$367,194

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO	PLANT ACCOUNT NAME	2002 ADDITIONS PER COMPANY	2002 (RETIREMENTS) PER COMPANY	2002 YEAR END PLANT VALUE PER RUCO	2002 DEPRECIATION EXPENSE PER RUCO	2002 ACCUMULATED DEPRECIATION PER RUCO	2002 YEAR END NET PLANT PER RUCO	2003 ADDITIONS PER COMPANY	2003 (RETIREMENTS) PER COMPANY	2003 YEAR END PLANT VALUE PER RUCO	2003 DEPRECIATION EXPENSE PER RUCO	2003 ACCUMULATED DEPRECIATION PER RUCO	2003 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	200	0	796	0	0	796	333	0	1,129	0	0	1,129
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	600	0	0	600	0	0	600	0	0	600
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	106,975	2,771	41,644	65,331	0	0	106,975	2,771	44,414	62,561
8	320.0	PUMPING PLANT: LAND*	0	0	200	0	0	200	0	0	200	0	0	200
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	1,243	32	177	1,066	0	0	1,243	32	209	1,034
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	2,139	0	190,368	4,903	61,777	128,590	0	0	190,368	4,931	66,708	123,660
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	6,778	176	439	6,339	0	0	6,778	176	614	6,164
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	13,763	356	(8,447)	22,210	0	0	13,763	356	(8,090)	21,853
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	539	0	40,876	1,052	17,590	23,286	0	0	40,876	1,059	18,649	22,227
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	99,139	2,568	41,021	58,118	0	0	99,139	2,568	43,589	55,550
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	268	7	118	150	0	0	268	7	125	143
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	769	(1,171)	35,340	921	8,332	27,008	608	(62)	35,886	922	9,193	26,694
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	(50)	17,047	442	6,452	10,595	0	(9)	17,038	441	6,884	10,154
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	9,243	239	3,377	5,866	0	0	9,243	239	3,616	5,627
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	600	16	265	335	0	0	600	16	280	320
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	712	18	314	398	0	0	712	18	332	380
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	534	14	236	298	0	0	534	14	249	285
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	74,904	(5,946)	76,676	1,093	(2,962)	79,638	0	0	76,676	1,986	(976)	77,652
40	398.0	GENERAL PLANT: MISC.	0	0	534	14	236	(222)	0	0	534	14	249	285
41		TOTALS	$78,551	($7,167)	$601,692	$14,621	$170,568	$430,604	$941	($71)	$602,562	$15,549	$186,046	$416,615
42														
43		BALANCES PER COMPANY									$ 602,560		$ 195,716	
44														
45		BALANCES PER RUCO									$ 602,562		$ 186,046	
46														
47		TOTAL ADJUSTMENTS									$ 2		$ (9,670)	

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT
** LEASEHOLD IMPROVEMENT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJ. #2 - RESTATE ALLOCATED PHOENIX OFFICE
& METER SHOP AND ACCUMULATED DEPRECIATION

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-5

LINE NO.	DESCRIPTION	TEST YEAR COMPANY
1	GROSS PHOENIX OFFICE PLANT	$ 4,999,117
2	GROSS METER SHOP	113,608
3	GROSS PHOENIX OFFICE PLANT & METER SHOP	$ 5,112,725
4	TIMES: ALLOCATION FACTOR	0.0031
5	ALLOCATED GROSS PHOENIX OFFICE PLANT & METER SHOP	$ 15,849
6	NET ALLOCATED PHOENIX OFFICE PLANT & METER SHOP	14,195
7	RUCO ADJUSTMENT TO PHOENIX OFFICE & METER SHOP ALLOCATION AND ACCUMULATED DEPRECIATION	$ 1,655

REFERENCES:
LINE 1: COMPANY SCHEDULE B-2 PAGE 7
LINE 2: COMPANY SCHEDULE B-2 PAGE 8
LINE 3: LINE 1 + LINE 2
LINE 4: COMPANY SCHEDULE B-1 PAGE 1
LINE 5: LINE 3 x LINE 4
LINE 6: COMPANY SCHEDULE B-1 PAGE 1 (SUM OF LINES 6 AND 7)
LINE 7: LINE 5 - LINE 6

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION - PHOENIX OFFICE

LINE NO	ACCT. NO.	PLANT ACCOUNT NAME	1990 PLANT VALUE PER COMPANY	1990 ACCUM DEPR. PER COMPANY	1990 NET PLANT PER PRIOR ACC PER COMPANY	1991 ADDITIONS PER COMPANY	1991 (RETIREMENTS) PER COMPANY	1991 YEAR END PLANT VALUE PER RUCO	1991 DEPRECIATION EXPENSE PER RUCO	1991 ACCUMULATED DEPRECIATION PER RUCO	1991 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES. ORGANIZATION*	$651	$0	$651	$0	$0	$651	$0	$0	$651
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	8,496	0	8,496	0	0	8,496	0	0	8,496
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	530,962	1,901	529,061	10,977	0	541,939	424	2,325	539,614
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	3,478	378	3,100	542	0	4,020	91	468	3,552
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	547,751	59,472	488,279	0	(1,399)	546,352	13,239	71,311	475,041
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	898,103	97,511	800,592	115,709	0	1,013,812	23,134	120,645	893,167
32	391.2	GENERAL PLANT: OFFICE FURNITURE	89,500	9,717	79,783	5,125	0	94,625	2,228	11,945	82,680
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	2,470	0	2,470	30	30	2,440
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	27,037	2,936	24,101	83	0	27,120	655	3,591	23,529
35	395.0	GENERAL PLANT: LAB EQUIPMENT	51	6	45	0	0	51	1	7	44
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	(510)	(510)	(6)	(516)	6
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	41,418	4,497	36,921	0	0	41,418	1,002	5,499	35,919
38	397.1	GENERAL PLANT: MOBILE RADIOS	8,656	940	7,716	1,344	0	10,000	226	1,166	8,834
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	3,939	428	3,511	0	0	3,939	95	523	3,416
41		TOTALS	$2,160,042	$177,785	$1,982,257	$136,250	($1,909)	$2,294,383	$41,119	$216,995	$2,077,388
42											
43											

44														
45														
46	ACCT. NO.	PLANT ACCOUNT NAME	1992 ADDITIONS PER COMPANY	1992 (RETIREMENTS) PER COMPANY	1992 YEAR END PLANT VALUE PER RUCO	1992 DEPRECIATION EXPENSE PER RUCO	1992 ACCUMULATED DEPRECIATION PER RUCO	1992 YEAR END NET PLANT PER RUCO	1993 ADDITIONS PER COMPANY	1993 (RETIREMENTS) PER COMPANY	1993 YEAR END PLANT VALUE PER RUCO	1993 DEPRECIATION EXPENSE PER RUCO	1993 ACCUMULATED DEPRECIATION PER RUCO	1993 YEAR END NET PLANT PER RUCO
47														
48														
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
50	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
51	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
55	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
56	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	541,939	424	2,749	539,190	12,076	0	554,015	454	3,203	550,812
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	4,020	97	566	3,454	0	0	4,020	104	670	3,350
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	546,352	13,222	84,533	461,819	0	(2,779)	543,573	14,115	95,869	447,704
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	123,305	0	1,137,117	26,026	146,672	990,445	209,346	(107)	1,346,356	32,161	178,726	1,167,630
80	391.2	GENERAL PLANT: OFFICE FURNITURE	3,614	(1,810)	96,429	2,312	12,447	83,982	2,749	(3,458)	95,720	2,468	11,477	84,243
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	2,470	60	90	2,380	0	0	2,470	64	154	2,316
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	30	0	27,150	657	4,247	22,903	684	0	27,834	712	4,960	22,874
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	51	1	8	43	0	0	51	1	9	42
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(12)	(529)	19	0	0	(510)	(13)	(542)	32
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	41,418	1,002	6,502	34,916	4,091	0	45,509	1,126	7,627	37,882
86	397.1	GENERAL PLANT: MOBILE RADIOS	1,775	0	11,775	263	1,429	10,346	0	0	11,775	305	1,734	10,041
87	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
88	398.0	GENERAL PLANT: MISC.	0	0	3,939	95	618	3,321	0	0	3,939	102	720	3,219
89		TOTALS	$128,724	($1,810)	$2,421,297	$44,147	$259,332	$2,161,965	$228,946	($6,344)	$2,643,899	$51,816	$304,607	$2,339,292

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION - PHOENIX OFFICE

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1994 ADDITIONS PER COMPANY	1994 (RETIREMENTS) PER COMPANY	1994 YEAR END PLANT VALUE PER RUCO	1994 DEPRECIATION EXPENSE PER RUCO	1994 ACCUMULATED DEPRECIATION PER RUCO	1994 YEAR END NET PLANT PER RUCO	1995 ADDITIONS PER COMPANY	1995 (RETIREMENTS) PER COMPANY	1995 YEAR END PLANT VALUE PER RUCO	1995 DEPRECIATION EXPENSE PER RUCO	1995 ACCUMULATED DEPRECIATION PER RUCO	1995 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	17,033	0	571,048	454	3,656	567,392	9,407	0	580,455	454	4,110	576,345
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	4,020	104	774	3,246	0	0	4,020	104	878	3,142
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	(5,960)	537,613	14,001	103,910	433,703	0	0	537,613	13,924	117,834	419,779
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	110,780	(100)	1,457,036	36,304	214,929	1,242,107	265,498	0	1,722,534	41,175	256,105	1,466,429
32	391.2	GENERAL PLANT: OFFICE FURNITURE	15,186	0	110,906	2,676	14,153	96,753	7,313	0	118,219	2,967	17,120	101,099
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	2,470	64	218	2,252	0	0	2,470	64	282	2,188
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	27,834	721	5,680	22,154	203	0	28,037	724	6,404	21,633
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	51	1	11	40	0	0	51	1	12	39
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(555)	45	0	0	(510)	(13)	(568)	58
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	45,509	1,179	8,806	36,703	4,564	0	50,073	1,238	10,044	40,029
38	397.1	GENERAL PLANT: MOBILE RADIOS	2,306	0	14,081	335	2,069	12,012	0	0	14,081	365	2,434	11,647
39	397.2	GENERAL PLANT: AUTO CONTROLS	468	0	468	6	6	462	0	0	468	12	18	450
40	398.0	GENERAL PLANT: MISC.	0	0	3,939	102	822	(720)	0	0	3,939	102	924	3,015
41		TOTALS	$145,773	($6,060)	$2,783,612	$55,933	$354,480	$2,425,295	$286,985	$0	$3,070,597	$61,117	$415,597	$2,655,000

ACCT. NO.	PLANT ACCOUNT NAME	1996 ADDITIONS PER COMPANY	1996 (RETIREMENTS) PER COMPANY	1996 YEAR END PLANT VALUE PER RUCO	1996 DEPRECIATION EXPENSE PER RUCO	1996 ACCUMULATED DEPRECIATION PER RUCO	1996 YEAR END NET PLANT PER RUCO	1997 ADDITIONS PER COMPANY	1997 (RETIREMENTS) PER COMPANY	1997 YEAR END PLANT VALUE PER RUCO	1997 DEPRECIATION EXPENSE PER RUCO	1997 ACCUMULATED DEPRECIATION PER RUCO	1997 YEAR END NET PLANT PER RUCO
301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
314.0	SOURCE OF SUPPLY: WELLS	604	0	604	8	8	596	0	(604)	0	8	(588)	588
320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
390.1	GENERAL PLANT: OFFICE BUILDINGS	9,971	0	590,426	454	4,563	585,863	11,226	0	601,652	454	5,017	596,635
390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	4,020	104	982	3,038	0	0	4,020	104	1,086	2,934
391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	(24,401)	513,212	13,608	107,041	406,171	0	(725)	512,487	13,283	119,599	392,888
391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	78,774	(17,770)	1,783,538	45,404	283,739	1,499,799	269,995	(3,869)	2,049,664	49,640	329,509	1,720,155
391.2	GENERAL PLANT: OFFICE FURNITURE	24,572	0	142,791	3,380	20,500	122,291	9,326	0	152,117	3,619	24,320	127,797
393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	2,470	64	346	2,124	0	0	2,470	64	410	2,060
394.0	GENERAL PLANT: GARAGE EQUIPMENT	1,050	0	29,087	740	7,144	21,943	0	0	29,087	753	7,897	21,190
395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	51	1	13	38	0	0	51	1	15	36
396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(581)	71	0	0	(510)	(13)	(595)	85
397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	50,073	1,297	11,341	38,732	0	0	50,073	1,297	12,638	37,435
397.1	GENERAL PLANT: MOBILE RADIOS	5,743	0	19,824	439	2,873	16,951	6,062	0	25,886	592	3,465	22,421
397.2	GENERAL PLANT: AUTO CONTROLS	743	0	1,211	22	40	1,171	0	0	1,211	31	71	1,140
398.0	GENERAL PLANT: MISC.	1,227	0	5,166	118	1,042	(924)	396	0	5,562	139	1,181	4,381
	TOTALS	$122,684	($42,171)	$3,151,110	$65,625	$439,051	$2,707,011	$297,005	($5,198)	$3,442,917	$70,172	$504,024	$2,938,893

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION - PHOENIX OFFICE

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1998 ADDITIONS PER COMPANY	1998 (RETIREMENTS) PER COMPANY	1998 YEAR END PLANT VALUE PER RUCO	1998 DEPRECIATION EXPENSE PER RUCO	1998 ACCUMULATED DEPRECIATION PER RUCO	1998 YEAR END NET PLANT PER RUCO	1999 ADDITIONS PER COMPANY	1999 (RETIREMENTS) PER COMPANY	1999 YEAR END PLANT VALUE PER RUCO	1999 DEPRECIATION EXPENSE PER RUCO	1999 ACCUMULATED DEPRECIATION PER RUCO	1999 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	(588)	588	0	0	0	0	(588)	588
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	32,375	0	634,027	454	5,471	628,556	9,331	0	643,358	454	5,924	637,434
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	10,262	0	14,282	237	1,323	12,959	0	0	14,282	370	1,693	12,589
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	(197)	512,290	13,271	132,673	379,617	0	0	512,290	13,268	145,941	366,349
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	67,502	(406,605)	1,710,561	48,695	(28,401)	1,738,962	196,237	(220,044)	1,686,754	43,995	(204,449)	1,891,203
32	391.2	GENERAL PLANT: OFFICE FURNITURE	12,072	0	164,189	4,096	28,416	135,773	2,700	0	166,889	4,287	32,703	134,186
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	2,470	64	473	1,997	1,235	0	3,705	80	553	3,152
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	197	0	29,284	756	8,653	20,631	0	0	29,284	758	9,411	19,873
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	51	1	16	35	926	0	977	13	29	948
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(608)	98	0	0	(510)	(13)	(621)	111
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	50,073	1,297	13,934	36,139	0	0	50,073	1,297	15,231	34,842
38	397.1	GENERAL PLANT: MOBILE RADIOS	2,284	0	28,170	700	4,165	24,005	46,675	0	74,845	1,334	5,499	69,346
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	1,211	31	103	1,108	0	0	1,211	31	134	1,077
40	398.0	GENERAL PLANT: MISC.	295	0	5,857	148	1,329	(1,181)	123	0	5,980	153	1,482	4,498
41		TOTALS	$124,987	($406,802)	$3,161,102	$69,737	$166,959	$2,988,434	$257,227	($220,044)	$3,198,285	$66,029	$12,944	$3,185,341
42														
43														
44														

45 / 46 / 47	ACCT. NO.	PLANT ACCOUNT NAME	2000 ADDITIONS PER COMPANY	2000 (RETIREMENTS) PER COMPANY	2000 YEAR END PLANT VALUE PER RUCO	2000 DEPRECIATION EXPENSE PER RUCO	2000 ACCUMULATED DEPRECIATION PER RUCO	2000 YEAR END NET PLANT PER RUCO	2001 ADDITIONS PER COMPANY	2001 (RETIREMENTS) PER COMPANY	2001 YEAR END PLANT VALUE PER RUCO	2001 DEPRECIATION EXPENSE PER RUCO	2001 ACCUMULATED DEPRECIATION PER RUCO	2001 YEAR END NET PLANT PER RUCO
48														
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
50	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
51	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
55	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	(588)	588	0	0	0	0	(588)	588
56	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS	73,580	0	716,938	454	6,378	710,560	11,791	0	728,729	454	6,831	721,898
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	14,282	370	2,063	12,219	0	0	14,282	370	2,433	11,849
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	512,290	13,268	159,210	353,080	0	0	512,290	13,268	172,478	339,812
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	312,681	0	1,999,435	47,736	(156,713)	2,156,148	377,076	(93,632)	2,282,879	55,456	(194,889)	2,477,768
80	391.2	GENERAL PLANT: OFFICE FURNITURE	14,611	0	181,500	4,512	37,215	144,285	1,983	0	183,483	4,727	41,941	141,542
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	3,705	96	649	3,056	0	0	3,705	96	745	2,960
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	29,284	758	10,170	19,114	709	0	29,993	768	10,938	19,055
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	977	25	55	922	0	0	977	25	80	897
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(634)	124	0	0	(510)	(13)	(647)	137
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	50,073	1,297	16,528	33,545	0	0	50,073	1,297	17,825	32,248
86	397.1	GENERAL PLANT: MOBILE RADIOS	2,507	0	77,352	1,971	7,470	69,882	0	3,950	81,302	2,055	13,474	67,828
87	397.2	GENERAL PLANT: AUTO CONTROLS	343	0	1,554	36	170	1,384	0	0	1,554	40	210	1,344
88	398.0	GENERAL PLANT: MISC.	0	0	5,980	155	1,637	(1,482)	0	0	5,980	155	1,792	4,188
89		TOTALS	$403,722	$0	$3,602,007	$70,665	$83,608	$3,512,574	$391,559	($89,682)	$3,903,884	$78,697	$72,623	$3,831,261

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION - PHOENIX OFFICE

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	2002 ADDITIONS PER COMPANY	2002 (RETIREMENTS) PER COMPANY	2002 YEAR END PLANT VALUE PER RUCO	2002 DEPRECIATION EXPENSE PER RUCO	2002 ACCUMULATED DEPRECIATION PER RUCO	2002 YEAR END NET PLANT PER RUCO	2003 ADDITIONS PER COMPANY	2003 (RETIREMENTS) PER COMPANY	2003 YEAR END PLANT VALUE PER RUCO	2003 DEPRECIATION EXPENSE PER RUCO	2003 ACCUMULATED DEPRECIATION PER RUCO	2003 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	(588)	588	0	0	0	0	(588)	588
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	7,215	0	735,944	454	7,285	728,659	548,941	0	1,284,885	454	7,739	1,277,146
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	14,282	370	2,803	11,479	0	0	14,282	370	3,173	11,109
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	512,290	13,268	185,746	326,544	0	0	512,290	13,268	199,015	313,275
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	504,040	(153,472)	2,633,447	63,666	(284,695)	2,918,142	195,986	(75,130)	2,754,303	69,771	(290,053)	3,044,356
32	391.2	GENERAL PLANT: OFFICE FURNITURE	710	0	184,193	4,761	46,703	137,490	54,624	0	238,817	5,478	52,181	186,636
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	3,705	96	841	2,864	0	0	3,705	96	937	2,768
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	29,993	777	11,714	18,279	457	0	30,450	783	12,497	17,953
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	977	25	105	872	0	0	977	25	130	847
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(661)	151	0	0	(510)	(13)	(674)	164
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	50,073	1,297	19,122	30,951	0	0	50,073	1,297	20,419	29,654
38	397.1	GENERAL PLANT: MOBILE RADIOS	2,762	0	84,064	2,141	15,616	68,448	7,874	0	91,938	2,279	17,895	74,043
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	1,554	40	250	1,304	0	0	1,554	40	291	1,263
40	398.0	GENERAL PLANT: MISC.	1,226	0	7,206	171	1,963	(1,792)	0	0	7,206	187	2,150	5,056
41		TOTALS	$515,953	($153,472)	$4,266,365	$87,054	$6,205	$4,253,125	$807,882	($75,130)	$4,999,117	$94,035	$25,110	$4,974,007
42														
43		BALANCES PER COMPANY									$ 4,999,117		$ 9,125	
44														
45		BALANCES PER RUCO									$ 4,999,117		$ 25,110	
46														
47		DIFFERENCE									$ -		$ 15,985	
48														
49		TIMES: ALLOCATION FACTOR									0.0031		0.0031	
50														
51		TOTAL ADJUSTMENTS									$ -		$ 50	

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION - METER SHOP

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1990 PLANT VALUE PER COMPANY	1990 ACCUM DEPR. PER COMPANY	1990 NET PLANT PER PRIOR ACC PER COMPANY	1991 ADDITIONS PER COMPANY	1991 (RETIREMENTS) PER COMPANY	1991 YEAR END PLANT VALUE PER RUCO	1991 DEPRECIATION EXPENSE PER RUCO	1991 ACCUMULATED DEPRECIATION PER RUCO	1991 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	80	0	80	0	0	80	0	0	80
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	2,050	370	1,680	0	0	2,050	50	420	1,630
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	6,066	1,095	4,971	0	0	6,066	147	1,242	4,824
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	43	8	35	0	0	43	1	9	34
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	16,566	2,992	13,574	0	0	16,566	401	3,392	13,174
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	742	134	608	0	0	742	18	152	590
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	14,969	2,703	12,266	0	0	14,969	362	3,065	11,904
35	395.0	GENERAL PLANT: LAB EQUIPMENT	2,981	538	2,443	0	0	2,981	72	610	2,371
36	396.0	GENERAL PLANT: POWER EQUIPMENT	1,458	263	1,195	0	0	1,458	35	299	1,159
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0
41		TOTALS	$44,955	$8,104	$36,851	$0	$0	$44,955	$1,086	$9,190	$35,765

ACCT. NO.	PLANT ACCOUNT NAME	1992 ADDITIONS PER COMPANY	1992 (RETIREMENTS) PER COMPANY	1992 YEAR END PLANT VALUE PER RUCO	1992 DEPRECIATION EXPENSE PER RUCO	1992 ACCUMULATED DEPRECIATION PER RUCO	1992 YEAR END NET PLANT PER RUCO	1993 ADDITIONS PER COMPANY	1993 (RETIREMENTS) PER COMPANY	1993 YEAR END PLANT VALUE PER RUCO	1993 DEPRECIATION EXPENSE PER RUCO	1993 ACCUMULATED DEPRECIATION PER RUCO	1993 YEAR END NET PLANT PER RUCO
301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	50	469	1,581	0	0	2,050	53	523	1,527
340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	147	1,389	4,677	0	0	6,066	157	1,546	4,520
344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	43	1	10	33	0	0	43	1	11	32
346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	16,566	401	3,793	12,773	0	0	16,566	429	4,222	12,344
390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	18	170	572	0	0	742	19	189	553
391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	14,969	362	3,428	11,541	333	0	15,302	392	3,820	11,482
395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	72	683	2,298	0	0	2,981	77	760	2,221
396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	35	334	1,124	0	0	1,458	38	372	1,086
397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
	TOTALS	$0	$0	$44,955	$1,086	$10,276	$34,679	$333	$0	$45,288	$1,167	$11,442	$33,846

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION - METER SHOP

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1994 ADDITIONS PER COMPANY	1994 (RETIREMENTS) PER COMPANY	1994 YEAR END PLANT VALUE PER RUCO	1994 DEPRECIATION EXPENSE PER RUCO	1994 ACCUMULATED DEPRECIATION PER RUCO	1994 YEAR END NET PLANT PER RUCO	1995 ADDITIONS PER COMPANY	1995 (RETIREMENTS) PER COMPANY	1995 YEAR END PLANT VALUE PER RUCO	1995 DEPRECIATION EXPENSE PER RUCO	1995 ACCUMULATED DEPRECIATION PER RUCO	1995 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	53	576	1,474	0	0	2,050	53	629	1,421
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	157	1,703	4,363	0	0	6,066	157	1,860	4,206
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	43	1	12	31	0	0	43	1	13	30
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	16,566	429	4,052	11,914	0	0	16,566	429	5,081	11,485
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	19	208	534	0	0	742	19	228	514
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	227	0	15,529	399	4,219	11,310	4,710	0	20,239	463	4,682	15,557
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	77	837	2,144	0	0	2,981	77	914	2,067
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	38	409	1,049	0	0	1,458	38	447	1,011
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
41		TOTALS	$227	$0	$45,515	$1,174	$12,616	$32,899	$4,710	$0	$50,225	$1,238	$13,854	$36,371

ACCT. NO.	PLANT ACCOUNT NAME	1996 ADDITIONS PER COMPANY	1996 (RETIREMENTS) PER COMPANY	1996 YEAR END PLANT VALUE PER RUCO	1996 DEPRECIATION EXPENSE PER RUCO	1996 ACCUMULATED DEPRECIATION PER RUCO	1996 YEAR END NET PLANT PER RUCO	1997 ADDITIONS PER COMPANY	1997 (RETIREMENTS) PER COMPANY	1997 YEAR END PLANT VALUE PER RUCO	1997 DEPRECIATION EXPENSE PER RUCO	1997 ACCUMULATED DEPRECIATION PER RUCO	1997 YEAR END NET PLANT PER RUCO
301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	53	682	1,368	0	0	2,050	53	735	1,315
340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	157	2,017	4,049	0	0	6,066	157	2,175	3,891
344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	(34)	9	1	(20)	29	1,258	0	1,267	17	(4)	1,271
346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	16,566	429	5,510	11,056	344	0	16,910	434	5,943	10,967
390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	19	247	495	0	0	742	19	266	476
391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
394.0	GENERAL PLANT: GARAGE EQUIPMENT	1,867	0	22,106	548	5,231	16,875	17,090	0	39,196	794	6,024	33,172
395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	77	991	1,990	0	0	2,981	77	1,069	1,912
396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	38	485	973	0	0	1,458	38	523	935
397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
	TOTALS	$1,867	($34)	$52,058	$1,322	$15,142	$36,916	$18,692	$0	$70,750	$1,588	$16,731	$54,019

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION - METER SHOP

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1998 ADDITIONS PER COMPANY	1998 (RETIREMENTS) PER COMPANY	1998 YEAR END PLANT VALUE PER RUCO	1998 DEPRECIATION EXPENSE PER RUCO	1998 ACCUMULATED DEPRECIATION PER RUCO	1998 YEAR END NET PLANT PER RUCO	1999 ADDITIONS PER COMPANY	1999 (RETIREMENTS) PER COMPANY	1999 YEAR END PLANT VALUE PER RUCO	1999 DEPRECIATION EXPENSE PER RUCO	1999 ACCUMULATED DEPRECIATION PER RUCO	1999 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	53	788	1,262	0	0	2,050	53	841	1,209
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	157	2,332	3,734	0	0	6,066	157	2,489	3,577
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	(472)	795	27	(449)	1,244	0	(1,222)	(427)	5	(1,666)	1,239
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	4,898	0	21,808	501	6,445	15,363	0	0	21,808	565	7,009	14,799
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	19	285	457	0	0	742	19	304	438
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	1,541	0	40,737	1,035	7,060	33,677	817	0	41,554	1,066	8,125	33,429
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	77	1,146	1,835	0	0	2,981	77	1,223	1,758
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	38	560	898	0	0	1,458	38	598	860
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
41		TOTALS	$6,439	($472)	$76,717	$1,908	$18,166	$58,551	$817	($1,222)	$76,312	$1,980	$18,924	$57,388
42														
43														
44														
45														

46 / 47	ACCT. NO.	PLANT ACCOUNT NAME	2000 ADDITIONS PER COMPANY	2000 (RETIREMENTS) PER COMPANY	2000 YEAR END PLANT VALUE PER RUCO	2000 DEPRECIATION EXPENSE PER RUCO	2000 ACCUMULATED DEPRECIATION PER RUCO	2000 YEAR END NET PLANT PER RUCO	2001 ADDITIONS PER COMPANY	2001 (RETIREMENTS) PER COMPANY	2001 YEAR END PLANT VALUE PER RUCO	2001 DEPRECIATION EXPENSE PER RUCO	2001 ACCUMULATED DEPRECIATION PER RUCO	2001 YEAR END NET PLANT PER RUCO
48														
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
50	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
51	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
55	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
56	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	53	894	1,156	0	0	2,050	53	947	1,103
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	157	2,646	3,420	0	0	6,066	157	2,803	3,263
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	(427)	(11)	(1,677)	1,250	0	0	(427)	(11)	(1,688)	1,261
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS	1,654	0	1,654	21	21	1,633	476	0	2,130	49	70	2,060
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	4,465	0	26,273	623	7,632	18,641	2,168	0	28,441	709	8,341	20,100
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	19	324	418	0	0	742	19	343	399
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	831	0	831	11	11	820	0	0	831	22	32	799
80	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	1,088	0	1,088	14	14	1,074
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	11,551	0	53,105	1,226	9,351	43,754	559	0	53,664	1,383	10,734	42,930
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	77	1,300	1,681	0	0	2,981	77	1,377	1,604
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	38	636	822	0	0	1,458	38	674	784
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
86	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
87	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
88	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
89		TOTALS	$18,501	$0	$94,813	$2,214	$21,138	$73,675	$4,291	$0	$99,104	$2,509	$23,647	$75,457

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION - METER SHOP

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	2002 ADDITIONS PER COMPANY	2002 (RETIREMENTS) PER COMPANY	2002 YEAR END PLANT VALUE PER RUCO	2002 DEPRECIATION EXPENSE PER RUCO	2002 ACCUMULATED DEPRECIATION PER RUCO	2002 YEAR END NET PLANT PER RUCO	2003 ADDITIONS PER COMPANY	2003 (RETIREMENTS) PER COMPANY	2003 YEAR END PLANT VALUE PER RUCO	2003 DEPRECIATION EXPENSE PER RUCO	2003 ACCUMULATED DEPRECIATION PER RUCO	2003 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	53	1,000	1,050	0	0	2,050	53	1,053	997
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	157	2,960	3,106	0	0	6,066	157	3,117	2,949
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	426	0	(1)	(6)	(1,694)	1,693	0	0	(1)	(0)	(1,694)	1,693
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	2,130	55	126	2,004	0	0	2,130	55	181	1,949
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	6,902	0	35,343	826	9,167	26,176	0	0	35,343	915	10,082	25,261
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	19	362	380	0	0	742	19	381	361
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	1,377	0	2,208	39	72	2,136	1,033	0	3,241	71	142	3,099
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	1,088	28	42	1,046	0	0	1,088	28	70	1,018
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	53,664	1,390	12,124	41,540	4,766	0	58,430	1,452	13,575	44,855
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	77	1,455	1,526	0	0	2,981	77	1,532	1,449
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	38	711	747	0	0	1,458	38	749	709
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
41		TOTALS	$8,705	$0	$107,809	$2,677	$26,325	$81,484	$5,799	$0	$113,608	$2,865	$29,190	$84,418
42														
43		BALANCES PER COMPANY									$ 113,607		$ 30,118	
44														
45		BALANCES PER RUCO									$ 113,608		$ 29,190	
46														
47		DIFFERENCE									$ 1		$ (928)	
48														
49		TIMES: ALLOCATION FACTOR									0.0031		0.0031	
50														
51		TOTAL ADJUSTMENTS									$ 0		$ (3)	

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	CASH WORKING CAPITAL PER COMPANY	$ (7,291)	COMPANY SCH. B-5, PG. 1
2	CASH WORKING CAPITAL PER RUCO	(4,619)	SCH. WAR-8, PG. 3
3	DECREASE IN CASH WORKING CAPITAL	2,672	LINE 2 - LINE 1
4	MATERIALS & SUPPLIES PER COMPANY	$ 931	COMPANY SCH. B-5, PG. 1
5	MATERIALS & SUPPLIES PER RUCO	931	
6	MATERIALS & SUPPLIES ADJUSTMENT	$ -	LINE 5 - LINE 4
7	PREPAYMENTS PER COMPANY AND SPECIAL DEPOSITS	$ 1,312	COMPANY SCH. B-5, PG. 1
8	PREPAYMENTS PER RUCO	1,312	
9	PREPAYMENTS ADJUSTMENT	$ -	LINE 8 - LINE 7
10	REQUIRED BANK BALANCES PER COMPANY	$ 2,019	COMPANY SCH. B-5, PG. 1
11	REQUIRED BANK BALANCES PER RUCO	2,019	
12	REQUIRED BANK BALANCE ADJUSTMENT	$ -	LINE 11 - LINE 10
13	TOTAL WORKING CAPITAL ADJUSTMENT	$ 2,672	LINES 3, 6, 9 & 12

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL
LEAD/LAG CALCULATION

LINE NO.	DESCRIPTION	(A) EXPENSES PER COMPANY	(B) RUCO ADJUSTMENTS	(C) ADJUSTED EXPENSES	(D) (LEAD)/LAG DAYS	(E) $ DAYS
1	PURCHASED POWER	$ 17,399	$ 619	$ 18,018	30.85	$ 555,865
2	PAYROLL	18,488	-	18,488	14.00	258,832
3	PURCHASED WATER	-	-	-	N/A	N/A
4	CHEMICALS	633	-	633	10.00	6,330
5	PROPERTY & LIABILITY INSURANCE	651	-	651	(45.27)	(29,471)
6	WORKER'S COMPENSATION	258	-	258	(46.50)	(11,997)
7	HEALTH INSURANCE	3,937	-	3,937	(8.92)	(35,118)
8	OTHER O&M EXPENSES	12,688	(8,760)	3,928	(9.27)	(36,416)
9	DEPRECIATION & AMORTIZATION	-	-	-	N/A	N/A
10	FEDERAL INCOME TAXES	1,792	2,198	3,990	61.95	247,172
11	STATE INCOME TAXES	1,859	133	1,992	99.80	198,764
12	DEFERRED INCOME TAXES	-	-	-	N/A	N/A
13	FICA TAXES	1,406	-	1,406	14.00	19,684
14	FUTA & SUTA TAXES	32	-	32	83.10	2,659
15	PROPERTY TAXES	24,998	(12,574)	12,424	212.00	2,633,843
16	REG., CONTRACT, & MISCELLANEOUS FEES	1,676	-	1,676	(98.83)	(165,664)
17	SALES & OCCUPATION TAXES	9,094	-	9,094	37.53	341,307
18	PENSION EXPENSE	1,599	-	1,599	34.72	55,526
19	SUBTOTAL	$ 96,511	$ (18,385)	$ 78,126		$ 4,041,317
20	SYNCRONIZED INTEREST	7,136	196	7,332	91.25	669,064
21	TOTAL	$ 96,511	$ (18,188)	$ 85,459 *	47.29	$ 4,041,317

REFERENCES:
COLUMN (A): COMPANY SCHEDULE B-6, W/P B6-1, PAGE 2 OF 5
COLUMN (B): DIFFERENCE BETWEEN COLUMN (A) AND SCHEDULE WAR-9 COLUMN (E)
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): LINES 1 THRU 9 AND 11 THRU 17 - COMPANY SCHEDULE B-6, W/P B6-1, PAGE 2 OF 5
COLUMN (D): LINE 10 AND 11 - SCHEDULE WAR-8, PAGE 4 OF 5 AND PAGE 5 OF 5, LINE 7 RESPECTIVELY
COLUMN (E): COLUMN (C) x COLUMN (D)

NOTE
N/A = NON CASH CHARGES EXCLUDED FROM WORKING CAPITAL CALCULATION
* RUCO RECOMMENDED LEVEL OF OPERATING EXPENSE - SCHEDULE WAR-9, COLUMN (E), LINE 16 MINUS LINE 12

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL
CALCULATION OF CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	AVERAGE EXPENSE LAG	47.29	SCH. WAR-8, PG. 2
2	AVERAGE REVENUE COLLECTION LAG	27.56	CO. SCH. B-6, PG. 2
3	EXCESS EXPENSE OVER REVENUE LAG	(19.73)	LINE 2 - LINE 1
4	TOTAL EXPENSES	$ 85,459	SCH. WAR-8, PG. 2
5	CASH WORKING CAPITAL REQUIREMENT	(4,619)	(LINE 3 X LINE 4)/365 DAYS
6	PER COMPANY	$ (7,291)	CO. SCH. B-6, PG. 1
7	INCREASE (DECREASE) IN WORKING CAPITAL	$ 2,672	LINE 5 - LINE 6

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL
CALCULATION OF FEDERAL INCOME TAX LAG

LINE NO.	(A) PAYMENT DATE	-	(B) SERVICE PERIOD MIDPOINT	=	(C) (LEAD)/LAG DAYS	X	(D) PAYMENT AMOUNT	=	(E) DOLLAR DAYS
1	04/12/99		07/01/99		(80.00)		$ 397,000		$ (31,760,000)
2	06/11/99		07/01/99		(20.00)		50,000		(1,000,000)
3	09/14/99		07/01/99		75.00		486,000		36,450,000
4	12/14/99		07/01/99		166.00		970,000		161,020,000
5	03/14/00		07/01/99		257.00		(240,000)		(61,680,000)
6	TOTALS						$ 1,663,000		$ 103,030,000
7	INCOME TAX LAG				61.95				

REFERENCE
COMPANY'S WORKPAPERS SCHEDULE B-6, W/P EL-11, PAGE 2 OF 2

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL
CALCULATION OF STATE INCOME TAX LAG

LINE NO.	(A) PAYMENT DATE	-	(B) SERVICE PERIOD MIDPOINT	=	(C) (LEAD)/LAG DAYS	X	(D) PAYMENT AMOUNT	=	(E) DOLLAR DAYS
1	04/15/99		07/01/99		(77.00)		$ 50,000		$ (3,850,000)
2	06/15/99		07/01/99		(16.00)		12,000		(192,000)
3	09/15/99		07/01/99		76.00		112,000		8,512,000
4	12/15/99		07/01/99		167.00		220,000		36,740,000
5	04/15/00		07/01/99		289.00		(9,983)		(2,885,087)
6	TOTALS						$ 384,017		$ 38,324,913
7	INCOME TAX LAG				99.80				

REFERENCE
COMPANY'S WORKPAPERS SCHEDULE B-6, W/P EL-12, PAGE 2 OF 2

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
OPERATING INCOME - TEST YEAR AND RUCO PROPOSED

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-9

LINE NO.	DESCRIPTION	(A) COMPANY TEST YEAR AS FILED	(B) RUCO TEST YEAR ADJUSTMENTS	(C) RUCO TEST YEAR AS ADJUSTED	(D) RUCO PROPOSED CHANGES	(E) RUCO RECOMMENDED
	REVENUES - WATER:					
1	REVENUE FROM WATER SALES	$ 115,201	$ 1,273	$ 116,474	$ 534	$ 117,007
2	OTHER REVENUES	15,802	-	15,802		15,802
3	TOTAL OPERATING REVENUES	$ 131,003	$ 1,273	$ 132,276	$ 534	$ 132,809
	OPERATING EXPENSES:					
4	PURCHASED WATER	$ -	$ -	$ -	$ -	$ -
5	OTHER	396	255	651		651
6	PURCHASED POWER	17,409	609	18,018		18,018
7	PURCHASED GAS	-	-	-		-
8	OTHER	4,120	(2)	4,118		4,118
9	WATER TREATMENT	430	23	453		453
10	TRANSMISSION & DISTRIBUTION	12,240	(57)	12,183		12,183
11	CUSTOMER ACCOUNTS	8,604	83	8,687		8,687
12	SALES	44	-	44		44
13	ADMINISTRATIVE & GENERAL	14,451	-	14,451		14,451
14	DEPRECIATION & AMORTIZATION	24,713	(0)	24,713		24,713
15	PROPERTY TAXES	13,290	(866)	12,424		12,424
16	OTHER TAXES	1,154	-	1,154		1,154
17	FEDERAL INCOME TAXES	7,221	(3,307)	3,914	75	3,990
18	STATE INCOME TAXES	1,053	901	1,954	37	1,992
19	TOTAL OPERATING EXPENSES	$ 105,125	$ (2,362)	$ 102,763	$ 75	$ 102,839
20	NET INCOME	$ 25,878	$ 3,634	$ 29,512	$ 458	$ 29,970

REFERENCES:
COLUMN (A): CO. SCH. C-1, PG. 2
COLUMN (B): SCH. WAR-10
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): SCH. WAR-1, PAGE 2 OF 2
COLUMN (E): COLUMN (C) + COLUMN (D)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
SUMMARY OF OPERATING ADJUSTMENTS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-10

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ. #1	(C) ADJ. #2	(D) ADJ. #3	(E) ADJ. #4	(F) ADJ. #5	(G) ADJ. #6	(H) ADJ. #7	(I) RUCO ADJUSTED
	REVENUES - WATER:									
1	REVENUE FROM WATER SALES	$ 115,201	$ -	$ -	$ 1,273	$ -	$ -	$ -	$ -	$ 116,474
2	OTHER REVENUES	15,802								15,802
3	TOTAL OPERATING REVENUES	$ 131,003	$ -	$ -	$ 1,273	$ -	$ -	$ -	$ -	$ 132,276
	OPERATING EXPENSES:									
4	PURCHASED WATER	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
5	OTHER	396			255					651
6	PURCHASED POWER	17,409				609				18,018
7	PURCHASED GAS	-								-
8	OTHER	4,120			(2)					4,118
9	WATER TREATMENT	430			23					453
10	TRANSMISSION & DISTRIBUTION	12,240			(57)					12,183
11	CUSTOMER ACCOUNTS	8,604			83					8,687
12	SALES	44								44
13	ADMINISTRATIVE & GENERAL	14,451								14,451
14	DEPRECIATION & AMORTIZATION	24,713					(0)			24,713
15	PROPERTY TAXES	13,290						(866)		12,424
16	OTHER TAXES	1,154								1,154
17	FEDERAL INCOME TAXES	7,221							(3,307)	3,914
18	STATE INCOME TAXES	1,053							901	1,954
19	TOTAL OPERATING EXPENSES	$ 105,125	$ -	$ -	$ 301	$ 609	$ (0)	$ (866)	$ (2,405)	$ 102,763
20	NET INCOME	$ 25,878	$ -	$ -	$ 972	$ (609)	$ 0	$ 866	$ 2,405	$ 29,512

ADJUSTMENT #:	REFERENCE:
1. NOT USED	N/A
2. NOT USED	N/A
3. REVENUE AND EXPENSE ANNUALIZATION FOR 2003	SCHEDULE WAR-11
4. PURCHASED POWER	SCHEDULE WAR-12
5. DEPRECIATION AND AMORTIZATION EXPENSE	SCHEDULE WAR-13
6. PROPERTY TAX EXPENSE	SCHEDULE WAR-14
7. INCOME TAX EXPENSE	SCHEDULE WAR-15

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-11

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
OPERATING ADJ. #3 - REVENUE AND EXPENSE ANNUALIZATION FOR 2003

LINE NO.	DESCRIPTION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
1	YEAR END CUSTOMERS - 2003	218	218	218	218	218	218	218	218	218	218	218	218
2	2003 CUSTOMERS	216	215	216	215	215	214	213	215	214	214	214	218
3	INCREASE IN CUSTOMERS - 2003	2	3	2	3	3	4	5	3	4	4	4	-
4	AVERAGE REVENUE FOR THE MONTH	$ 35.74	$ 36.47	$ 33.54	$ 39.61	$ 47.32	$ 54.60	$ 65.49	$ 55.17	$ 47.36	$ 45.26	$ 45.05	$ 32.75
5	INCREASE IN REVENUES	$ 71	$ 109	$ 67	$ 119	$ 142	$ 218	$ 327	$ 166	$ 189	$ 181	$ 180	$ -
6	TOTAL INCREASE IN REVENUE	1,771											
7	INCREASE IN REVENUE PER COMPANY	498											
8	REVENUE ADJUSTMENT PER RUCO	$ 1,273											
9	GALLONS SOLD PER AVERAGE CUSTOMER	8,337	8,862	7,468	10,302	13,038	16,053	20,012	16,173	12,854	12,029	12,381	7,617
10	INCREASE IN CUSTOMERS	2	3	2	3	3	4	5	3	4	4	4	0
11	INCREASE IN GALLONS	16,673	26,587	14,936	30,906	39,113	64,211	100,061	48,519	51,415	48,114	49,523	0
12	TOTAL INCREASE IN GALLONS	490,058											
13	PUMPING COST PER GALLON	0.000687											
14	INCREASE IN PUMPING COST PER RUCO	337	Line 12 X Line 13										
15	INCREASE IN PUMPING COST PER COMPANY	82											
16	PUMPING COST ADJUSTMENT PER RUCO	$ 255											
17	WATER TREATMENT COSTS PER GALLON	0.000061											
18	INCREASE IN WATER TREATMENT COSTS PER RUCO	30	Line 12 X Line 17										
19	INCREASE IN WATER TREATMENT COST PER CO.	7											
20	WATER TREATMENT COST ADJUSTMENT PER RUCO	$ 23											
21	SOURCE OF SUPPLY COST PER GALLON	0											
22	INCREASE IN SOURCE OF SUPPLY COST	0											
23	INCREASE IN SOURCE OF SUPPLY COST PER CO.	2											
24	SOURCE OF SUPPLY ADJUSTMENT PER RUCO	$ (2)											
25	TRANSMISSION & DISTRIBUTION COST PER GALLON	0											
26	INCREASE IN TRANSMISSION & DISTRIBUTION COST	0											
27	INCREASE IN T & D COST PER CO.	57											
28	T & D ADJUSTMENT PER RUCO	$ (57)											
29	TOTAL INCREASE IN BILLS	37											
30	MONTHLY ACCOUNTING COST PER BILL	3.29											
31	INCREASE IN ACCOUNTING COST PER RUCO	122											
32	INCREASE IN ACCOUNTING COST PER COMPANY	39											
33	ACCOUNTING COST ADJUSTMENT PER RUCO	$ 83											

REFERENCES:
LINE #1 - COMPANY'S RATE FILING, BOOK 2 OF 2 - 2003 CUSTOMER COUNT
LINE #2 - COMPANY'S RATE FILING, BOOK 2 OF 2 - 2003 CUSTOMER COUNT
LINE #3 - LINE #1 MINUS LINE #2
LINE #4 - TOTAL MONTH REV. MINUS OTHER REV. LESS SALES TAX / TOTAL MONTHLY CUSTOMERS FOR TEST-YEAR
LINE #5 - LINE #3 MULTIPLIED BY LINE #4
LINE #6 - SUMMATION OF LINE #5
LINE #7 - COMPANY'S WORKPAPERS C2-5, RATE FILING - BOOK 1 OF 2
LINE #8 - LINE #6 MINUS LINE #7
LINE #9 - GALLONS SOLD / MONTHLY CUSTOMERS, COMPANY'S RATE FILING, BOOK 2 OF 2
LINE #10 - LINE #3
LINE #11 - LINE #9 X LINE #10
LINE #12 - SUMMATION OF LINE #11
LINE #13 - CO. W/P C2-5a, PAGE 3 OF 4
LINE #14 - LINE #12 X LINE #13
LINE #15 - COMPANY'S WORKPAPERS, W/P C2-5
LINE #16 - LINE #14 MINUS LINE #15
LINE #17 - CO. W/P C2-5a, PAGE 3 OF 4
LINE #19 - COMPANY'S W/P's, W/P C2-5, 2 OF 2
LINE #20 - LINE #18 MINUS LINE #19
LINE #21 - RUCO'S ANALYSIS
LINE #23 - CO. W/P C2-5a, PAGE 1 OF 4
LINE #25 - RUCO'S ANALYSIS
LINE #27 - CO. W/P C2-5a, PAGE 1 OF 4
LINE #29 - SUMMATION OF LINE #'s 3 OR 10
LINE #30 - CO. W/P C2-5a, PAGE 4 OF 4 / 12
LINE #31 - LINE #29 X LINE #30
LINE #32 - CO. W/P C2-5a, PAGE 1 OF 4
LINE #33 - LINE #31 MINUS LINE #32

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
OPERATING ADJ. #4 - PURCHASED POWER

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-12

LINE NO.	DESCRIPTION	
1	ACTUAL TEST YEAR PURCHASED POWER FROM APS	$ 17,489
2	TEST YEAR PURCHASED POWER FROM OTHER SERVICE PROVIDERS	-
3	TOTAL TEST YEAR PURCHASED POWER (LINE 1 + LINE 2)	$ 17,489
4	PERCENTAGE OF TEST YEAR PURCHASED POWER FROM APS (LINE 1 ÷ LINE 3)	100.00%
5	COMPANY PROPOSED LEVEL OF PURCHASED POWER EXPENSE (LINE 3 X LINE 4)	$ 17,409
6	TIMES: PERCENTAGE OF TEST YEAR PURCHASED POWER FROM APS (LINE 4)	100.00%
7	PERCENTAGE OF PURCHASED POWER SUBJECT TO APS INCREASE (LINE 5 X LINE 6)	$ 17,409
8	TIMES APS COMMERCIAL RATE INCREASE	3.50%
9	INCREASE IN APS PORTION OF PURCHASED POWER (LINE 7 X LINE 8)	$ 609

REFERENCES:
LINE 1: COMPANY WORKPAPER EL-2 PAGE 2 OF 2
LINE 2: COMPANY WORKPAPER EL-2 PAGE 2 OF 2
LINE 5: COMPANY APPLICATION SCHEDULE C1 PAGE 2 OF 3
LINE 8: ACC DECISION NO. 67744, DATED APRIL 7, 2005 - APS SETTLEMENT AGREEMENT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
OPERATING ADJ. #5 - DEPRECIATION AND AMORTIZATION EXPENSE

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-13

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	(A) ACTUAL TEST YEAR BALANCE PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED BALANCE	(D) COMPONENT DEPRECIATION RATES	(E) RUCO RECOMMENDED DEPRECIATION EXPENSE
1	301.0	INTANGIBLES: ORGANIZATION*	$ -	$ -	$ -	0.00%	$ -
2	302.0	INTANGIBLES: FRANCHISES*	-	-	-	0.00%	-
3	303.0	INTANGIBLES: MISC.*	-	-	-	0.00%	-
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	1,128	1	1,129	0.00%	-
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	-	-	-	0.00%	-
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	600	-	600	0.00%	-
7	314.0	SOURCE OF SUPPLY: WELLS	106,975	-	106,975	3.13%	3,348
8	320.0	PUMPING PLANT: LAND*	200	-	200	0.00%	-
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	1,243	0	1,243	2.86%	36
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	190,368	(1)	190,368	5.88%	11,194
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	-	-	-	4.00%	-
12	330.0	WATER TREATMENT PLANT: LAND*	-	-	-	0.00%	-
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	6,778	-	6,778	2.50%	169
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	13,763	-	13,763	2.86%	394
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	-	-	-	0.00%	-
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	-	-	-	0.00%	-
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	-	-	-	2.00%	-
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	40,876	-	40,876	2.00%	818
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	99,139	-	99,139	1.79%	1,775
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	268	-	268	2.00%	5
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	35,888	(2)	35,886	2.38%	854
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	17,035	3	17,038	4.55%	775
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	9,243	-	9,243	1.82%	168
24	389.1	GENERAL PLANT: LAND - OFFICE*	-	-	-	0.00%	-
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	-	-	-	0.00%	-
26	389.3	GENERAL PLANT: LAND - MISC.*	-	-	-	0.00%	-
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	-	-	-	2.50%	-
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	600	-	600	2.50%	15
29	390.3	GENERAL PLANT: MISC. BUILDINGS	712	-	712	2.50%	18
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	-	-	-	6.67%	-
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	-	-	-	6.67%	-
32	391.2	GENERAL PLANT: OFFICE FURNITURE	-	-	-	6.67%	-
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	-	-	-	5.00%	-
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	534	-	534	4.00%	21
35	395.0	GENERAL PLANT: LAB EQUIPMENT	-	-	-	5.00%	-
36	396.0	GENERAL PLANT: POWER EQUIPMENT	-	-	-	6.67%	-
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	-	-	-	6.67%	-
38	397.1	GENERAL PLANT: MOBILE RADIOS	-	-	-	6.67%	-
39	397.2	GENERAL PLANT: AUTO CONTROLS	76,676	-	76,676	6.67%	5,114
40	398.0	GENERAL PLANT: MISC.	534	-	534	3.33%	18
41							
42		TEST YEAR PLANT IN SERVICE TOTALS	$ 602,560	$ 2	$ 602,562		$ 24,722
43							
44		GROSS DEPRECIABLE PHOENIX OFFICE AND METER SHQP ALLOCATION	15,849	-	15,849		$ 775
45							
46		GROSS LEASHOLD IMPROVEMENTS	3,929	-	3,929 **		$ 199
47							
48		DEFERRED CAP CHARGES	-	-	-		$ -
49							
50		TEST YEAR TOTALS	$ 622,338	$ 2	$ 622,339		$ 25,696
51							
52							
53		LESS:					
54		AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION @ 2.00% COMPOSITE RATE ***					983
55							
56		TOTAL PRO FORMA DEPRECIATION & AMORTIZATION EXPENSE PER RUCO					$ 24,713
57							
58		DEPRECIATION & AMORTIZATION EXPENSE PER COMPANY					$ 24,713
59							
60		LESS:					
61		10-YEAR AMORTIZATION OF DEFERRED CAP CHARGES					-
62							
63		DEPRECIATION & AMORTIZATION EXPENSE PER COMPANY EXCLUDING 10-YEAR AMORTIZATION OF DEFERRED CAP CHARGES					$ 24,713
64							
65		DEPRECIATION & AMORTIZATION EXPENSE ADJUSTMENT (LINE 56 - LINE 63)					$ (0)

REFERENCES:
COLUMN (A): COMPANY SCHEDULE E-5 PAGE 1 OF 3
COLUMN (B): COLUMN (C) - COLUMN (A)
COLUMN (C): RUCO SCHEDULE WAR-4, PAGE 4
COLUMN (D): COMPANY SCHEDULE C-2, W/P C2-15b, PAGE 1 OF 4
COLUMN (E): COLUMN (C) x COLUMN (D)

NOTE:
* NON-DEPRECIABLE PLANT ASSETS
** PHOENIX OFFICE LEASEHOLD IMPROVEMENTS x ALLOCATION FACTOR = $1,267,373 x 0.0031 = $3,929
*** TEST YEAR ADJUSTED CIAC x 2.00% COMPOSITE RATE OF DEPRECIATION = $49,164 x 2.00% = $983

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
OPERATING ADJ. #6 - PROPERTY TAX EXPENSE

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-14

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUES - 2001	$ 127,255	COMPANY SCH. C-2, W/P C2-16a
2	REVENUES - 2002	132,766	COMPANY SCH. C-2, W/P C2-16a
3	REVENUES - 2003	129,811	COMPANY SCH. C-2, W/P C2-16a
4	TOTAL	$ 389,832	SUM LINES 1, 2, & 3
5	3 YEAR AVERAGE	$ 129,944	LINE 4/3 YEARS
6	MULTIPLIER FOR REVENUES (2 X LAST 3 YRS. AVERAGE REVENUE)	x 2	ADOR VALUATION FACTOR
7	REVENUES FOR FULL CASH VALUE	$ 259,888	LINE 5 X 2 (MULTIPLIER FOR REVENUES)
8	ADD: 10% OF CWIP BALANCE	999	COMPANY SCH. B-2, PG. 2; LINE 4 X 10%
9	LESS: LICENSED VEHICLES	242	COMPANY SCH. C-2, W/P C2-16a
10	FULL CASH VALUE	$ 260,645	LINE 7 + LINE 8 MINUS LINE 9
11	ASSESSMENT RATIO	25%	PER ADOR VALUATION METHOD
12	ASSESSED VALUE	$ 65,161	LINE 10 X LINE 11
13	PROPERTY TAX RATE	19.0662%	PER TAX BILLS
14	PROPERTY TAXES PAYABLE PER RUCO	$ 12,424	LINE 12 X LINE 13
15	PROPERTY TAXES PER COMPANY	13,290	COMPANY SCH. C-1, PG. 2
16	ADJUSTMENT	$ (866)	LINE 14 MINUS LINE 15

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
OPERATING ADJ. #7 - INCOME TAXES

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-15

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
	FEDERAL INCOME TAXES:		
1	OPERATING INCOME BEFORE INCOME TAXES	$ 35,381	SCH. WAR-9
	LESS:		
2	ARIZONA STATE TAX	1,954	LINE 11
3	INTEREST EXPENSE	7,332	NOTE (a)
4	FEDERAL TAXABLE INCOME	$ 26,094	LINE 1 - LINES 2 & 3
5	FEDERAL INCOME TAX RATE	15.00%	TAX RATE
6	FEDERAL INCOME TAX EXPENSE	$ 3,914	LINE 4 X LINE 5
7	FEDERAL INCOME TAXES PER COMPANY FILING	7,221	COMPANY SCH. C-1, PG. 2
8	RUCO FEDERAL INCOME TAX ADJUSTMENT	$ (3,307)	LINE 6 - LINE 7
	STATE INCOME TAXES:		
9	OPERATING INCOME BEFORE INCOME TAXES	$ 35,381	LINE 1
	LESS:		
10	INTEREST EXPENSE	7,332	NOTE (A)
11	STATE TAXABLE INCOME	$ 28,049	LINE 7 - LINE 8
12	STATE TAX RATE	6.968%	TAX RATE
13	STATE INCOME TAX EXPENSE	$ 1,954	LINE 9 X LINE 10
14	STATE INCOME TAXES PER COMPANY FILING	1,053	COMPANY SCH. C-1, PG. 2
15	RUCO STATE INCOME TAX ADJUSTMENT	$ 901	LINE 13 - LINE 14

NOTE (a):
INTEREST SYCHRONIZATION

ADJUSTED RATE BASE	$ 326,426
WEIGHTED COST OF DEBT	2.25%
	$ 7,332

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
COST OF CAPITAL

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-16

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) ADJUSTMENT	(C) ADJUSTED BALANCE	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	LONG-TERM DEBT	$ 22,200,000	$ -	$ 22,200,000	26.65%	8.43%	2.25%
2	SHORT-TERM DEBT	-	-	-	0.00%	0.00%	0.00%
3	COMMON EQUITY	61,116,374	-	61,116,374	73.35%	9.44%	6.92%
4	TOTAL	$ 83,316,374	$ -	$ 83,316,374	100.00%		9.17%

REFERENCES:
COLUMN (A): COMPANY SCH. D - 1
COLUMN (B): TESTIMONY, WAR
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): COLUMN (C) ÷ COLUMN (C), LINE 5
COLUMN (E): TESTIMONY, WAR
COLUMN (F): COLUMN (D) x COLUMN (E)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
PROPOSED RATES

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-17

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
1	**MONTHLY MINIMUM USAGE CHARGE:**			
2				
3	(RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS)			
4	5/8 X 3/4 - INCH	$14.50	$15.95	$15.00
5	1 - INCH	36.25	39.88	36.93
6	2 - INCH	116.01	127.60	120.01
7	3 - INCH	155.37	205.12	160.73
8	4 - INCH	207.16	313.26	214.30
9	6 - INCH	362.53	598.13	375.03
10	8 - INCH	362.53	837.38	375.03
11	10 - INCH	673.27	1,367.23	696.49
12				
13	**GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:**			
14				
15	RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS	1,000	0	0
16				
17	**TIER 1**			
18				
19	**COMMODITY RATE (PER 100 GAL. OVER MINIMUM) - 0 TO 4,000 GALLONS:**	$0.30140	$ 0.30160	$ 0.20000
20				
21	**COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 0 TO 4,000 GALLONS:**	$3.01400	$ 3.01600	$ 2.00000
22				
23	**TIER 2**			
24				
25	**COMMODITY RATE (PER 100 GAL. OVER MINIMUM) - OVER 4,000 GALLONS:**	$0.30140	$ 0.30160	$ 0.30140
26				
27	**COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 4,000 GALLONS:**	$3.01400	$ 3.01600	$ 3.01400

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
MONTHLY MINIMUM CHARGES

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-18

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO PROPOSED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	$ 14.50	$ 15.95	$ 1.45	10.00%	$ 15.00	$ 0.50	3.45%
2	1 - INCH	36.25	39.88	3.63	10.01%	36.93	0.68	1.88%
3	2 - INCH	116.01	127.60	11.59	9.99%	120.01	4.00	3.45%
4	3 - INCH COMMERCIAL	155.37	205.12	49.75	32.02%	160.73	5.36	3.45%
5	4 - INCH COMMERCIAL	207.16	313.26	106.10	51.22%	214.30	7.14	3.45%
6	6 - INCH	362.53	598.13	235.60	64.99%	375.03	12.50	3.45%
7	8 - INCH	362.53	837.38	474.85	130.98%	375.03	12.50	3.45%
8	10 - INCH	673.27	1,367.23	693.96	103.07%	696.49	23.22	3.45%
9	GALLONS INCLUDED IN MONHTLY MINIMUM CHARGE	1,000	0			0		

REFERENCES
COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
COLUMN (E): TESTIMONY WAR
COLUMN (F): COLUMN (E) - COLUMN (A)
COLUMN (G): COLUMN (F) ÷ COLUMN (A)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
BILLING ANALYSIS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-19

PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 1 - INCH	(C) 2 - INCH	(D) 3 - INCH	(E) 4 - INCH	(F) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	$14.50	$36.25	$116.01	$0.00	$0.00	$0.00	$0.00	$0.00
2	1,000	14.50	36.25	116.01	0.00	0.00	0.00	0.00	0.00
3	2,000	17.51	39.26	119.02	0.00	0.00	0.00	0.00	0.00
4	3,000	20.53	42.28	122.04	0.00	0.00	0.00	0.00	0.00
5	4,000	23.54	45.29	125.05	0.00	0.00	0.00	0.00	0.00
6	5,000	26.56	48.31	128.07	0.00	0.00	0.00	0.00	0.00
7	6,000	29.57	51.32	131.08	0.00	0.00	0.00	0.00	0.00
8	7,000	32.58	54.33	134.09	0.00	0.00	0.00	0.00	0.00
9	8,000	35.60	57.35	137.11	0.00	0.00	0.00	0.00	0.00
10	9,000	38.61	60.36	140.12	0.00	0.00	0.00	0.00	0.00
11	10,000	41.63	63.38	143.14	0.00	0.00	0.00	0.00	0.00
12	15,000	56.70	78.45	158.21	0.00	0.00	0.00	0.00	0.00
13	20,000	71.77	93.52	173.28	0.00	0.00	0.00	0.00	0.00
14	25,000	86.84	108.59	188.35	0.00	0.00	0.00	0.00	0.00
15	50,000	162.19	183.94	263.70	0.00	0.00	0.00	0.00	0.00
16	75,000	237.54	259.29	339.05	0.00	0.00	0.00	0.00	0.00
17	100,000	312.89	334.64	414.40	0.00	0.00	0.00	0.00	0.00
18	125,000	388.24	409.99	489.75	0.00	0.00	0.00	0.00	0.00
19	150,000	463.59	485.34	565.10	0.00	0.00	0.00	0.00	0.00
20	175,000	538.94	560.69	640.45	0.00	0.00	0.00	0.00	0.00
21	200,000	614.29	636.04	715.80	0.00	0.00	0.00	0.00	0.00
22									
23	AVG. NO. OF CUST:	208	6	3	N/A	N/A	N/A	N/A	N/A
24									
25	AVG. USE (GAL.):	9,934	11,854	43,069	N/A	N/A	N/A	N/A	N/A
26	MONTHLY BILL:	$41.43	$68.96	$242.81	N/A	N/A	N/A	N/A	N/A
27									
28	MEDIAN USE (GAL.) :	7,647	9,800	35,000	N/A	N/A	N/A	N/A	N/A
29	MONTHLY BILL:	$34.53	$62.77	$218.49	N/A	N/A	N/A	N/A	N/A

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
BILLING ANALYSIS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-19
PAGE 2 OF 4

RUCO PROPOSED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 1 - INCH	(C) 2 - INCH	(D) 3 - INCH	(E) 4 - INCH	(F) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	$15.00	$36.93	$120.01	$0.00	$0.00	$0.00	$0.00	$0.00
2	1,000	17.00	38.93	122.01	0.00	0.00	0.00	0.00	0.00
3	2,000	19.00	40.93	124.01	0.00	0.00	0.00	0.00	0.00
4	3,000	21.00	42.93	126.01	0.00	0.00	0.00	0.00	0.00
5	4,000	23.00	44.93	128.01	0.00	0.00	0.00	0.00	0.00
6	5,000	26.01	47.94	131.02	0.00	0.00	0.00	0.00	0.00
7	6,000	29.03	50.96	134.04	0.00	0.00	0.00	0.00	0.00
8	7,000	32.04	53.97	137.05	0.00	0.00	0.00	0.00	0.00
9	8,000	35.06	56.99	140.07	0.00	0.00	0.00	0.00	0.00
10	9,000	38.07	60.00	143.08	0.00	0.00	0.00	0.00	0.00
11	10,000	41.08	63.01	146.09	0.00	0.00	0.00	0.00	0.00
12	15,000	56.15	78.08	161.16	0.00	0.00	0.00	0.00	0.00
13	20,000	71.22	93.15	176.23	0.00	0.00	0.00	0.00	0.00
14	25,000	86.29	108.22	191.30	0.00	0.00	0.00	0.00	0.00
15	50,000	161.64	183.57	266.65	0.00	0.00	0.00	0.00	0.00
16	75,000	236.99	258.92	342.00	0.00	0.00	0.00	0.00	0.00
17	100,000	312.34	334.27	417.35	0.00	0.00	0.00	0.00	0.00
18	125,000	387.69	409.62	492.70	0.00	0.00	0.00	0.00	0.00
19	150,000	463.04	484.97	568.05	0.00	0.00	0.00	0.00	0.00
20	175,000	538.39	560.32	643.40	0.00	0.00	0.00	0.00	0.00
21	200,000	613.74	635.67	718.75	0.00	0.00	0.00	0.00	0.00
22									
23	AVG. NO. OF CUST:	208	6	3	N/A	N/A	N/A	N/A	N/A
24									
25	AVG. USE (GAL.):	9,934	11,854	43,069	N/A	N/A	N/A	N/A	N/A
26	MONTHLY BILL:	$40.88	$68.60	$245.77	N/A	N/A	N/A	N/A	N/A
27									
28	MEDIAN USE (GAL.) :	7,647	9,800	35,000	N/A	N/A	N/A	N/A	N/A
29	MONTHLY BILL:	$33.99	$62.41	$221.44	N/A	N/A	N/A	N/A	N/A

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
BILLING ANALYSIS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-19

RUCO PROPOSED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 1 - INCH	(C) 2 - INCH	(D) 3 - INCH	(E) 4 - INCH	(F) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	$0.50	$0.68	$4.00	$0.00	$0.00	$0.00	$0.00	$0.00
2	1,000	2.50	2.68	6.00	0.00	0.00	0.00	0.00	0.00
3	2,000	1.49	1.67	4.99	0.00	0.00	0.00	0.00	0.00
4	3,000	0.47	0.65	3.97	0.00	0.00	0.00	0.00	0.00
5	4,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
6	5,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
7	6,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
8	7,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
9	8,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
10	9,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
11	10,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
12	15,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
13	20,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
14	25,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
15	50,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
16	75,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
17	100,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
18	125,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
19	150,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
20	175,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
21	200,000	(0.54)	(0.36)	2.96	0.00	0.00	0.00	0.00	0.00
22									
23	AVG. NO. OF CUST:	208	6	3	N/A	N/A	N/A	N/A	N/A
24									
25	AVG. USE (GAL.):	9,934	11,854	43,069	N/A	N/A	N/A	N/A	N/A
26	MONTHLY BILL:	($0.54)	($0.36)	$2.96	N/A	N/A	N/A	N/A	N/A
27									
28	MEDIAN USE (GAL.) :	7,647	9,800	35,000	N/A	N/A	N/A	N/A	N/A
29	MONTHLY BILL:	($0.54)	($0.36)	$2.96	N/A	N/A	N/A	N/A	N/A

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
BILLING ANALYSIS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-19

RUCO PROPOSED CHANGES EXPRESSED AS A PERCENTAGE

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 1 - INCH	(C) 2 - INCH	(D) 3 - INCH	(E) 4 - INCH	(F) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	3.4%	1.9%	3.4%	$0.00	$0.00	$0.00	$0.00	$0.00
2	1,000	17.2%	7.4%	5.2%	0.00	0.00	0.00	0.00	0.00
3	2,000	8.5%	4.2%	4.2%	0.00	0.00	0.00	0.00	0.00
4	3,000	2.3%	1.5%	3.3%	0.00	0.00	0.00	0.00	0.00
5	4,000	-2.3%	-0.8%	2.4%	0.00	0.00	0.00	0.00	0.00
6	5,000	-2.0%	-0.7%	2.3%	0.00	0.00	0.00	0.00	0.00
7	6,000	-1.8%	-0.7%	2.3%	0.00	0.00	0.00	0.00	0.00
8	7,000	-1.7%	-0.7%	2.2%	0.00	0.00	0.00	0.00	0.00
9	8,000	-1.5%	-0.6%	2.2%	0.00	0.00	0.00	0.00	0.00
10	9,000	-1.4%	-0.6%	2.1%	0.00	0.00	0.00	0.00	0.00
11	10,000	-1.3%	-0.6%	2.1%	0.00	0.00	0.00	0.00	0.00
12	15,000	-1.0%	-0.5%	1.9%	0.00	0.00	0.00	0.00	0.00
13	20,000	-0.8%	-0.4%	1.7%	0.00	0.00	0.00	0.00	0.00
14	25,000	-0.6%	-0.3%	1.6%	0.00	0.00	0.00	0.00	0.00
15	50,000	-0.3%	-0.2%	1.1%	0.00	0.00	0.00	0.00	0.00
16	75,000	-0.2%	-0.1%	0.9%	0.00	0.00	0.00	0.00	0.00
17	100,000	-0.2%	-0.1%	0.7%	0.00	0.00	0.00	0.00	0.00
18	125,000	-0.1%	-0.1%	0.6%	0.00	0.00	0.00	0.00	0.00
19	150,000	-0.1%	-0.1%	0.5%	0.00	0.00	0.00	0.00	0.00
20	175,000	-0.1%	-0.1%	0.5%	0.00	0.00	0.00	0.00	0.00
21	200,000	-0.1%	-0.1%	0.4%	0.00	0.00	0.00	0.00	0.00
22									
23	AVG. NO. OF CUST:	208	6	3	N/A	N/A	N/A	N/A	N/A
24									
25	AVG. USE (GAL.):	9,934	11,854	43,069	N/A	N/A	N/A	N/A	N/A
26	MONTHLY BILL:	-1.3%	-0.5%	1.2%	N/A	N/A	N/A	N/A	N/A
27									
28	MEDIAN USE (GAL.) :	7,647	9,800	35,000	N/A	N/A	N/A	N/A	N/A
29	MONTHLY BILL:	-1.6%	-0.6%	1.3%	N/A	N/A	N/A	N/A	N/A

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
STANFIELD SYSTEM
REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR-20

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE	
1	5/8 X 3/4 - INCH	$37,365	$65,793	$ 103,158	
2	1 - INCH	2,659	2,295	4,954	
3	2 - INCH	4,320	4,575	8,896	
4	3 - INCH	0	0	0	
5	4 - INCH	0	0	0	
6	6 - INCH	0	0	0	
7	8 - INCH	0	0	0	
13	10 - INCH	0	0	0	
14					
15	TOTALS	$ 44,344	$ 72,663	$ 117,007	(a)
16					
17	PERCENTAGE OF TOTAL REVENUE	38.00%	62.00%	100.00%	

NOTE (a):

RUCO REQUIRED REVENUE		$ 132,809
LESS:		
FIRE SPRINKLER REVENUE	$ -	
FIRE HYDRANT REVENUE	-	
MISCELLANEOUS REVENUE	14,676	
RENT - WATER PROPERTY REVENUE	-	
OTHER WATER REVENUE	1,126	
TOTAL		$ 15,802
REVENUE TO BE GENERATED FROM WATER SALES		$ 117,007

EXHIBIT
R-32
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
CHAIRMAN
WILLIAM A. MUNDELL
COMMISSIONER
MARC SPITZER
COMMISSIONER
MIKE GLEASON
COMMISSIONER
KRISTIN K. MAYES
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS	Docket No. W-01445A-04-0650

NOTICE OF ERRATA

The Residential Utility Consumer Office ("RUCO") hereby files an errata to the Surrebuttal Testimony of William A. Rigsby filed May 25, 2005.

RESPECTFULLY SUBMITTED this 16th day of June, 2005.

Daniel W. Pozefsky
Attorney

AN ORIGINAL AND THIRTEEN COPIES
of the foregoing filed this 16th day
of June, 2005 with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

COPIES of the foregoing hand delivered/
mailed this 16th day of June, 2005 to:

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Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Christopher Kempley, Chief Counsel
Legal Division
Arizona Corporation Commission
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Phoenix, Arizona 85007

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Utilities Division
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Scottsdale, Arizona 85251

By Cheryl Fraulob
Cheryl Fraulob

Delete, Page 11, line 5 through line 28

..... Nowhere in Decision No. 62993 is there any language that adopts any of the recommendations or views presented in the ACC Staff report or concludes that the recommendations constitute official ACC policy. Nor is there an ordering paragraph that actually orders Commission Staff to implement any of the recommendations contained in the ACC Staff report. In the final section of the decision, titled "Conclusions of Law," the Decision states the following:

1. The Commission as a regulatory body with the longest history and the primary responsibility over private water companies should take the lead in seeking a coordinated solution to the problems of small water companies.
2. The Commission arranged for the formation of the Task Force for meetings between representatives of regulatory agencies, the water providers, and water consumers in order to address these issues.
3. The Task Force has issued a report that summarizes the views of its members.

Mr. Garfield and Ms. Hubbard's testimony completely distorts the intent of Decision No. 62993 and should be given no weight.

Insert,

While the Commission appears to have approved Staff's recommendations, Staff recommended that the cost recovery for unused CAP water should be considered on a case by case basis. The Decision

refers to the Vail water case (Decision No. 62450) as an example of the policy that Staff advocates. In that case, the Company was utilizing the CAP allotment for which it was requesting recovery. Consistent with Decision No. 62993, the Commission has considered recovery of deferred CAP costs on a case by case basis and to date has restricted recovery to used and useful CAP water.

Delete, Page 12, line 20 through page 13 line 2

....However, none of these plants exist at this time. Therefore, his testimony is completely irrelevant since the ACC did not set any CAP recovery policy pursuant to Decision No. 62993. In fact, his testimony only reinforces my argument that the recovery of CAP charges should be delayed until the Company is actually providing treated CAP water to the three affected systems.

Insert,

Mr. Whitehead's testimony only reinforces my argument that the recovery of CAP charges should be delayed until the Company is actually providing treated CAP water to the three affected systems.

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

MAR 19 2004

AZ CORPORATION COMMISSIO
DIRECTOR OF UTILITIES

Arizona Corporation Commission
DOCKETED

MAR 19 2004

DOCKETED BY

COMMISSIONERS

MARC SPITZER, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.

DOCKET NO. W-01445A-02-0619

DECISION NO. 66849

OPINION AND ORDER

DATES OF HEARING: March 31, 2003 and September 17, 2003 (pre-hearings), September 22, 23, 24, 25 and 26, 2003, December 8, 2003 (oral argument)

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Dwight D. Nodes

IN ATTENDANCE: Mike Gleason, Commissioner

APPEARANCES: Mr. Jay Shapiro and Mr. Norman James, FENNEMORE CRAIG, on behalf of Arizona Water Company;

Mr. Daniel Pozefsky on behalf of the Residential Utility Consumer Office;

Ms. Kay Bigelow, City Attorney, on behalf of the City of Casa Grande;

Mr. Robert Skiba, in propria persona; and

Mr. Timothy J. Sabo and Mr. Gary Horton, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

I. INTRODUCTION

On August 14, 2002, Arizona Water Company ("Arizona Water," "Company" or Applicant") filed an application with the Arizona Corporation Commission ("Commission") for a rate increase for the Company's Eastern Group systems. Arizona Water supplies water to approximately 60,000 customers in eight Arizona counties under 18 separate water systems. The rate application filed in

EXHIBIT
S-1
administrative notice

this docket involves only the Company's Eastern Group, which serves approximately 29,000 customers in the Apache Junction, Bisbee, Miami, Oracle, San Manuel, Sierra Vista, Superior, and Winkelman systems.

Arizona Water's current rates and charges for the Eastern Group were authorized in Decision No. 58120 (December 23, 1992), and became effective January 1, 1993. The service charges were later modified in Decision No. 60512 (December 3, 1997). The Company's purchased power adjustor mechanisms ("PPAMs") were changed in Decision No. 58293 (May 19, 1993) and Decision No. 62755 (July 25, 2000). The Monitoring Assistance Program ("MAP") surcharge was established in Decision No. 62141 (December 14, 1999).

The Commission's Utilities Division Staff ("Staff") filed a letter of insufficiency on September 13, 2002. Following supplementation by Arizona Water, the application was found sufficient on October 11, 2002. On October 23, 2002, a Rate Case Procedural Order was issued setting this matter for hearing on June 23, 2003.

On February 27, 2003, Staff filed a Motion to Continue all Procedural Deadlines, Continue Hearing, and for Tolling of the Rate Case Time Clock. Staff sought additional time to permit an analysis of the Company's request for inclusion of post-test year plant for the 12 months following the end of the December 31, 2001 test year. During oral argument on the Motion, Arizona Water indicated that it would agree to the extension of time to allow analysis of post-test year plant if the only alternative was to forego consideration of such plant additions. A Second Rate Case Procedural Order was issued on March 14, 2003 setting a revised hearing date of September 22, 2003. Accordingly, the time clock for a final Commission decision was extended.

Intervention was granted to the Residential Utility Consumer Office ("RUCO"), Superstition Mountain, LLC, and Mr. Robert Skiba. Arizona Water, Staff, RUCO, and Mr. Skiba filed testimony supporting their respective positions in this proceeding. By agreement, Mr. Skiba's testimony was entered into the public comment section of the docket. Public comment hearings were conducted by Commissioners on August 18, 2003 in San Manuel, on August 19, 2003 in Bisbee, and on August 28, 2003 in Apache Junction. Evidentiary hearings were conducted in Phoenix on September 22, 23, 24, 25, and 26, 2003. Closing briefs were filed on October 31, 2003 and reply briefs were filed on

November 10, 2003. An oral argument was held on December 8, 2003.

A. Rate Application

According to the Company's revised schedules, in the test year ended December 31, 2001, Arizona Water's Eastern Group had adjusted operating income of $1,969,034 on an adjusted original cost rate base of $39,123,198, a 5.03 percent rate of return. Arizona Water requests a revenue increase of $4,303,552, for an 11.00 percent rate of return on its proposed original cost rate base of $39,123,198. The Company's request would increase revenue by approximately 26.01 percent for the Eastern Group.

II. RATE BASE

A. Plant in Service and Post-Test Year Plant Additions

Arizona Water proposes a revised Eastern Group fair value rate base of $39,123,198 (Ex. A-13, at SLH-RJ2, p.1; Ex. A-19). The Company's rate base proposal includes recommended gross and net plant in service of $84,722,378 and $66,477,550, respectively, for the Eastern Group (Ex. A-19). Although the amount of gross plant in service is no longer in dispute between the Company and Staff (Tr. 982-983), there continues to be disagreement regarding net plant in service due to Staff's proposed adjustments to accumulated depreciation. There is also disagreement between Arizona Water and RUCO due to RUCO's position that actual cost information should be used for considering post-test year plant in service additions.

As indicated above, the hearing and time clock in this proceeding were extended to enable Staff and RUCO the opportunity to analyze Arizona Water's post-test year plant additions. Based on Commission precedent, including Arizona Water's Northern Group rate case (Decision No. 64282), Staff agrees that post-test year plant additions for up to one year may be included in rate base. The Company seeks $3,349,416 for post-test year plant to be included in this proceeding, based on plant that was in service prior to December 31, 2002 (Tr. 736-740; 983).

RUCO recognizes that the Commission has in the past allowed post-test year plant to be included and recommends that, if the Commission follows that precedent in this case, it should also consider the actual matching of post-test year expenses, revenues, and rate base elements including plant additions financed by contributions in aid of construction ("CIAC") and advances in aid of

construction ("AIAC") (Tr. 724-725). RUCO points out that this proceeding is unique in that the extension of the hearing date granted by the Commission allowed RUCO time to obtain and analyze the Company's "actual" 2002 operating results (RUCO Ex. 3, at 16). Thus, unlike most rate cases where pro forma adjustments must be made, RUCO contends that the actual known and measurable information should be used.

Arizona Water argues that RUCO's proposal would result in a "projected" test year. According to the Company, RUCO's recommendation is simply an attack on the Commission's policy of including post-test year plant as long as the plant is revenue neutral (*i.e.*, intended to provide service to customers existing at the end of the test year) and the plant is completed and placed in service a reasonable time before the hearing so that the plant can be inspected and audited. *See, e.g.*, *Bella Vista Water Co.*, Decision No. 65350 (November 1, 2002); *Paradise Valley Water Co.*, Decision No. 61831 (July 20, 1999); *Far West Water Co.*, Decision No. 60437 (September 29, 1997). The Commission also granted inclusion of 12 months of post-test year plant in Arizona Water's most recent rate case involving the Company's Northern Group systems. Decision No. 64282 (December 28, 2001), at 2-5.

The Commission's rules require that the test year selected by a rate applicant for determining rate base, operating income, and rate of return to be "the most recent practical date available prior to the filing." A.A.C. R-14-2-103(A)(3)(p). However, the Commission has in the past allowed consideration of known and measurable post-test year data, generally for no more than 12 months after the end of the test year. Decision No. 64282, at 5. Although RUCO contends that adoption of the Company's position would result in a mismatch (because it claims post-test year plant was financed with CIAC), Company witness Hubbard testified that RUCO's contention is inaccurate (Ex. A-13, at 18-19). According to Ms. Hubbard, Arizona Water did not include any post-test year additions that constitute CIAC or AIAC and, therefore, it would be improper to accept RUCO's attempt to manipulate the Company's rate base by including post-test year CIAC, AIAC, accumulated depreciation, and deferred taxes, because those items are not related to Arizona Water's post-test year plant additions (Id.; Ex. SLH-RJ6). Ms. Hubbard testified that this information was provided to RUCO through a data request response prior to the beginning of the hearing (Id.).

We agree with Arizona Water that the evidence does not support RUCO's contention that post-test year plant was financed by CIAC or AIAC. RUCO's witness conceded that the so-called "matching principle" proposal in this case is similar to the approach advocated by RUCO in the Company's Northern Group case, which was rejected by the Commission (Tr. 748-749). In this proceeding, Arizona Water and Staff recommend using the formula adopted by the Commission in prior cases whereby the historical test year is adjusted by pro forma annualization and normalization adjustments for known and measurable changes subsequent to the test year. Contrary to RUCO's claims, we do not believe adoption of this method would result in a mismatch because the post-test year plant additions are revenue neutral (i.e., not funded by CIAC or AIAC). Rather, the pro forma adjustments related to post-test year plant additions, including appropriate adjustments for accumulated depreciation (see discussion below) and depreciation expense, will recognize the post-test year plant as if it were in service as of the end of the test year. Consistent with our treatment of post-test year plant in prior cases, including Arizona Water's most recent Northern Group proceeding, we decline to accept RUCO's arguments in this case.

1. Accumulated Depreciation

In calculating accumulated depreciation, Arizona Water uses the "half-year convention" of depreciation. Under this convention, plant additions during the year are assumed to be made on June 30 or July 1, resulting in a half-year's depreciation in the first year and a half-year's depreciation in the year the plant is retired (Ex. A-11, at 10). This convention was approved in the Company's last rate case for the Eastern Group systems (Decision No. 58120, at 5-6). In this case, Arizona Water followed the half-year convention on its books but seeks recovery of a full 12 months of depreciation for ratemaking purposes. The Company claims that this pro forma adjustment ensures proper matching of the amount added to the accumulated depreciation balance and the amount of depreciation expense to be recovered in rates (Ex. A-11, at 31-32). Arizona Water argues that its pro forma depreciation adjustments properly recognize the known and measurable change in test year operating expense levels that will result from additional depreciation on plant not previously included in test year depreciation expense. As a result, the Company contends that its pro forma depreciation expense adjustments and corresponding adjustments to the accumulated depreciation are identical.

According to Company witness Sheryl Hubbard, Arizona Water's pro forma adjustment to plant in service for non-revenue producing post-test year plant is merely an attempt to enable the Company an opportunity to earn a fair rate of return on investments to serve test year-end customers (Ex. A-12, at 6). Ms. Hubbard stated that if an additional year of depreciation is used to reduce the Company's rate base, its ability to earn a return on the post-test year additions is diminished (Id.).

Staff's recommendation is that the level of accumulated depreciation should be updated to the end of 2002 to reflect the addition of post-test year plant. Staff witness Ron Ludders testified that because rate base is determined at a given point in time, related accounts including depreciation should be treated in a comparable manner (Tr. 985-987). He indicated that failure to match the plant and accumulated depreciation dates will result in an overstatement of plant in service. He claims that the Company's recommendation violates its half-year convention.

Consistent with our decision in Arizona Water's Northern Group case (Decision No. 64282), we agree with Staff that it is appropriate to reflect an additional year in the depreciated accumulation balance because the Company included an additional year of plant beyond the test year (Tr. 985-986). As we stated in Decision No. 64282, "it is necessary to reconcile the accumulated depreciation with the same cut-off date as was used for the post-test year plant" (*Id.* at 6). We agree with Staff that Arizona Water's proposal would create a mismatch by measuring rate base and accumulated depreciation at different points in time. Absent reconciliation between accumulated depreciation and test year plant, the Company's shareholders will realize a windfall at the expense of ratepayers. We will therefore adopt Staff's accumulated depreciation recommendation.

2. Working Capital

Arizona Water is seeking a total working capital allowance of $923,871 for its Eastern Group consisting of cash working capital, materials and supplies inventory, required bank balances, and prepayments and special deposits (Ex. A-14). Only the cash working capital component is disputed in this proceeding. The Company points out that the cash working capital component is generally determined by one of three methods: 1) a lead/lag study measuring the amount of time before expenses must be paid compared with the amount of time before revenues are received; 2) the formula method based on one-eighth of a company's annual operating and maintenance expenses; or

3) a balance sheet method which represents the difference between a utility company's current assets and liabilities.

As we stated in the Company's Northern Group case, the lead/lag methodology is generally more accurate than the formula method and is the appropriate method for a utility the size of Arizona Water (Decision No. 64282, at 7). In this proceeding, the parties do not dispute that lead/lag is the appropriate method to be used for determining cash working capital. There remains a dispute between the Company and Staff regarding the proper number of lag days to be used for calculating the property tax component of the working capital allowance. Arizona Water and RUCO also disagree regarding calculation of the income tax component of working capital. These disputed issues are addressed below.

a. Property Tax Component

The lead/lag method utilized by all parties in this case requires a calculation of the lead days or lag days that exist between the time an expense is due and paid (Ex. A-12, at 9; Ex. A-13, at 7). The dispute between Arizona Water and Staff relates to the appropriate number of lag days used to determine the property tax component of the working capital allowance. Arizona Water proposes using an average of 212 lag days[1], while Staff contends that a lag period of 532 days is appropriate (Tr. 497, 1011, 1022).

The lag day dispute centers on the interpretation of when the Company's property taxes are assessed. Ms. Hubbard explained that although the Arizona Department of Revenue ("ADOR") prepares a notice of valuation one year prior to any given tax year, the actual assessment of property taxes occurs during the tax year through issuance of county tax bills (Tr. 396; Ex. A-21; Ex. A-13, at SLH-RJ7). The Company argues that the notice of valuation from ADOR represents a preliminary indication of the value of property subject to taxation, but does not establish an amount of the Company's tax liability. Arizona Water claims that ADOR never assesses property tax liability but, instead, simply values the utility's property, and that valuation remains subject to challenge. Ms. Hubbard stated that the first property tax payment is due in October of the tax year and the second

[1] RUCO also proposes using 212 lag days.

payment is due in March of the following year (Ex. A-13, at 7-8). Thus, the Company contends that the average of 212 lag days should be utilized for determining the property tax component of working capital (Ex. A-21).

In support of its 532 lag day recommendation, Staff claims that the appropriate starting point is the time that Arizona Water receives its valuation notice from ADOR, rather than the date that the Company receives its property tax bill. According to Staff witness Ludders, Arizona Water accrues property taxes on its books once it receives the valuation notice from ADOR. Staff asserts that although the amount of tax due is not listed on the valuation notice, the property tax liability can be calculated from the valuation notice. Mr. Ludders analogizes the valuation liability to a credit card debt that exists once an item is charged, although payments of the charges are not due at that time (Tr. 1012). Mr. Ludders conceded that the Commission used a 212 day lag period in the Northern Group case, but he claims that the Commission likely did not understand that the current ADOR valuation methodology was already in effect at that time (Tr. 1025-1026). Mr. Ludders also testified that Staff's understanding of the ADOR valuation methodology has improved based on conversations with ADOR since the Northern Group case was decided (Id. at 1104).

We agree with the Company and RUCO that 212 days is the appropriate lag period for calculating the property tax component for cash working capital. There has not been any substantive change in the valuation or assessment methodology by state or county entities since the Northern Group proceeding where we adopted 212 lag days for this issue. As the Company points out, the valuation notice from ADOR is useful only for determining a value of the property for which property taxes are to be assessed. That valuation does not, however, obligate the Company to pay any specific amount at that time; nor does the valuation even indicate how much is due since that determination is made subsequently by the individual county in which the property is located. We therefore adopt 212 lag days for calculating the property tax component of working capital.

b. Income Tax Lag Days

Arizona Water records its federal and state income tax liability on a monthly basis, although the Company pays 90 percent of that income tax liability on a quarterly basis (Ex. A-13, at 20). RUCO claims that the Company incorrectly used an income tax lag of 2.52 days rather than 61.95

days. RUCO witness Coley stated that, because the Internal Revenue Service requires quarterly payment of taxes rather than monthly, the Company's monthly payment calculation should be increased to reflect a longer lag period (RUCO Ex. 5, at 26-27).

Company witness Hubbard disputes RUCO's argument. She contends that the lead/lag methodology requires a calculation of the lead days or lag days that exist between the time an expense is recorded and the payment of such expenses. Ms. Hubbard claims that the Company's calculation of the lag associated with the payment of federal income taxes recognizes the lag reflected by quarterly payment of 90 percent of the liability, as well as the lag associated with the payment of the remaining ten percent of the liability made in March of the subsequent year. According to Ms. Hubbard, RUCO's calculation of 61.95 days is based on the incorrect assumption that payments are made annually.

Based on Company witness Hubbard's testimony, we will adopt 2.52 lag days for determining the income tax component of cash working capital. As Ms. Hubbard explained, it appears that RUCO's calculation relies on the erroneous assumption that income tax payments are made on an annual basis. Since the Company records the tax liability on a monthly basis, but pays 90 percent of the liability on a quarterly basis, we will adopt Arizona Water's calculation of 2.52 lag days.

B. <u>Deferred CAP M&I Capital Charges</u>

In this proceeding, Arizona Water seeks to reduce significantly the currently authorized amortization period, from 44 years to 3 years, for recovery of Central Arizona Project ("CAP") Municipal and Industrial ("M&I") capital charges. Ms. Hubbard testified that pursuant to the Company's 1985 contract with the United States Bureau of Reclamation and the Central Arizona Water Conservation District ("CAWCD"), Arizona Water purchases CAP water for use in its Apache Junction system (Ex. A-11, at 10). At the time of the Company's last rate case involving the Eastern Group systems (Decision No. 58120), Arizona Water was taking only limited deliveries of CAP water for delivery to potable water customers in Apache Junction. In that Decision, the Commission authorized Arizona Water to defer its pre-1991 CAP M&I capital charges over a 44-year period (Tr. 448-449). Since that time, the Company began taking increased deliveries of CAP water for both potable and non-potable uses, and the CAP M&I charges have continued to be deferred for future

recovery in a rate case. In this case, the Company seeks recovery of $691,522 in rate base for the deferred CAP M&I capital charges (Ex. A-13, at Ex. SLH-RJ2, p. 1 of 9)[2].

The disputed issue raised by both Staff and RUCO is the Company's request to recover the CAP M&I charges based on a 3-year amortization period, rather than the currently authorized 44-year period. The Company's 3-year amortization proposal is based on the expected interval between this proceeding and the next rate case involving the Apache Junction system (Ex. A-11, at 12). RUCO recommends a 10-year amortization period based on the period of time over which Arizona Water has been deferring CAP M&I charges since the last rate case (RUCO Ex. 3, at 27). Staff recommends a 32-year amortization period based on the remaining life of the CAP contract (Tr. 1033). According to Staff witness Ludders, the 32-year remaining life amortization is appropriate because it is consistent with Generally Accepted Accounting Principles ("GAAP"), because the CAP contract provides a future benefit to the Company and it is based on the currently authorized amortization period (Id. at 1033-1034).

We believe that RUCO's recommendation of a 10-year amortization period provides a reasonable resolution of this issue. As the Company points out, at the time the prior 44-year amortization period was approved, many providers, including Arizona Water, had not yet begun to take significant amounts of CAP water and no consistent policy on recovery had been developed by the Commission. However, the Company is now using its CAP allocation and it is reasonable to allow amortization over the same period in which the costs were incurred. This approach is consistent with our decision several years ago in Citizens Utilities Company's (now Arizona-American Water Company's) Sun City and Sun City West districts, wherein the Commission adopted Staff's recommendation to approve a 5-year amortization period based on the period of time over which the CAP M&I capital costs were deferred. Decision No. 62293 (February 1, 2000), at 8.

C. Summary of Rate Base Adjustments

Based on the foregoing discussion, we adopt an adjusted OCRB for the Eastern Group of $35,944,611, as shown on the attached Exhibit A. Arizona Water agreed to use the OCRB as the Fair

[2] This amount includes $645,207 for amounts deferred since the last rate case and $46,315 for CAP M&I capital charges associated with the unamortized balance of deferred charges authorized in Decision No. 58120 (Tr. 422-423). CAP M&I charges incurred on a going-forward basis would be recovered as operating expenses (Ex. A-11, at 15-16).

Value Rate Base for purposes of this proceeding. We therefore adopt $35,944,611 as the Fair Value Rate Base for Arizona Water's Eastern Group.

III. OPERATING INCOME

The test period in this proceeding is the 12 months ended December 31, 2001. Arizona Water, Staff, and RUCO have analyzed the Company's accounts for the test year and have recommended adjustments to the actual operating results. RUCO argues that the Commission should not use the Company's proposed post-test year adjustments for either rate base, as discussed above, or for determining operating income expense issues. Rather, RUCO recommends using the actual expense levels for 2002, consistent with its argument regarding inclusion of actual data for post-test year plant (RUCO Ex. 5, at 27). RUCO points out that the Company was the source of the actual 2002 expense information (Tr. 415).

Ms. Hubbard contends that using 2002 unadjusted actual data "is inappropriate because there are (sic) no normalizing analysis performed on the numbers, no annualizing expense levels performed on those expense levels. No analysis of whether, like, an expense has been recorded in a wrong account." (Tr. 414-415). She also testified that RUCO's recommended expense levels are based on a different level of customers than were taking service at the end of the test year. Ms. Hubbard's final justification for rejecting RUCO's proposal is that the data given to RUCO has not been analyzed by the parties with the same level of detail that typically would occur in the context of a rate case filing (Id. at 415-416).

Although we agree with RUCO that rates should reflect the most accurate information possible, for the reasons stated previously we believe the methodology advocated by the Company and Staff properly reconciles post-test year plant with test year revenues and expenses. Pursuant to the Commission's rules, Arizona Water is required to base its filing on an historical test year rather than a projected test year. It is therefore appropriate to recognize test year operating expense and revenue levels, subject to pro forma adjustments to recognize known and measurable changes to the test year levels (*See*, A.A.C. R14-2-103A.3.i.). Although the data used by RUCO to support its position was supplied by the Company through discovery requests, that information has not been audited by Staff and the other parties with the level of scrutiny that is employed in the analysis of a

rate case filing. Thus, it would be inappropriate to use the raw data advocated by RUCO as the basis for setting rates in this proceeding. Accordingly, we will adopt the methodology proposed by the Company and Staff for purposes of establishing revenues and expenses.

Adjustments made by the Company that have not been challenged by the other parties will not be discussed. The following contested issues remain to be resolved.

A. **Revenue Annualization**

There is no dispute that pro forma adjustments to actual test year revenues and expenses are necessary to account for additional customers added during the course of the test year (Ex. A-11, at 24-25). According to Ms. Hubbard, the test year average number of Eastern Group customers was 28,636, while the end of test year customer count totaled 29,236 (Id.). Arizona Water determined the average revenue per customer using only the 5/8-inch metered customers because that class of customers comprised 98 percent of all customer growth during the test year (Ex. A-12, at 16).

Staff claims that the Company's proposed revenue annualization results in a mismatch because it measures expenses by using total expenses and measures revenue by looking only at 5/8 inch residential customers (Ex. S-44, at 9-10). Although the Company corrected this mismatch error by also calculating expenses related only to 5/8-inch customers (Ex. A-13, at 11), Staff contends that the Company's allocation of expenses was not based on a cost of service study and should therefore be disregarded (Tr. 450, 1056-1058). Mr. Ludders testified that Staff's revenue annualization proposal should be accepted because it does not result in a mismatch of revenue and expense allocations (Id. at 1056-1058).

We believe Arizona Water's revenue annualization proposal results in the most accurate reflection of revenue growth for the Eastern Group. Although Staff argues that a cost of service study is required to properly match revenues and expenses, the Commission has in the past accepted revenue annualization without such a study (*See, e.g.*, Decision No. 64282, at 10). We agree with Arizona Water that Staff's recommendation, which averages revenue increases to all customer classes, results in an overstatement of revenue because it does not recognize that the vast majority of growth occurred in the 5/8-inch residential class. We therefore adopt Arizona Water's revenue annualization recommendation.

B. Purchased Power and Purchased Water Adjustment Mechanisms

The Commission approved purchased power and water adjustment mechanisms in the last rate case for Arizona Water's Eastern Group (Ex. A-11, at 22). The Company currently purchases electric power from several different providers for pumping in the Eastern Group systems, and recovers those costs pursuant to a Purchased Power Adjustment Mechanism ("PPAM") (Ex. A-12, at 17). Arizona Water also has in place for the San Manuel and Superior systems a Purchased Water Adjustment Mechanism ("PWAM") under which the Company passes through purchased water costs to customers in those systems (Tr. 453). Ms. Hubbard testified that the adjustment mechanisms allow the Company to recover operating expenses that are outside of its control, and that the PPAM and PWAM protect both ratepayers and shareholders because they are revenue neutral to the Company (Ex. A-13, at 12).

RUCO does not oppose continuation of these adjustment mechanisms. However, Staff recommends that both the PPAM and PWAM should be discontinued[3]. With respect to the PPAM, Staff witness Ludders testified that Arizona Water is the only water utility that still uses a PPAM and that such adjustors should be used only "where power costs are by far the largest single cost item and are highly volatile" (Ex. S-46, at 7; Tr. 1060). The PWAM applies only to the San Manuel and Superior systems. Mr. Ludders stated that purchased water for the Superior system is less than one-half of one percent of operating revenues (Tr. 1061). The San Manuel system has no wells and purchases all of its water from the BHP Copper Company ("BHP") (Id. at 1062). Although Arizona Water has discussed buying the BHP wells, the Company has not discussed such a purchase with BHP recently (Tr. 84-87).

We agree with Staff that PPAM and PWAM adjustment mechanisms should be discontinued. Although Arizona Water argues that such mechanisms benefit both the Company and ratepayers by passing on increased costs and savings, adjustment mechanisms may also provide a disincentive for the Company to obtain the lowest possible cost commodity because the costs are simply passed through to ratepayers. Moreover, the record does not suggest that purchased power costs are a

[3] Arizona Water also seeks approval of a Monitoring Assistance Program ("MAP") adjustor and an Arsenic Cost Recovery Mechanism ("ACRM") adjustor (See ACRM discussion below). Staff does not oppose approval of the MAP and ACRM adjustment mechanisms.

significant portion of the Company's expenses, or that electricity costs are particularly volatile. With respect to purchased water expenses, the Superior system purchases only a small portion of its water supply[4] and there is no evidence that the San Manuel system is expected to incur any significant increases or decreases in purchased water costs in the near future. Therefore, Arizona Water's purchased power and purchased water adjustment mechanisms should be discontinued.

C. **Rate Case Expense**

Arizona Water requests recovery of $329,550 for rate case expenses that the Company claims are based on actual expenses it is incurring related to this proceeding (Tr. 513; Ex. A-18). Although the total amount is partially estimated, the Company contends that it has incurred actual rate case expenses of more than $276,000 through November 7, 2003 (See Updated Data Response REL 25-2, Attached to Arizona Water's Reply Brief). The largest expenditures to date are for outside legal counsel ($182,808), an outside consultant to perform a cost of capital study ($68,000), and payroll overheads ($23,875) (Id.). In support of its proposal, Arizona Water contends that rate cases are much more complex than they were in prior years and that the Company's in-house counsel has many other duties that do not permit him to litigate rate cases (Tr. 305).

Staff argues that Arizona Water's rate case expense is exorbitant and should be reduced. Staff points out that the estimated rate case expense has increased steadily over the course of this case and that rate case expense in the Company's 1990 rate case was only $52,053 (Tr. 1048). Staff claims that Arizona Water has failed to justify its heavy use of outside attorneys and consultants, compared to the prior case where those functions were performed by in-house personnel. Staff also notes that rate case expense for the Northern Group case was only $217,000 (Tr. 463).

RUCO argues on brief that it did not oppose the Company's original rate case expense estimate of $257,550, but now opposes the increased estimate of costs. RUCO opposes allowing the Company to continue to update its rate case expenses because it believes such a policy would encourage abuse and saddle ratepayers with unreasonable expenditures.

Although we do not believe it is unreasonable for Arizona Water to retain outside counsel or

[4] The Superior system is expected to be physically interconnected to the Apache Junction system within two years.

consultants to prepare and litigate its rate case filings, at some point the costs associated with retaining those services must be mitigated. Staff points out that the Company's 1990 rate case for all of its systems was prepared exclusively by in-house personnel at a cost of just over $50,000. Although that case was considered a number of years ago, the current estimate of more than $329,000 far exceeds the prior amount. A more analogous case is the recent Northern Group proceeding in which the Commission approved rate case expense in the amount of $217,000 (Decision No. 64282, at 16). As a justification of the higher costs in this case, the Company claims that the instant proceeding involves eight separate systems, while the Northern Group case addressed only five systems. However, the number of systems does not justify the magnitude of increased expenses sought by Arizona Water. Moreover, the extension of the hearing date and concomitant increase in Arizona Water's rate case expenses, were due to the Company's decision to request inclusion of post-test year plant.

Based on our review of the complexity of this proceeding, the number of systems involved in the Eastern Group rate request, and a comparison of other cases, we believe that rate case expense in the amount of $250,000 is reasonable for this proceeding. Consistent with the Northern Group case, rate case expense will be amortized over three years.

D. <u>CIAC Amortization</u>

Staff recommends that Arizona Water's CIAC amortization should be calculated consistent with the Company's 1990 rate case and the Northern Group rate case. Mr. Ludders testified that Staff calculates the composite depreciation rate by dividing each depreciation expense by its depreciable plant. For CIAC, Staff's calculation resulted in an amortization rate of 2.34 percent (Ex. S-46, at 11).

Arizona Water argues that Staff miscalculated the CIAC amortization rate because it calculated a composite depreciation rate, which is inconsistent with the individual component depreciation rates that the Company will be required to use on a going-forward basis. The Company claims that neither Decision No. 58120 nor Decision No. 64282 discusses the methodology to be used in determining the CIAC amortization rate. However, in the Northern Group case, the Commission directed the Company to implement component depreciation rates in its next rate application (Decision No. 64282, at 11-12). Arizona Water asserts that a composite rate for contributed plant

should be based on the annual depreciation associated with the individual plant accounts that include contributed plant, in order to match the CIAC amortization rate to the depreciation rates for those specific plant accounts (Ex. A-12, at 27).

We agree with Arizona Water that consistency with the move to individual component depreciation rates requires consideration of the individual plant accounts that include contributed plant (*i.e.*, transmission and distribution mains, fire sprinkler caps, services, meters, and hydrants). Based on consideration of the depreciation rates these individual plant accounts results in an Eastern Group composite CIAC amortization rate of 2.00 percent (Ex. A-12, at 27; Ex. S-55). The Company's recommendation for CIAC amortization shall be adopted.

E. Statement of Operating Income

In accordance with the foregoing discussion, Arizona Water's Eastern Group adjusted test year operating income is $2,168,324. The adjusted test year operating income by system and Eastern Group total is shown on the attached Exhibit B.

IV. RATE OF RETURN

Cost of capital analyses were presented in this case by Arizona Water, Staff, and RUCO for purposes of determining a fair value rate of return in this proceeding. Arizona Water's witness, Dr. Thomas Zepp, determined an overall cost of capital of 11.0 percent. As a result of the analysis of Staff witness Joel Reiker, Staff concluded that an overall rate of return of 8.6 percent is reasonable. RUCO presented testimony by William Rigsby who advocated an overall cost of capital of 8.68 percent.

A. Capital Structure and Cost of Debt

1. Capital Structure

There is virtually no disagreement between the parties concerning Arizona Water's capital structure. The Company, Staff, and RUCO agree that Arizona Water's capital structure as of December 31, 2001 should be used (Ex. A-17, at 9; Ex. S-38, at 3-4; RUCO Ex. 4, at 37-38). That capital structure is comprised of 5.62 percent short-term debt, 28.24 percent long-term debt, and 66.14 percent common equity (Id.).

2. Long-Term Debt

The parties also agree that Arizona Water's cost of long-term debt should be set at 8.46 percent. Accordingly, the long-term debt rate shall be set at 8.46 percent (Id.).

3. Short-Term Debt

Although the parties are in agreement on the capital structure and long-term debt, they disagree regarding Arizona Water's short-term debt rate. The Company borrows short-term funds under an agreement with Bank of America at prime minus .25 percent. As of January 1, 2003, the bank reference rate was 4.25 percent. Therefore, Staff contends that the short-term rate should be set at 4.00 percent to reflect actual short-term loan agreements between Arizona Water and Bank of America (Ex. S-38, at 3-5). RUCO witness William Rigsby agrees with Staff's recommendation to set the short-term debt rate at 4.00 percent (RUCO Ex. 4, at 36-37).

Arizona Water argues that the short-term debt rate should be set at 5.548 percent based on a 24-month average from January 2001 through December 2002. The Company contends that short-term debt costs are variable and the debt rate set in this proceeding should reflect the volatile nature of those rates (Ex. A-17, at 8-9).

We agree with Staff and RUCO that the short-term debt rate should be set to reflect the current agreement between Arizona Water and Bank of America. Since that agreement results in a short-term debt rate of 4.00 percent, as of January 1, 2003, we will adopt that rate for purposes of determining Arizona Water's cost of capital in this case.

B. <u>Cost of Equity</u>

Although the cost of debt and preferred stock can be determined from fixed cost rates, the cost assigned to the equity component of the capital structure can only be estimated. The cost of equity recommendations advocated by the parties are 12.4 percent by Arizona Water, 9.0 percent by Staff, and 9.18 percent by RUCO.

In determining its recommended cost rate for common equity, the Company's cost of capital consultant, Dr. Zepp, used the discounted cash flow ("DCF") model, several risk premium models, and the capital asset pricing model ("CAPM") to estimate benchmark equity cost with data for publicly traded water and gas utilities. Arizona Water also presented testimony from Walter Meek,

the President of the Arizona Utility Investors Association ("AUIA"). Mr. Meek did not perform an independent cost of capital analysis, but testified that, in his opinion, Staff's recommendation ignores the realities of investor expectations (Ex. A-8, at 2-4). Finally, Company witness Ralph Kennedy testified regarding risks that are unique to Arizona Water that affect its cost of capital requirement. Mr. Kennedy discussed the difficulties experienced by Arizona Water in 2001 in placing its Series K bonds, federal arsenic removal requirements facing the Company, and the inability of the Company to obtain long-term financing on terms that are comparable to publicly traded companies with Baa or higher credit ratings (Ex. A-15, at 25-27).

Dr. Zepp found the current equity cost for his benchmark utilities to be in the range of 10.6 percent to 10.8 percent, based on his application of the DCF model and an average of two forward-looking measures. His analysis included a "restatement" of Mr. Reiker's DCF estimates based on the constant growth model. Dr. Zepp testified that Staff's DCF analysis is flawed because it uses dividends per share ("DPS") which, according Dr. Zepp, is the worst measure of average future growth when earnings per share ("EPS") are growing more rapidly (Ex. A-5, at 53-56). The Company's restatement of Staff's DCF was conducted by including a second stage that Dr. Zepp claims reflects investors' expectations that future growth will be higher than current DPS when DPS are growing at a slower rate than EPS (Id. at 57-59). Based on this restatement of Staff's multi-stage DCF model, the equity cost for the sample companies was calculated to be 10.1 percent (Id. at 59, Tables 6 and 7). Dr. Zepp also performed a restatement of RUCO witness Rigsby's DCF analysis. The Company's restatement of RUCO's analysis resulted in a cost of equity for the benchmark water companies in the range of 9.6 to 11.1 percent (Id. at 61-63).

Dr. Zepp performed three different risk premium analyses with cost of equity results in a range of 10.3 to 11.2 percent. According to Dr. Zepp, the CAPM analyses conducted by Staff and RUCO failed to include separate risk premium estimates. Dr. Zepp favors a "zero-beta" CAPM model which produces results showing that low beta stocks like water utilities require higher returns (Ex. A-5, at 44-49). Dr. Zepp performed a restatement of the CAPM analyses of both Staff and RUCO using forecasted values for long-term Treasury bonds. Based on his recalculation, Dr. Zepp found the cost of equity for the benchmark companies to be in the range of 9.8 to 11.3 percent (Id. at

50-52).

Aside from the technical analysis of the Staff and RUCO recommendations, Arizona Water claims that those analyses are inconsistent with recent authorized returns on common equity, realized returns on common equity, and *Value Line* forecasted returns on equity. Dr. Zepp prepared a rebuttal schedule containing the authorized, realized, and forecasted returns based on Staff's sample group of publicly traded water utilities, except for two companies Dr. Zepp claims were acquisition targets based on their rapid stock price increases. His table shows average authorized returns from 2001 through 2003 of 10.69 percent, realized returns of 10.48 percent, and forecasted returns of 10.83 percent (Ex. A-5, Rebuttal Table 1). Arizona Water argues that these results show that the Staff and RUCO cost of equity estimates of 9.2 percent and 9.18 percent, respectively, are not consistent with investor expectations. The Company contends that the results produced by Dr. Zepp's models reflect more accurately the actual and forecasted cost of equity performances for comparably situated water companies.

Dr. Zepp also testified that, in order to establish a fair rate of return for Arizona Water, 100 to 150 basis points must be added to the Company's cost of equity estimates to account for the additional risk associated with investing in Arizona Water (Ex. A-4, at 13-23; Ex. A-5, at 24-42). Arizona Water asserts that an additional risk premium is required to compensate the Company for its small size and due to its claim that the rate-setting system in Arizona, which employs an historical test year, makes it difficult to match expected revenues with expected plant investment. The Company also contends that investment risk is heightened by the capital and operating costs it is expected to incur due to arsenic treatment requirements. Arizona Water argues that, in accordance with the fair and adequate rate of return requirements under decisions such as *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, (1944); *Bluefield Waterworks & Improvement Co. v. Public Serv. Comm'n of West Virginia*, 262 U.S. 679 (1923); and *Duquesne Light Co. v. Barasch*, 488 U.S. 299 (1989), the Commission must recognize that the cost of equity recommendations put forth by Staff and RUCO would fail to adequately compensate the Company with a reasonable rate of return on its investment.

Staff performed both DCF and CAPM analyses in arriving at its 9.0 percent cost of equity

recommendation. Mr. Reiker stated that, because Arizona Water's stock is not publicly traded, six publicly traded water companies and 10 gas companies were used as proxies (Ex. S-38, at 9). In his analysis, Mr. Reiker applied the DCF constant growth and non-constant, or multi-stage, growth models to the sample companies (Id. at 11). Mr. Reiker explained that the DCF method is based on the theory that the market price of a stock is equal to the present value of all future dividends. In applying the DCF model, the following three variables are required: 1) the expected annual dividend; 2) the current stock price; and 3) the expected infinite annual growth rate of dividends (Id.).

With respect to establishing the stock price component, Staff used a spot price because it contends the spot price reflects investor expectations of future returns and is the best indicator of those expectations (Id. at 12). Staff cites a recent Commission Decision in *Black Mountain Gas Co.*, Decision No. 64727 (April 17, 2002) to support its proposal that the Commission should adopt spot price as the basis for determining cost of equity.

In its growth variable analysis, Staff examined historical and projected growth in dividends per share, growth in earnings per share, and intrinsic growth. For the proxy companies, Staff's analysis produced average historical growth of 2.5 percent; projected growth over the next five years of 2.0 percent; historical earnings per share of 3.2 percent; and an intrinsic growth rate of 7.8 percent (Id. at 12-13, Scheds. JMR-2, JMR-3). Staff's analysis produced an equity cost estimate under the constant-growth DCF model of 8.5 percent (Id. at 19). The multi-stage DCF model considers investor expectations for near-term growth (Stage 1) and long-term constant growth (Stage 2). The cost of equity result of Staff's multi-stage DCF analysis is 9.6 percent (Id. at 20, Sched. JMR-6).

Mr. Reiker testified that the CAPM model provides a measure of the expected return on an investment. The CAPM requires the input of variables to determine an estimate of a company's equity cost. The variables that are input into the model are the risk-free rate, the expected return on the market, the risk variable (or "beta"), and the expected market risk premium (Ex. S-38, at 21-22). Staff's risk-free rate estimate is based on the average of intermediate-term U.S. Treasury securities spot rates, and the beta was derived from the average of the *Value Line* betas for the six proxy water utilities. The average beta for the six proxy companies is .59 (Id. at Sched. JMR-5). Mr. Reiker stated that the expected market risk premium represents the additional return an investor expects for

investing in an average or higher risk security over the expected return on a risk-free security. Staff's historical market risk premium analysis produced a rate of 7.4 percent, while its current market risk premium analysis resulted in a rate of 13.1 percent (Id. at 23-24). Staff's CAPM analysis results in an equity cost estimate for Arizona Water of 9.4 percent (Id. at Sched. JMR-7).

Staff's overall cost of equity recommendation was determined by averaging the results of its constant growth and multi-stage DCF analysis, which produces a result of 9.0 percent. Next, Staff averaged the results of its historical and current market risk premium CAPM analysis, with a result of 9.4 percent. The DCF and CAPM results were then averaged to produce a final estimate of 9.2 percent (Id. at 25, Table 7). However, Staff also took into account the fact that Arizona Water's capital structure consists of approximately 70 percent equity, which Staff believes represents lower financial risk compared to its proxy water companies which had an average common equity component of just under 50 percent (Id. at Sched. JMR-1).

Staff also averaged the DCF and CAPM results for the proxy gas companies, which resulted in an equity cost estimate of 10.3 percent for those companies. Staff claims that the sample gas companies are more risky than the sample water companies, as evidenced by average betas of .59 and .69 for the water and gas companies, respectively. Staff claims that, because the equity cost for the sample gas companies is approximately 100 basis points higher than the water companies, a downward adjustment must be made to reflect the cost of equity for a water company such as Arizona Water. Therefore, Staff adjusted the results of its DCF and CAPM analyses downward from 9.2 percent to 9.0 percent.

RUCO witness Rigsby recommends a rate of return of 8.68 percent based on a cost of common equity calculation of 9.18 percent (RUCO Ex. 4, at 22). Mr. Rigsby's cost of equity recommendation was determined based on a DCF analysis that produced the 9.18 percent result for Arizona Water (Id.). Mr. Rigsby also performed a CAPM analysis which produced results ranging from 6.79 percent to 8.06 percent (Id. at 27). RUCO claims that Mr. Rigsby's analysis properly considers the current environment of low inflation and low interest rates in which Arizona Water is operating. Mr. Rigsby also contends that his recommendation takes into account the fact that the Company's capital structure is heavily weighted with equity, compared to the group of proxy

companies used in RUCO's analyses, thus reducing the risk associated with investing in Arizona Water (Id. at 32-39). RUCO argues that the Company's cost of capital recommendation fails to recognize Arizona Water's lower risk. RUCO requests that its proposed cost of capital recommendation be adopted for purposes of setting rates in this proceeding.

We agree that Staff's analysis represents a fair and reasonable estimate of Arizona Water's cost of equity for purposes of this proceeding. As described above, Staff calculated an estimated equity cost of 9.2 percent by taking an average of two DCF models (constant growth and multi-stage) and the CAPM model. Although Arizona Water's witnesses are critical of Staff's analysis, we believe the Company's recommendation has several flaws.

First, Arizona Water's infinite growth DCF model averaged the near-term growth forecast for the entire water utility industry rather than an average of near-term growth forecasts. As Mr. Reiker pointed out, including the entire industry creates a mismatch between the expected dividend growth rate and the expected dividend yield, thereby producing a less accurate cost of equity estimation (Ex. S-38, at 38). We also agree with Staff's witness that the Company's exclusive reliance on analyst forecasts erroneously assumes that investors rely only on near-term earnings and sustainable growth without considering past earnings. Reliance solely on analyst projections tends to result in inflated growth projections without considering DPS and past EPS growth, information that even Dr. Zepp has acknowledged should be considered in determining estimated growth (Id. at 44-45). We believe that Staff's multiple component DCF analysis properly recognizes that investors expect both non-constant short-term growth as well as long-term constant growth.

With respect to the competing "risk premium" analyses, we believe Staff's CAPM model properly takes into account risk for purposes of estimating equity costs. Mr. Reiker stated that Arizona Water's reliance on forecasted Baa bond rates is less reliable because such bond forecasts have historically been inaccurate. Thus, according to Staff, the accuracy of the Company's risk premium analysis is suspect. We agree with Staff that assessing the risk premium based on corporate bond yields is inappropriate because the default risk for corporate bonds can change significantly over time (Ex. S-38, at 46-49). We believe Staff's CAPM analysis, which includes a risk variable, is a reasonable means of estimating Arizona Water's cost of equity in this case and is preferable to the

Company's proposed risk premium recommendation.

However, we part company with Staff's recommendation with respect to the necessity for a downward adjustment to cost of equity. As described above, Staff and RUCO argue that Arizona Water is less risky than the group of sample companies that were used for purposes of determining their cost of capital recommendations. As a result, Staff argues that the product of its average of the DCF and CAPM models (9.2 percent) should be reduced to 9.0 percent to recognize the lesser risk associated with investing in Arizona Water. On the other hand, the Company proposes an upward adjustment of 100 to 150 basis points to recognize what it asserts are increased risks. As indicated above, the risk factors alleged by the Company include its relatively small size compared to the proxy companies, the use of an historical test year in Arizona, difficulty placing its bonds, and federal arsenic removal requirements.

Based on our review of the entirety of the record, we do not believe that the risk factors described by Staff, RUCO, and the Company support a finding that a risk adjustment, either upward or downward, is necessary in this proceeding. The Company's approximately 70 percent equity position, as well as the lower betas of the sample water companies compared to the sample gas companies, may justify consideration of an adjustment. However, even if Arizona Water is slightly less risky than the proxy companies as a whole, we do not agree that Staff's proposed downward adjustment is appropriate. Nor do we believe that an upward adjustment is required. Although the Company cited its difficulty in placing its corporate bonds in 2001, $15 million of general mortgage bonds were ultimately issued. Regarding Arizona Water's size, Staff points out that the Commission has in the past rejected such arguments, and at least one study supports rejection of allowing a risk premium based on a company's smaller size (Ex. S-38, at 59-64). Concerning the Company's historical test year argument, there is no precedent for recognizing a risk adjustment because the law requires an historical test year. Indeed, we have allowed Arizona Water in this case to include post-test year plant in rate base for a full 12 months following the test year. Moreover, it is the Company that controls the timing of its rate application and the test year. Finally, the risks associated with arsenic treatment costs have been mitigated by the Commission's approval in both the Northern Group case (See ACRM discussion below), and in this proceeding, of an arsenic cost recovery

mechanism that enables the Company to seek expedited approval of capital costs and a significant portion of operating costs associated with arsenic treatment for its affected systems. Given all of these factors, we will not adopt any specific risk adjustments to the 9.2 percent cost of equity determined by Staff's analysis.

C. Cost of Capital Summary

	Percentage	Cost	Weighted Cost
Short-Term Debt	5.6%	4.0%	0.22%
Long-Term Debt	28.2%	8.46%	2.39%
Common Equity	66.2%	9.2%	6.09%
Cost of Capital			8.7%

V. AUTHORIZED INCREASE

Multiplying the Eastern Group's fair value rate base by the fair value rate of return produces a required operating income of $3,127,181 on a total company basis. This is $958,854 more than the adjusted test year income under existing rates. The required increase in gross annual revenues for the Eastern Group is $1,564,803, or 10.68 percent, as shown on the attached Exhibit C.

VI. RATE DESIGN

A. Staff's Proposed Inverted Tier Rate Design

Under Arizona Water's current rate structure customer classes and the monthly minimum charges are determined by meter size. The monthly minimum for all customer classes includes 1,000 gallons with a single commodity rate applied to all usage. Under the Company's proposed rate design, the 1,000 gallons of "free" water in the monthly minimum was eliminated and each of the eight systems' existing meter multiples[5] were moved half way toward the actual meter multiples (Ex. A-16, at 15-16). Arizona Water points out that its proposed rate design in this proceeding follows the same principles as the design that was approved in Decision No. 64282 for the Company's Northern Group.

[5] "Meter multiples" is a rate design concept whereby the monthly minimum charge for each meter size is established by first establishing the appropriate charge for the smallest meter size and multiplying that minimum charge by a factor appropriate for each larger meter size (*See, e.g.*, Decision No. 64282, at 23).

Staff's proposed rate design consists of inverted tier rate blocks whereby the commodity rate would increase through three tiers of rates as usage increases. Staff's rate blocks are structured so that the first tier (0 to 3,000 gallons) is priced 20 percent less than the second tier (3,001 to 50,000 gallons) and the third tier (over 50,000 gallons) is priced 20 percent higher than the second block (Ex. S-40, at 2-9). Staff claims that its proposed 20 percent first tier "discount" rate structure provides a "lifeline" concept that allows for a minimum volume of water usage for basic needs (Tr. 934-935, 941). Staff believes the 20 percent third tier "premium" rate will send a price signal to heavy users to reflect the extra costs they impose on the system (Tr. 896). Staff witness John Thornton testified that Staff's rate design is based on a marginal pricing concept that provides "a more efficient rate structure that results in conservation of resources in the provision of water" (Id. at 883). Staff concedes that the third block would subsidize the other blocks on an embedded cost basis, although Staff has not quantified that subsidy (Id. at 884). According to Staff, a number of other water companies in the state use inverted block rates, including Arizona-American Water Company. Staff argues on brief that its rate design will send a price signal that is likely to result in conservation in the long run. However, Mr. Thornton admitted on cross-examination that any conservation price signals would apply only to usage over 50,000 gallons per month, thereby eliminating any conservation goals directed to smaller customers, including residential customers (Tr. 939).

Arizona Water argues that Staff's rate design recommendation deviates from basic cost of service principles and ignores the rate design approved in the last rate case for the Eastern Group customers (Decision No. 58120) and in the Company's Northern Group case (Decision No. 64282). The Company contends that Staff's proposal does not encourage conservation and in fact creates subsidies for usage in the first tier without sending any appropriate price signals. Arizona Water asserts that Staff's proposed rate design is not based on a cost of service study and that it would shift recovery of a substantial portion of the revenue requirement from the monthly minimum to the commodity rate with no supporting evidence. The Company also contends that Staff's so-called "lifeline" rate is inconsistent with lifeline rates described in publications of the American Water Works Association which limit such rates to: low income residential customers; where a significant portion of customers in the area are unable to afford water service; and where water conservation is

not a concern (because discounted rates may actually cause increased water usage) (Ex. A-28, at 10-13). Arizona Water argues that Staff's rate design is inequitable and will promote economic inefficiencies.

We agree with Arizona Water that the justification provided by Staff does not support its recommended rate structure in this proceeding. Staff points out that inverted tier rate designs have been adopted in a number of prior cases as a means of encouraging customers to conserve water. Although we agree with Staff that conservation of water is a desirable goal, its own witness testified that no conservation price signals would be received by customers until usage reached more than 50,000 gallons. As a result, Staff's recommendation in this case is clearly distinguishable from the type of inverted block structures approved by the Commission in other cases.

Staff's proposed rate design is also inconsistent with the type of block structures in place in a number of cities in Arizona, as evidenced by a number of exhibits introduced by Staff at the hearing (Exs. S-5, S-6, S-7, S-8, and S-9). These rate schedules show that the rates in effect for the cities of Phoenix, Tucson, Scottsdale, Mesa, and in the Sun City area do not follow the type of design advocated by Staff in this proceeding but, rather, indicate that the rates include increasing minimum rates based on larger meter sizes or have second tier blocks that are substantially different than those recommended by Staff (*e.g.*, 8,000 gallons for Sun City, 12,000 gallons for Mesa, and 15,000 gallons for Tucson Residential). Thus, average residential customers in those areas may be incented to reduce consumption by being presented with price signals that provide more attainable targets. We do not believe that Staff's proposal fits within the type of rate design structures that have been adopted by the Commission in prior cases or in the other jurisdictions cited by Staff. Accordingly, we decline to adopt Staff's proposed inverted tier rate design in this proceeding.

Although we are rejecting Staff's proposed rate design, we believe that an alternative inverted tier rate structure is a valid tool for promoting conservation by sending appropriate price signals to heavier users. Similar inverted block structures have been approved in a number of prior cases and we believe it is reasonable to adopt such a rate design in this proceeding. Therefore, we adopt the following inverted tier rate structure for Arizona Water's Eastern Group: first tier – 0 to 10,000 gallons per month; second tier – 10,001 to 25,000 gallons per month; third tier – over 25, 001 gallons

per month.

B. Consolidation of Apache Junction and Superior Systems

Arizona Water is requesting that the Eastern Group's Apache Junction and Superior systems be consolidated in this proceeding for rate making and accounting purposes. Under the Company's proposal, uniform monthly minimum charges would be established for both systems in this proceeding, with each system retaining its own commodity rate. In the next rate proceeding, full consolidation of the systems would occur (Ex. A-15, at 11-12).

Company witness Kennedy explained that the Apache Junction and Superior systems are facing substantial rate increases due to the costs associated with arsenic removal. For the Apache Junction system, capital costs alone are expected to reach $8.8 million, which represents approximately 36 percent of that system's adjusted original cost rate base. The impact of arsenic removal is even more severe for the Superior system, with estimated capital costs of $1.7 million, or 63 percent of the system's rate base. Both systems would also incur significant additional costs related to arsenic removal operating costs (Id.).

Because the Superior system (1,288 customers) is significantly smaller than the Apache Junction system (16,093 customers), and the Superior system's current rates ($18.13 residential minimum charge and $4.06 per 1,000 gallons) are much higher than the Apache Junction rates ($12.43 residential minimum and $2.569 per 1,000 gallons), Arizona Water argues that absent consolidation, the differences in rates between the two systems will become even more pronounced as a result of this proceeding. Mr. Kennedy testified that without consolidation of the Superior and Apache Junction rates in this case, future consolidation will be more difficult, especially when the impact of arsenic treatment is added to rates (Ex. A-17, at 7; and RJK-RJ5). The Company points out that the Superior and Apache Junction systems are expected to be interconnected within two years, which distinguishes the proposal in this case from prior proceedings in which the Commission has declined to approve consolidation proposals. Under the Company's proposed revenue requirements, without consolidation the Apache Junction system rates would increase by more than 16 percent, while the Superior system revenue requirement would increase by more than 70 percent, even without adding arsenic removal costs (Id.).

RUCO and Staff oppose consolidation of the Superior and Apache Junction systems based on the premise that individual system rates should reflect their specific system costs (RUCO Ex. R-3, at 43-46; RUCO Ex. R-2, at 21-24; Ex. S-44, at 34; Ex. S-51, at 11-12; Tr. 525-530). Staff and RUCO argue that until physical interconnection of the systems is completed, allowing consolidation would result in subsidization of Superior system customers by Apache Junction customers. Staff and RUCO cite to prior decisions in which the Commission has recognized the concept that system rates should reflect individual system costs (Decision No. 58120, at 33-34; Decision No. 64282, at 20-21; Decision No. 66400, at 11-13).

We agree with Arizona Water that the Superior and Apache Junction systems should be consolidated for purposes of rate making and accounting under the Company's proposed two-step consolidation process. Although Staff and RUCO point out that the Company's Northern Group consolidation recommendation was recently denied, the request in this proceeding is distinguishable. First, unlike the situation in the Northern Group case, the Superior and Apache Junction systems are already contiguous (Ex. A-9, at 10). Further, the backbone transmission facilities needed to serve a development approximately four miles from the Superior system well fields are already under construction, and full interconnection with Superior will be completed in less than two years (Ex. A-10, at 4-5; Ex. A-17, at 7). Thus, the interconnection of systems is not speculative but is imminent.

Given these differences from the Northern Group proceeding, we believe it is appropriate to allow the first step of consolidation at this time in order to recognize the interconnection of the systems and to minimize the "rate shock" that may otherwise be experienced by customers in the Superior system. Consolidation is even more critical to offset the significant rate increases that will be experienced once arsenic treatment costs are imposed on Arizona Water's customers. According to Mr. Kennedy, arsenic treatment capital costs are estimated to be approximately $573 per customer in the Apache Junction system and $1,309 per customer in the Superior system (Ex. A-17, at 7). Absent consolidation, this impact will be exacerbated by the depressed economic conditions in the Superior area where customer growth has actually declined in recent years (Id. at 6).

With respect to Staff and RUCO's arguments that consolidation will result in inter-system subsidies, we note that consolidation of individual Arizona Water systems is not without precedent.

In fact, Arizona Water has in the past been permitted to consolidate a number of systems that are not physically interconnected (*e.g.*, River Valley and Rimrock, Arizona City and Casa Grande, Forest Towne and Overgaard, Valley Vista and Sedona, and Tierra Grande and Casa Grande) (Ex. A-17, at 5). In this proceeding, the fact that interconnection of the Superior and Apache Junction systems will be completed within two years, the further widening of the base rate disparity between the systems absent consolidation, and the significant additional rate impact in the near future associated with arsenic removal costs, justifies implementing the first step of consolidation in this proceeding as proposed by Arizona Water. Accordingly, the Company's rate consolidation recommendation is adopted.

VII. OTHER ISSUES

A. Staff's Proposed Water Loss Plan

Staff proposed that Arizona Water be required to audit its water losses for systems in the Eastern Group with greater than 10 percent water loss, and file a plan for reducing such losses where it is feasible to do so (Ex. S-52, at 4-6). Staff contends that its proposal is not burdensome because the Company already produces internal water loss reports that could be used as a starting point for the reporting requirements recommended by Staff (Tr. 90-91).

Arizona Water claims that Staff has not established that the Company has a water loss problem because Staff's loss calculations are based on "unsold" water rather than "lost" water (Tr. 324, 1128-1129; Ex. A-2, at 24). According to the Company, unsold water is the difference between water produced and received, and water sold to customers. Unsold water includes water used for a number of purposes including for operational and maintenance needs, as well as overflowing water storage tanks, flushing water distribution systems, and fire suppression (Ex. A-2, at 24-25). By contrast, lost water represents quantities that the Company cannot account for (Tr. 324). Arizona Water opposes Staff's recommendation because of the Company's claim that Staff has not identified any harm to ratepayers that needs to be remedied, and because the Company believes Staff's reporting requirements constitute unnecessary micro-management of the Company's operations.

We do not believe that Staff's proposed audit and reporting requirements will impose an undue burden on Arizona Water's operations. Although the Company challenges Staff's definition of

system water losses, whether the water is "unsold" or "unaccounted for" should not be the deciding factor in assessing the need for monitoring of water that is pumped but not ultimately paid for by the Company's customers. Staff's recommendation does not require any specific remedy for unaccounted for water but, instead, simply requires the Company to report systems that exceed the 10 percent loss limit and to propose cost-effective solutions for reducing such losses. We believe Staff's recommendation will enable Staff to monitor Arizona Water's unaccounted for water while allowing the Company sufficient flexibility to resolve water loss situations that require a remedy. Staff's recommendation is therefore adopted.

B. NP-260 Tariff

Arizona Water has a NP-260 Non-Potable Central Arizona Project Water Tariff ("NP-260 Tariff") that is designed to pass through to non-potable customers all costs associated with providing non-potable water service plus amounts for administration. Company witness Kennedy testified that the NP-260 Tariff is designed to be as income neutral as possible while avoiding passing costs onto potable customers (Ex. A-16, at 28).

Staff recommends that Arizona Water amend its NP-260 Tariff as follows: eliminate the fixed meter charge; eliminate the depreciation charge; indemnify customers from maintenance, repair or replacement charges when the damage to CAP facilities is the result of the Company's error; require the customer to be responsible for repair or replacement of the meter; and include fixed-dollar administrative charges representative of the Company's actual costs (Ex. S-51, at 16-17). Staff claims that these changes are necessary to address problems that were identified in a formal complaint filed in *SLV Properties v. Arizona Water Co.*, Decision No. 65755 (March 20, 2003).

Arizona Water contends that the Decision cited by Staff does not support the proposed recommendation. According to the Company, the NP-260 Tariff maintenance fees and related charges were found reasonable in Decision No. 65755 and there is no reason to change the tariff in this case.

We agree with Staff's recommended changes to the NP-260 Tariff. In Decision No. 65755, we directed Staff to "review the NP-260 Tariff" in the instant proceeding and "recommend changes or revisions as required." The Company does not dispute that the depreciation charge should be

eliminated from the tariff. However, as Mr. Hammon indicates, there is no valid basis to find that the current fixed monthly meter charge of more than $363 is relevant to the fixed costs of the CAP delivery system (Ex. S-51, at 15). The CAP fixed costs are already recovered through the CAWCD capital charges which are passed on to customers with a percentage fee for administration collected by Arizona Water. We also agree that the NP-260 Tariff does not adequately define customer rights, especially for unusual maintenance situations (*e.g.*, lightning strikes). Under the current tariff, Arizona Water has no real incentive to protect the equipment that is owned and controlled by the Company, but for which the customer bears maintenance responsibility (Id. at 16). We find that Staff's proposed changes to the NP-260 Tariff are reasonable and shall be adopted.

C. Arsenic Treatment Cost Recovery Mechanism

Arizona Water is requesting approval in this proceeding of an arsenic cost recovery mechanism ("ACRM") that would allow the Company to recover arsenic treatment capital costs and certain "recoverable" operation and maintenance ("O&M") costs. The Company's proposal is based on the ACRM approved recently for Arizona Water's Northern Group in Decision No. 66400. Arizona Water projects arsenic treatment capital costs for the Eastern Group will exceed $12 million and that annual O&M costs for the affected Eastern Group systems (Apache Junction, Superior, and San Manuel) will cost more than $2.6 million (Ex. A-1, at 9; Ex. A-15, at 7-8).

Neither Staff nor RUCO filed testimony opposing the Company's ACRM recommendation. Given the lack of opposition to the proposed ACRM, and considering that the Company's proposal is based on the recently approved ACRM for the Northern Group, we will approve the ACRM recommendation for the Eastern Group in this proceeding.

D. Curtailment Tariff and Water Conservation Notice

Staff recommended that Arizona Water be directed to file a curtailment tariff consistent with prior Commission decisions requiring such tariffs. At the hearing, the Company agreed to file such a tariff (Tr. 82-83). Accordingly, Arizona Water is directed to file a curtailment tariff in a form approved by Staff at the time it files its tariffs in compliance with this Decision.

We also believe it is appropriate and necessary to require Arizona Water Company to implement a water conservation initiative for customers affected by this Application. Within 30 days

of the effective date of this Decision, Arizona Water Company shall develop and submit to Staff a notice concerning water conservation information, including methods and guidelines that customers may use to lower water usage. Within 30 days of approval by Staff, Arizona Water Company shall send to all customers affected by this Application, by bill insert or separate mailing, a copy of the approved notice.

E. Pinal Creek Group Settlement

In 1998, Arizona Water negotiated a settlement with members of the Pinal Creek Group ("PCG Settlement"), a group of mining interests with copper mining operations in the vicinity of the Company's Miami system (Ex. A-16, at 7-8).

Arizona Water's Miami system is located in Gila County and serves approximately 3,000 customers. According to the Company's witnesses, the capacity of wells in the Miami system has been extremely variable due to the prevailing hydrology of the area. The Company claims that production from area wells has been consistently declining over time and customers have been subjected to temporary shortages and conservation restrictions (Ex. A-2, at 5-7).

In 1997, while it was investigating additional water supply options in the Miami area, Arizona Water discovered that the Arizona Department of Environmental Quality ("ADEQ") and the United States Environmental Protection Agency ("EPA") were about to enter into a consent order with the PCG concerning alleged contamination of groundwater in the Miami area by the members of the PCG (Ex. A-2, at 7). Because the proposed consent order did not address the potential effects on Arizona Water and its customers, the Company took action to insert itself into the action before the consent order between ADEQ and the PCG was finalized. Mr. Garfield testified that Arizona Water's participation in the proceeding was not welcomed by either ADEQ or the PCG, and only through the Company's persistence was it able to secure its primary goal of a guaranteed source of replacement water for the Miami system. (Id.; Tr. 135-136).

The consent order between the PCG, ADEQ, and EPA requires the PCG to pay fines to both ADEQ and EPA, and to take responsibility for cleanup in the area at an estimated cost of $100 million (RUCO Ex. 3, at 29). In its separate settlement with the PCG, Arizona Water agreed to a cash settlement of $1.4 million paid over a three-year period. This cash compensation under the

settlement was recorded as Miscellaneous Non-Operating Income, whereby none of the proceeds were allocated to ratepayers (Id. at 29-30). In addition, the PCG Settlement provides that the Company is to receive replacement water from various PCG wells (through an interconnection linking the PCG system with Arizona Water's Miami system). Under the agreement, the Company began receiving 100 gallons of water per minute ("gpm") in 1998, increasing by 100 gpm up to 600 gpm in October 2003. After that time, PCG is required to continue to provide an aggregate volume of capacity of 600 gpm until the settlement agreement expires in 2028 (Id.).

Staff argues that the Company's Miami ratepayers are entitled to the entirety of the PCG Settlement proceeds. Staff claims that the benefits from the settlement were in exchange for the release of past damages and the Company retains the ability to seek future damages. Staff asserts that Arizona Water has not retired any wells in the Miami system for more than 20 years and ratepayers have paid for those wells through rates during that same time period (Tr. 543-558). Staff further contends that as the holder of a CC&N in the Miami area, it is the Company's duty to secure adequate sources of water for its customers. Staff claims that the Company is adequately compensated by having rates in effect that allow it to earn a reasonable return on its investment and there is no basis for allowing additional compensation through entitlement to the settlement proceeds. Staff also contends that the Company improperly accounted for the proceeds as miscellaneous income instead of as a deferred regulatory liability pursuant to the NARUC Uniform System of Accounts ("USOA") (Tr. 1083-1092). Staff claims that its recommendation corrects the improper accounting treatment by reducing rate base by the amount of the payment, and amortizing the reduction over the remaining life of the PCG Settlement (Ex. S-45, at 52).

RUCO similarly argues that the proceeds of the PCG Settlement were a windfall to Arizona Water's shareholders. RUCO refutes the Company's assertion that the replacement water alone represents sufficient compensation for ratepayers. According to RUCO, the replacement water is nothing more than that to which customers are entitled because it is the Company's obligation to provide its customers with safe drinking water in exchange for being granted an exclusive franchise to serve that area. RUCO recommends that the settlement proceeds should be shared equally between ratepayers and shareholders. RUCO believes that requiring an equal allocation strikes a

balance between encouraging the Company to pursue legitimate legal recourse, while at the same time preventing the Company from obtaining an unjustified windfall.

Arizona Water disputes Staff's contention that it improperly accounted for the settlement proceeds pursuant to the NARUC USOA. The Company contends that the settlement proceeds were properly included in Account 421-NonUtility Income, and Staff has presented no evidence to the contrary. Arizona Water also argues that both Staff and RUCO have ignored the substantial benefits associated with more reliable and less expensive water supplies that are conferred on customers as a result of the PCG Settlement. The Company points out that the PCG replacement water provides a reliable source of water in an area where lack of water has become a serious issue. Mr. Kennedy estimated that the present value of the replacement water provision in the settlement is between $5.48 and $7.97 million (Ex. A-16, at 5).

Arizona Water cites as precedent for its recommendation Decision No. 58497 (January 14, 1994) involving Tucson Electric Power Company ("TEP"). The Company contends that the Commission allowed TEP to retain the $40 million cash portion of a settlement agreement due to another provision of the settlement that required TEP to share benefits of a 10 year power sharing agreement (Decision No. 58497, at 59-60). Arizona Water argues that, similar to the TEP Decision, the Commission should consider the overall benefits provided by the PCG Settlement rather than focusing solely on the monetary payment of the settlement.

We agree with RUCO's recommendation that the monetary proceeds of the PCG Settlement should be shared equally between shareholders and ratepayers. RUCO and Staff argue convincingly that Arizona Water, as holder of the exclusive franchise to provide water service in the Miami area, has an ongoing obligation to obtain and provide adequate and safe water for customers in the service area. The fact that Arizona Water pursued a legal remedy to assure that its water supply would be protected does not necessarily entitle the Company to retain for the exclusive benefit of its shareholders the monetary proceeds from the legal settlement. Although we recognize that the replacement water provision of the PCG Settlement provides ratepayers with the benefit of future quantities of water, the Company also benefits from securing an assured supply of water, effectively eliminating the risk associated with obtaining additional supplies in the area for a number of years.

We believe that the TEP case cited by Arizona Water supports this conclusion. In Decision No. 58497, the Commission allowed TEP to retain for shareholders a $40 million payment TEP obtained from Southern California Edison Company ("SCE") as part of a legal settlement involving a failed merger. However, it was noted in that Decision that TEP's shareholders had incurred more than $12 million in legal expenses pursuing the litigation against SCE. In addition, TEP was required to apply the proceeds towards a reduction in its debt service. In this proceeding, there are no similar conditions placed on how Arizona Water's share of the settlement proceeds must be applied. Further, as discussed below, we are allowing Arizona Water to include in rate base more than $308,000 in legal expenses associated with the PCG litigation (see discussion below). Considering the PCG Settlement in its entirety, we find that splitting the cash proceeds of the agreement equally provides a reasonable balance between the rights and obligations of shareholders and ratepayers and will provide the Company with a sufficient incentive to pursue future litigation or settlement of claims that the Company and its customers may be entitled to receive.

1. PCG Legal Expenses

Staff claims that the Company receives further compensation from the PCG Settlement through the inclusion of capitalized legal fees in rate base (Tr. 1099). RUCO argues on brief that the $308,005 booked by the Company as legal expenses associated with the PCG Settlement should be removed from plant accounts, reclassified as a separate addition to rate base, and amortized over the life of the agreement (RUCO Brief, at 7-9). RUCO claims that, absent its proposed adjustment, Arizona Water will earn a perpetual return in operating income from inclusion of these legal costs.

Arizona Water asserts that there is no evidence in the record to support RUCO's recommendation which was raised for the first time in RUCO's brief. The Company claims that the only record evidence is that the legal costs were incurred to protect its rights to a specified quantity of water, an asset with an unlimited life that is not subject to depreciation (Company Reply Brief, at 41-42).

We agree with Arizona Water that there is insufficient evidence in the record of this case to support RUCO's proposed treatment of the PCG Settlement legal costs. RUCO's recommendation was presented for the first time in its initial brief, thereby precluding an opportunity for cross-

examination or rebuttal of the proposed alternative treatment. Although we are denying RUCO's recommendation, we believe this issue should be reviewed in the Company's next rate proceeding to allow a full analysis of whether it is appropriate to allow recovery in rate base of legal expenses associated with pursuit of litigation and settlement of legal claims.

2. Miami Purchased Power Expense

Staff witness Hammon testified that because the PCG Settlement provides Arizona Water with up to 600 gpm of replacement water, the Company's purchased power required to pump water in the Miami system has been reduced (Ex. S-52, at 17-18). Accordingly, Staff reduced the Company's purchased power expense in its recommendation regarding allowable expenses (Id.).

Arizona Water contends that Staff's recommendation is based on speculation regarding the amount of the Company's future purchased power expenses (Tr. 1134-1135). The Company argues that speculative expense reductions are not a sufficient basis for adopting Staff's recommendation.

We agree with the Company that Staff's proposal is based on estimates of future reductions in purchased power. Although Mr. Garfield admitted that Arizona Water did not yet own the PCG wells in question, he testified that PCG may exercise its option under the agreement to convey the wells to the Company (Tr. 252-259). Given the current uncertainty regarding this issue, and the speculative nature of Staff's recommendation, we do not believe it is appropriate to reduce Arizona Water's Miami purchased power expenses in this proceeding.

3. Confidentiality of PCG Settlement

The PCG Settlement contains a confidentiality provision that prohibits Arizona Water from disclosing the terms of the agreement (Ex. S-10). The allegedly confidential information was provided to the Administrative Law Judge and Commissioners. The information was also provided to most of the other parties pursuant to protective agreements. Portions of the hearing were conducted on a closed record and transcripts, exhibits, testimony, and briefs addressing the confidential PCG Settlement issues have, up to this point in time, been maintained under seal.

On December 17, 2003, a Procedural Order was issued ruling that Arizona Water's request for confidentiality of the PCG Settlement should be denied. As stated in the December 17, 2003 Procedural Order, A.R.S. §39-121 provides that "Public records and other matters in the custody of

any officer shall be open to inspection by any person at all times during office hours." Although there is a strong presumption in favor of disclosure, the right to inspection of public documents is not unlimited. Access to public records may be denied or restricted where "the interests of privacy, confidentiality, or the best interest of the state in carrying out its legitimate activities outweigh the general policy of open access." *Carlson v. Pima County*, 141 Ariz. 487, at 491, 687 P.2d 1242 (1984). The purpose of public records laws is to allow citizens 'to be informed about what their government is up to.' *Scottsdale Unified School District v. KPNX Broadcasting Co.*, 191 Ariz. 297, 302-303, 955 P.2d 534, 539-540 (1998) (quoting *United States Dep't. of Justice v. Reporters Comm. For Freedom of the Press*, 489 U.S. 749,773, 109 S.Ct. 1468 (1989). See, also, *A.H. Belo Corp. v. Mesa Police Dept.*, 202 Ariz. 184, 42 P.2d 615 (Ariz. Ct. of Appeals 2002).

Arizona Water and BHP Copper[6] contend that disclosure of the terms of the PCG Settlement could have a chilling effect on future settlements between utility companies and third-party litigants. However, the public interest in disclosure outweighs the potential effect on future settlements. This public interest exists in the form of the public's right to know the underlying basis for how the rates set by the Commission were established. In this case, our decision that the settlement proceeds should be shared equally between shareholders and ratepayers has an effect on the revenue requirement for the Miami system. Thus, public disclosure of the amount of the settlement is necessary to enable the public to assess how the revenue requirement was determined.

In addition, we do not believe it is good public policy to retain confidentiality of the terms of a settlement agreement entered into by a regulated utility and a third party simply because disclosure may expose the third party to some future liability for its actions. Although most of the cases on public records address disclosure requirements for records and information maintained by government agencies, the same principles apply equally in situations where, as in this case, the Commission reviewed the terms of the PCG Settlement as part of its ratemaking authority under Article XV of the Arizona Constitution. We find that the presumption in favor of access to public records outweighs the privacy interests expressed by Arizona Water and the PCG Group.

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[6] BHP Copper is one of the members of the PCG Group. Counsel for BHP Copper appeared at the December 8, 2003 oral argument in support of maintaining confidentiality of the terms of the settlement agreement.

* * * * * * * * * *

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

FINDINGS OF FACT

1. Arizona Water is an Arizona corporation engaged in the business of providing water utility service to the public in portions of Arizona pursuant to authority granted by the Commission.

2. On August 14, 2002, Arizona Water filed with the Commission an application for a permanent increase in water rates for its Eastern Group, consisting of the Company's Apache Junction, Bisbee, Miami, Oracle, San Manuel, Sierra Vista, Superior, and Winkelman systems.

3. By Procedural Order issued October 23, 2002, a hearing was scheduled for June 23, 2003.

4. A Second Rate Case Procedural Order was issued March 14, 2003, granting Staff's Motion to Continue and setting a new hearing date of September 22, 2003. The March 14, 2003 Procedural Order also extended the time clock for a final Commission decision.

5. Intervention was granted to RUCO, the City of Casa Grande, Superstition Mountain, LLC, and Mr. Robert Skiba.

6. Pre-hearing conferences were conducted on March 31, 2003 and September 17, 2003. Public comment hearings were conducted on August 18, 2003 in San Manuel, on August 19, 2003 in Bisbee, and on August 28, 2003 in Apache Junction. The evidentiary hearing commenced on September 22, 2003 and concluded on September 26, 2003.

7. Initial closing briefs were filed on October 31, 2003 and reply briefs were filed on November 10, 2003. An oral argument was conducted on December 8, 2003.

8. Based on the adjusted test year data, as determined herein, the operating income under existing rates for the Eastern Group is $2,168,327.

9. Based on the adjusted test year data, as determined herein, the fair value rate base for the Eastern Group is $35,944,611.

10. A fair and reasonable rate of return on fair value rate base is 8.7 percent.

11. The revenue increase proposed by Arizona Water would produce an excessive return

on fair value rate base.

12. The authorized increase in gross annual revenues for the Eastern Group is $1,564,803.

13. Staff's proposed inverted tier rate structure does not support our conservation goals for usage under 50,000 gallons.

14. The rate design adopted herein will promote conservation and send appropriate price signals to all consumers.

15. As discussed herein, Arizona Water's Eastern Group Purchased Power and Purchased Water Adjustment Mechanisms should be discontinued.

16. Arizona Water's proposal to consolidate the Superior and Apache Junction systems, through the two-step process described herein, is reasonable and shall be adopted.

17. Staff's proposed water loss audit and reporting plan is reasonable and shall be adopted.

18. Staff's proposed changes to Arizona Water's NP-260 Tariff are reasonable and shall be adopted.

19. Arizona Water's proposed Arsenic Cost Recovery Mechanism for the Eastern Group, which is based on the Commission's approval of the Northern Group ACRM in Decision No. 66400, is reasonable and shall be approved.

20. Staff's proposed Curtailment Tariff requirement for Arizona Water is reasonable and shall be approved.

21. The treatment of the Pinal Creek Group Settlement discussed herein is reasonable and shall be adopted.

22. For the Apache Junction system, the rates set herein produce a decrease in annual revenues of 3.29 percent which results in a decrease of 6.5 percent for the average usage 5/8 x ¾ inch meter customer and a decrease of 3.0 percent for the median usage 5/8 x ¾ inch customer.

23. For the Bisbee system, the rates set herein produce an increase in annual revenues of 32.10 percent which results in average and median increases for 5/8 x ¾ inch meter customers of approximately 22.8 percent and 26.5 percent, respectively.

24. For the Miami system, the rates set herein produce an increase in annual revenues of

24.24 percent which results in average and median increases for 5/8 x ¾ inch meter customers of approximately 13.9 percent and 17.7 percent, respectively.

25. For the Oracle system, the rates set herein produce an increase in annual revenues of 13.04 percent which results in average and median increases for 5/8 x ¾ inch meter customers of approximately 13.0 percent and 17.3 percent, respectively.

26. For the San Manuel system, the rates adopted herein reflect elimination of the purchased water adjustment mechanism and will result in average and median increases for 5/8 x ¾ inch meter customers of approximately 23.8 percent and 26.9 percent, respectively.

27. For the Sierra Vista system, the rates set herein produce an increase in annual revenues of 27.82 percent which results in average and median increases for 5/8 x ¾ inch meter customers of approximately 17.8 percent and 20.4 percent, respectively.

28. For the Superior system, the rates set herein produce an increase in annual revenues of 50.60 percent which results in the average usage 5/8 x ¾ inch meter customer experiencing a decrease of approximately 33.8 percent and the median usage 5/8 x ¾ inch customer experiencing a decrease of approximately 31.8 percent. The decreases for these average and median usage customers are due primarily to consolidation of the Superior and Apache Junction systems, as described herein.

29. For the Winkelman system, the rates set herein produce an increase in annual revenues of 24.16 percent which results in average and median increases for 5/8 x ¾ inch meter customers of approximately 1.4 percent and 2.5 percent, respectively.

30. The rates and charges for each system, as attached hereto in the attached Exhibit D and incorporated by reference herein, are reasonable.

CONCLUSIONS OF LAW

1. Arizona Water is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-250 and 40-251.

2. The Commission has jurisdiction over the Company and of the subject matter of the Application.

3. Notice of the Application was provided in the manner prescribed by law.

4. The rates and charges for each system, as attached hereto in Exhibit D and incorporated by reference herein, are reasonable and shall be approved.

ORDER

IT IS THEREFORE ORDERED that Arizona Water Company is hereby directed to file with the Commission on or before March 31, 2004 revised schedules of rates and charges consistent with Exhibit D and the discussion herein.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on and after March 10, 2004.

IT IS FURTHER ORDERED that Arizona Water Company shall notify its affected customers of the revised schedules of rates and charges authorized herein by means of an insert in its next regularly scheduled billing, in a form approved by Staff.

IT IS FURTHER ORDERED that Arizona Water Company shall implement the approved Arsenic Cost Recovery Mechanism for the Eastern Group in accordance with the discussion herein and consistent with the ACRM approved in Decision No. 66400 for Arizona Water's Northern Group.

IT IS FURTHER ORDERED that Arizona Water Company's Eastern Group Purchased Power and Purchased Water Adjustment Mechanisms should be discontinued.

IT IS FURTHER ORDERED that Arizona Water Company shall implement the Water Loss Plan proposed by Staff, as discussed herein, within 120 days of the effective date of this Decision.

IT IS FURTHER ORDERED that Arizona Water Company shall submit an amended NP-260 Tariff, in the form prescribed by Staff and approved herein, by no later than March 31, 2004.

IT IS FURTHER ORDERED that Arizona Water Company shall develop and submit for the approval of Staff a water conservation initiative within 30 days of the effective date of this Decision. Arizona Water Company shall disseminate the notice to all customers affected by this Application, as discussed herein, within 30 days of approval by Staff.

IT IS FURTHER ORDERED that Arizona Water Company shall file a rate case application for its Eastern Group no later than September 30, 2007.

. . .

IT IS FURTHER ORDERED that Arizona Water Company shall submit a Curtailment Tariff in the form prescribed by Staff and approved herein, by no later than March 31, 2004.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN | COMMISSIONER | COMMISSIONER

COMMISSIONER | COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 19th day of March, 2004.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT

DISSENT
DDN:mlj

SERVICE LIST FOR: ARIZONA WATER COMPANY

DOCKET NO.: W-01445A-02-0619

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Arizona Water Company
Docket No. W-01445A-02-0619
Test Year Ended December 31, 2001

EXHIBIT A
RATE BASE

LINE NO.	DESCRIPTION	Apache Junction	Bisbee	Miami	Oracle	San Manuel	Sierra Vista	Superior	Winkelman	Eastern Group
1	Company Proposed Rate Base - Rejoinder	$ 21,722,321	$ 3,878,994	$ 4,507,618	$ 2,706,211	$ 759,504	$ 2,512,878	$ 2,646,023	$ 269,330	$ 39,002,879
	ALJ Adjustment	$ 67,011	$ 11,966	$ 13,905	$ 8,348	$ 2,343	$ 7,752	$ 8,163	$ 831	$ 120,319
	ALJ Proposed Rate Base	$ 21,789,332	$ 3,890,960	$ 4,521,523	$ 2,714,559	$ 761,847	$ 2,520,630	$ 2,654,186	$ 270,161	$ 39,123,198
	Adjustments to Accumulated Depreciation	$ (1,319,494)	$ (121,028)	$ (24,822)	$ (99,812)	$ 24,889	$ (92,123)	$ (77,188)	$ 7,566	$ (1,702,012)
2	Adj. to Regulatory Asset/Deferred Credit	$ -	$ -	$ (700,000)	$ -	$ -	$ -	$ -	$ -	$ (700,000)
4	Adjustments to Working Capital	$ (485,547)	$ (46,080)	$ (78,337)	$ (44,919)	$ (17,694)	$ (32,574)	$ (23,813)	$ (6,459)	$ (735,423)
5	Adjustments to CIAC Amortization	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Adjustments to CAP Amortization	$ (69,152)								$ (69,152)
7	Adj. to Regulatory Liability/Deferred Credit	$ -		$ 28,000						$ 28,000
8	Phx Office/Metrer Shop Adjustments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
9	Authorized Rate Base	$ 19,915,139	$ 3,723,852	$ 3,746,364	$ 2,569,828	$ 769,042	$ 2,395,933	$ 2,553,185	$ 271,268	$ 35,944,611

DOCKET NO. W-01445A-02-0619

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-02-0619
TEST YEAR ENDED DECEMBER 31, 2001

	Apache Junction	Superior	Bisbee	Miami	Oracle	San Manuel	Sierra Vista	Winkelman
Service Charges:								
Establishment	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00
Guarantee Deposit	(c)	(c)	(c)	(c)	(c)	(c)	(c)	(c)
Reconnection for Delinquency (per disconnection)	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00	$ 16.00
Re-establishement	(d)	(d)	(d)	(d)	(d)	(d)	(d)	(d)
Service Call Out (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00
Returned Check Charge	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Meter Re-read (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00	$ 35.00
Meter Test	$ 50.00	$ 50.00	$ 50.00	$ 50.00	$ 50.00	$ 50.00	$ 50.00	$ 50.00
Late Charge	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)

(c) Per Commission Rule A.A.C. R14-2-403B
(d) Eight (8) times the customer's monthly minimum charge,
or payment of the minimums since disconnection, whichever is less.
N/A No current tariff.
(e) 1.5 percent after 15 days

DECISION NO. 66849

DOCKET NO. W-01445A-02-0619

Arizona Water Company
Docket No. W-01445A-02-0619
Test Year Ended December 31, 2001

EXHIBIT B
OPERATING STATEMENT

LINE NO.	DESCRIPTION	Apache Junction	Bisbee	Miami	Oracle	San Manuel	Sierra Vista	Superior	Winkelman	Eastern Group
1	Company Test Year Operating Income	$ 1,862,934	$ 31,709	$ 59,991	$ 167,200	$ (186,409)	$ 31,077	$ (6,904)	$ 9,436	$ 1,969,034
2	Adjustments to Revenue	$ -	$ (347)	$ -	$ -	$ -	$ -	$ -	$ -	$ (347)
3	Adjustment to Purchased Water	$ 5,747	$ -	$ -	$ 916	$ (7,875)	$ -	$ -	$ -	$ (1,212)
4	Adjustment to Purchased Power	$ 6,251	$ 3,783	$ 40,123	$ -	$ 1,024	$ 2,544	$ -	$ 122	$ 53,847
5	Adjustments to Water Treatment Expense	$ (5,320)	$ 6,143	$ 62,992	$ (9,014)	$ 9,269	$ 5,031	$ 8,847	$ (242)	$ 77,706
6	Adjustment to Transmission/Distrib. Exp.	$ 19,050	$ 4,261	$ 3,788	$ 1,724	$ 1,981	$ (4)	$ 1,639	$ 237	$ 32,676
7	Adj. to Customer Account Expense	$ (225)	$ 3	$ 1	$ (5)	$ 1	$ (4)	$ 4	$ 2	$ (223)
8	Adj. to Administrative /General Expense	$ 8,976	$ 1,996	$ 2,030	$ 977	$ 830	$ 1,372	$ 943	$ 116	$ 17,240
9	Adj. to Depreciation/Amortization	$ 337,635	$ 5,632	$ 42,131	$ 1,954	$ 12,874	$ 2,256	$ 2,100	$ 219	$ 404,801
10	Adjustment to Property Tax	$ (57,538)	$ 5,704	$ (3,010)	$ (953)	$ (6,957)	$ 5,240	$ (11,647)	$ (1,402)	$ (70,563)
11	Adj. to Federal/State Income tax	$ (280,267)	$ 14,509	$ (98,493)	$ (5,347)	$ 16,847	$ 8,133	$ 10,404	$ 597	$ (333,617)
8	ROO Test Year Adj. Operating Income	$ 1,897,243	$ 73,393	$ 109,553	$ 157,452	$ (158,415)	$ 55,645	$ 5,386	$ 9,085	$ 2,149,342

DOCKET NO. W-01445A-02-0619

066849

Arizona Water Company
Docket No. W-01445A-02-0619
Test Year Ended December 31, 2001

EXHIBIT C
REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	Apache Junction	Bisbee	Miami	Oracle	San Manuel	Sierra Vista	Superior	Winkelman	Eastern Group
1	Adjusted Rate Base	$ 19,915,139	$ 3,723,852	$ 3,746,364	$ 2,569,828	$ 769,042	$ 2,395,933	$ 2,553,185	$ 271,268	$ 35,944,611
2	Adjusted Operating Income (Loss)	$ 1,897,243	$ 73,393	$ 109,553	$ 157,452	$ (158,414)	$ 55,645	$ 5,386	$ 9,086	$ 2,149,344
3	Current Rate of Return (L2 / L1)	9.53%	1.97%	2.26%	6.13%	-20.60%	2.32%	0.21%	3.35%	5.98%
4	Required Rate of Return	8.7000%	8.7000%	8.7000%	8.7000%	8.7000%	8.7000%	8.7000%	8.7000%	8.7000%
5	Required Operating Income (L4 * L1)	$ 1,732,617	$ 323,975	$ 325,934	$ 223,575	$ 66,907	$ 208,446	$ 222,127	$ 23,600	$ 3,127,181
6	Operating Income Deficiency (L5 - L2)	$ (164,626)	$ 250,582	$ 216,381	$ 66,123	$ 225,321	$ 152,801	$ 216,741	$ 14,515	$ 977,837
7	Gross Revenue Conversion Factor	1.63195	1.63195	1.63195	1.63195	1.63195	1.63195	1.63195	1.63195	1.63195
8	Increase In Gross Revenue (L7 * L6)	$ (268,661)	$ 408,938	$ 353,123	$ 107,910	$ 367,712	$ 249,365	$ 353,710	$ 23,687	$ 1,595,782
9	Adjusted Test Year Revenue	$ 8,943,927	$ 1,256,603	$ 1,456,939	$ 827,577	$ 474,250	$ 896,485	$ 698,968	$ 98,022	$ 14,652,771
10	Proposed Annual Revenue (L8 + L9) Note A	$ 8,675,266	$ 1,665,541	$ 1,810,062	$ 935,487	$ 841,962	$ 1,145,850	$ 1,052,678	$ 121,709	$ 16,248,553
11	Require Increase in Revenue (%) (L8/L9)	-3.00%	32.54%	24.24%	13.04%	77.54%	27.82%	50.60%	24.16%	10.89%

DECISION NO. 66849

DOCKET NO. W-01445A-02-0619

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-02-0619
TEST YEAR ENDED DECEMBER 31, 2001

EXHIBIT D
RATE DESIGN

	Apache Junction	Superior	Bisbee	Miami	Oracle	San Manuel	Sierra Vista	Winkelman
Monthly Usage Charge:								
5/8" x 3/4" Meter	$ 12.54	$ 12.54	$ 16.32	$ 15.44	$ 19.31	$ 19.94	$ 15.40	$ 12.95
1" Meter	$ 34.30	$ 34.30	$ 43.78	$ 38.87	$ 40.62	$ 42.51	$ 32.71	$ 38.15
2" Meter	$ 120.20	$ 120.20	$ 141.06	$ 129.86	$ 166.69	$ 234.67	$ 125.47	$ 81.75
3" Meter	$ 236.03	$ 236.03	$ 267.25	$ 248.35	$ 220.51	$ 358.76	$ 284.04	$ 241.28
4" Meter	$ 480.25	$ 480.25	$ 477.98	$ 497.76	$ 286.45	$ 453.35	$ 398.10	$ 451.22
6" Meter	$ 774.01	$ 774.01	$ 662.53	$ 875.26	$ 341.11	$ 538.19	$ 604.72	$ 616.16
8" Meter	$ 926.15	$ 926.15	$ 891.27	$ 1,163.12	$ 625.36	$ 854.56	$ 725.66	$ 764.18
10" Meter	$ 1,157.69	$ 1,157.69	$ 1,200.36	$ 1,305.25	$ 837.19	$ 1,228.50	$ 907.08	$ 935.02
Gallons Included In Minimum Charge:								
5/8" x 3/4" Meter	0	0	0	0	0	0	0	0
1" Meter	0	0	0	0	0	0	0	0
2" Meter	0	0	0	0	0	0	0	0
3" Meter	0	0	0	0	0	0	0	0
4" Meter	0	0	0	0	0	0	0	0
6" Meter	0	0	0	0	0	0	0	0
8" Meter	0	0	0	0	0	0	0	0
10" Meter	0	0	0	0	0	0	0	0
Fire Hydrants Used For Construction Water	0	0	0	0	0	0	0	0
Commodity Rates :								
Per 1,000 Gallons (In Excess of Minimum)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Per 1,000 Gallons for 0 to 10,000 Gallons	$ 1.9688	$ 2.2000	$ 2.5940	$ 3.1400	$ 4.9850	$ 1.7040	$ 1.6120	$ 1.1360
Per 1,000 Gallons for 10,001 to 25,000 Gallons	$ 2.4610	$ 2.7500	$ 3.2420	$ 3.9250	$ 6.2310	$ 2.1300	$ 2.0150	$ 1.4200
Per 1,000 Gallons for Gallons in Excess of 25,000	$ 2.9532	$ 3.3000	$ 3.8900	$ 4.7100	$ 7.4770	$ 2.5560	$ 2.4180	$ 1.7040
Service Line and Meter Installation Charge:								
5/8" x 3/4" Meter	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
1" Meter	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
2" Meter	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)
3" Meter	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)
4" Meter	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)
6" Meter	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)

(a) No charge for 5/8" and 1" if on existing pipelines. Full cost for 5/8" and 1" if if on new pipelines.
(b) Full cost for 2"and larger if on existing or new pipelines.

DOCKET NO. W-01445A-02-0619

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

Arizona Corporation Commission
DOCKETED
JUN 30 2004
DOCKETED BY nR

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 WASTEWATER 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 WASTEWATER DISTRICTS.	DOCKET NO. WS-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 WASTEWATER DISTRICT.	DOCKET NO. WS-01303A-02-0870 DECISION NO. 67093 **OPINION AND ORDER**

EXHIBIT
S-2
administrative notice

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 TUBAC WATER DISTRICT.	DOCKET NO. W-01303A-02-0908

DATE OF HEARING:	November 5, 12, 13 and 18 (Public Comment); December 1 (Pre-Hearing), 4, 5, 8, 9, 10, 11, 12, 22 and 23, 2003.
PLACE OF HEARING:	Anthem, Surprise, Sun City, Bullhead City, Lake Havasu City and Tubac, Arizona (Public Comment); Phoenix, Arizona.
ADMINISTRATIVE LAW JUDGE:	Teena Wolfe
IN ATTENDANCE:	Chairman Marc Spitzer Commissioner William A. Mundell Commissioner Jeff Hatch-Miller Commissioner Mike Gleason Commissioner Kristin K. Mayes
APPEARANCES:	Mr. Jay L. Shapiro and Mr. Norman D. James, FENNEMORE CRAIG, P.C., on behalf of Arizona-American Water Company, Inc.; Mr. Walter W. Meek, President, Arizona Utility Investors Association; Mr. Frank J. Grimmelmann, in propria persona; Mr. Raymond E. Dare, President, Sun City Taxpayers Association; Mr. Paul R. Michaud, Mr. Larry K. Udall and Mr. William P. Sullivan, MARTINEZ & CURTIS, P.C., on behalf of the Town of Youngtown; Mr. Robert Taylor and Mr. Kenneth C. Sundlof, Jr., JENNINGS, STROUSS & SALMON, P.L.C., on behalf of Sun Health Corporation; Mr. Daniel Pozefsky on behalf of the Residential Utility Consumer Office; and Mr. Timothy J. Sabo, Mr. Gary H. Horton, Mr. Jason Gellman, Staff Attorneys, Legal Division, and Ms. Janice Alward, Assistant Chief Counsel, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

I. INTRODUCTION

A. Procedural History

On November 22, and December 13, 2002, Arizona-American Water Company, Inc. ("Arizona-American" or "Company") filed applications in the above-captioned dockets with the Arizona Corporation Commission ("Commission").

The applications request rate adjustments for ten districts owned by Arizona-American: Sun City West Water, Sun City Wastewater, Sun City Water, Sun City Wastewater, Mohave Water, Havasu Water, Anthem Water, Agua Fria Water, Anthem/Agua Fria Wastewater, and Tubac Water. These districts were previously owned and operated by Citizens Communications Company ("Citizens"). Arizona-American acquired these districts on January 15, 2002.[1] Arizona-American owns an additional wastewater district and an additional water district, but is not requesting a rate adjustment for those districts at this time. The wastewater district was formerly known as Sorenson Utility Company and was acquired from Citizens as part of the January 15, 2002 acquisition. The water district is the Paradise Valley Water District, which Arizona-American has owned and operated since the late 1960s.

On January 30, 2003, the Commission's Utilities Division Staff ("Staff") filed a letter in these dockets informing Arizona-American that the applications were sufficient.

On February 19, 2003, a Procedural Conference was held at the joint request of the Company, RUCO and Staff for the purpose of discussing the consolidation of the applications and other procedural matters, and on March 14, 2003, a Rate Case Procedural Order was issued consolidating the applications, setting the consolidated matters for hearing to commence on October 14, 2003, and

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[1] The Commission approved the sale of Citizens' water and wastewater utility plant, property and assets in Arizona, and the transfer of Citizens' related Certificates of Convenience and Necessity to Arizona-American in Decision No. 63584 (April 24, 2001), and approved debt financing for Arizona-American's acquisition in Decision No. 64002 (August 30, 2001). On December 12, 2002, the Commission issued Decision No. 65453, which conditionally approved, under the Commission's Public Utility Holding Companies and Affiliated Interests Rules, A.A.C. R14-2-801 *et seq.*, a reorganization consisting of the merger of Arizona-American's parent, American Water Works Company, Inc., with a subsidiary of RWE AG. One condition of the Commission's approval was that Arizona-American refrain from filing any non-emergency rate increase requests for three years from the closing date of the reorganization. These consolidated rate applications were filed prior to the closing date of the reorganization, and thus are not subject to the conditions of Decision No. 65453. Arizona-American's appeal of Decision No. 65453 is pending in the Arizona Court of Appeals.

setting associated procedural deadlines.

Following a request by the Company and Staff to continue the procedural schedule, an Amended Rate Case Procedural Order was issued on June 6, 2003, continuing the hearing date to December 4, 2003, and accordingly extending the timeclock for a final Commission decision.

The Residential Utility Consumer Office ("RUCO"), Mr. Carlton G. Young, Mr. Frank J. Grimmelmann, Sun City Taxpayers Association ("SCTA"), the Town of Youngtown ("Youngtown"), Arizona Utility Investors Association ("AUIA"), Fiesta RV Resort Limited Partnership ("Fiesta"), and Sun Health Corporation ("Sun Health") were all granted intervention in this matter.

By Procedural Order of October 2, 2003, the Commission scheduled public comment open meetings in the affected Districts in order to allow customers to more conveniently provide public comment. Commissioners took public comment in Anthem on November 5, in Surprise and Sun City on November 12, in Bullhead City and Lake Havasu City on November 13, and in Tubac on November 18, 2003. Evidentiary hearings were conducted in Phoenix on December 4, 5, 8, 9, 10, 11, 12, 22 and 23, 2003. Closing briefs were filed on February 4, 2004 and reply briefs were filed on February 18, 2004.

B. Rate Applications

According to the Company's revised schedules, in the test year ended December 31, 2001, Arizona-American's ten requesting Districts had adjusted operating income of $5,156,336 on an adjusted reconstruction cost new less depreciation ("RCND") rate base of $136,190,641, an approximate 3.79 percent rate of return on RCND. Arizona-American requests a revenue increase of $8,246,082, for a 7.5 percent rate of return on its proposed RCND rate base of $136,190,641. The Company's request would increase revenue by approximately 27.58 percent for the ten requesting Districts.

By District, according to Arizona-American's revised schedules, adjusted test year operating income was as follows:

District	Test Year Adjusted Operating Income (Company)
Sun City West Water	$ 447,938
Sun City West Wastewater	($ 42,627)

Sun City Water	$ 581,339
Sun City Wastewater	$ 1,130,307
Mohave Water	$ 915,999
Havasu Water	$ 14,756
Anthem Water	$ 731,486
Agua Fria Water	$ 1,340,208
Anthem/Agua Fria Wastewater	$ 18,444
Tubac Water	$ 18,486
Ten District Total	$ 5,156,336

According to the Company's revised schedules,[2] in the test year ended December 31, 2001, the ten Districts' adjusted original cost rate base ("OCRB")[3] and RCND[4] rate bases were as follows:

District	Adjusted Test Year OCRB (Company)	Adjusted Test Year OCRB (Company, with Acq. Adj. Removed)[5]	Adjusted Test Year RCND (Company)
Sun City West Water	$ 20,165,548	$12,063,646	$ 15,432,917
Sun City West Wastewater	$ 19,236,443	$ 8,915,007	$ 12,221,084
Sun City Water	$ 31,686,119	$22,014,473	$ 44,279,756
Sun City Wastewater	$ 13,933,851	$ 8,709,672	$ 17,192,669
Mohave Water	$ 15,731,014	$ 9,656,133	$ 13,350,302
Havasu Water	$ 1,394,854	$ 875,573	$ 1,216,964
Anthem Water	$ 20,228,820	$ 9,267,853	$ 9,627,995
Agua Fria Water	$ 29,926,200	$16,722,762	$ 18,346,919

[2] Rejoinder Testimony Schedules B-1 for each District.

[3] Pursuant to A.A.C. R14-2-103(A)(3)(h), OCRB is "[a]n amount consisting of the depreciated original cost, prudently invested, of the property (exclusive of contributions and/or advances in aid of construction) at the end of the test year, used or useful, plus a proper allowance for working capital and including all applicable pro forma adjustments."

[4] Pursuant to A.A.C. R14-2-103(A)(3)(n), RCND is "[a]n amount consisting of the depreciated reconstruction cost new of the property (exclusive of contributions and/or advances in aid of construction) at the end of the test year, used and useful, plus a proper allowance for working capital and including all applicable pro forma adjustments. Contributions and advances in aid of construction, if recorded in the accounts of the public service corporation, shall be increased to a reconstruction new basis."

[5] The OCRB figures in the Company's Rejoinder Schedules B-1 included an acquisition adjustment for each District. As the Company stated in Direct Testimony, it is not requesting recovery on the acquisition adjustment (Exh. A-65 at 22), and the acquisition adjustment figures have been subtracted in this column.

Anthem/Agua Fria W/W	$ 8,819,139	$ 2,731,317	$ 2,789,661
Tubac Water	$ 1,653,394	$ 1,126,292	$ 1,732,373
Ten District Total	$162,775,382	$92,082,728	$136,190,640

By District, the Company's request would increase/decrease revenue by the following amounts:[6]

District	Requested Increase in Revenue	(Percent)
Sun City West Water	$ 1,156,931	34.22 %
Sun City West Wastewater	$ 1,565,307	44.27 %
Sun City Water	$ 4,453,775	71.92 %
Sun City Wastewater	$ 260,879	5.13 %
Mohave Water	$ 142,344	3.24 %
Havasu Water	$ 123,933	28.11 %
Anthem Water	($ 12,809)	(0.32 %)
Agua Fria Water	$ 62,372	1.01 %
Anthem/Agua Fria Wastewater	$ 311,419	16.68 %
Tubac Water	$ 181,931	71.49 %
Ten District Total	$ 8,246,082	27.58%

1. Acquisition Adjustment/Amortization

Decision No. 63584 (April 24, 2001), which approved Citizens' sale of assets to Arizona-American, ordered that future authorization of any acquisition adjustment recovery should be based on Arizona-American's ability to demonstrate that clear, quantifiable and substantial net benefits have been realized by ratepayers in the affected areas, which would not have been realized had the transaction not occurred.

As required by the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts, the Company has recorded the difference between the asset purchase price of Citizens' water and wastewater systems and their recorded book cost less depreciation, for

[6] Exh. A-24, Ex. 1.

accounting purposes (Exh. A-65 at 20; Exh. A-74 at 9-10, 14). In this proceeding, the Company has not attempted to prove the net benefits as required by Decision No. 63584; is not requesting recovery of its recorded acquisition adjustment; and states that it has not included an acquisition adjustment in its RCND rate base computation (Exh. A-74 at 10-11). Staff testified that if in the future Arizona-American requests recognition of an acquisition adjustment, the effect of lost accumulated deferred income credits of $4.6 million and investment tax credits of $1.9 million must be accounted for in the calculation of "net benefits" as required by Decision No. 63584, because the effect of the elimination of these items in the transfer of assets from Arizona-American to Citizens was an increase to rate base (Exh. S-47 at 20-21).

The Company requests authority at this time to deviate from the standard straight-line amortization accounting treatment of the recorded acquisition adjustment balance, and instead use a mortgage-style amortization method over 40 years (Exh. A-65 at 20). Arizona-American argues on brief that this would be beneficial because (1) the amount available for recovery in a future rate case, if requested, would be smaller; and (2) extinguishment of the acquisition adjustment from the Company's books would reduce controversy as to whether the adjustment constitutes an "original cost" if the utility were sold again in the future.

Staff's witness testified that until the acquisition adjustment is recognized, there is no asset to amortize (Tr. at 1492). We agree, and find that it is premature to consider the Company's amortization request in this proceeding.

II. RATE BASE

A. Plant in Service

1. Accumulated Depreciation on Unidentified and Not Used and Useful Plant

In aggregate for the ten Districts, Staff proposed an adjustment removing $2,270,531 from plant the Company recorded at the end of the test year. The adjustment included removal of a total of $1,737,746 of not-used-and-useful plant, with a corresponding $543,880 reduction to Accumulated Depreciation; and a total of $272,649 of unidentified plant, with a corresponding $109,792 reduction to Accumulated Depreciation. Arizona-American accepted Staff's plant-in-service adjustments, with its own adjustments to comport with its method of common plant allocations for each District based

on year-end customer counts. The Company did not, however, accept all of Staff's adjustments to Accumulated Depreciation related to the not-used-and-useful and unidentified plant amounts. The Company states that Staff correctly removed the accumulated depreciation through December 31, 2001 on unidentified plant that was never afforded rate base treatment. The Company asserts, however, that not-used-and-useful plant that was never previously given rate base treatment should now be treated as abandoned. Treating such plant as abandoned would require that accumulated depreciation on that plant through December 31, 2001 also be removed from Accumulated Depreciation. The Company further asserts that unidentified plant and not-used-and-useful plant that was previously given rate base treatment should now be treated as retired, which would require Accumulated Depreciation to be reduced by the full original cost of that plant. The Company believes that a total additional $438,000 should be removed from Accumulated Depreciation.

Arizona-American argues that it only recently took ownership and simply could not have assessed the "usefulness" of every plant item before filing these consolidated applications; that it was Citizens' inaction that caused the plant to be improperly recorded as plant-in-service; and that if plant cannot be identified, the Company cannot attempt to place it back in service (Exh. A-24 at 5). Staff asserts that Arizona-American became fully responsible for the Citizens' assets, and any related records, upon closing of the sale; that it presumably conducted a due diligence investigation of the assets before buying them; and that Arizona-American should be held responsible for any inadequate Citizens records. Staff contends that in order to retire an asset, the asset's salvage value must be calculated, and that a retired asset must be shown as retired on a company's books.

We agree with Staff that Arizona-American became fully responsible for the Citizens assets, and any related records, upon closing of the sale. The Company did not demonstrate that the plant items in question were retirements. It did not calculate the salvage value of the assets for which the Company seeks retirement treatment (Tr. at 163), and did not know whether the assets in question were shown as retired on Arizona-American's books (Tr. at 220). Staff's accumulated depreciation treatment on the not-used-and-useful and unidentified plant was logical and appropriate. We will therefore accept Staff's adjustments to Plant in Service and corresponding adjustments to Accumulated Depreciation.

2. Half-Year Convention

The Company believes that RUCO's proposed use of the half-year convention would understate the Company's plant balances and rate base. Arizona-American already employs a half-month convention, whereby a plant item is treated as being placed in service on the 15th of the month it becomes operational (Exh. A-21 at 7). The Company agrees with RUCO that the half-year convention should be utilized absent a reason to depart from the usual methodology, but asserts that its use would be improper here. The Company contends that there is no reason to be less accurate than the Company's system allows for, and notes that like the Company, Staff did not utilize the half-year convention in this case. We agree with the Company, and will not adopt RUCO's proposed adjustment.

3. Mohave AIAC and CIAC Balances

RUCO proposed an adjustment correcting a discrepancy between the balances in Citizens' general ledger and the Mohave District application for advances in aid of construction ("AIAC"), and making a corresponding correction to the Mohave District's contribution in aid of construction ("CIAC") balance (Exh. R-1 at 10-11, Sched. TJC-3). These adjustments are appropriate and we will adopt them.

4. Allocation of Computer Equipment

Staff proposed an adjustment removing certain computer equipment from Arizona-American's rate base as not used-and-useful in a total amount of $592,003 with a corresponding decrease to Accumulated Depreciation of $40,759 (Exh. S-48 at 14-16). Staff recommends that its version of the allocation (using the Company's allocation basis) be adopted. The Company agreed that this adjustment was made in accordance with the Company's allocation methodology (Exh. A-24 at 4), and we will adopt it.

B. <u>Property Tax Calculation</u>

In calculating its proposed level of property tax expense, RUCO used the years 1999, 2000 and 2001 to calculate revenues (Exh. R-2 at 2). RUCO states that this method complies with the methodology set forth in the January 3, 2001 memo from the Arizona Department of Revenue property tax division ("ADOR") to "Arizona Water and Sewer Utility Companies" regarding

"Modification of Evaluation Formula." (*See* Exh. R-2, Ex. 1). The memo states that the methodology for valuation is the product of an agreement between ADOR and the Water Utilities Association of Arizona. The Company asserts, however, that 1999, 2000 and 2001 will never again be used by ADOR in determining property tax levels for the Company, and therefore RUCO's calculation understates property tax expense. The Company argues that proposed revenue increases should be considered in determining the appropriate level of property tax to be recovered through rates, and states that it calculated its proposed property tax expense using a methodology approved by the Commission in the *Arizona Water Company* Decision No. 64282 (December 28, 2001), and *Bella Vista Water Co.* Decision No. 65350 (November 1, 2002) (Exh. A-1 at 14).

Staff calculated property tax expense using its proposed adjusted test year revenues twice and its recommended revenues once to calculate a three year average of revenues. We agree with Staff that using only historical revenues to calculate property taxes to include in the cost of service fails to capture the effects of future revenue from new rates, and can result in an understatement or overstatement of property tax expense. RUCO's methodology, although it follows the methodology set forth in the January 3, 2001, memo from ADOR, is less accurate than the methodology utilized by Staff. The Commission's calculation of property tax expense for ratemaking purposes is not controlled by ADOR's January 3, 2001 memo. We accept Staff's methodology for the calculation of property tax expense in this case.

III. ORIGINAL COST RATE BASE

Based on the foregoing discussion, we adopt an adjusted OCRB for ratemaking purposes for the ten Districts of $90,861,823. By District, we adopt an adjusted OCRB for ratemaking purposes for the Sun City West Water District of $11,971,281; for the Sun City West Wastewater District of $8,916,017; for the Sun City Water District of $21,853,479; for the Sun City Wastewater District of $8,713,382; for the Mohave Water District of $8,791,741; for the Havasu Water District of $822,117; for the Agua Fria Water District of $16,665,182; for the Anthem Water District of $9,269,095; for the Anthem/Agua Fria Wastewater District of $2,731,868; and for the Tubac Water District of $1,127,661.

. . .

IV. RECONSTRUCTION COST NEW RATE BASE

As discussed above, Arizona-American submitted schedules reflecting both an OCRB and an estimated RCND rate base for each water and wastewater District in the consolidated applications. The Company revised its reconstruction cost new plant studies in response to Staff's criticism of its estimated reconstructed plant values to Staff's general satisfaction (Exh. A-51 at 4; Exh. A-21 at 19; Exh. S-39 at 3). All of the adjustments reflected in our determination of the OCRB are equally applicable to the Company's proposed RCND. With the changes in these adjustments necessary to restate them in terms of reconstruction cost new, we adopt an adjusted RCND for the ten Districts of $134,406,301. By District, we adopt an adjusted RCND for ratemaking purposes for the Sun City West Water District of $15,314,756; for the Sun City West Wastewater District of $12,222,469; for the Sun City Water District of $43,955,934; for the Sun City Wastewater District of $17,199,992; for the Mohave Water District of $12,132,752; for the Havasu Water District of $1,142,665; for the Agua Fria Water District of $18,283,746; for the Anthem Water District of $9,629,285; for the Anthem/Agua Fria Wastewater District of $2,790,224; and for the Tubac Water District of $1,734,478.

V. FAIR VALUE RATE BASE

In accordance with the Commission's usual practice when a utility files reconstruction cost new data in support of an application for a general increase in rates, Staff proposed a fair value rate base ("FVRB") for each District derived from the average of the RCND and OCRB. RUCO did not consider the RCND rate base in developing its recommended revenues for each District (Exh. R-7 at 8-12). Youngtown also advocates that OCRB alone should be used as FVRB (Exh. Y-5 at 9-11). Mr. Grimmelmann concurs with RUCO and Youngtown that the FVRB should be based solely on OCRB (Grimmelmann Br. at 5). SCTA believes that Staff and RUCO calculated their proposed rates using appropriate rate setting methodologies, and that they are fair and equitable (SCTA Br. at 1).

The Company requests that the Commission reject these FVRB recommendations and instead find its proposed RCND rate base to be its FVRB. Arizona-American contends that its RCND provides the best measure of the Company's FVRB, based on its assertion that the RCND provides a more accurate estimate than the OCRB of the current value of the Company's utility plant and

property used to provide service. The Company believes this case is distinguishable from past cases in which the Company accepted the Commission's traditional method of determining FVRB, because there is recent purchase price evidence in this case (Co. Br. at 20-23). In Arizona-American's view, the use of RCND alone as the FVRB in this particular case is supported by the approximately $276.5 million price Arizona-American recently paid for the Citizens' water and wastewater systems and related assets (approximately $270 million for the assets that are the subject of this proceeding), which included an initial book acquisition adjustment of approximately $71 million (*See* Exhs. A-65 at 10; A-69 through A-73, Tab A). AUIA states that while it could be argued that the price Arizona-American paid in the arms-length transaction with Citizen represents the actual value of the Company's property, it agrees with Arizona-American that RCND is an acceptable proxy (AUIA Br. at 5).

A. Discussion

Arizona-American asserts that its arms-length agreement with Citizens to purchase the assets for approximately $71 million over book value provides evidence that the current value of the Districts' utility plant and property exceeds its original cost; that this fact precludes the use of an OCRB to set rates in this proceeding under the fair value standard (Co. Br. at 23); and that no party has provided a legitimate basis for using the average of OCRB and RCND to determine the Company's FVRB (Co. Reply Br. at 5).

AUIA charges that OCRB "has nothing to do with the actual value of the company's property" and that "book value is an accounting fiction that is unrelated to real value and is not responsive to the requirements of *Simms*" (AUIA Br. at 5).

The Company admits that its RCND estimates are not entirely accurate, stating that its proposed RCND understates the current value of its utility plant and property because it does not include a trended value for its real property, franchises, organizational costs and other intangibles; because trended (increased) AIAC and CIAC balances have been deducted from the RCND, in accordance with Decision No. 63584;[7] and because the RCND does not include any amount for the

[7] Decision No. 63584, which authorized Citizens' sale to Arizona-American, adopted the negotiated agreement between the Company and Staff regarding the imputation and adjustment, for ratemaking purposes, of Citizens' AIAC and CIAC balances at the time of the sale.

Districts' "value as a going concern." (Co. Br. at 21-22).

Arizona-American contends that the methodology Staff and RUCO advocate for determination of the Company's FVRB is based on historic cost rather than current value, and that it amounts to a "prudent investment" methodology, which the Company states contravenes the holdings of *Arizona Corp. Comm'n v. Arizona Water Co.*, 85 Ariz. 198, 203, 335 P.2d 412, 415 (1959)("*Arizona Water*") and *Simms v. Round Valley Light & Power Co.*, 80 Ariz. 145, 294 P.2d 378, (1956)("*Simms*")(Co. Br. at 5-6, 8). The Company asserts that the fair value standard is based on the value of property and the prudent investment standard is based on the cost of property (*Id.* at 6-8); that fair value rate base is based on value determined at the time rates are set and prudent investment rate base is derived from the amount originally invested when the property was first devoted to public service (*Id.* at 9-10); and that under the fair value system, a utility will be entitled to a greater return when the value of property increases, but will also bear the risk that the value of its property may decrease (*Id.* at 10-12). The Company also cites *Arizona Water* for its holding that failure to determine fair value and provide for a fair return on property employed is a taking without due process of law.

Youngtown believes that the Company's request to use RCND as FVRB side-steps Decision No. 63584's requirement that recognition of any acquisition adjustment be supported by quantifiable benefits to ratepayers resulting from the acquisition (Youngtown Br. at 3). Youngtown argues that the purchase transaction was consummated after the issuance of Decision No. 63584, and that Arizona-American purchased utility assets with a known book value that were generating income based upon that book value. Youngtown charges that the Company concedes it has made no demonstration of acquisition benefits in this case; that the Company should not be allowed to do indirectly that which it is prohibited from doing directly; and that giving any weight to RCND will have that precise effect (*Id.* at 10-12). Youngtown contends that public policy mandates the exclusion of the Company's RCND estimates of plant value from the required fair value determination (Youngtown Br. at 7-8). Youngtown believes that the holding of *Cogent Pub. Serv., Inc. v. Arizona Corp. Comm'n,* 142 Ariz. 52, 688 P.2d 698 (App. 1984), which upheld the exclusion of contributed plant from FVRB, supports Youngtown's position that it is proper to look beyond the

pure issue of cost and set FVRB based upon principles underlying general public policies (*Id.*).

RUCO agrees with the Company that the Commission is required to consider both OCRB and RCND evidence when determining FVRB (RUCO Br. at 3). RUCO objects, however, to the Company's proposed revenue requirement, which RUCO believes double-counts inflation; once in the cost of capital analysis, and again in the RCND rate base, resulting in a significantly overstated revenue requirement (*Id.* at 4, RUCO Reply Br. at 3). RUCO contends that the Company has failed to justify a departure from the traditional ratemaking formula for the use of a formula that will result in an overstated revenue requirement (RUCO Br. at 6-7).

Staff states that fair value is a flexible standard that includes consideration of original cost, and that *Simms* cannot be read to ban the use of original cost (Staff Reply Br. at 1-4). Staff argues that an OCRB does not violate the requirement of *Simms* and other cases holding that fair value must be determined "at the time of inquiry," because the OCRB varies over the course of time due to depreciation, retirements, etc. (*Id.* at 4). Responding to the Company's accusation that Staff uses the "prudent investment theory," Staff states that the prudent investment theory focuses on capital rather than assets, and that Staff looked to the original cost of the Company's assets rather than the invested capital (*Id.*). Staff contends that RCND is inherently speculative, "at best opinion evidence that carries the weakness of some inaccuracy" (*Id.* at 5, citing *Simms* at 153, 294 P.2d at 383) and should not be given great weight when other evidence of value, such as original cost, is available (*Id.* at 5). In response to the Company's contention that the purchase price paid for the assets supports the use of its estimated RCND, Staff states that the Company's witness on this point agreed that using the purchase price to set rates is circular (Tr. at 197-198), and that *Arizona Water* holds that the purchase price, standing alone, should not be considered in determining rate base (Staff Reply Br. at 6, citing *Arizona Water* at 203-04, 335 P.2d at 415).

B. <u>Conclusion</u>

We disagree with the Company's assertion that this Commission's traditional practice for determining fair value rate base amounts to the "prudent investment theory" discussed in *Arizona Water* and *Simms*. The OCRB methodology is based on current, verifiable and reasonable adjustments to a verifiable, objective record of the value of assets, and not on the original capital

investment in those assets. In our consideration of all the relevant factors for our fair value determination in this case, we observe the Company's admission that its estimated RCND does not accurately reflect even its own view of the value of its assets, and agree with Staff's contention that RCND is inherently speculative. The Company argues that the price it paid for the Citizens assets supports the adoption of its comparable RCND estimate as the fair value of its utility property. We reject this argument. While the approximately $71 million over book cost price the Company freely chose to pay for the Citizens assets may represent the value of the acquisition to Arizona-American and its shareholders, it does not automatically follow that the price paid equates to the fair value of those assets for ratemaking purposes. Essentially, the Company's line of reasoning boils down to an argument that "market price" equals "fair value" for ratemaking, and this does not hold. From a ratemaking perspective, a change in ownership of assets devoted to public use should not change their fair value. As far as any ratemaking benefit that might result from a change in ownership, we addressed that issue in Decision No. 63584.

The Company dismisses RUCO's and Youngtown's arguments that Arizona-American is attempting to recover a return on an acquisition premium in this proceeding as "simply a red herring" (Co. Br. at 24). We accept the Company's argument that no line item "acquisition adjustment" appears in the Company's RCND calculations (*See* Co. Reply Br. at 10-11). However, we are in agreement with the premise of Youngtown's argument that accepting the Company's RCND estimates as FVRB in this proceeding would have the effect of granting the Company the benefit of the acquisition adjustment we addressed in Decision No. 63584 without the requisite showing of quantifiable benefits to its ratepayers resulting from the acquisition, as mandated by that Decision. At the time we issued Decision No. 63584, we believed it was in the public interest to require a demonstration that clear, quantifiable and substantial net benefits have been realized by affected ratepayers, which benefits would not have been realized had the transaction not occurred, prior to making those ratepayers responsible for acquisition costs. The Company did not attempt to make such a showing in this proceeding. We continue to believe that such a requirement serves the public interest, and will not allow what we believe would be an inappropriate indirect recovery of the acquisition adjustment through acceptance of the Company's RCND estimate alone as FVRB in this

proceeding.

C. Fair Value Rate Base Summary

Contrary to the Company's assertion that no party has provided a legitimate basis for using the average of OCRB and RCND to determine the Company's FVRB, there has been no legitimate basis presented for departing from this traditional ratemaking methodology. We find that the average of the adjusted OCRB and RCND provides a reasonable measurement of the current value of the Company's property dedicated to public service. Based upon a 50/50 weighting of the OCRB and RCND, this Commission finds the FVRB at December 31, 2001 for the ten Districts to be $112,634,062. By District, we find that the FVRB for the Sun City West Water District is $13,643,019; for the Sun City West Wastewater District, $10,569,243; for the Sun City Water District, $32,904,707; for the Sun City Wastewater District, $12,956,687; for the Mohave Water District, $10,462,247; for the Havasu Water District, $982,391; for the Agua Fria Water District, $17,474,464; for the Anthem Water District, $9,449,190; for the Anthem/Agua Fria Wastewater District, $2,761,046; and for the Tubac Water District, $1,431,070.

VI. OPERATING INCOME

A. Corporate Overheads, Salaries and Wages

Arizona-American proposed pro forma adjustments to remove Citizens' test year corporate overhead allocations and salaries and wages and replace them with adjusted 2002 American Water Works overheads, Service Company charges, and salaries and wages. With its initial filing, the Company utilized estimates of the 2002 amounts, but later provided actual 2002 expense amounts. The Company proposes that expenses be based on the monthly average of the costs incurred between March and December of 2002, because it believes January and February were not representative of its administrative and general management processes (Tr. at 613-616).

Staff argued that the test year figures for Citizens' corporate overheads and service company charges and salaries and wages should be used because the 2002 figures are not known and measurable; the use of 2002 figures creates a mismatch between test year revenues, expenses, and rate base; the 2002 figures are imprudently high; and use of 2002 figures makes ratepayers responsible for a new owner's higher costs. Staff asserted that the Company's proposed adjustments

increase expenses by $3.6 million.

The Company responded that although 2002 revenues increased over 2001 by $3.5 million, $2.7 million of that amount resulted from the fact that the Company removed surcharge-related revenues and expenses from its test year figures and the 2002 figures (Tr. at 1548-1551). The Company asserts that Citizens' test year corporate overhead allocations, service company charges, and salaries and wages were artificially reduced as a result of the pending sale of its assets to Arizona-American, and are not indicative of the expenses that Arizona-American will incur in connection with its operations on a going-forward basis. The Company's witnesses testified that the 2001 level of expenses reflected the fact that Citizens, in anticipation of the sale, had ceased all long-range planning for capital improvements, reduced staffing levels, postponed important management decisions and terminated information technology support, and that left unchanged, the situation would have impacted the utility's ability to maintain adequate service to ratepayers (Exh. A-35 at 7-8; Tr. at 284, 1603-1605).

RUCO agreed with the Company that expense adjustments are necessary to remove the Citizens' test year overheads, service company charge and salaries and wage level of expenses, and replace them with Arizona-American's expense levels (Exh. R-1 at 11, 12, 14; Exh. R-3 at 19-21; Exh. R-7 at 20-23). RUCO recommended that the Commission adopt its calculation of projected corporate overhead expense of $4,216,091 (Exh. R-3 at 23-24; Exh. R-4 at 9), which is based on the Company's actual January through December 2002 overhead levels. RUCO also recommended that the Commission adopt a Company-wide payroll expense capitalization rate, and not the 2002 capitalization factors for each system proposed by the Company (Exh. R-8 at 8-9), explaining that because the proportion of salaries and wages capitalized by an individual system can vary from year to year, a Company-wide average capitalization factor better captures the year-to-year ebb and flow of construction projects, and is more appropriate for setting rates on a going-forward basis (*Id.*).

For ratemaking purposes, adjustments must be made to actual test year data to reflect known and measurable changes and to obtain a normal or more realistic relationship between revenues, expenses, and rate base, so that rates can be designed to reflect a normalized, realistic, and reasonable cost of providing service based on current conditions. We agree with the Company and RUCO that it

is the known and measurable 2002 Arizona Water Works overheads, Service Company charges, and salaries and wages that Arizona-American will incur during the period the rates are in effect. We do not find Staff's argument that the higher 2002 costs are solely the product of the utility's new ownership a convincing reason to place artificially reduced expenses in rates. We find RUCO's recommended expense levels for corporate overheads, Service Company charges, and salaries and wages to be reasonable, and will adopt them.

B. Rate Case Expense

Arizona-American is requesting recognition of $715,000 in rate case expense amortized over three years (Exh. A-74 at 23). The Company did not provide a breakdown of rate case expense other than its estimate that the Company's total rate case expense will be between $1.3 million and $1.4 million. The Company based this estimate on the amount of expenses incurred through November 2003 of over $1 million according to its representation, exclusive of legal costs incurred in November 2003, any costs incurred during the month of December, and all post-hearing costs (Tr. at 1593).

The Company's witness stated that despite the increase in its expenses over its original request of $715,000, it is not requesting recognition of additional rate case expense (*Id.*). RUCO, the only party to dispute the Company's request, asserts that the Company failed to mitigate its rate case expense and that the Company's request is unreasonable. RUCO contends that the Company's excessive rate case expense is the result of the Company choosing a 2001 test year and the Company's choice to mount legal arguments for a deviation from this Commission's long-standing formula for determining revenue requirement. RUCO believes that the shareholders, and not the ratepayers, should be responsible for the resulting excess expense.

RUCO stated that while the Company's purchase of Citizens' assets formally closed on January 15, 2002, the Company chose the period ending December 31, 2001 as its test year, which resulted in the costly situation that all the data to support the Company's rate case proposal was held by another company, Citizens, which no longer existed and no longer had any employees. RUCO pointed out that this required an audit of two companies, both Arizona-American and Citizens, and that the Company could have reduced the work required if it had waited to file this rate case until it could use a historical test year based on its own operations. Regarding the expense required for the

Company to pursue its novel legal argument regarding this Commission's means of determining revenue requirement, RUCO stated that it is not suggesting that the Company be denied the right to present such an argument. RUCO contended, however, that ratepayers should not be charged for the Company's choice to incur the expense necessary to present the unorthodox argument, and that the amount of allowable rate case expense should therefore be reduced.

RUCO stated that this Commission has reduced a company's proposed rate case expense based upon a determination that the amount of expense requested is unreasonable citing Decision No. 59079 (May 5, 1999), wherein Paradise Valley Water Company's proposal for rate case expense was reduced because it exceeded its previous rate case expense by 75 percent. RUCO compared the rate case expense allowed in Citizens' previous rate case to Arizona-American's request in this case (*See* Decision No. 60172 (May 7, 1997)). RUCO stated that Citizens had argued there that its proposed expense of up to a "cap" of $750,000 was justified because that joint application included six rate cases; a very large number of intervenors and data requests; the CAP water issue which required the retention of water resources experts; and the retention of consultants in the area of rate design and price elasticity (*See id.* at 31). Citizens was allowed its original estimate of $366,231 in rate case expense in that case (*Id.* at 31). In coming to its rate case expense recommendation in this case, RUCO began with the amount of rate case expense allowed to Citizens in Decision No. 60172, and adjusted it by the Consumer Price Index factor to reflect current prices (Exh. R-7 at 26, Sched. MDC-13). RUCO believes that its resulting recommendation of $418,941, while still significantly higher than what the Commission has historically awarded water companies, is reasonable under the circumstances of this case. Only the Company disputed RUCO's proposal.

The Company agreed that its rate case expense for this proceeding is high, but argued that the expense is not large on a per-customer basis. As a justification for its costs, the Company argued on brief that it is not responsible for, and has little control over, the process utilized by this Commission for setting rates; that rate case proceedings are complex and involve a substantial expenditure of resources, with the applicant utility bearing the burden of proof; that there were compelling reasons requiring the filing of this case using a 2001 test year; and that RUCO did not cite any evidence to illustrate the impact on rate case expense of the Company's position on fair value rate base. The

Company asserted that its selection of a 2001 test year did not have an undue impact on the level of rate case expense and that the majority of the activity leading to rate case expense would have been unchanged if the Company had delayed its filing. The Company argued that under its requested recovery, its shareholders will absorb nearly half the rate case expense because the Company is only requesting recovery of $715,000. The Company also argued that RUCO's methodology ignores the fact that this Commission authorized rate case expense of $165,000 in Decision No. 56806 (February 1, 1990) which involved Citizens' two Mohave districts.

The Company's Director of Rates and Planning for the five western states of American Waterworks, testified that ". . . in this case, with the number of cases that this company has going on at one particular time, we did not have the resources on hand to handle a whole lot of the case ourselves." (Tr. at 375). As explained in the recent *Arizona Water Company* Decision No. 66849 (March 19, 2004), while we do not believe it is unreasonable *per se* for a company to retain outside counsel or consultants to prepare and litigate its rate case filings, at some point the utility must mitigate the costs associated with retaining those services. In addition, we agree with RUCO that the Company chose the test year for its application, and we believe that ratepayers should not be made to bear the burden of the Company's choices to incur unreasonable increases in expenses.

Based on our review of the complexity of this proceeding, the number of systems involved in this rate request, and a comparison of other cases, we find that rate case expense in the amount of $418,941 is reasonable for this proceeding.

1. Amortization of Rate Case Expense

The Company's proposed three year amortization of rate case expense was accepted by the other parties with the exception of Youngtown. Youngtown does not contest the $715,000 in rate case expense requested by the Company, but recommends a five year amortization period based upon the time between rate cases historically. Youngtown argues that rate case expense will be recovered in rates until new rates are set, from new customers as well as test-year customers, and that if the system experiences growth or if a rate case is not filed within the amortization period, the Company may overcollect this expense. Youngtown therefore believes that a five year amortization period is appropriate. Arizona-American responds that Arizona-American's track record of filing rate cases

demonstrates that it files rate cases much more frequently than Citizens did. Arizona-American also states that the new federal arsenic treatment requirements will require a significant plant investment prior to January 1, 2006, or in less than three years, which will likely lead to new rate cases being filed in less than five years. The Company's pre-filed testimony states that the Company is likely to file its next rate case at the earliest possible date (Exh. A-74 at 24-25), and a Company witness testified at the hearing that the Company would be back in three years (Tr. at 365). Based on the testimony in this case, it is reasonable to expect that the Company will file a new rate case sooner than Youngtown's proposed amortization period of five years. Consistent with recent decisions, Arizona-American's rate case expense will therefore be amortized over three years.

C. Statement of Operating Income

In accordance with the discussion above, the adjusted test year operating expenses for ratemaking purposes for the ten Districts are $30,267,446. The adjusted test year operating expenses by District are $2,939,251 for the Sun City West Water District; $3,530,198 for the Sun City West Wastewater District; $5,678,120 for the Sun City Water District; $4,064,206 for the Sun City Wastewater District; $3,408,004 for the Mohave Water District; $415,213 for the Havasu Water District; $4,937,096 for the Agua Fria Water District; $3,235,919 for the Anthem Water District; $1,828,223 for the Anthem/Agua Fria Wastewater District; and $231,216 for the Tubac Water District.

Based on the foregoing, the adjusted test year operating income for the ten Districts is $5,083,368. The adjusted test year operating income by District is $441,523 for the Sun City West Water District; $5,482 for the Sun City West Wastewater District; $514,970 for the Sun City Water District; $1,024,134 for the Sun City Wastewater District; $986,128 for the Mohave Water District; $25,711 for the Havasu Water District; $1,248,941 for the Agua Fria Water District; $774,886 for the Anthem Water District; $38,323 for the Anthem/Agua Fria Wastewater District; and $23,270 for the Tubac Water District.

VII. COST OF CAPITAL

Arizona-American, Staff and RUCO presented cost of capital analyses for purposes of determining a fair value rate of return in this proceeding. Arizona-American's witness, Dr. Thomas

Zepp, determined an overall cost of capital of 7.51 percent. Staff is recommending, based on the analysis of Staff witness Joel Reiker, a cost of capital of 6.5 percent. Based on the analysis of its witness William Rigsby, RUCO believes the Commission should adopt RUCO's recommended 6.77 percent cost of capital.

A. Capital Structure and Cost of Debt

1. Capital Structure

The Company, Staff and RUCO recommend similar capital structures. The Company recommends 60 percent long-term debt and 40 percent common equity; Staff recommends long-term debt of 60.1 percent and common equity of 39.9 percent; and RUCO recommends long-term debt of 59.89 percent and common equity of 40.11 percent (Exh. A-74 at 25-27 and Ex. 3; Exh. S-46 at 28; Exh. R-5 at 38). We find Staff's recommendation of 60.1 percent long-term debt and 39.9 percent common equity reasonable and adopt it.

2. Long-Term Debt

While the Company and RUCO agree that Arizona-American's cost of long-term debt should be set at 4.86 percent (Exh. A-75 at 23; Exh. R-6 at 4), Staff disagrees. Staff updated its recommended cost of debt to 4.77 percent in its surrebuttal testimony, based on the debt structure represented to Staff in the Company's response to a data request in Docket No. W-01303A-03-0572, an Arizona-American request for financing authority (Exh. S-46 at 28, Sched. JMR-S17). Staff recommended that its cost of debt based on the information provided by Arizona-American be adopted. The Company claims that Staff failed to present a capital structure containing the specific amounts of debt and equity it recommends, and argues that Staff's capital structure and the resulting weighted cost of capital must be rejected. However, Staff's testimony included a schedule depicting the dollar amount of Arizona-American's debt (Exh. S-46, Sched. JMR-S17). Because Staff's updated recommended cost of debt is based on all of Arizona-American's debt, we will adopt 4.77 percent as the cost of debt in this case.

B. Cost of Equity

Although the cost of debt can be determined from fixed cost rates, the cost assigned to the equity component of the capital structure can only be estimated. The cost of equity recommendations

advocated by the parties are 11.5 percent by Arizona-American, 9.61 percent by RUCO and 9.0 percent by Staff. The recommendations of the Company, RUCO and Staff all include a 50 basis point adder to account for the fact that Arizona-American is more leveraged than the sample water utilities included in the witnesses' analyses.

1. Positions of the Parties

a. Arizona-American

In determining its recommended rate for common equity, the Company's cost of capital consultant, Dr. Zepp, used the discounted cash flow ("DCF") model and three different risk premium models to estimate benchmark equity costs with data for publicly traded water and gas utilities. He also presented evidence based on the capital asset pricing model ("CAPM"), but gave those estimates no weight. Dr. Zepp found the current equity cost for his benchmark utilities to be in the range of 10.0 percent to 10.5 percent (Exh. 40-49 at 5, 6, Update Tables 13, 18), based on his application of the DCF model and an average of two forward-looking measures of growth. His analysis also included a restatement of Staff witness Mr. Reiker's DCF estimates based on the constant growth model. Dr. Zepp is of the opinion that Staff's DCF analysis is flawed because it uses dividends per share ("DPS") which, according to Dr. Zepp, is the worst measure of average future growth when earnings per share ("EPS") are growing more rapidly. Dr. Zepp's restatement of Mr. Reiker's constant growth DCF estimates without DPS growth in the average resulted in an equity cost in the range of 9.6 percent to 9.9 percent based on data in Mr. Reiker's direct testimony and 9.6 percent to 9.8 percent based on data in Mr. Reiker's surrebuttal testimony (Exh. A-49 at 47, Tables 10, 11; Exh. A-50 at 10-11, Tables 3, 4). Dr. Zepp performed another restatement of Staff's DCF by including a second stage that he claims properly reflects investors' expectations that future growth will be higher than current DPS growth when DPS are growing more slowly than EPS (Exh. A-49 at 47-50, Tables 8, 9; Exh. A-50 at 11-13, Tables 1, 2). As an exhibit to his rejoinder testimony, Dr. Zepp presented an e-mail from Myron Gordon, an authority on the DCF model, which he believes supports the inclusion of this second stage (Exh. A-50, Ex. TMZ-RJ-2). Based on his restatement of Staff's multi-stage DCF model, Dr. Zepp calculated the equity for the sample companies to be 10.1 percent at the time Mr. Reiker prepared his direct testimony and 10.0 percent to 10.1 percent at the time he

prepared his surrebuttal testimony (Exh. A-49 at 49-50; Exh. A-50 at 12).

Dr. Zepp also restated RUCO's witness Mr. Rigsby's DCF results by increasing Mr. Rigsby's estimate of VS (external) growth by increasing the forecast of the growth in the number of shares of common stock expected to be issued by water utilities (Exh. A-49 at 51-53). Dr. Zepp also restated Mr. Rigsby's DCF model results using estimates of future VR (sustainable) growth and VS growth presented by Mr. Reiker (Exh. A-49 at 53, Table 13). With these two separate restatements of Mr. Rigsby's DCF model, Dr. Zepp calculated a DCF estimate for the benchmark water utilities that fell in a range of 10.1 percent to 10.9 percent. Dr. Zepp's restatements resulted in a cost of equity for the benchmark water utilities in a range of 9.6 percent to 10.9 percent.

Dr. Zepp performed three different risk premium analyses with cost of equity results in a range of 10.3 percent to 11.2 percent. According to Dr. Zepp, the CAPM analyses conducted by Staff and RUCO failed to include separate risk premium estimates. Dr. Zepp prefers a "zero-beta" version of the CAPM, which produced results showing that low-beta stocks like water utilities require higher returns (Exh. A-49 at 35). Dr. Zepp performed a restatement of Staff and RUCO's CAPM analyses, using forecasted values for long-term treasury bonds. Based on this restatement, Dr. Zepp calculated the cost of equity for the benchmark water utilities to fall in a range of 9.8 percent to 11.3 percent at the time Mr. Reiker prepared direct testimony, and in a range of 9.8 percent to 10 percent when Mr. Reiker updated his CAPM estimates in surrebuttal testimony (Exh. A-49 at 37-38; Exh. A-50 at 13, Tables 3, 4).

Apart from the technical analysis of the Staff and RUCO recommendations, Arizona-American claims that those analyses are inconsistent with recent authorized returns on common equity, realized returns on common equity, and *Value Line's* forecasted return on common equity. Dr. Zepp prepared a rebuttal schedule containing the authorized, realized and forecasted returns based on Staff's sample group of publicly traded water utilities from 1997 through 2003. His table shows average authorized returns for those years of 10.59 percent, realized returns of 10.61 percent, and forecasted returns of 10.9 percent (Exh. A-49, Table 1). The Company argued that those results show that the Staff and RUCO cost of equity estimates of 8.5 percent and 7.99 percent are substantially below the returns of the sample group of water utilities, and that the average cost of equity estimates

of 10.5 percent to 10.8 percent produced by Dr. Zepp's model more accurately reflect the actual and forecasted cost of equity performances for comparably situated water companies. The Company also argues that Staff's rate of return recommendations, when applied to Staff's recommended fair value rate bases, are below the cost of the November 5, 2003 ten-year Treasury Rate, the forecasted 2004 ten-year Treasury Rate, the November 5, 2003 long-term Treasury Rate, and the forecasted 2004 long-term Treasury Rate (Exh. A-50, Rej. Table 6). The Company argues that because the yield on intermediate and long-term Treasuries is frequently used in the CAPM as the proxy risk-free rate, Staff's recommendation produces returns that are less than the return on a risk-free security.

Arizona-American also argues that the rates of return recommended by Staff and RUCO fail to satisfy the capital attraction standard and fail to ensure Arizona-American's financial integrity. The Company asserts that Staff's recommended rate of return results in pre-tax interest coverage of approximately 1.0 (Exh. A-74 at 30-31), in contrast to Staff's argument that Staff's recommended rate of return results in a pre-tax interest coverage ratio of 3.2 (Exh.S-46 at 29).

b. Staff

Staff's witness Reiker performed both CAPM and DCF analyses in arriving at Staff's 9.0 percent cost of equity estimate. Mr. Reiker explained that because Arizona-American stock is not publicly traded, Staff applied both these models to the six publicly traded water companies that have a significant percentage of revenue derived from regulated water utility operations and are currently followed by *The Value Line Investment Survey* and *The Value Investment Survey Small and Mid Cap Edition* (Exh. S-45 at 9, Sched. JMR-1). Mr. Reiker's analysis also included the cost of equity of ten sample gas companies which he states are riskier than water companies (Exh. S-45 at 26, Scheds. JMR-13-19). Staff's witness calculated both constant growth DCF and non-constant growth (multi-stage growth) DCF estimates (*Id.* at 10). He explained that the DCF method is based on the theory that a stock's market price is equal to the present value of all expected future dividends (*Id.* at 9). The constant growth DCF model assumes that a company has a constant payout ratio and that its earnings are expected to grow at a constant rate, while the multi-stage DCF model does not assume that dividends grow at a constant rate over time (*Id.* at 10-11). Application of the DCF formula uses three variables: 1) expected annual dividend; 2) current stock price; and 3) expected infinite annual

growth rate of dividends. The expected annual dividend is divided by the current stock price and the result (the dividend yield) is added to the expected infinite annual growth rate of dividends, yielding the cost of equity estimate (Exh. S-45 at 11).

In establishing the stock price component of the DCF formula, Staff used the spot market price, in accord with the efficient markets hypothesis (Exh. S-46 at 7). Staff cited the *Black Mountain Gas Company* Decision No. 64727 (April 17, 2002) in support of its position that spot market price should be used as the current stock price for determining cost of equity.[8] Using the spot market price, Staff calculated dividend yield at 3.44 percent (Exh. S-46 at 3, Sched. JMR-S7). In estimating its growth variable, Staff examined historical and projected growth in dividends per share, growth in earnings per share, and intrinsic growth (Exh. S-45 at 12). Staff's analysis produced an average of the historic and projected growth rates of 4.98 percent (Exh. S-46 at 3, Sched. JMR-S4), which when added to Staff's dividend yield calculation, produced Staff's constant growth DCF estimate of 8.4 percent (*Id.*, Sched. JMR-S7). The multi-stage DCF model incorporates at least two growth rates to account for the assumption that investors expect a certain rate of non-constant dividend growth in the near term (Stage 1 Growth), as well as a longer-term constant rate of growth (Stage 2 Growth). Staff used *Value Line* information concerning its six sample water companies and reached a multi-stage DCF estimate of 9.6 percent. Averaging the results of its constant and multi-stage DCF estimates, Staff arrived at an overall DCF estimate of 9.0 percent (*Id.*, Sched. JMR-S7).

Mr. Reiker testified that the best known model of risk and return is the capital asset pricing model ("CAPM"), which states that the expected return on a risky asset is equal to the sum of the prevailing risk-free interest rate and the market risk premium adjusted for the riskiness of the investment relative to the market (Exh. S-45 at 21). The CAPM requires the input of the following variables to arrive at an estimate of a company's equity cost: 1) the risk free rate; 2) the return on market; 3) the risk variable or "beta;" and 4) the market risk premium (*Id.* at 22). Staff based its estimate of the prevailing risk-free rate on the average of intermediate-term U.S. Treasury securities' spot rates as published in *The Wall Street Journal*, and calculated both a historical market risk

[8] Use of spot market price was also adopted in the recent *Arizona Water Company* Decision No. 66849 (March 19, 2004).

premium and a current market risk premium to determine its market risk premium estimate range (Exh. S-45 at 22-25). Staff derived its data from the average of the *Value Line* beta for the six proxy water utilities. The average beta computed to .59 for the companies (*Id.* at 23, Sched. JMR-6). Mr. Reiker stated that the market risk premium represents the additional return an investor expects for investing in the market (or an average-risk security) over the investor's expected return for investing in a risk-free asset security (*Id.* at 23). Staff's historical market risk analysis resulted in a risk premium of 7.4 percent, while its current market risk premium analysis resulted in a risk premium of 7.6 percent (Exh. S-46, Sched. JMR-S7). Staff's CAPM analysis results in an equity cost estimate for Arizona-American of 8.1 percent (*Id.*). Staff reached its overall cost of equity determination of 8.5 percent by averaging the results of its constant growth and multi-stage DCF analyses, which produced a result of 9.0 percent, and its CAPM result of 8.1 percent (Exh. S-46 at 2). As discussed above, Staff, along with the Company and RUCO, recommends adding 50 basis points to its estimate to account for the Company's debt-heavy capital structure as compared to the sample water companies. Staff's resulting recommendation is a 9.0 percent cost of equity (*Id.*).

Staff also averaged the DCF and CAPM for the proxy gas companies, which resulted in an equity cost estimate of 10.3 percent for those companies (Exh. S-45 at 26). Staff states that based on its CAPM analysis, the cost of equity to the sample gas companies is approximately 100 basis points higher than the cost of equity to the sample water companies, based on the difference in risk, and that Staff's estimate of the cost of equity to the sample gas companies would require a significant downward adjustment in addition to a capital structure adjustment in order to be applied to Arizona-American (*Id.*).

c. RUCO

RUCO witness Rigsby recommends a cost of capital of 6.77 percent, based on his cost of common equity calculation of 9.61 percent (Exh. R-6 at 10). Mr. Rigsby based his cost of equity recommendation on his DCF analysis result of 9.11 percent for cost of equity (Exh. R-5, Sched. WAR-3), which, with the agreed-upon 50 basis point adder, resulted in a recommendation of 9.61 percent (Exh. R-6 at 10). Mr. Rigsby also performed a CAPM analysis which produced results ranging from 6.79 percent to 8.06 percent (Exh. R-5 at 28, Scheds. WAR-8, 9). RUCO believes that

its cost of common equity recommendation is reasonable and appropriate given Arizona-American's current operating environment of low inflation and low interest rates (Exh. R-6 at 7-8, 14). RUCO takes issue with the Company's claim that RUCO and Staff's recommended returns on equity would be confiscatory under the comparable earnings standard, which compares returns being earned by companies with corresponding risk, stating that the comparable earnings methodology has been discredited for almost two decades (Exh. R-6 at 5). On brief, RUCO cited a recent case involving a sister water company of Arizona-American, West Virginia-American Water Company (Commission Order, Public Service Commission of West Virginia, Charleston, Case No. 03-0353-W-42T, January 2, 2004). RUCO noted that the Public Service Commission of West Virginia approved a 7.0 percent cost of common equity for the West Virginia affiliate of Arizona-American, noting that the company's 10.0 percent to 11.5 percent return on equity recommendation was outside the range of reasonableness (*Id.* at 20-21), and that its 7.0 percent return on equity determination balanced the concerns of the company regarding investor perception regarding the riskiness of the water industry with the need to insure that the ratepayers pay rates reflecting no more than a fair rate of return while still complying with the *Hope*[9] and *Bluefield*[10] decisions (*Id.* at 21).

d. AUIA

Mr. Walter W. Meek argued on behalf of the AUIA that while Dr. Zepp, Arizona-American's witness, believes that a utility's authorized rate of return should reflect the comparable risk principle, Staff's witness, Mr. Reiker, prefers a textbook approach dependent on historical data. Mr. Meek observes that while Mr. Reiker distrusts forecasts and believes that investors will rely primarily on past performance for guidance, Dr. Zepp believes that the assumptions underlying an authorized return on equity should reflect the conditions that will prevail in the financial market at the time rates are in effect. Mr. Meek disagrees with Mr. Reiker's utilization of spot market rates as opposed to forecasted interest rates, and contends that Staff's conclusions, assumptions and decision points all lead to a lower rate of return for the Company than would Dr. Zepp's.

[9] *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).
[10] *Bluefield Waterworks & Improvement Co. v. Public Serv. Comm'n of W. Va.*, 262 U.S. 679 (1923).

e. Mr. Grimmelmann

Mr. Grimmelmann asserted that during a period of low inflation, the rate of return necessary to attract investors and needed capital is substantially lower than that requested by the Company in this proceeding, and supports the recommendations of Staff and/or RUCO.

2. Discussion

In regard to Arizona-American's arguments that Staff's cost of equity estimates are inconsistent with recent authorized returns on common equity, realized returns on common equity, *Value Line's* forecasted returns on common equity, and forecasted Treasuries rates, we agree with Staff and RUCO that while the comparable earnings method was once widely used to determine equity cost, it has been replaced by market based corporate finance models, including the DCF method and the CAPM. We further agree that because the DCF method and the CAPM estimate the cost of equity by quantifying the anticipated dividends and capital gains investors expect to earn by purchasing shares of stock with comparable risk, their results meet the *Hope* comparable risk standard.

Arizona-American also argued that Staff and RUCO's cost of capital recommendations fail to satisfy the capital attraction standard and fail to insure Arizona-American's financial integrity. In response to the Company's assertion that Staff's recommended rate of return results in pre-tax interest coverage of approximately 1.0 in contrast to Staff's coverage ratio of 3.0, Staff responded that the Company's interest coverage calculation is improper, in that it uses accounting data including assets not devoted to public service, and that for ratemaking purposes, the Company is entitled to earn a return on assets that are devoted to public service. We agree. The Company's witness testified that the Company's debt service requirements include financing of the acquisition adjustment (Tr. at 390). The use of coverage ratios to affect calculation of capital costs and resulting rates of return is inappropriate and would once again indirectly include the amount of the acquisition adjustment, as we pointed out in our fair value rate base discussion above.

With respect to the competing "risk premium" analyses, we believe Staff's CAPM model properly takes into account risk for purposes of estimating equity costs. According to Staff, the accuracy of the Company's risk premium analysis is suspect due to its use of interest rate projections

(Exh. S-46 at 16-17). Mr. Reiker stated that Arizona-American's reliance on forecasted Baa bond rates is less reliable than Staff's methodology because bond forecasts have been historically inaccurate (*Id.* at 17). He also explained that corporate bonds contain default risk, which is unsystematic risk, and that investors do not expect a return which compensates for the acceptance of unsystematic risk (*Id.* at 17-19). We agree with Staff that assessing the risk premium based on corporate bond yields is inappropriate and believe that Staff's CAPM analysis, which includes a risk variable, is a reasonable means of estimating Arizona-American's cost of equity in this case and is preferable to the Company's proposed risk premium recommendation.

When Arizona-American restated Staff's witness Reiker's constant-growth DCF model, it did not include past dividends per share growth and near term dividends per share growth in its average growth rates (Exh. A-49 at 44–47). Arizona-American argued that when investors expect earnings per share to grow more rapidly than dividends per share, the earnings retention ratio will increase and investors will expect faster future growth (*Id.*). As Staff points out, however, investors are just as likely to conclude that a company lacks confidence that earnings growth can be sustained, expects future earnings to decrease, and wants to avoid future dividend cutting when earnings decline (Exh. S-46 at 12). We agree with Staff that dividend growth should be included in the DCF model because the DCF formula is predicated on dividend growth, and that the omission of dividend per share growth from the DCF model moves the model's result away from and not toward a reliable estimation, which works only to inflate the estimate to the detriment of ratepayers. Arizona-American also restated Staff's multi-stage DCF analysis by inserting a new second stage between Staff's first and second stages that includes both the *Value Line* forecasts of dividend per share growth and subsequent forecasts of intrinsic growth (Exh. S-49 at 48). While Dr. Zepp presented an e-mail from Myron Gordon in support of the inclusion of this second stage, the e-mail states that Dr. Gordon cannot comment on "whether Dr. Zepp used the best possible method" to implement the principle espoused in the e-mail, which concerned a gas LDC case (Exh. A-50, Ex. TMZ-RJ-2). Staff believes that Dr. Zepp's inputs for this additional growth stage illogically assume that investors would use *Value Line's* projected retention growth rate instead of using the dividend per share growth rate projected by *Value Line* for the years 2007 and 2008. As Staff points out, Dr. Zepp's multi-stage

DCF restatement also speculatively applies *Value Line's* projected retention growth rate for 2006 through 2008 to the years 2009 through 2016 (Exh. A-49, Tables 8, 9). We find that the methodology and variables used by Staff provide a reliable and reasonable determination of dividend yield growth in both its constant and non-constant growth models.

3. Conclusion

Staff has performed a rigorous cost of equity analysis in this case that withstands the Company's and AUIA's critiques. Staff's analysis is based on sound economic principles, and represents a fair and reasonable estimate of Arizona-American's cost of equity for purposes of this proceeding. As described above, Staff arrived at a 9.0 percent cost of equity estimate through application of both the constant growth and multi-stage DCF models and the CAPM.

C. Cost of Capital Summary

	Percentage	Cost	Weighted Cost
Long-Term Debt	60.1%	4.8%	2.9%
Common Equity	39.9%	9.0%	3.6%
Cost of Capital			6.5%

VIII. RATE OF RETURN

The Company proposed applying its recommended cost of capital directly to its estimated RCND, and objects to what it says is Staff's regular practice of calculating the revenue requirement by applying the weighted cost of capital to an OCRB, and then adjusting the rate of return on FVRB to produce the same revenue requirement (Co. Br. at 13-14). The Company contends that Staff "backed into" its calculation of a different allowable rate of return depending on the value of the rate base, so that the revenue requirement remains the same whichever rate base is used, and claims that this is improper under *Simms*, 80 Ariz. at 155, 294 P.2d at 385 (*Id.* at 15-16). In response to RUCO's contention that applying the weighted cost of capital solely to RCND factors inflation in twice, thereby overstating the revenue requirement, the Company argues that the *Bluefield* court's discussion of rates of return did not suggest that applying the rate of return double-counts inflation or that some sort of inflation-related adjustment was required (Co. Reply Br. at 15-16, citing *Bluefield Waterworks & Improvement Co. v. Public Serv. Comm'n of W. Va.*, 262 U.S. 679, 693-695 (1923)).

Arizona-American asserts that under RUCO's argument, changes in value would be irrelevant to the rate setting process because the revenue requirement is always based on OCRB (*Id.*).

The Company argues that the determination of rate base and of the rate of return to be applied to rate base are separate and independent determinations (*Id.* at 17-18). Staff disagrees with this contention (Exh. A-44 at 9-10; Tr. at 309, 311, 316). Staff states that "the rate of return can be calculated only after a fair value rate base has been determined," citing *City of Tucson v. Citizens Utils. Water Co.*, 17 Ariz. App. 477, 482, 489 P.2d 551, 556 (1972), and that the Commission must first determine fair value to use as the utility's rate base, and "then must" determine the rate of return, citing *Scates v. Arizona Corp. Comm'n*, 118 Ariz. 531, 534, 578 P.2d 612, 615 (App. 1978)(citing *Arizona Corp. Comm'n v. Arizona Pub. Serv. Co.*, 113 Ariz. 368, 370, 555P.2d 326, 328 (1976))(Staff Reply Br. at 7). Staff explained that it determines the fair value rate of return by multiplying the weighted average cost of capital by the OCRB, and then dividing the product by the FVRB (Staff Br. at 4). Staff states that under this approach, the fair value rate of return cannot be calculated before the FVRB, which satisfies the *City of Tucson* requirement. Staff contends that this is the approach the Commission has traditionally used, and is exactly the same approach the court discussed with approval in *Litchfield Park Serv. Co. v. Arizona Corp. Comm'n*, 178 Ariz. 431, 435, 874 P.2d 988, 992 (App. 1994) (Staff Br. at 5). In regard to the Company's assertion that Staff's approach creates a rate of return that varies by rate base, Staff responded that logically, Arizona-American's approach would also lead to a different return on OCRB than on RCND (Staff Reply Br. at 7). Finally, Staff points to the Arizona Supreme Court's affirmation of Commission Decision No. 43727 (October 22, 1973), which stated that cost of capital estimates must be restated if they are to be applied to a fair value rate base rather than an original cost rate base (Staff Reply Br. at 8, citing *Sun City Water Co. v. Arizona Corp. Comm'n*, 113 Ariz. 464, 465, 556 P.2d 1126, 1127 (1976)).

The rate of return methodology and resulting revenue increase proposed by Arizona-American would produce an excessive return on FVRB. There has been no legitimate basis presented for departing from the traditional ratemaking methodology of applying a fair value rate of return to the Company's FVRB in this proceeding. We find that applying a fair value rate of return to the FVRB is just, reasonable, and in accord with the mandates of the Arizona Constitution, and will

adopt it in this case.

IX. AUTHORIZED INCREASE/DECREASE

With the adjustments adopted herein, the combined overall revenue effect for the ten Districts is to increase the Company's operating revenues by $1,340,249, or 3.79 percent.

For the Sun City West Water District, with the adjustments adopted herein, the adjusted test year operating income is $441,523. Further, the 6.5 percent cost of capital translates into a 5.70 percent fair value rate of return on FVRB of $13,643,019 as authorized hereinabove. Multiplying the 5.70 percent rate of return by the FVRB produces required operating income of $777,652. This is $336,129 more than the Company's test year adjusted operating income. Multiplying the deficiency by the gross revenue conversion factor of 1.62863 results in an increase in revenues of $547,430 or a 16.19 percent net increase over test year adjusted revenues.

For the Sun City West Wastewater District, with the adjustments adopted herein, the adjusted test year operating income is $5,482. Further, the 6.5 percent cost of capital translates into a 5.48 percent fair value rate of return on FVRB of $10,569,243 as authorized hereinabove. Multiplying the 5.48 percent rate of return by the FVRB produces required operating income of $579,195. This is $573,713 more than the Company's test year adjusted operating income. Multiplying the deficiency by the gross revenue conversion factor of 1.62863 results in an increase in revenues of $934,366 or a 26.43 percent net increase over test year adjusted revenues.

For the Sun City Water District, with the adjustments adopted herein, the adjusted test year operating income is $514,970. Further, the 6.5 percent cost of capital translates into a 4.32 percent fair value rate of return on FVRB of $32,904,707 as authorized hereinabove. Multiplying the 4.32 percent rate of return by the FVRB produces required operating income of $1,421,483. This is $906,513 more than the Company's test year adjusted operating income. Multiplying the deficiency by the gross revenue conversion factor of 1.62863 results in an increase in revenues of $1,476,373 or a 23.84 percent net increase over test year adjusted revenues.

For the Sun City Wastewater District, with the adjustments adopted herein, the adjusted test year operating income is $1,024,134. Further, the 6.5 percent cost of capital translates into a 4.37 percent fair value rate of return on FVRB of $12,956,687 as authorized hereinabove. Multiplying the

4.37 percent rate of return by the FVRB produces required operating income of $566,207. This is $457,927 less than the Company's test year adjusted operating income. Multiplying the excess by the gross revenue conversion factor of 1.62863 results in a decrease in revenues of $745,794 or a 14.66 percent net decrease from test year adjusted revenues.

For the Mohave Water District, with the adjustments adopted herein, the adjusted test year operating income is $986,128. Further, the 6.5 percent cost of capital translates into a 5.46 percent fair value rate of return on FVRB of $10,462,247 as authorized hereinabove. Multiplying the 5.46 percent rate of return by the FVRB produces required operating income of $571,239. This is $414,889 less than the Company's test year adjusted operating income. Multiplying the excess by the gross revenue conversion factor of 1.62863 results in a decrease in revenues of $675,701 or a 15.38 percent net decrease from test year adjusted revenues.

For the Havasu Water District, with the adjustments adopted herein, the adjusted test year operating income is $25,711. Further, the 6.5 percent cost of capital translates into a 5.44 percent fair value rate of return on FVRB of $982,391 as authorized hereinabove. Multiplying the 5.44 percent rate of return by the FVRB produces required operating income of $53,442. This is $27,731 more than the Company's test year adjusted operating income. Multiplying the deficiency by the gross revenue conversion factor of 1.62863 results in an increase in revenues of $45,163 or a 10.24 percent net increase over test year adjusted revenues.

For the Agua Fria Water District, with the adjustments adopted herein, the adjusted test year operating income is $1,248,941. Further, the 6.5 percent cost of capital translates into a 6.20 percent fair value rate of return on FVRB of $17,474,464 as authorized hereinabove. Multiplying the 6.20 percent rate of return by the FVRB produces required operating income of $1,083,417. This is $165,524 less than the Company's test year adjusted operating income. Multiplying the excess by the gross revenue conversion factor of 1.62863 results in a decrease in revenues of $269,577 or a 4.36 percent net decrease from test year adjusted revenues.

For the Anthem Water District, with the adjustments adopted herein, the adjusted test year operating income is $774,886. Further, the 6.5 percent cost of capital translates into a 6.38 percent fair value rate of return on FVRB of $9,449,190 as authorized hereinabove. Multiplying the 6.38

percent rate of return by the FVRB produces required operating income of $602,858. This is $172,028 less than the Company's test year adjusted operating income. Multiplying the excess by the gross revenue conversion factor of 1.62863 results in a decrease in revenues of $280,170 or a 6.99 percent net decrease from test year adjusted revenues.

For the Anthem/Agua Fria Wastewater District, with the adjustments adopted herein, the adjusted test year operating income is $38,323. Further, the 6.5 percent cost of capital translates into a 6.43 percent fair value rate of return on FVRB of $2,761,046 as authorized hereinabove. Multiplying the 6.43 percent rate of return by the FVRB produces required operating income of $177,535. This is $139,212 more than the Company's test year adjusted operating income. Multiplying the deficiency by the gross revenue conversion factor of 1.62863 results in an increase in revenues of $226,725 or a 12.15 percent net increase over test year adjusted revenues.

For the Tubac Water District, with the adjustments adopted herein, the adjusted test year operating income is $23,270. Further, the 6.5 percent cost of capital translates into a 5.12 percent fair value rate of return on FVRB of $1,431,070 as authorized hereinabove. Multiplying the 5.12 percent rate of return by the FVRB produces required operating income of $73,271. This is $50,001 more than the Company's test year adjusted operating income. Multiplying the deficiency by the gross revenue conversion factor of 1.62863 results in an increase in revenues of $81,434 or a 32.00 percent net increase over test year adjusted revenues.

X. RATE DESIGN

A. Initial Rate Design Filings

In its applications, Arizona-American proposed to maintain the same rate designs as those previously approved by the Commission when the water and wastewater districts were owned and operated by Citizens, and proposed that the necessary rate increases be allocated among all customers equally (Exh. A-52 at 34, Exh. A-62 at 23). RUCO also proposed a rate design that resembles the current rate design and maintains the same relationship between meter sizes, the same allocations between minimums and commodity rates, and the current tier structures (Exh. R-7 at 31). Staff initially recommended a three-tier inverted block rate structure with break-over points at 4,000 gallons and 100,000 gallons of use for each system across all meter sizes and all customer classes

with the exclusion of customer/irrigation and fire protection customers (Exh. S-36 at 5). While the Company and RUCO continue to support their original rate design proposals (although the Company has offered an alternative proposal for review), Staff, as explained below, filed a revised version of its rate design with its closing brief.

B. Post-hearing Rate Design Filings

On February 4, 2004, Arizona-American filed alternative rate design schedules as an exhibit to its initial closing brief, and simultaneously filed a Motion to Supplement the Record to Include Illustrative Schedules on Inverted-Block Rate Design. Arizona-American stated that although it developed the alternative conservation-oriented schedules in response to Commissioner Mundell's comments to the Company on the first day of the hearing, the Company does not believe it is necessary or appropriate to implement a radical change in its rate design for its seven water districts in this case, as four of the water districts already have two-tier, inverted block rates; the Anthem Water District uses surface water from the Colorado River; and the remaining water districts, Mohave and Havasu, are outside an active management area. The Motion stated that the Company had provided the alternative schedules to the other parties on January 27, 2004.

Youngtown, Sun Health, and Mr. Grimmelmann did not directly respond to the Motion, but all acknowledged, without objection, Arizona-American's alternative schedules in their initial closing briefs.

RUCO's February 6, 2004, Response to the Motion stated that it generally opposes the admission of evidence after the close of the record because there is no opportunity for cross-examination and offering of rebuttal evidence, but it respected the Company's desire to offer an alternative rate design in response to the Commissioner's comments, and that given the timing of the comments, the late filing appeared appropriate. RUCO stated that it intended to respond to the supplemental rate design in its reply brief, and was therefore not requesting additional process.

Staff stated in its initial closing brief that it had no objection to the admission of the alternative schedules, but reserved the right to address them, and to provide its own updated rate design proposal, in its reply brief. Staff's February 9, 2004, Response to the Motion stated that it did not oppose the Motion as long as all other parties would have the opportunity to supplement the

record with their responses to the schedules in their own briefs.

A Procedural Order was issued on February 11, 2004 granting the Motion and requiring parties wishing to respond to the Company's alternative rate design to do so in their reply briefs. Mr. Grimmelmann, Youngtown, Sun Health, and RUCO responded in their reply briefs. Staff also responded, and included its own revised rate design and schedules in its reply brief. Accordingly, the timeclock is extended.

1. Arizona-American's Alternative Inverted-Block Rate Design Proposal

Arizona-American's proposed alternative rate design is similar to Staff's initial inverted block rate structure, but has different rate structures for residential and non-residential customers. Monthly minimum charges are determined by meter size, based on 65% of the monthly minimum charges computed in the Company's rebuttal testimony cost of service studies (Exh. A-62), which used Staff's Plant and Expenses. The monthly minimums include no gallons of water except in the instance of the multi-family residential monthly charges for the Mohave and Havasu Water Districts, which continue to include 1,000 gallons in the monthly minimum per customer. For those Districts, the monthly minimum charge for multi-family residential customers (e.g., apartment complexes and mobile home parks) is based on the computed monthly minimum charge for a 5/8-inch meter multiplied by the number of units in the complex. For all remaining customer classes, the proposed alternative rate design includes a monthly minimum charge based on the size of the meter from which water is provided.

For residential customers, break-over points between the three tiers are set at approximately 33% and 67% of the consolidation factor, and each tier for each District has specific commodity rates. Break-over points for residential customers differ by District, based on test year water use characteristics, and do not vary by meter size. Non-residential general metered customers have a two-tier inverted block commodity rate, with break-over points that vary based on meter size, and by District, based on water use characteristics, with break-over points set at approximately 60% of the relevant consolidation factor for each meter size. The Company believes that this is more equitable than Staff's initial rate design, because it does not treat commercial customers on smaller (3/4 –inch and one-inch) meters the same as commercial customers on larger (4 and 6-inch) meters. For Sun

City and Mohave only, Arizona-American computed the break-over points for the customer class as a whole rather than by meter size. In addition, the break-over point for the irrigation customer class in Sun City was also computed as a class rather than by meter size.

2. Staff's Revised Inverted-Block Rate Design Proposal

Staff stated that it does not endorse Arizona-American's alternative rate design proposal. In response to that proposal, and in response to criticism of Staff's initial rate design, Staff attached a revised rate design proposal to its reply brief. Staff's revised rate design is based on meter size, not on the class of customer, and differentiates between meter sizes by increasing the break-over point between tiers as the meter size increases. The increasing break-over point applies to all classes of customers within the meter size, which Staff believes successfully responds to the concerns of Sun Health and Youngtown. The revised design will not allow customers to "cross-over," or circumvent water usage costs by moving to a larger meter. For the majority of meter sizes, Staff's revised design is a two-tier inverted block rate design. However, because of the nondiscretionary character of water use by residential customers, Staff added a first tier of 4,000 gallons for the smallest meter sizes for residential customers. Except for this "nondiscretionary" tier for residential customers, Staff's revised rate design charges commercial and residential customers exactly the same for their water use based on meter size.

Staff's revised rate design also addresses the pricing concerns of multi-family residential customers and multi-unit commercial customers for the Mohave and Havasu Water Districts. Staff's revised design for these customers calculates the monthly minimum charge by taking the monthly minimum for 5/8-inch meter customers, multiplying that by the number of units and dividing the product in half. Staff believes that its proposal begins the move toward a design that charges these multi-family residential and multi-unit commercial customers based on actual meter size while avoiding significant impact on other customers, but continues to recommend that this issue be fully addressed by Arizona-American in its next rate case.

3. Discussion

The Company responded to Staff's initial rate design, stating that it would not promote conservation. Arizona-American's witness Mr. Kozoman stated that selling water to all customers at

a discounted rate below the cost of service does not encourage water use efficiency, and that in reality such a discount would encourage inefficient water use by sending the wrong price signal, particularly since the discounted commodity rate would be applicable to all customers (Exh. A-62 at 4-5). The Company's witness further argued that "lifeline" and other types of discounted rates are contrary to other basic cost of service principles in that they produce a subsidy that must be recovered by means of higher rates in other usage blocks. He therefore believes they should only be available to residential customers who meet income eligibility requirements (Exh. A-62 at 5, 6). Mr. Kozoman also stated that "lifeline" rates and similar types of discounted rates should not be used in areas where there are water shortages or where water use is a concern (*Id.*).

Youngtown did not present evidence on the cost of service or a new rate design, but advocated spreading the rate increase evenly across the existing rates, as proposed by the Company in its application. Youngtown's witness, Mr. Burton, testified that rate "re-design" should not accompany a significant increase in rates, and suggested that the Commission examine rate design separately after the Commission has set a revenue level (Tr. at 1298-1300). Mr. Burton opposed Staff's initial rate design as having too significant a break in the tiers and as not encouraging water conservation (Tr. at 1301-1302). Youngtown believes that customers will receive a clearer conservation price signal if the rates are re-designed after the rate increase goes into effect, instead of combining the rate re-design with the general rate increase. Youngtown stated that it had insufficient time to decide whether to budget the funds to analyze the alternative inverted-block rate design schedule the Company submitted in its closing brief in time to address it in its reply brief. Youngtown contends, however, that the impact on particular customers of different rate designs will differ significantly depending on the authorized revenue requirement, and argues that this justifies delaying action on altering the current rate design until a later date.

Sun Health responded to Staff's initial rate design by stating that while it supports the goal of conservation, and the encouragement of conservation through pricing structure, it would not promote water conservation and would unfairly penalize large commercial customers like Sun Health. Sun Health asserted that Staff's initial proposal would not encourage conservation because the break-over points are not based on usage, and fail to account for the difference in consumption between

residential and commercial customers. Sun Health asserted that while the 100,000 gallon break-over point is too high to encourage residential customers to conserve, it is too low to encourage conservation among commercial customers, for whom it may not be possible to reduce consumption below 100,000 gallons. Sun Health requested that the Commission adopt a rate structure along the lines of the Company's alternative proposal, which includes separate break-over points for residential and commercial customers. Sun Health took no position on the revenue requirement aspects of the rate design proposal, only on the rate structure.

Mr. Grimmelmann stated that Staff's initial rate design did not appear to fairly distribute costs to customers or appropriately align economic incentives. He believes that a design based on water usage offers a more appropriate economic alignment than one based on meter size, and protests that Staff's initial proposal would inequitably impact residential customers required to use a larger meter size due to code requirements, such as sprinkler systems. Mr. Grimmelmann argued that the size of the meter is totally independent of the water usage of a home and conservation incentives. Regarding the Company's alternative rate design, he stated that he supports the adoption of a conservation structure for residential customers without consideration of meter size, and that the Company's proposal seems equitable, as long as it is revenue neutral for the Anthem Water District as a whole.

Following its review of the Company's alternative rate design, RUCO again recommended that the Commission adopt RUCO's proposed rate design, which is similar to the rate design currently in effect. RUCO stated, however, that should the Commission lean toward an inverted-tier rate structure, that the Company's alternative rate design presents a more reasonable and fair cost allocation amongst the tiers than Staff's initial rate design, and would better encourage conservation.

Staff states that while it appreciates Arizona-American's efforts in designing its alternative rate design proposal and while in many ways, the alternative proposal is an improvement, Staff still cannot support it, because it includes higher break-over points between tiers for commercial customers than for residential customers, so that residential customers would pay more than commercial customers for the same services, which Staff believes unfairly discriminates against residential customers. Staff contends that commercial customers do not have an inelastic need for water in the way that residential customers do, and that recognition of nondiscretionary use for

commercial customers is therefore not justified. Staff is also critical of Arizona-American's alternative design for commercial customers because it is based on each meter size independently without considering consumption across meter sizes. Staff asserts that the Company's isolated calculation of break-over points between tiers leads to multiple "cross-over" situations, in which a customer's bill would be greater if the customer had a smaller versus a larger meter and used an equal amount of water. As an example, Staff points out that for Anthem District commercial customers, the Company's alternative rate design (with the Company's rates) for 3/4–inch and 1-inch meters would result in a 3/4-inch customer's bill being greater than a 1-inch customer's bill at all consumption levels exceeding 50,000 gallons. Staff is critical of Arizona-American's attempt to address the situation of the minimum charges for multi-family residential and multi-unit commercial customers for the Mohave and Havasu districts, because the Company's alternative rate design would still charge these customers a higher amount than all other customers with similar consumption and the same meter sizes. In addition, Staff states that the Company's proposed rate design for these classes of customers creates the need for 125 bill counts for the Mohave District alone, making the design unwieldy and difficult to regulate.

4. Conclusion

Of the rate designs presented, we find that overall, Staff's revised rate design most appropriately addresses the considerations raised by all the parties, and best addresses the goals of conservation, efficient water use, affordability, fairness, simplicity, and revenue stability. Therefore, we will adopt Staff's revised rate design.

We believe that Staff's revised rate design for multi-family residential customers and multi-unit commercial customers in the Mohave and Havasu Water Districts follows the concept of gradualism, addressing the pricing concerns in existence there while avoiding significant customer impact in this rate proceeding. We understand that Arizona-American inherited the existing pricing inconsistency issues for the multi-family residential customers and multi-unit commercial customers. We will require Arizona-American to include a proposal in its next rate case filing for the Mohave and Havasu Water Districts that will complete the move to a simpler, more conventional rate design whereby these customers will pay the minimum charge based upon actual meter size.

Arizona-American's wastewater rates consist of a flat monthly rate. In general, all customers in a class are charged the same amount regardless of how much that customer taxes the system. However, for Arizona-American's water rates, we adopt a tiered rate design that requires customers who use more water to pay more. We find that this encourages water conservation. Some municipal wastewater systems bill their customers based on the amount of water they use. To determine if tiered wastewater rates based on water consumption would be an appropriate rate design, we will require Arizona-American to include a proposal in its next rate case filing for the Sun City West, Sun City and Anthem/Agua Fria wastewater systems that will present information on 1) whether wastewater rates based on water consumption encourage water conservation; 2) whether higher bills for those who use the system more is a fairer way to collect revenue; and 3) what tiered wastewater rates based on water consumption would look like compared to a flat rate design.

C. Tolleson Agreement Cost Adjustor Mechanism

Arizona-American's Sun City Wastewater District does not own or operate a wastewater treatment plant, but transports wastewater flows from this system to the Tolleson Wastewater Treatment Plant located in and owned and operated by the City of Tolleson ("Tolleson"), which treats the flows pursuant to an agreement between Tolleson and Arizona-American's predecessor in interest, originally executed on June 21, 1985 ("Tolleson Agreement"). During the test year under the Tolleson Agreement, the Company made payments to Tolleson under Rate Components One, Two and Three. Rate Component One is a fixed annual user charge related to bond financing issued by Tolleson to pay for the original plant additions Tolleson made in order to receive and treat the Sun City District's wastewater flows. Rate Component Two is a monthly operating and maintenance ("O&M") charge based on the Company's proportionate share of actual O&M costs based on actual flows. During the test year, Rate Component Three consisted of a $1,500 monthly payment for replacement and contingency reserves up to an aggregate balance of $90,000 (Exh. A-37 at 6-7). Tolleson is currently undertaking a facility improvement plan for the Tolleson Wastewater Treatment Plant, and according to Arizona-American, anticipates spending $40 million on capital projects through 2008.

The Company and Tolleson executed the Third Amendment to the Tolleson Agreement on

April 22, 2003 (*See* Exh. S-1). The Third Amendment provides a mechanism for Arizona-American to pay Tolleson its proportionate share of the increased costs associated with necessary repairs and improvements to the facility by modifying the existing Rate Component Three and adding a new Rate Component Four. The Third Amendment increased Rate Component Three's payment for replacement and contingencies reserves from $1,500 to $20,000 per month, and increased the aggregate balance limit from $90,000 to $200,000. Under the new Rate Component Four, Arizona-American will pay its pro rata share of major capital improvement projects, which the Company estimates at roughly $10 million.

In Decision No. 66386 (October 6, 2003), we authorized Arizona-American to defer, for accounting purposes, the increased costs associated with the increase to the Third Rate Component and the new Fourth Rate Component as set forth in the Third Amendment.

Under Arizona-American's cost adjustor mechanism proposal, the Company would pass through an amortized portion of the actual payments made to Tolleson under Rate Components Three and Four, (the amortization period being equal to the remaining life of the Agreement), plus the annual carrying cost of any associated debt which would include interest expense less the income tax savings on the interest component (Exh. A-1 at 8-11). Arizona-American states that it has sought to minimize the impact of substantial but necessary expenses on its customers by means of the cost recovery mechanism, and that the mechanism would not be complex to customers because they would simply see a line item on their bill for the Tolleson costs. The Company contends that adjustor mechanisms are not improper; that the Company utilizes an adjustor mechanism in its Sun City Water District to allow for the recovery of CAP water costs; and that the Company's increased costs under the Third Amendment are not yet fixed in amount or date of payment, but are significant, variable and outside the Company's control. The Company argues in support of the adjustor that its input to Tolleson over improvement costs under the Third Amendment is not equivalent to control over the costs.

Arizona-American contends that the proposed adjustor would furnish it the certainty necessary to finance and pay substantial amounts to Tolleson in order to insure continued wastewater treatment. The Company argues that rejection of its proposed cost recovery mechanism would be

unfair and threaten the Company's financial integrity, asserting that under Staff's and RUCO's recommended rate reduction for the Sun City Wastewater District, it would be unable to pay for the Tolleson costs through revenues from its wastewater customers, and this would likely diminish the amount of capital available for other capital improvement projects. Arizona-American asserts that these Tolleson costs should not be treated just like any other capital expenditure that Arizona-American would make to build plant, because the Tolleson costs are not plant investment, but costs incurred under a contract to obtain wastewater treatment services for the Company's ratepayers (Exh. A-43 at 13-14).

The Company argues that under the proposed adjustor mechanism, ratepayers would only pay for actual costs at the time that they are "known and measurable" (Tr. at 145-46). The Company states that since May 2003, it has been paying $20,000 per month under Rate Component Three (Exh. A-43 at 13); that this component of the Third Amendment is known and measurable; and that the Company fully anticipates incurring this maximum charge under Rate Component Three each month due to the substantial need for upgrades at the Tolleson Wastewater Treatment Plant. While the exact amount to be paid under Rate Component Four is not yet certain, the Company asserts that the obligation to pay an estimated $10 million to Tolleson is known.

SCTA states it is in agreement with Staff and the long-standing position of the Commission to allow recovery of costs only after completion of plant and/or improvements and the determination of a net benefit to consumers (SCTA Br. at 1).

RUCO recommends denial of the request because the additional costs associated with the Tolleson Wastewater Treatment Plant are not known and measurable at this time and because when the expenses do become known and measurable, the amounts will be set amounts that will not fluctuate widely (Exh. R-7 at 29). While not advocating that the Company be denied its costs, RUCO recommends that the costs continue to be deferred pursuant to Decision No. 66386, and that the Commission consider the costs when they are known and measurable.

Staff requests that the Commission reject the proposed adjustor because Arizona-American did not incur any Rate Component Four cost in the test year, and because Rate Component Three's contingency and reserve fund is reserved for unknown future plant additions and replacements. Staff

1 believes there should be no recovery until plant additions are completed from this fund (Exh. S-48 at
2 10-11). Like RUCO, Staff argues that ratemaking theory allows for adjustors only in limited
3 circumstances not present here (citing *Scates*, 118 Ariz. at 535, 578 P.2d at 616 (Adjustor may be
4 used for "fluctuations in certain, narrowly defined, operating expenses")). Staff contends that the
5 Third Amendment's contractual procedures allowing Arizona-American's input and review of the
6 Tolleson costs give Arizona-American some control over the costs. Staff further asserts that the costs
7 are simply unknown at this time; that the estimated cost for Rate Component Four has already
8 increased by $2 million over the course of this proceeding (Tr. at 147-48); that the Third Amendment
9 contains provisions to add new capital projects not included in the current estimates (Exh. S-1 at 3);
10 that the complexity of the adjustor mechanism does not meet the important goal of simplicity in rate
11 design; and that the Commission previously decided to discontinue an adjustor for Tolleson costs in a
12 prior rate case (*See* Decision No. 60172, Exh. S-2 at 33).

13 Staff contends that requiring capital investment to fund a capital project does not destroy
14 financial integrity, and further, that the Company's claim is based on treating the Sun City District as
15 a stand-alone entity. Staff contends that such an argument is contrary to the benefit touted by the
16 Company of the increased access to capital that would follow approval of the RWE transaction, and
17 that Arizona-American should not now be able to deny the existence of that benefit.

18 When Decision No. 66386 was issued, Arizona-American's request for the adjustor
19 mechanism was pending. Our Decision recognized that the issuance of the accounting order did not
20 assure recovery of the costs in rates, but that without such an accounting order, the Company would
21 be foreclosed from possible future recovery of such costs as a regulatory asset. We therefore ordered
22 the Company to prepare and retain accounting records sufficient to permit a detailed review, in a rate
23 proceeding, of all recorded deferred costs.

24 We agree with RUCO and Staff that the additional costs associated with the Third
25 Amendment are not sufficiently known and measurable at this time to allow them to simply be passed
26 through to customers without thorough review, and will therefore not approve the proposed adjustor
27 mechanism. The Company testified that it plans to file another rate case within the next three years
28 (Tr. at 365). We find it reasonable to wait to examine this issue until that time, when the recorded

deferred costs should be sufficiently known and measurable to allow for a full examination.

D. Sun City Irrigation Tariff

Youngtown requests that the Sun City Water District's Irrigation Water Rate Tariff be expanded to be available to it for water deliveries to Maricopa Lake, a 2.8 surface acre lake in existence since 1955, which is owned and operated by Youngtown as a recreational facility (Exh. Y-5 at 13-14). The Sun City Water District's approved irrigation water rate tariff is currently available only to the Sun City Agricultural Club, golf courses and irrigated medians south of Grand Avenue. It has a higher monthly charge but significantly lower gallonage rate than non-irrigation rates, and is interruptible. Youngtown contends that the limited access to the present tariff is discriminatory.

The first sentence of the Sun City Water District's Irrigation Water Rate tariff currently reads as follows:

> Availability
> Available only to the Sun City Agricultural Club, golf courses and irrigated medians, south of Grand Avenue.

Youngtown proposes that the Sun City Water District's Irrigation Water Rate tariff be amended to read as follows:

> Availability
> Available only to: 1) the Sun City Agricultural Club; 2) golf courses; 3) irrigated medians south of Grand Avenue; and 4) irrigated medians, lakes and golf courses owned by political subdivisions of the State of Arizona and served by Arizona-American Sun City Water District as of the effective date of this Tariff.

Arizona-American states that it does not object to Youngtown's proposal, but that because the tariffed irrigation rate is lower than the general rate for non-residential customers, the tariff change would result in a reduction in revenue, requiring other customers to make up for the revenue shortfall (Exh. A-62 at 35).

In support of its request, Youngtown asserts that Maricopa Lake is an amenity available to all residential customers; that it has not been demonstrated that its use of the tariff would cause an appreciable shift in revenues or that additional revenues would fall predominantly on the residential class; and that the revenue shortfall would be made up by larger water users. We agree with

Youngtown that it is reasonable to allow it access to the irrigation tariff for water deliveries to Maricopa Lake, which is open to the public and may be enjoyed by all Sun City water customers. Youngtown's proposed language change will allow it the choice of either continuing on the commercial rate under the new rate design adopted herein, or electing the irrigation rate. We will require that the Company file an updated Irrigation Tariff with Youngtown's proposed language.

E. Water System Service Line and Meter Installation/Wastewater Service Charges

Staff's testimony recommends that the Company's proposed water system service line and meter installation charges and wastewater system service charges be accepted (Exh. A-26 at 9, 13). Additionally, the Company proposes to collect the income taxes associated with its collection of service line and meter installation charges because these charges, although treated as refundable advances for regulatory purposes, have been interpreted by the Internal Revenue Service to constitute taxable income (Exh. A-52 at 10). These proposals are all reasonable and will be approved.

F. Phase-in/Stepped Rate Increase

The Company proposed that to the extent the rate increase for any District is over 40 percent, that the increase be phased in, in two steps. The first step would be a 40 percent increase, with the balance picked up a year later. Youngtown suggested an alternative phasing of two equal steps if the approved increase is between 20 percent and 40 percent, and three equal steps if the increase is greater than 40 percent, with the same phasing for the rate decrease it anticipated for the Sun City Sewer District (Tr. at 1243, 1244). Youngtown asserts that a phased-in rate merely recognizes that the return allowed by the initial step increase is all that is fair and reasonable to the customer, unless the adverse impacts of a greater return are ameliorated by stepping in the increase. Youngtown states that the alternative to a phase-in approach is to approve only the first step and require the Company to refile, which would increase regulatory costs. Youngtown contends that *Arizona Community Action Ass'n v. Arizona Corp. Comm'n,* 123 Ariz. 228, 599 P.2d 184 ("*ACAA*"), expressly recognizes that

stepped rates may be approved by the Commission.

Arizona-American opposes Youngtown's proposal, stating that it would deprive the Company of a fair return on its rate base. The Company believes that *ACAA* is distinguishable from the facts here, stating that the *ACAA* court found it reasonable for the Commission to authorize future stepped rate increases based on construction work in progress ("CWIP"), and not to withhold authorized rate increases (Co. Reply Br. at 45).

The revenue levels approved herein include an increase of 23.84 percent for the Sun City Water District and a decrease of 14.66 percent for the Sun City Sewer District. The net effect of the new revenue levels affecting the Company's water and wastewater customers in the town of Youngtown, taken together, does not reach 20 percent, the rate increase level at which Youngtown proposed a phase-in, so we find it unnecessary to consider Youngtown's request in this proceeding.

G. <u>Low Income Program for Sun City and Sun City West Districts</u>

Decision No. 65655 (February 20, 2003) ordered the Company to submit for approval a Low Income Program for the Sun City and Sun City West Water Districts, and the Company now requests approval of its proposal for the program (Exh. A-62 at 2). Staff explained that under the Company's proposal, the surcharge approved in Decision No. 65655 associated with the use of Central Arizona Project ("CAP") water in those Districts would not be charged to residential customers on 5/8-inch and ¾-inch meters with incomes below 150 percent of federal poverty guidelines, who file with the Arizona Department of Economic Security. The surcharge revenues credited to those qualifying customers would be added to the Company's Groundwater Savings Program balance, and collected from the remaining customers paying the surcharge (Exh. S-36 at 4). We find the Company's proposal and Staff's recommendation reasonable, and will approve the program.

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XI. OTHER ISSUES

A. Depreciation Rates

Staff recommends in its testimony that the Company continue to use its current depreciation rates. The Company did not object. This recommendation is reasonable and we will adopt it.

B. Water Loss Reports and Plans

Staff notes in its testimony that the Havasu, Lake Mohave Highlands, Desert Foothills, and Mohave-Main water systems show non-account water losses of greater than 10 percent. Staff recommends that effective upon the date of this Decision, the Company be required to monitor these over-limit systems and submit reports to the Director of the Utilities Division within 30 days after the end of each six-month period for one year, indicating the quantity of water pumped, gallons sold and water loss percentage for each month during that six-month period. Staff recommends that if water loss cannot be reduced to less than 10 percent, the Company be required to submit to the Director of the Utilities Division, within 18 months of this Decision, a plan that outlines the procedures, steps and timeframes to achieve acceptable levels of water loss. The Company did not object to this Staff recommendation. It is reasonable and we will adopt it.

C. Curtailment Plan Tariffs

Staff's testimony recommends that the Company be required to submit, within 90 days of this Decision, Curtailment Plan Tariffs conforming to the sample tariff posted on the Commission's website to the Director of the Utilities Division for review and certification for all the systems in its Mohave Water District, and for its Tubac, Havasu, Sun City, Sun City West, Agua Fria, and Anthem Water Districts. This recommendation is reasonable and will be adopted.

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

FINDINGS OF FACT

1. Arizona-American is an Arizona corporation engaged in the business of providing water and wastewater utility service to customers in its various water and wastewater districts located in portions of Maricopa, Mohave and Santa Cruz counties in Arizona pursuant to authority granted by the Commission. Arizona-American currently provides service to approximately 115,000 customers.

2. Arizona-American is a wholly-owned subsidiary of American Water Works, Inc. The ultimate parent of American Water Works, Inc. is RWE AG.

3. The Commission approved the sale of Citizens' water and wastewater utility plant, property and assets in Arizona, and the transfer of Citizens' related Certificates of Convenience and Necessity to Arizona-American in Decision No. 63584 (April 24, 2001). The Commission approved debt financing for Arizona-American's acquisition in Decision No. 64002 (August 30, 2001).

4. On December 12, 2002, the Commission issued Decision No. 65453, which conditionally approved, under the Commission's Public Utility Holding Companies and Affiliated Interests Rules, A.A.C. R14-2-801 *et seq.*, a reorganization consisting of the merger of Arizona-American's parent, American Water Works Company, Inc., with a subsidiary of RWE AG. One condition of the Commission's approval was that Arizona-American refrain from filing any non-emergency rate increase requests for three years from the closing date of the reorganization. The consolidated rate applications were filed prior to the closing date of the reorganization, and thus are not subject to the conditions of Decision No. 65453. Arizona-American's appeal of Decision No. 65453 is pending in the Arizona Court of Appeals.

5. On November 22, and December 13, 2002, Arizona-American filed with the Commission the above-captioned applications for rate adjustments in ten of its water and wastewater Districts.

6. On January 30, 2003, Staff filed a letter stating that the applications met the sufficiency requirements set forth in A.A.C. R14-2-103.

7. A Procedural Order was issued March 14, 2003, consolidating the applications and setting a hearing for October 14, 2003.

8. An Amended Rate Case Procedural Order was issued on June 6, 2003, granting a

request by Arizona-American and Staff to continue the hearing, and setting a new hearing date of December 4, 2003.

9. Intervention was granted to RUCO, Mr. Carlton G. Young, Mr. Frank J. Grimmelmann, SCTA, Youngtown, AUIA, Fiesta, and Sun Health.

10. A pre-hearing conference was conducted on December 1, 2003. Public comment hearings were conducted in Anthem on November 5, in Surprise and Sun City on November 12, in Bullhead City and Lake Havasu City on November 13, and in Tubac on November 18, 2003. The evidentiary hearing commenced on December 4, 2003, and concluded on December 23, 2003.

11. Closing briefs were filed on February 4, 2004 and reply briefs were filed on February 18, 2004.

12. On March 3, 2004, a letter from Commissioner Mundell to the Director of the Commission's Utilities Division Staff was filed in these dockets. The letter requested a response from Staff regarding the issue of high nitrate levels in Desert Hills, a water system in the Havasu Water District.

13. On March 8, 2004, Staff filed the requested response, indicating that the latest Arizona Department of Environmental Quality ("ADEQ") report available when Staff filed its testimony in this matter stated that the Desert Hills system was delivering water that met all required water quality standards, but that a public health risk currently existed for infants aged 6 months or less due to the elevated nitrate levels; that the Company had notified its customers of the risk and was providing bottled water to the at-risk group or any concerned customers in the system; that the Company was in the process of obtaining a new source of water to blend with the existing source in order to deliver water meeting acceptable nitrate level requirements; and that the Company was complying with the requirements of ADEQ regarding this non-compliance issue.

14. On March 10, 2004, Arizona-American filed a notice of filing a copy of a letter to Commissioner Mundell regarding the Desert Hills ADEQ compliance issue. A copy of the letter was attached. The letter indicated that the Desert Hills system serves 1,250 households with three wells; that the system has consistently met all regulatory requirements for many years; that on February 13, 2004 regular water quality tests showed that nitrate levels in a portion of the Desert Hills system were

12 milligrams per liter ("mg/l"), exceeding the maximum contaminant level ("MCL") of 10 mg/l; and that previous measurement of nitrate levels ranged from 6 mg/l to 8 mg/l. The letter explained that because the Company received the 12 mg/l test results on a Friday preceding a holiday weekend, it was concerned about providing adequate notice to consumers and therefore utilized paid radio advertising from February 14 through February 16, 2004 to warn consumers of the health risks to infants. The letter stated that the Company also provided a bill insert for affected customers and issued a press release, and maintained contact with Staff to keep them apprised of progress in public notification. The letter also outlined the Company's plan to add a new supply source to the Desert Hills system to bring the system into compliance, and stated that the Company expected the project to be fully operational no later than the end of April, 2004.

15. On March 25, 2004, the Company filed a notice of filing a copy of a second letter to Commissioner Mundell regarding the Desert Hills compliance issue. The letter stated that mid-March samples determined that nitrate levels in the Desert Hills system had decreased to 8.3 mg/l, and that the reduced nitrate level had been confirmed by nine samples on three separate sampling events. The letter asserted that the Company was again in full compliance with water quality regulations in all of its systems throughout the State of Arizona.

16. Arizona-American's Mohave Water District is currently charging rates approved by Decision No. 56806 (February 1, 1990).

17. Arizona-American's Havasu Water District is currently charging rates approved by Decision No. 57743 (February 21, 1992).

18. Arizona-American's Sun City West Water and Wastewater Districts, Sun City Water and Wastewater Districts, Agua Fria Water District, and Tubac Water District are currently charging rates approved by Decision No. 60172 (May 7, 1997).

19. Arizona-American's Anthem Water District and Anthem/Agua Fria Wastewater District are currently charging rates approved by Decision No. 60975 (June 19, 1998).

20. Adoption of Arizona-American's proposed estimated reconstruction cost new less depreciation rate base as the sole basis for fair value rate base in this proceeding would be unreasonable and against the public interest. Further, the Company's proposal would allow it to

indirectly recover an acquisition adjustment for its purchase of the Citizens assets without complying with the requirements of Decision No. 63584.

21. It is premature to consider Arizona-American's request to deviate from the standard accounting amortization method for the acquisition adjustment it has recorded to show the accounting effect of its purchase of the Citizens assets.

22. For ratemaking purposes, the **Sun City West Water District**'s OCRB, RCND, and FVRB for the test year ended December 31, 2001 are determined to be $11,971,281, $15,314,756, and $13,643,019, respectively.

23. For the Sun City West Water District, with the adjustments adopted herein, the adjusted test year operating income is $441,523. Further, the 6.5 percent cost of capital translates into a 5.70 percent fair value rate of return on FVRB of $13,643,019 as authorized hereinabove. Multiplying the 5.70 percent rate of return by the FVRB produces required operating income of $777,652. This is $336,129 more than the Company's test year adjusted operating income. Multiplying the deficiency by the gross revenue conversion factor of 1.62863 results in an increase in revenues of $547,430 or a 16.19 percent net increase over test year adjusted revenues.

24. For the Sun City West Water District, the rates set herein result in a monthly increase of $1.67, or 14.35 percent for the average usage 5/8 x 3/4 inch meter customer (7,171 gallons/month) and a monthly increase of $1.26 or 11.91 percent, for the median usage 5/8 x 3/4 inch meter customer (6,000 gallons/month).

25. For ratemaking purposes, the **Sun City West Wastewater District**'s OCRB, RCND, and FVRB for the test year ended December 31, 2001 are determined to be $8,916,017, $12,222,469, and $10,569,243, respectively.

26. For the Sun City West Wastewater District, with the adjustments adopted herein, the adjusted test year operating income is $5,482. Further, the 6.5 percent cost of capital translates into a 5.48 percent fair value rate of return on FVRB of $10,569,243 as authorized hereinabove. Multiplying the 5.48 percent rate of return by the FVRB produces required operating income of $579,195. This is $573,713 more than the Company's test year adjusted operating income. Multiplying the deficiency by the gross revenue conversion factor of 1.62863 results in an increase in

revenues of $934,366 or a 26.43 percent net increase over test year adjusted revenues.

27. For the Sun City West Wastewater District, the rates set herein result in a monthly increase of $4.32, or 26.60 percent, for residential customers.

28. For ratemaking purposes, the **Sun City Water District**'s OCRB, RCND, and FVRB for the test year ended December 31, 2001 are determined to be $21,853,479, $43,955,934, and $32,904,707, respectively.

29. For the Sun City Water District, with the adjustments adopted herein, the adjusted test year operating income is $514,970. Further, the 6.5 percent cost of capital translates into a 4.32 percent fair value rate of return on FVRB of $32,904,707 as authorized hereinabove. Multiplying the 4.32 percent rate of return by the FVRB produces required operating income of $1,421,483. This is $906,513 more than the Company's test year adjusted operating income. Multiplying the deficiency by the gross revenue conversion factor of 1.62863 results in an increase in revenues of $1,476,373 or a 23.84 percent net increase over test year adjusted revenues.

30. For the Sun City Water District, the rates set herein result in a monthly increase of $2.84, or 25.40 percent for the average usage 5/8 x 3/4 inch customer (8,361 gallons/month) and a monthly increase of $2.40, or 23.74 percent, for the median usage 5/8 x 3/4 inch meter customer (7,000 gallons/months).

31. For ratemaking purposes, the **Sun City Wastewater District**'s OCRB, RCND, and FVRB for the test year ended December 31, 2001 are determined to be $8,713,382, $17,199,992, and $12,956,687, respectively.

32. For the Sun City Wastewater District, with the adjustments adopted herein, the adjusted test year operating income is $1,024,134. Further, the 6.5 percent cost of capital translates into a 4.37 percent fair value rate of return on FVRB of $12,956,687 as authorized hereinabove. Multiplying the 4.37 percent rate of return by the FVRB produces required operating income of $566,207. This is $457,927 less than the Company's test year adjusted operating income. Multiplying the excess by the gross revenue conversion factor of 1.62863 results in a decrease in revenues of $745,794 or a 14.66 percent net decrease from test year adjusted revenues.

33. For the Sun City Wastewater District, the rates set herein result in a monthly decrease

of $1.89, or 14.69 percent, for residential customers.

34. For ratemaking purposes, the **Mohave Water District**'s OCRB, RCND, and FVRB for the test year ended December 31, 2001 are determined to be $8,791,741, $12,132,752, and $10,462,247, respectively.

35. For the Mohave Water District, with the adjustments adopted herein, the adjusted test year operating income is $986,128. Further, the 6.5 percent cost of capital translates into a 5.46 percent fair value rate of return on FVRB of $10,462,247 as authorized hereinabove. Multiplying the 5.46 percent rate of return by the FVRB produces required operating income of $571,239. This is $414,889 less than the Company's test year adjusted operating income. Multiplying the excess by the gross revenue conversion factor of 1.62863 results in a decrease in revenues of $675,701 or an 15.38 percent net decrease from test year adjusted revenues.

36. For the Mohave Water District, the rates set herein result in a monthly decrease of $3.48, or 17.26 percent, for the average usage 5/8 x 3/4 inch meter customer (8,787 gallons/month) and a monthly decrease of $2.96, or 16.89 percent, for the median usage 5/8 x 3/4 inch meter customer (7,000 gallons/month).

37. For ratemaking purposes, the **Havasu Water District**'s OCRB, RCND, and FVRB for the test year ended December 31, 2001 are determined to be $822,117, $1,142,665, and $982,391, respectively.

38. For the Havasu Water District, with the adjustments adopted herein, the adjusted test year operating income is $25,711. Further, the 6.5 percent cost of capital translates into a 5.44 percent fair value rate of return on FVRB of $982,391 as authorized hereinabove. Multiplying the 5.44 percent rate of return by the FVRB produces required operating income of $53,442. This is $27,731 more than the Company's test year adjusted operating income. Multiplying the deficiency by the gross revenue conversion factor of 1.62863 results in an increase in revenues of $45,163 or a 10.24 percent net increase over test year adjusted revenues.

39. For the Havasu Water District, the rates set herein result in a monthly increase of $2.21, or 11.36 percent for the average usage 5/8 x 3/4 inch meter customer (7,659 gallons/month) and a monthly increase of $1.86, or 11.83 percent, for the median usage 5/8 x 3/4 inch meter

customer (5,000 gallons/month).

40. For ratemaking purposes, the **Agua Fria Water District**'s OCRB, RCND, and FVRB for the test year ended December 31, 2001 are determined to be $16,665,182, $18,283,746, and $17,474,464, respectively.

41. For the Agua Fria Water District, with the adjustments adopted herein, the adjusted test year operating income is $1,248,941. Further, the 6.5 percent cost of capital translates into a 6.20 percent fair value rate of return on FVRB of $17,474,464 as authorized hereinabove. Multiplying the 6.20 percent rate of return by the FVRB produces required operating income of $1,083,417. This is $165,524 less than the Company's test year adjusted operating income. Multiplying the excess by the gross revenue conversion factor of 1.62863 results in a decrease in revenues of $269,577 or a 4.36 percent net decrease from test year adjusted revenues.

42. For the Agua Fria Water District, the rates set herein result in a monthly decrease of $1.68, or 7.46 percent, for the average usage 5/8 x 3/4 inch meter customer (7,002 gallons/month) and a monthly decrease of $2.24, or 11.85 percent for the median usage 5/8 x 3/4 inch meter customer (5,000 gallons/month).

43. For ratemaking purposes, the **Anthem Water District**'s OCRB, RCND, and FVRB for the test year ended December 31, 2001 are determined to be $9,269,095, $9,629,285, and $9,449,190, respectively.

44. For the Anthem Water District, with the adjustments adopted herein, the adjusted test year operating income is $774,886. Further, the 6.5 percent cost of capital translates into a 6.38 percent fair value rate of return on FVRB of $9,449,190 as authorized hereinabove. Multiplying the 6.38 percent rate of return by the FVRB produces required operating income of $602,858. This is $172,028 less than the Company's test year adjusted operating income. Multiplying the excess by the gross revenue conversion factor of 1.62863 results in a decrease in revenues of $280,170 or a 6.99 percent net decrease from test year adjusted revenues.

45. For the Anthem Water District, the rates set herein result in a monthly decrease of $6.34, or 17.41 percent, for the average usage 5/8 x 3/4 inch meter customer (10,212 gallons/month) and a monthly decrease of $5.38, or 17.93 percent, for the median usage 5/8 x 3/4 inch meter

customer (7,000 gallons/month).

46. For ratemaking purposes, the **Anthem/Agua Fria Wastewater District**'s OCRB, RCND, and FVRB for the test year ended December 31, 2001 are determined to be $2,731,868, $2,790,224, and $2,761,046, respectively.

47. For the Anthem/Agua Fria Wastewater District, with the adjustments adopted herein, the adjusted test year operating income is $38,323. Further, the 6.5 percent cost of capital translates into a 6.43 percent fair value rate of return on FVRB of $2,761,046 as authorized hereinabove. Multiplying the 6.43 percent rate of return by the FVRB produces required operating income of $177,535. This is $139,212 more than the Company's test year adjusted operating income. Multiplying the deficiency by the gross revenue conversion factor of 1.62863 results in an increase in revenues of $226,725 or a 12.15 percent net increase over test year adjusted revenues.

48. For the Anthem/Agua Fria Wastewater District, the rates set herein result in a monthly increase of $8.11, or 27.05 percent, for residential customers.

49. For ratemaking purposes, the **Tubac Water District**'s OCRB, RCND, and FVRB for the test year ended December 31, 2001 are determined to be $1,127,661, $1,734,478, and $1,431,070, respectively.

50. For the Tubac Water District, with the adjustments adopted herein, the adjusted test year operating income is $23,270. Further, the 6.5 percent cost of capital translates into a 5.12 percent fair value rate of return on FVRB of $1,431,070 as authorized hereinabove. Multiplying the 5.12 percent rate of return by the FVRB produces required operating income of $73,271. This is $50,001 more than the Company's test year adjusted operating income. Multiplying the deficiency by the gross revenue conversion factor of 1.62863 results in an increase in revenues of $81,434 or a 32.00 percent net increase over test year adjusted revenues.

51. For the Tubac Water District, the rates set herein result in a monthly increase of $14.20, or 36.25 percent for the average usage 5/8 x 3/4 inch meter customer (13,177 gallons) and a monthly increase of $10.01, or 34.96 percent, for the median usage 5/8 x 3/4 inch meter customer (8,000 gallons).

52. The rate of return methodology and resulting revenue increases proposed by Arizona-

American would produce an excessive return on fair value rate base for each District.

53. The rate design adopted herein will promote conservation and send appropriate price signals to all customers. It is reasonable to require Arizona-American to include a proposal in its next rate case filing for the Mohave and Havasu Water Districts that will complete the move to a simpler, more conventional rate design for the multi-family residential customers and multi-unit commercial customers in those Districts, under which they will pay the minimum charge based upon actual meter size.

54. As discussed herein, Arizona-American's proposed Tolleson Agreement Cost Adjustor Mechanism should not be approved at this time.

55. The Sun City District's Irrigation Tariff should be modified as discussed herein.

56. Arizona-American's proposed Low Income Program for the Sun City and Sun City West Water Districts for the CAP surcharges should be approved.

57. Arizona-American should continue the use of its current depreciation rates as recommended by Staff.

58. Staff's proposed water loss reporting and plan requirements are reasonable and should be adopted.

59. Staff's recommendation for the filing of Curtailment Plan Tariffs is reasonable and should be adopted.

60. The fair value rate bases, the fair value rates of return, and the resulting rates and charges for each system as shown in Exhibit A attached hereto and incorporated herein by reference, are just and reasonable and shall be adopted.

CONCLUSIONS OF LAW

1. Arizona-American is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. Sections 40-250 and 40-241.

2. The Commission has jurisdiction over the Company and the subject matter of the applications.

3. Notice of the applications was provided in the manner prescribed by law.

4. The rates and charges for each system, as shown in Exhibit A attached hereto and

incorporated herein by reference, are just and reasonable and shall be approved.

ORDER

IT IS THEREFORE ORDERED that Arizona-American Water Company, Inc. is hereby directed to file with the Commission on or before June 30, 2004, revised schedules of rates and charges consistent with Exhibit A and the discussion herein, including the change to the Sun City District's Irrigation Water Tariff.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on and after July 1, 2004.

IT IS FURTHER ORDERED that Arizona-American Water Company, Inc. shall notify its affected customers of the revised schedules of rates and charges authorized herein by means of an insert in its next regularly scheduled billing, in a form approved by the Commission's Utilities Division Staff.

IT IS FURTHER ORDERED that Arizona-American Water Company, Inc.'s proposed Tolleson Agreement Cost Adjustor Mechanism is not approved at this time.

IT IS FURTHER ORDERED that Arizona-American Water Company, Inc.'s proposed Low Income Program for the Sun City and Sun City West Water Districts for the CAP surcharges is hereby approved.

IT IS FURTHER ORDERED that Arizona-American Water Company, Inc. shall continue the use of its current depreciation rates for the ten Districts.

IT IS FURTHER ORDERED that Arizona-American Water Company, Inc. shall implement the water loss reporting and plan requirements as proposed by the Commission's Utilities Division Staff as described herein within 30 days.

IT IS FURTHER ORDERED that Arizona-American Water Company, Inc. shall file Curtailment Plan Tariffs within 90 days of this Decision.

IT IS FURTHER ORDERED that Arizona-American Water Company, Inc. shall form a Fire-flow Task Force to be comprised of members including, but not limited to, a representative of the company's Arizona management team, representatives from Youngtown and Sun City, a representative of the Sun City's Taxpayers' Association, a representative of the Recreation Centers of

Sun City, and representatives from the fire departments serving Youngtown and Sun City. The purpose of this Task Force shall be to determine if the water production capacity, storage capacity, water lines, water pressure, and fire hydrants of Youngtown and Sun City are sufficient to provide the fire protection capacity that is desired by each community.

IT IS FURTHER ORDERED that the Fire-flow Task Force shall be formed in November 2004.

IT IS FURTHER ORDERED that the Fire-flow Task Force shall submit its findings and proposed plan of action to the Commission no later than May 30, 2005. Those members of the Fire-flow Task Force that do not agree with the findings and proposed plan of action may submit their own findings and proposed plan of action, but must do so by June 30, 2005.

IT IS FURTHER ORDERED that Arizona-American Water Company, Inc. shall work in conjunction with the fire departments serving Youngtown and Sun City to test the fire hydrants in Youngtown and Sun City in order to determine if those hydrants are operational. The Company shall submit a progress report on April 1st of each year to the Commission.

IT IS FURTHER ORDERED that the next rate case filing for the Mohave and Havasu Water Districts shall include a rate design proposal that will complete the move to a simpler, more conventional rate design under which the multi-family residential customers and multi-unit commercial customers in those Districts will pay the minimum charge based upon actual meter size.

IT IS FURTHER ORDERED that Arizona-American Water Company, Inc. shall develop and submit for the approval of Staff a water conservation initiative within 30 days of the effective date of this Decision. Arizona-American Water Company, Inc. shall disseminate its water conservation initiative by bill insert to all customers affected by this Application within 30 days of approval by Staff. Arizona-American Water Company, Inc. shall also continue to post the approved water conservation initiative on its website.

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IT IS FURTHER ORDERED that the next rate case filings for the Sun City West, Sun City and Anthem/Agua Fria wastewater Districts shall include a rate design proposal that presents information on 1) whether wastewater rates based on water consumption encourage water conservation; 2) whether higher bills for those who use the system more is a fairer way to collect revenue; and 3) what tiered wastewater rates based on water consumption would look like compared to a flat rate design.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER COMMISSIONER

COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 30th day of June, 2004.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____

DISSENT: _____

TW:mlj

SERVICE LIST FOR: ARIZONA-AMERICAN WATER COMPANY

DOCKET NO.: WS-01303A-02-0867 et al.

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ARIZONA AMERICAN
Docket No. WS-01303A-02-0867 et. al.
TEST YEAR ENDED DECEMBER 31, 2001

		SUN CITY WEST WATER						
			Tier One		Tier Two		Tier Three	
		Monthly Usage Charge:	Commodity Rate	Upper Limit	Commodity Rate	Second Tier Breakover	Commodity Rate	Second Tier Breakover
Residential, Commercial, Irrigation, Resale and Miscellaneous Customers								
Residential 5/8-inch	Meter	$ 5.87	$ 0.8500	4,000	$ 1.2850	15,000	$ 1.5510	Infinite
Residential 3/4-inch	Meter	5.87	0.8500	4,000	1.2850	15,000	1.5510	Infinite
Commercial 5/8-inch	Meter	5.87	1.2850	15,000	1.5510	Infinite	-	-
Commercial 3/4-inch	Meter	5.87	1.2850	15,000	1.5510	Infinite	-	-
1-inch	Meter	14.97	1.2850	40,000	1.5510	Infinite	-	-
1.5-inch	Meter	32.08	1.2850	100,000	1.5510	Infinite	-	-
2-inch	Meter	47.05	1.2850	150,000	1.5510	Infinite	-	-
3-inch	Meter	81.26	1.2850	275,000	1.5510	Infinite	-	-
4-inch	Meter	120.82	1.2850	400,000	1.5510	Infinite	-	-
6-inch	Meter	165.73	1.2850	550,000	1.5510	Infinite	-	-
8-inch	Meter	374.23	1.2850	1,300,000	1.5510	Infinite	-	-
10-inch	Meter	-	-	-	-	-	-	-
12-inch	Meter	-	-	-	-	-	-	-
General Fire Sprinkler Rate								
4-inch	Meter	35.22	$ 1.09	Infinite	-	-	-	-
6-inch	Meter	52.84	1.09	Infinite	-	-	-	-
8-inch	Meter	70.45	1.09	Infinite	-	-	-	-
10-inch	Meter	131.72	1.09	Infinite	-	-	-	-
Construction/Untreated CAP		-	$ 0.5488	Infinite	-	-	-	-
Effluent Sales, Per Acre Foot			$ 164.6475	-	-	-	-	-

EXHIBIT A

DECISION NO. 67093

ARIZONA AMERICAN
Docket No. WS-01303A-02-0867 et. al.
TEST YEAR ENDED DECEMBER 31, 2001

	SUN CITY WEST WASTEWATER		
	Monthly Usage Charge:	Gallons Included	Commodity Charge Per Thousand Gallons
Note: Charges are applied up to the usage indicated in the schedules. Amounts in excess of the first tier have no charges.			
Residential Units (WSR)	$ 20.56	-	$ -
Commerical (SSC)	$ 29.25	-	-
Comm. Large User (SS6)	$ 57.50	20,000	1.2500
Multi-family Res. Units (AC SSR)	$ 20.57	-	-
Comm. additional toilets (WS1)	$ 6.72	-	-
Comm. per dishwasher (WS2)	$ 53.91	-	-
Comm. per wash mach. (WS3)	$ 12.58	-	-
Comm. per wash rack (WS4)	$ 26.35	-	-

Annual Fee for Industrial Discharge Service

Non-refundable annual fee assessed in advance each January by special billing to industrial customers. Gallonage applies to total gallonage through all meters, inclusive of meters used for irrigation.

Industrial Discharge Annual Fee* <50,000gal/mo.	$	500.00
Industrial Discharge Annual Fee* >50,000gal/mo.	$	1,000.00

DECISION NO. 67093

ARIZONA AMERICAN
Docket No. WS-01303A-02-0867 et. al.
TEST YEAR ENDED DECEMBER 31, 2001

		SUN CITY WATER						
			Tier One		Tier Two		Tier Three	
		Monthly Usage Charge:	Commodity Rate	Upper Limit	Commodity Rate	Second Tier Breakover	Commodity Rate	Second Tier Breakover
Residential, Commercial, Irrigation, Resale and Miscellaneous Customers								
Residential 5/8-inch	Meter	$ 6.33	$ 0.7200	4,000	$ 1.1000	18,000	$ 1.3160	Infinite
Residential 3/4-inch	Meter	6.33	0.7200	4,000	1.1000	18,000	1.3160	Infinite
Commercial 5/8-inch	Meter	6.33	1.1000	18,000	1.3160	Infinite	-	-
Commercial 3/4-inch	Meter	6.33	1.1000	18,000	1.3160	Infinite	-	-
1-inch	Meter	16.40	1.1000	60,000	1.3160	Infinite	-	-
1.5-inch	Meter	33.77	1.1000	125,000	1.3160	Infinite	-	-
2-inch	Meter	51.14	1.1000	190,000	1.3160	Infinite	-	-
3-inch	Meter	86.84	1.1000	340,000	1.3160	Infinite	-	-
4-inch	Meter	135.00	1.1000	550,000	1.3160	Infinite	-	-
6-inch	Meter	178.51	1.1000	700,000	1.3160	Infinite	-	-
8-inch	Meter	350.00	1.1000	1,450,000	1.3160	Infinite	-	-
10-inch	Meter	-	-	-				
12-inch	Meter	-	-	-				
Irrigation								
1-inch	Meter	16.46	0.8200	Infinite	-	-	-	-
1.5-inch	Meter	33.78	0.8200	Infinite	-	-	-	-
2-inch	Meter	51.15	0.8200	Infinite	-	-	-	-
3-inch	Meter	86.87	0.8200	Infinite	-	-	-	-
4-inch	Meter	135.00	0.8200	Infinite	-	-	-	-
6-inch	Meter	178.56	0.8200	Infinite	-	-	-	-
8-inch	Meter	-	-	-	-	-	-	-
Public Interruptible								
3-inch	Meter	4.59	0.6300	Infinite	-	-	-	-
8-inch	Meter	4.59	0.6300	Infinite	-	-	-	-
Private Fire								
3-inch	Meter	7.60	0.7600	Infinite	-	-	-	-
4-inch	Meter	11.39	0.7600	Infinite	-	-	-	-
6-inch	Meter	15.83	0.7600	Infinite	-	-	-	-
8-inch	Meter	25.32	0.7600	Infinite	-	-	-	-
10-inch	Meter	39.35	0.7600	Infinite	-	-	-	-
Standby Rates		4.62	0.7600	Infinite	-	-	-	-
Construction/Untreated CAP		-	0.6558	Infinite	-	-	-	-

ARIZONA AMERICAN
Docket No. WS-01303A-02-0867 et. al.
TEST YEAR ENDED DECEMBER 31, 2001

SUN CITY WASTEWATER

	Monthly Usage Charge:	Gallons Included	Commodity Charge Per 1,000 Gallons
Note: Charges are applied up to the usage indicated in the schedules. Amounts in excess of the first tier have no charges.			
Residential Units (SSR)	$ 10.98	-	$ -
Comm/Resid Units (SSR)	$ 10.98	-	-
Commerical	$ 13.18	-	-
Comm. Large User (SS6)	$ 27.95	20,000	$ 1.07
Multi-family Res. Units (AC SSR)	$ 10.98	-	-
Comm. additional toilets (SS1)	$ 3.25	-	-
Comm. per dishwasher (SS2)	$ 24.79	-	-
Comm. per wash mach. (SS3)	$ 6.03	-	-
Comm. per wash rack (SS4)	$ 12.27	-	-
Rental Rooms/ Paradise Resort Park (Contract Rate)	$ 3.94	20,000	$ 0.91

Annual Fee for Industrial Discharge Service

Non-refundable annual fee assessed in advance each January by special billing to industrial customers. Gallonage applies to total gallonage through all meters, inclusive of meters used for irrigation.

Industrial Discharge Annual Fee* <50,000gal/mo.	$	500.00
Industrial Discharge Annual Fee* >50,000gal/mo.	$	1,000.00

DECISION NO. 67093

ARIZONA AMERICAN
Docket No. WS-01303A-02-0867 et. al.
TEST YEAR ENDED DECEMBER 31, 2001

MOHAVE WATER

		Monthly Usage Charge:	Tier One Commodity Rate	Tier One Upper Limit	Tier Two Commodity Rate	Tier Two Second Tier Breakover	Tier Three Commodity Rate	Tier Three Second Tier Breakover
Residential, Commercial, Irrigation, Resale and Miscellaneous Customers								
Residential 5/8-inch	Meter	$7.80	$ 0.8000	4,000	$ 1.1900	18,000	$ 1.4350	Infinite
Residential 3/4-inch	Meter	7.80	0.8000	4,000	1.1900	18,000	1.4350	Infinite
Commercial 5/8-inch	Meter	7.80	1.1900	18,000	1.4350	Infinite	-	-
Commercial 3/4-inch	Meter	N/A	-	-	-	-	-	-
1-inch	Meter	13.95	1.1900	35,000	1.4350	Infinite	-	-
1.5-inch	Meter	22.53	1.1900	65,000	1.4350	Infinite	-	-
2-inch	Meter	26.82	1.1900	75,000	1.4350	Infinite	-	-
3-inch	Meter	54.18	1.1900	175,000	1.4350	Infinite	-	-
4-inch	Meter	81.00	1.1900	270,000	1.4350	Infinite	-	-
6-inch	Meter	180.25	1.1900	635,000	1.4350	Infinite	-	-
8-inch	Meter	360.50	1.1900	1,250,000	1.4350	Infinite	-	-
10-inch	Meter	624.43	1.1900	2,200,000	1.4350	Infinite	-	-
Residential and Commercial Multi Family and Multi Unit								
5/8-inch	Meter	$7.80 X No. Of Units X 1/2"	1.1900	18,000	1.4350	Infinite	-	-
1-inch	Meter	$7.80 X No. Of Units X 1/2"	1.1900	35,000	1.4350	Infinite	-	-
1.5-inch	Meter	$7.80 X No. Of Units X 1/2"	1.1900	65,000	1.4350	Infinite	-	-
2-inch	Meter	$7.80 X No. Of Units X 1/2"	1.1900	75,000	1.4350	Infinite	-	-
4-inch	Meter	$7.80 X No. Of Units X 1/2"	1.1900	270,000	1.4350	Infinite	-	-
6-inch	Meter	$7.80 X No. Of Units X 1/2"	1.1900	635,000	1.4350	Infinite	-	-
*Minimum charge will not be below $7.80								
RIO VERDE 5/8-inch Meter		6.99	0.8000	4,000	1.1900	18,000	1.4350	Infinite
RIO VERDE 1-inch Meter		6.99	1.1900	35,000	1.4350	Infinite	-	-
RIO VERDE 2-inch Meter		6.99	1.1900	75,000	1.4350	Infinite	-	-
Public Authority								
5/8-inch	Meter	7.80	1.1783	Infinite	-	-	-	-
1-inch	Meter	13.95	1.1783	Infinite	-	-	-	-
1.5-inch	Meter	22.53	1.1783	Infinite	-	-	-	-
2-inch	Meter	26.82	1.1783	Infinite	-	-	-	-
3-inch	Meter	54.18	1.1783	Infinite	-	-	-	-
4-inch	Meter	81.00	1.1783	Infinite	-	-	-	-
6-inch	Meter	180.25	1.1783	Infinite	-	-	-	-
8-inch	Meter	360.50	1.1783	Infinite	-	-	-	-
10-inch	Meter	624.43	1.1783	Infinite	-	-	-	-
Private Fire								
2-inch	Meter	2.74	1.1783	Infinite	-	-	-	-
3-inch	Meter	N/A						
4-inch	Meter	5.48	1.1783	Infinite	-	-	-	-
6-inch	Meter	8.22	1.1783	Infinite	-	-	-	-
8-inch	Meter	10.96	1.1783	Infinite	-	-	-	-
10-inch	Meter	13.70	1.1783	Infinite	-	-	-	-
12-inch	Meter	15.12	1.1783	Infinite	-	-	-	-
14-inch	Meter	17.65	1.1783	Infinite	-	-	-	-
20-inch	Meter	25.21	1.1783	Infinite	-	-	-	-
PF Hydrant		26.82	1.1900	75,000	1.4350	Infinite	-	-
Standby Rates		6.98	1.1783	Infinite	-	-	-	-
Per Sprinkler Head		0.43	-	-	-	-	-	-

ARIZONA AMERICAN
Docket No. WS-01303A-02-0867 et. al.
TEST YEAR ENDED DECEMBER 31, 2001

		HAVASU WATER						
			Tier One		Tier Two		Tier Three	
		Monthly Usage Charge:	Commodity Rate	Upper Limit	Commodity Rate	Second Tier Breakover	Commodity Rate	Second Tier Breakover
Residential, Commercial, Irrigation, Resale and Miscellaneous Customers								
Residential 5/8-inch	Meter	$11.78	$ 1.0500	4,000	$ 1.5550	13,000	$ 1.8700	Infinite
Residential 3/4-inch	Meter	N/A						
Commercial 5/8-inch	Meter	11.78	1.5550	13,000	1.8700	Infinite		
Commercial 3/4-inch	Meter	N/A						
1-inch	Meter	20.27	1.5550	30,000	1.8700	Infinite		
1.5-inch	Meter	28.76	1.5550	45,000	1.8700	Infinite		
2-inch	Meter	39.88	1.5550	60,000	1.8700	Infinite		
3-inch	Meter	54.26	1.5550	90,000	1.8700	Infinite		
4-inch	Meter	68.64	1.5550	110,000	1.8700	Infinite		
6-inch	Meter	236.59	1.5550	500,000	1.8700	Infinite		
8-inch	Meter	457.50	1.5550	1,000,000	1.8700	Infinite		
10-inch	Meter	N/A						
12-inch	Meter	N/A						
Multi-family 044 1"		259.16	1.5550	30,000	1.8700	Infinite		
Multi-family 056 2"		329.84	1.5550	60,000	1.8700	Infinite		
Multi-family 064 4"		376.96	1.5550	110,000	1.8700	Infinite		
Multi-family 065 2"		382.85	1.5550	60,000	1.8700	Infinite		
Multi-family 067 4"		394.63	1.5550	110,000	1.8700	Infinite		
Multi-family 089 1"		524.21	1.5550	30,000	1.8700	Infinite		
Multi-family 102 2"		600.78	1.5550	60,000	1.8700	Infinite		
Multi-family 129 4"		759.81	1.5550	110,000	1.8700	Infinite		
Multi-family 153 4"		901.17	1.5550	110,000	1.8700	Infinite		

ARIZONA AMERICAN
Docket No. WS-01303A-02-0867 et. al.
TEST YEAR ENDED DECEMBER 31, 2001

AGUA FRIA WATER

		Monthly Usage Charge:	Tier One Commodity Rate	Tier One Upper Limit	Tier Two Commodity Rate	Tier Two Second Tier Breakover	Tier Three Commodity Rate	Tier Three Second Tier Breakover
Residential, Commercial, Irrigation, Resale and Miscellaneous Customers								
Residential 5/8-inch	Meter	$ 9.08	$ 1.3800	4,000	$ 2.0600	13,000	$ 2.4870	Infinite
Residential 3/4-inch	Meter	9.08	1.3800	4,000	2.0600	13,000	2.4870	Infinite
Commercial 5/8-inch	Meter	9.08	2.0600	13,000	2.4870	Infinite		
Commercial 3/4-inch	Meter	9.08	2.0600	13,000	2.4870	Infinite		
1-inch	Meter	23.24	2.0600	45,000	2.4870	Infinite		
1.5-inch	Meter	48.58	2.0600	100,000	2.4870	Infinite		
2-inch	Meter	72.86	2.0600	150,000	2.4870	Infinite		
3-inch	Meter	142.55	2.0600	300,000	2.4870	Infinite		
4-inch	Meter	191.75	2.0600	400,000	2.4870	Infinite		
6-inch	Meter	369.55	2.0600	800,000	2.4870	Infinite		
8-inch	Meter	726.26	2.0600	1,500,000	2.4870	Infinite		
Public Interruptible								
2-inch	Meter		1.0000	Infinite				
3-inch	Meter		1.0000	Infinite				
6-inch	Meter		1.0000	Infinite				
8-inch	Meter		1.0000	Infinite				
10-inch	Meter		1.0000	Infinite				
Prison 4"	Meter	191.75	1.9300	Infinite				
Private Fire								
4-inch	Meter	27.25	1.3800	Infinite				
6-inch	Meter	40.86	1.3800	Infinite				
8-inch	Meter	54.48	1.3800	Infinite				
10-inch	Meter	108.96	1.3800	Infinite				
12-inch	Meter	163.44	1.3800	Infinite				
Construction			1.0000	Infinite				
Untreated CAP		Cancelled						

ARIZONA AMERICAN
Docket No. WS-01303A-02-0867 et. al.
TEST YEAR ENDED DECEMBER 31, 2001

		ANTHEM WATER						
			Tier One		Tier Two		Tier Three	
		Monthly Usage Charge:	Commodity Rate	Upper Limit	Commodity Rate	Second Tier Breakover	Commodity Rate	Second Tier Breakover
Residential, Commercial, Irrigation, Resale and Miscellaneous Customers								
Residential 5/8-inch	Meter	$15.00	$ 1.1300	4,000	$ 1.7000	18,000	$ 2.0400	Infinite
Residential 3/4-inch	Meter	15.00	1.1300	4,000	1.7000	18,000	2.0400	Infinite
Residential 1-inch	Meter	26.42	1.1300	4,000	1.7000	40,000	2.0400	Infinite
Commercial 5/8-inch	Meter	15.00	1.7000	18,000	2.0400	Infinite		
Commercial 3/4-inch	Meter	15.00	1.7000	18,000	2.0400	Infinite		
1-inch	Meter	26.42	1.7000	40,000	2.0400	Infinite		
1.5-inch	Meter	60.78	1.7000	125,000	2.0400	Infinite		
2-inch	Meter	79.29	1.7000	175,000	2.0400	Infinite		
3-inch	Meter	151.97	1.7000	375,000	2.0400	Infinite		
4-inch	Meter	375.00	1.7000	500,000	2.0400	Infinite		
6-inch	Meter	1,200.00	1.7000	600,000	2.0400	Infinite		
8-inch	Meter	1,725.00	1.7000	1,400,000	2.0400	Infinite		
10-inch	Meter							
12-inch	Meter							
Irrigation								
1-inch	Meter		0.62	Infinite				
1.5-inch	Meter		0.62	Infinite				
2-inch	Meter		0.62	Infinite				
3-inch	Meter		0.62	Infinite				
4-inch	Meter		0.62	Infinite				
8-inch	Meter		0.62	Infinite				
Public Interruptible								
2-inch	Meter	-	2.16	Infinite				
3-inch	Meter	-	2.16	Infinite				
6-inch	Meter	-	2.16	Infinite				
10-inch	Meter	-	2.16	Infinite				
Private Fire								
3-inch	Meter	$49.67	Flat Rates	Infinite				
4-inch	Meter	84.40	Flat Rates	Infinite				
6-inch	Meter	126.60	Flat Rates	Infinite				
8-inch	Meter	127.72	Flat Rates	Infinite				
10-inch	Meter	255.45	Flat Rates	Infinite				

ARIZONA AMERICAN
Docket No. WS-01303A-02-0867 et. al.
TEST YEAR ENDED DECEMBER 31, 2001

ANTHEM/AGUA FRIA WASTEWATER DISTRICT

	Monthly Usage Charge:	Gallons Included	Commodity Charge Per Thousand Gallons
Residential Units	$ 20.30	7,000	$ 2.5450
Small Commerical User 5/8"	20.30	10,000	$ 2.5450
Small Commerical User 3/4"	30.48	15,000	$ 2.5450
Small Commerical User 1"	40.64	20,000	$ 2.5450
Comm. Large User	81.26	999,999,999	$ 2.5450
Anthem/Agua Fria Treatco	-	999,999,999	$ 2.3200

Note: Charges are applied up to the usage indicated in the schedules. Amounts in excess of the first tier have no charges.

Annual Fee for Industrial Discharge Service

Non-refundable annual fee assessed in advance each January by special billing to industrial customers. Gallonage applies to total gallonage through all meters, inclusive of meters used for irrigation.

Industrial Discharge Annual Fee* <50,000gal/mo.	500.00
Industrial Discharge Annual Fee* >50,000gal/mo.	1,000.00

ARIZONA AMERICAN
Docket No. WS-01303A-02-0867 et. al.
TEST YEAR ENDED DECEMBER 31, 2001

		TUBAC WATER						
			Tier One		Tier Two		Tier Three	
		Monthly Usage Charge:	Commodity Rate	Upper Limit	Commodity Rate	Second Tier Breakover	Commodity Rate	Second Tier Breakover
Residential, Commercial, Irrigation, Resale and Miscellaneous Customers								
Residential 5/8-inch	Meter	$19.68	$ 1.8900	4,000	$ 2.8500	20,000	$ 3.4100	Infinite
Residential 3/4-inch	Meter	19.68	1.8900	4,000	2.8500	20,000	3.4100	Infinite
Commercial 5/8-inch	Meter	19.68	2.8500	20,000	3.4100	Infinite		
Commercial 3/4-inch	Meter	19.68	2.8500	20,000	3.4100	Infinite		
1-inch	Meter	29.63	2.8500	35,000	3.4100	Infinite		
1.5-inch	Meter	59.26	2.8500	85,000	3.4100	Infinite		
2-inch	Meter	97.49	2.8500	150,000	3.4100	Infinite		
3-inch	Meter	115.65	2.8500	175,000	3.4100	Infinite		
4-inch	Meter	169.18	2.8500	250,000	3.4100	Infinite		
6-inch	Meter	231.30	2.8500	350,000	3.4100	Infinite		
8-inch	Meter	1,577.08	2.8500	900,000	3.4100	Infinite		

S-3
tim
diane
michele
(Jason)

ARIZONA WATER COMPANY

3805 N. BLACK CANYON HIGHWAY, PHOENIX, ARIZONA 85015-5351 • P.O. BOX 29006, PHOENIX, ARIZONA
PHONE: (602) 240-6860 • FAX: (602) 240-6878 • WWW.AZWATER.COM

June 6, 2005

VIA HAND DELIVERY

Mr. Timothy J. Sabo
Attorney, Legal Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Re: Docket No. W-01445A-04-0650
AWC's Responses to ACC Staff's Tenth Set of Data Requests

Dear Mr. Sabo:

An original of Arizona Water Company's responses to Staff's Tenth set of data requests is enclosed.

Very truly yours,

Robert W. Geake
Vice President and General Counsel

gjd
Enclosures

EXHIBIT
S-3
admitted

RECEIVED
JUN 06 2005
LEGAL DIV.
ARIZ. CORPORATION COMMISSION

E-MAIL: mail@azwater.com

ARIZONA WATER COMPANY'S
RESPONSES TO
ARIZONA CORPORATION COMMISSION STAFF'S
TENTH SET OF DATA REQUESTS
(Docket No. W-01445A-04-0650)

Data Request No. REL 10.1
Mr. Garfield states (Rebuttal, page 22) that the City of Casa Grande attempted to condemn "only a portion of the Company's water system".

(A) Describe the portion of the Company's Casa Grande system the City attempted to condemn.

(B) Describe how many customers in the Casa Grande system would in inside the condemnation area and how many would be outside the condemnation area.

(C) If possible, provide a map showing the Company's Casa Grande system and the area the City attempted to condemn.

Data Response to No. REL 10.1

(A) The City attempted to condemn the northern, northeastern, and northwestern parts of the Company's Casa Grande water system.

(B) No calculation was performed concerning customers inside and outside the condemnation area.

(C) A map showing the proposed condemnation area is attached hereto as Attachment A.

Responder(s): Garfield

Data Request No. REL 10.2
Provide any data or documents that support Mr. Garfield's statement that the "cost impacts to the Company's remaining Casa Grande customers after a partial takeover by the City would have been significant." (Rebuttal, page 22 lines 12-13)

Response To Data Request No. REL 10.2
The statement is based on Mr. Garfield's knowledge of other municipal condemnation attempts.
Responder(s): Garfield

Data Request No. REL 10.3
Provide a list each case in the last 10 years in which Dr. Zepp has recommended an adjustment (in either direction) to a company's cost of equity due to leverage.

Response To Data Request No. REL 10.3
Dr. Zepp has testified on many different issues in a number of cases during the last ten years. In some of those cases, leverage was addressed. See the attached sheet, which is a partial listing of cases in which he prepared testimony during the period 1999 to 2005. Compiling this list required a review of old time sheets and old files and has already taken many hours. It would be very difficult and burdensome to go back into archives at URI in an attempt to locate files prior to 1999 in which he prepared testimony that did or did not address leverage.
See Attachment C attached hereto.
Responder(s): Zepp

Partial List of Past Testimonies and Studies
And Discussion of Financial Risk Adjustments
1999- 2005

9

Thomas M. Zepp

** 2005 Submitted prefiled direct testimony on behalf of Anchorage Water and Wastewater Utility (U-04-22 and U-04-23) for Anchorage Water Utility and for Anchorage Wastewater Utility on 4/29/05. Dr. Zepp proposed an upward ROE adjustment for the utilities because the utilities are both smaller (more business risk) and more leveraged (more financial risk) than the water utilities sample adopted to determine benchmark equity costs.

1)

** 2005. Prepared direct testimony on behalf of California American Water for its Monterey District. Dr. Zepp proposed an upward ROE adjustment based on the method the California Public Utility Commission adopted to determine California American's authorized ROE in D. 03-02-030 to recognize California American was more leveraged.

2)

** 2004. Prepared direct testimony on behalf of California American Water for its Felton District. Analysis conducted in November 2004. Dr. Zepp proposed an upward ROE adjustment based on the method the California Public Utility Commission adopted to determine California American's authorized ROE in D. 03-02-030 to recognize California American was more leveraged.

3)

** 2004. Prepared rebuttal testimony on behalf of California American Water for its Sacramento and Larkfield Village Districts dated November 22, 2004. Dr. Zepp did not propose an upward ROE adjustment for California American even though it was more leveraged than the water utilities sample. No adjustment was made due to prior agreement with CPUC Staff.

** 2004. Prepared direct testimony on behalf of Chaparral City Water Company field August 24, 2004. Dr. Zepp did not propose an adjustment for leverage.

** 2004. Prepared direct testimony on behalf of San Gabriel Valley Water Company' Los Angeles Division, dated September 2004. Dr. Zepp did not propose an adjustment for leverage.

** 2004. Prepared direct testimony on behalf of California American Water for its Coronado and Village Districts dated March 18, 2004. Dr. Zepp did not propose an upward ROE adjustment for California American even though it was more leveraged than the water utilities sample. No adjustment was made due to prior agreement with CPUC Staff.

** 2004. Prepared cost of equity testimony for Park Water for Apple Valley Ranchos division. Dr. Zepp did not propose a leverage adjustment.

** 2004. Prepared direct testimony for Arizona Water Company. Dr. Zepp did not propose and adjustment for leverage.

** 2004. Prepared direct testimony for Chaparral City Water Company. Dr. Zepp did not propose and adjustment for leverage.

** 2004. Prepared rebuttal ROE testimony on behalf of Arizona Public Service, dated March 30, 2004. Dr. Zepp explained why ACC Staff's proposal to reduce the ROE for APS by 30 basis points for leverage should be rejected.

** 2004. Prepared cost of capital testimony for Southern California Water on the issue of changes in risk resulting from the restructuring of the method used to collect unexpected changes in the power costs, purchased water costs and pump taxes dated January 2004. The issue of leverage was not addressed.

** 2003. Prepared direct and rebuttal testimony on behalf of Arizona Water Company on the cost of equity. Responded to ACC Staff's contention that a negative ROE adjustment should be made for leverage.

** 2003. Prepared cost of equity testimony on behalf of California-American Water Company -- LA District (A.03-07-036). Dr. Zepp proposed an upward ROE adjustment based on the method the California Public Utility Commission adopted to determine California American's authorized ROE in D. 03-02-030 to recognize California American was more leveraged.

** 2003. Prepared cost of equity testimony on behalf of Park Water Company dated August 13, 2003 for its Central Basin Division. Dr. Zepp did not propose an adjustment for leverage.

** 2003. Prepared cost of capital testimony for Southern California Water on the issue of changes in risk resulting from the restructuring of the method used to collect unexpected changes in the power costs, purchased water costs and pump taxes dated September 2003. The issue of leverage was not addressed.

** 2003. Prepared cost of equity testimony on behalf of Hawaii-American Water Company. Dr. Zepp did not propose an upward adjustment in the ROE for above average leveraged because Hawaii-American had lower than average business risk.

** 2003. Prepared cost of equity testimony on behalf of New Mexico-American Water Company, dated 5/15/03. Dr. Zepp proposed an upward ROE adjustment for NMAWC being more leveraged than the sample water utilities.

** 2003. Prepared an analysis of an appropriate amount of rent Douglas County, Washington PUD should pay to the Colville Tribe for land under the reservoir

behind the Wells dam using method previously adopted by the FERC. There was no discussion of leverage in that case.

** 2003. Prepared an analysis and testimony on the impact of D.03-06-072 (new balancing account rule) on behalf of Southern California Water. Leverage not addressed.

** 2003. Prepared rebuttal testimony on behalf of San Gabriel Valley Water Company's Fontana Division dated August 2003. The testimony addressed the need for small firms such as SGVWC to have higher equity ratios to offset higher business risk.

** 2003. Prepared cost of equity testimony on behalf of Arizona-American Water Company. ACC Staff and Dr. Zepp proposed upward ROE adjustments for leverage.

** 2003. Prepared direct and rebuttal testimony on the cost of equity testimony on behalf of California-American Water Company -- Former Citizens Utilities Districts (A.02-09-031). Dr. Zepp proposed an upward ROE adjustment based on the method presented by CPUC Staff in A.02-04-022).

** 2002. Prepared cost of equity testimony on behalf of San Gabriel Valley Water Company dated October 2002. Dr. Zepp did not adjust his ROE estimate for leverage.

** 2002. Prepared cost of equity testimony on behalf of Anchorage Municipal Light & Power. Dr. Zepp proposed an upward ROE adjustment for high leverage and hypothetical capital structure with more common equity to reduce leverage.

** 2002. Prepared cost of equity testimony on behalf of Valencia Water Company (A.02-05-013, February 2002). Dr. Zepp did not address the issue of leverage but did address the need for Valencia to have an above-average equity ratio to offset higher business risks.

** 2002. Prepared cost of equity analysis on behalf of Northwest Natural Gas for a filing in Oregon. The issue of leverage was not addressed.

** 2002. Prepared cost of equity testimony on behalf of California-American Water Company -- Monterey District (A.02-04-022, February 2002). Dr. Zepp argued for and the California Commission accepted an upward adjustment to the cost of equity for leverage.

** 2002. Prepared cost of equity testimony on the impact of potential changes in balancing account rules (Resolution 4294) on behalf of Southern California Water Company. Leverage not addressed.

** 2002. Prepared cost of equity testimony on the impact of potential changes in balancing account rules (Resolution 4294) on behalf of California Water Service. Leverage not addressed.

** 2001. Prepared cost of equity testimony on behalf of Anchorage Municipal Light & Power. Dr. Zepp proposed an upward ROE adjustment for leverage and a hypothetical capital structure to reduce leverage.

** 2001. Prepared cost of equity testimony on behalf of Park Water Company Apple Valley Ranchos Division based on data available in December 2001 (Application 02-03-046). Leverage adjustments to ROEs were not discussed.

** 2001. Prepared cost of equity testimony related to changes in balancing account rules on behalf of California Water Service. Leverage not addressed.

** 2001. Expert witness at a trial in Pendleton, Oregon, on the harms to Pacific and its customers compared to the benefits to Hermiston of taking a portion of Pacific Power's service territory. Leverage not addressed.

** 2001. Prepare direct, rebuttal and rejoinder cost of equity testimony on behalf of PacifiCorp in a rate case in Oregon. Leverage not addressed.

** 2001. Prepare equity cost estimates on behalf of San Gabriel Valley Water Company A.01-10-028, September 2001 and March 2002). Dr. Zepp did not address adjustments for leverage.

** 2001. Prepare analysis of private line costs and telecommunications cost principles for Avista Communications. Leverage not addressed.

** 2001. Prepare analysis of the harms to PacifiCorp and its customers compared to the benefits to two mills and Emerald PUD the Halsey service territory being taken by EPUD. Leverage not addressed.

** 2000. Prepared cost of equity testimony for Mountain Water Company (Montana) on behalf of the company. Leverage not addressed.

** 2000. Prepared analysis of telecommunications costs on behalf of New Edge/ATG in Nevada. Attend two hearings. Leverage not addressed.

** 2000. Prepared Harm/Benefit analysis for presentation in Hermiston and trial in Pendleton. Leverage not addressed.

** 2000. Prepared direct, rebuttal and rejoinder cost of equity testimony on behalf of Arizona Water Company (Docket No. W-01445A-00-0962). Dr. Zepp did not propose an adjustment for leverage.

** 2000. Prepared affidavit on behalf of Williams Communications on the benefits of competition in the telecommunications industry. Leverage not addressed.

** 2000. Prepare testimony on costs and pricing of telecommunications services on behalf of MCI fro an Oregon case. Leverage not addressed.

** 2000. Prepared cost of equity testimony on behalf of Northwest Natural Gas for a case in Washington. Leverage not addressed.

** 2000. Prepared direct and rebuttal cost of equity testimony for Park Water with data available in January 2002 (Application 00-03-022). Leverage was not addressed.

** 1999. Prepared cost of equity testimony on behalf of San Gabriel Valley Water Company. Leverage not addressed.

** 1999. Estimated Harms and Benefits, which would result from a public agency condemning a limited number of customers now served by an investor owned electric utility. Prepared the analysis for the electric utility. Leverage not addressed.

** 1999. Prepared direct and rebuttal testimony on behalf of Dominguez Water Company and participated in settlement discussions. Proceeding A.99-04-003 before the California Public Utilities Commission. Direct filed February 1999. Dr. Zepp explained why Dominguez required a higher common equity ratio to offset higher business risks.

** 1999. Determine price a City could pay to an electric utility without increasing rates to customers if the City condemned and took over an electric utility's distribution system. Prepared analysis on behalf of the electric utility. Leverage not addressed.

** 1999. Prepared direct and rebuttal testimony regarding the cost of equity on behalf of NW Natural in UG 132, a proceeding before the Oregon Public Utilities Commission. Leverage not addressed.

** 1999. Prepared rebuttal testimony on cost of equity on behalf of Southern California Water Company in Application 99-03-068 before the California Public Utilities Commission. Leverage not addressed.

** 1999. Review US WEST testimony regarding proper rates for resellers of telecommunications services on behalf of Frontier TeleManagement, SCS, and ATI in UM 909 before the Oregon Public Utilities Commission and assist attorney with briefs in that case. Leverage adjustments were not an issue.

** 1999. Prepare an analysis of the incremental cost of paging, prepare testimony and attend hearings in Washington on behalf of AirTouch Paging in an arbitration with US WEST. Leverage adjustments were not an issue.

** 1999. Prepare an analysis of the incremental cost of paging, prepare testimony and attend hearings in Colorado on behalf of AirTouch Paging in an arbitration with US WEST. Leverage adjustments were not an issue.

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1 However, there's still an awful lot of costs out there
2 relative to their investment base, so there's still a
3 lot of risk there.
4 Q. Okay. Thank you, sir.
5 Dr. Zepp, would you consider medium grade bonds
6 to be considered investment grade?
7 A. Would you define medium grade bonds?
8 Q. Sir, I would say Baa.
9 A. Baa bonds are investment grade bonds.
10 Q. Okay. Thank you.
11 Dr. Zepp, on page 29 of your direct, you refer
12 to Myron Gordon as the father of the DCF model; is that
13 correct?
14 A. Page 29?
15 Q. Yes, sir.
16 A. Okay. Yes.
17 Q. Would you consider Mr. Gordon an expert in the
18 field of economics?
19 A. Yes.
20 Q. Does Mr. Gordon's efficient market hypothesis
21 state that all relevant available information regarding
22 a given stock is reflected in its current price?
23 A. Yes.
24 Q. Just a moment while I ask Ms. Finical to
25 hand out another exhibit here.

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1 Ms. Finical should have handed you a -- looks
2 like the table of contents and then an article from,
3 "The Economist," dated January 26, 2002.
4 Do you have that there, sir?
5 A. I have several pages. I don't know what you
6 had in mind.
7 Q. On the top page there.
8 A. I see that.
9 Q. It's contents, then -- yeah. Over to the
10 right. Okay.
11 A. Okay. Uh-huh.
12 Q. Dr. Zepp, would you consider "The Economist" to
13 be a leading publication in the field of economics?
14 A. Yes.
15 Q. If you would turn to the third page that's been
16 handed you, there's an article entitled, "Dicing with
17 Debt."
18 Do you have that, sir?
19 A. I see that.
20 Q. And then if you would turn to the next page,
21 which is actually page 23 of the article. Or of the
22 magazine, I guess it would be.
23 A. Yes.
24 Q. And then do you see the graph there in the
25 middle of the page?

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1 A. Yes.
2 Q. And below it there's a paragraph that starts
3 with the word "Much." And then continuing down to the
4 fifth line, there's a sentence that begins with the
5 words, "Even when the economy recovers..."
6 Do you see that, sir?
7 A. I do.
8 Q. Thank you, sir. Would you please begin reading
9 with the word "even" and read to the end of the
10 paragraph.
11 A. "Even when the economy recovers, profits are
12 unlikely to grow at the double-digit annual
13 rate that has come to be expected by many
14 investors and borrowers. Over the long term,
15 profits cannot grow faster than nominal GDP,
16 which is unlikely to rise by more than 5 to 6
17 percent a year."
18 MR. HORTON: Thank you, Dr. Zepp.
19 Staff moves "The Economist" article.
20 ACALJ NODES: Objections?
21 MR. JAMES: I object to this.
22 The basis for my objection, Your Honor, is it's
23 one thing to use things that are taken from the Federal
24 Reserve website or even from a learned treatise, but
25 here we've got essentially a magazine article and we've

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1 got Dr. Zepp reading a sentence out of it. So I'm not
2 sure how appropriate that is.
3 MR. HORTON: Your Honor, I would respond that
4 they'll have a full opportunity to review the article
5 and to ask Dr. Zepp about it on redirect, as well as an
6 opportunity to brief on the article if it becomes part
7 of the record.
8 ACALJ NODES: What does it do for the record to
9 put in a magazine article and just ask him to read a
10 sentence out of it for use as evidence in this case?
11 MR. HORTON: It indicates that -- Dr. Zepp has
12 indicated in his testimony that -- excuse me just a
13 moment while I refresh my memory.
14 ACALJ NODES: Well, would it not be more
15 appropriate for your witness to take the stand and
16 state that he relied on various articles and treatises
17 for purposes of forming his own opinion, as opposed to
18 asking a witness on the stand, without the opportunity
19 to review the entirety of the article, and then asking
20 him to read a single sentence out of the article as a
21 basis for challenging an aspect of that witness's
22 testimony?
23 MR. HORTON: Dr. Zepp has made assumptions
24 concerning the relationship between the GDP and the
25 annual rate of growth. And this is just an article

EXHIBIT
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admitted

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1 from a magazine that he has already admitted is a
2 leading publication in the field of economics that goes
3 against his testimony.
4 ACALJ NODES: I guess my concern is the element
5 of surprise, to some extent, that you're asking a
6 witness on the fly on the stand to accept certain
7 statements made within an article that he has not had
8 an opportunity to fully review, And then to ask
9 subsequently for us to accept this into evidence based
10 on his reading of that single sentence.
11 It's perhaps more procedural than anything, but
12 it still causes me concern that you're trying to
13 introduce your point in that method, through that
14 method.
15 So I am not going to admit this exhibit at this
16 time.
17 MR. HORTON: Okay. Thank you, Your Honor.
18 Q. (BY MR. HORTON) Dr. Zepp, would you please
19 turn now to page 46 of your rebuttal testimony.
20 A. Are you finished with direct?
21 Q. I'm sorry. I am for the time being.
22 A. Okay.
23 Q. I did try to make this a little more organized
24 so I wouldn't have you hopping around too much.
25 A. Thank you.

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1 Q. But I didn't totally accomplish that goal.
2 A. 46?
3 Q. Yes, sir.
4 A. I'm at page 46.
5 Q. Thank you. In the first question and answer
6 there, you discuss the Security Market Line and what
7 would happen to it if, quote, a more realistic
8 assumption about borrowing, unquote, is made; is that
9 correct?
10 A. Yes.
11 Q. And then you conclude your answer by stating
12 that, quote, this change in assumption about borrowing
13 and lending rates is one of the justifications of the
14 zero-beta version of CAPM; is that correct?
15 A. That's correct.
16 Q. Sir, would you now turn to page 49 of your
17 rebuttal.
18 A. Okay.
19 Q. And on line 14 you cite to William Sharpe and
20 his "Investments" text; is that correct?
21 A. Yes.
22 Q. And this is the same Professor Sharpe that won
23 the Nobel prize in economic sciences; is that correct?
24 A. He is.
25 Q. So I suppose we would have to consider him an

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1 authority on the CAPM; is that correct?
2 A. Yes.
3 Q. Okay. Then on line 12 through 20 of page 49,
4 you make several statements regarding the required
5 return on zero-beta or risk-free asset; is that
6 correct?
7 A. This would be the result of the study that was
8 reported by Sharpe.
9 Q. Okay. Thank you, sir.
10 And on lines 15 and 16, you state that the
11 required return on the risk-free or zero-beta asset was
12 equivalent to 7.32 percent, while the average Treasury
13 bill return was but 1.56 percent per year as reported
14 by Sharpe; is that correct?
15 A. Yes.
16 Q. Okay. Thank you.
17 And this information was reported in the Third
18 Edition of Professor Sharpe's "Investments" text; is
19 that correct?
20 A. Yes.
21 Q. And this information was gathered in 1972 by
22 Black, Jensen & Scholes; is that correct?
23 A. No. I believe this was the Fama-MacBeth study.
24 Q. Excuse me?
25 A. It was the Fama-MacBeth study, not the Black,

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1 Jensen & Scholes study.
2 Q. Okay. That's fine. Thank you for that
3 correction, sir.
4 Do you know what time period was studied when
5 that finding was made?
6 A. Well, the article came out in -- this was one
7 of the similar articles that tested CAPM and came out
8 in the early 70's. And the data set, I don't know,
9 late 60's probably? From 1926 through the late 60's?
10 I don't recall.
11 Q. Okay. Subject to check, would you accept 1938
12 to 1968?
13 A. No. It started in 1926.
14 Q. So subject to check, you would say '26 to '68?
15 A. I don't recall the ending date, but that's when
16 the data started.
17 Q. And when did you say the article was published
18 again, please.
19 A. '73, I believe.
20 Q. Okay. Thank you.
21 So during that period of time, Dr. Zepp, the
22 required return on zero-beta asset was found to be 7.32
23 percent, while the average T-bill return was 1.56
24 percent; is that correct?
25 A. That's what Sharpe reported, yes.

PROFESSIONAL QUALIFICATIONS
OF
STAFF WITNESS
GORDON L. FOX

DOCKET NO. W-01445A-04-0650
ARIZONA WATER COMPANY

Mr. Fox is currently a Public Utilities Analyst Manager employed by the Arizona Corporation Commission in the Utilities Division with responsibility for supervising analysts whose duties include preparation of testimonies on rate base, operating income, cost of capital, rate design and securities issuance. Mr. Fox has fifteen years' regulatory utility auditing and rate analysis experience and four years' experience with a cable TV utility with responsibility for preparing and presenting rate applications before jurisdictional authorities. Mr. Fox has master and bachelor degrees in Accounting, and he has earned the following professional accounting and finance certifications: Certified Public Accountant ("CPA"), Certified Management Accountant ("CMA") and Certified in Financial Management ("CFM").

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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION OF	)	DOCKET NO. W-01445A-04-0650
ARIZONA WATER COMPANY, INC.	)	
FOR A DETERMINATION OF THE CURRENT	)	
FAIR VALUE OF ITS UTILITY PLANT AND	)	
PROPERTY AND FOR INCFREASES IN ITS	)	
RATE CHARGES FOR UTILITY SERVICE	)	
BASED THEREON	)	

DIRECT

TESTIMONY

OF

ALEJANDRO RAMIREZ

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 18, 2005

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EXECUTIVE SUMMARY

The direct testimony of Staff witness Alejandro Ramirez addresses the following issues:

Capital Structure – Staff recommends the Commission adopt a capital structure consisting of 26.6 percent long-term debt and 73.4 percent equity for this proceeding.

Cost of Debt – Staff recommends the Commission adopt an 8.4 percent cost of long-term debt.

Cost of Equity – Staff recommends the Commission adopt a 9.1 percent return on equity ("ROE"). Staff bases its ROE recommendation on its discounted cash flow ("DCF") and capital asset pricing model ("CAPM") analyses. Staff's recommended ROE range is 8.8 percent to 9.6 percent.

Overall Rate of Return – Staff recommends the Commission adopt an overall rate of return ("ROR") of 8.9 percent.

Comment on the Direct Testimony of Company Witness Thomas M. Zepp – The Commission should reject Dr. Zepp's proposed 11.25 percent ROE for the following reasons:

1. There are several problems associated with Dr. Zepp's DCF estimates including; inappropriate calculation of the expected dividend yield, exclusive reliance on analysts' forecasts, and failure to consider dividends per share growth.

2. Dr. Zepp's "risk premium" analysis should be rejected because (1) it relies on analysts' forecasts of future interest rates, and (2) it relies on past accounting returns on equity and past authorized returns on equity which cannot be meaningfully compared to the cost of equity.

3. Dr. Zepp's proposed additional risks basis points should be rejected because it is (1) inconsistent with financial theory, and (2) Dr. Zepp has not demonstrated that these risks affect the cost of equity for Arizona Water.

INTRODUCTION

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

A. My name is Alejandro Ramirez. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst.

A. In my position as a Public Utilities Analyst, I perform studies to estimate the cost of capital component of revenue requirement in rate proceedings. I also perform other financial analyses.

Q. Please describe your educational background and professional experience.

A. In 2002, I graduated summa cum laude from Arizona State University, receiving a Bachelor of Science degree in Global Business with a specialization in finance. While attending Arizona State University, I successfully completed the Barrett Honors College curriculum. My course of studies included classes in corporate and international finance, investments, accounting, statistics, and economics. I began employment as a Staff Public Utilities Analyst in 2003. Since that time, I have provided Staff's recommendations to the Commission on financings and prepared various studies in the field of cost of capital and econometrics. I have also attended seminars related to general regulatory and business issues.

Q. What is the scope of your testimony in this case?

A. I provide Staff's recommended rate of return in this case. I discuss the appropriate rate of return ("ROR") for establishing the revenue requirement for Arizona Water Company ("Arizona Water" or "Applicant").

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Briefly summarize how Staff's cost of capital testimony is organized.

A. Staff's cost of capital testimony is organized in eight sections. Section I discusses the concept of weighted average cost of capital ("WACC"). Section II presents the concept of capital structure and presents Staff's recommended capital structure for Arizona Water in this proceeding. Section III discusses the concepts of return on equity ("ROE") and risk. Section IV presents the methods employed to estimate Arizona Water's ROE. Section V presents the findings of Staff's ROE analysis. Section VI presents the final cost of equity estimates for Arizona Water. Section VII presents Staff's ROR recommendation. Section VIII presents a discussion of the Applicant witness Dr. Thomas M. Zepp's cost of equity analysis.

Q. Have you prepared any exhibits to your testimony?

A. Yes. I prepared nine schedules (AXR-1 to AXR-9) that support Staff's cost of capital analysis.

Q. What is Staff's recommended rate of return for Arizona Water?

A. Staff recommends an 8.9 percent ROR, which is based on Arizona Water' cost of equity estimates that range from 8.8 percent to 9.6 percent. This rate is calculated on Schedule AXR-1.

ARIZONA WATER'S PROPOSED OVERALL RATE OF RETURN

Q. Briefly summarize the Applicant's proposed capital structure, cost of debt, return on equity and overall rate of return for this proceeding.

A. Table 1 summarizes the Applicant's proposed capital structure, cost of debt, return on equity and overall rate of return in this proceeding:

Table 1

	Weight	Cost	Weighted Cost
Long-term Debt	26.6%	8.4%	2.20%
Common Equity	73.4%	11.25%	8.30%
Cost of Capital/ROR			**10.50%**

Arizona Water is proposing an overall rate of return of 10.50 percent.

I. THE WEIGHTED AVERAGE COST OF CAPITAL

Q. Please define the cost of capital concept.

A. The cost of capital is the opportunity cost of the funds employed as the result of an investment decision. The cost of capital represents the returns that could be expected to be earned in other investments with equivalent risk. In other words, the cost of capital is the return that stakeholders expect for committing their resources in a determined business enterprise. The cost of capital is calculated by using the WACC.

Q. How is the WACC calculated?

A. The WACC is calculated by adding the weighted expected returns of the firm's securities.

The following equation shows how the WACC is calculated:

Equation 1.

$$WACC = \sum_{i=1}^{n} W_i * r_i$$

Where W_i is the weight given to the ith security (the proportion of the ith security relative to the portfolio) and r_i is the expected return on the ith security.

Q. Can you provide an example applying Equation 1?

A. Yes. Assume that a firm has a capital structure composed of 75 percent debt and 25 percent equity. Also assume that the embedded cost of debt is 7.8 percent and the expected return on equity (cost of equity) is 10.5 percent. The WACC calculation is as follows:

$$WACC = 75\% * 7.8\% + 25\% * 10.5\%$$

$$WACC = 5.85\% + 2.63\%$$

$$WACC = 8.48\%$$

The weighted average cost of capital in this case is 8.48 percent. Given the firm's capital structure, the company would have to earn an overall rate of return of 8.48 percent to cover its cost of capital.

II. CAPITAL STRUCTURE

Background

Q. Please explain the capital structure concept.

A. The capital structure of a firm shows how its assets are financed over the long-run. The capital structure of a firm is the mix of capital leases, long-term debt, preferred stock and common stock that are used to finance the firm's assets.

Q. How is the capital structure calculated?

A. The capital structure of a company is calculated by finding the percentage of each component of the capital structure (capital leases, long-term debt, preferred stock and common stock) relative to the total capital (the total sum of all the components of the capital structure).

For illustrative purposes, suppose that company A is financed by $15,000 of capital leases, $80,000 of long-term debt, $5,000 of preferred stock and $35,000 of common stock. Company A's capital structure would be calculated as follows:

Component			%
Capital Leases	$15,000	($15,000/$135,000)	11.1%
Long-Term Debt	$80,000	($80,000/$135,000)	59.3%
Preferred Stock	$5,000	($5,000/$135,000)	3.7%
Common Stock	$35,000	($35,000/$135,000)	25.9%
Total	$135,000		100%

Company A's capital structure is composed of 11.1 percent capital leases, 59.3 percent long-term debt, 3.7 percent preferred stock and 25.9 percent common stock.

Q. Is there a relationship between capital structure and cost of equity capital?

A. Yes. As a firm's leverage increases, so does its cost of equity capital. I will explain this relationship in more depth further in my testimony (Page 11).

Arizona Water Capital Structure

Q. What capital structure does the Applicant recommend for Arizona Water?

A. The Applicant is recommending a capital structure composed of 26.6 percent long-term debt and 73.4 percent common equity.

Q. Is the Applicant's proposed capital structure the same capital structure recommended by Staff?

A. Yes, it is.

Q. How does Arizona Water's capital structure compare to capital structures of publicly traded water utilities?

A. The Applicant's capital structure is composed of 26.6 percent long-term debt and 73.4 percent equity. Schedule AXR-2 shows the capital structures of six publicly traded water companies ("sample water utilities") as of September 2004. The sample water utilities were capitalized with approximately 49.5 percent debt and 50.5 percent equity, on average.

III. RETURN ON EQUITY

Background

Q. Please define the term cost of equity capital.

A. The cost of equity to a firm is the rate of return that investors expect to earn on their equity investment in that firm given its risk. In other words, the cost of equity to a firm is the investors' expected rate of return on other investments of similar risk. The cost of equity capital is determined by the market.

Q. Is there any relationship between interest rates and the cost of equity?

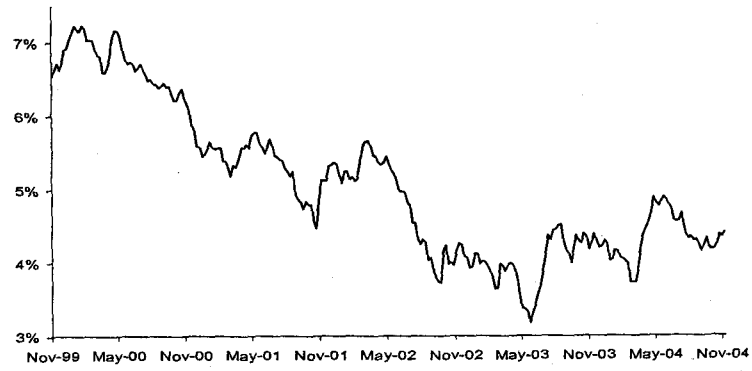
A. Yes. According to the capital asset pricing model ("CAPM")[1], the cost of equity moves in the same direction as interest rates. It is helpful to take into account how current interest rates compare to historical interest rates to have an idea of how the current cost of equity capital might be compared to the cost of equity capital historically.

Q. What has been the general trend of interest rates in recent years?

A. Interest rates have decreased in recent years. Current interest rates are lower than what they were at the end of 1999. Chart 1 graphs intermediate U.S. treasury rates from November 1999 to November 2004:

[1] The CAPM is a market-based model used for estimating the cost of equity discussed further later in this testimony.

Chart 1: Average Yield on 5-, 7-, & 10-Year Treasuries

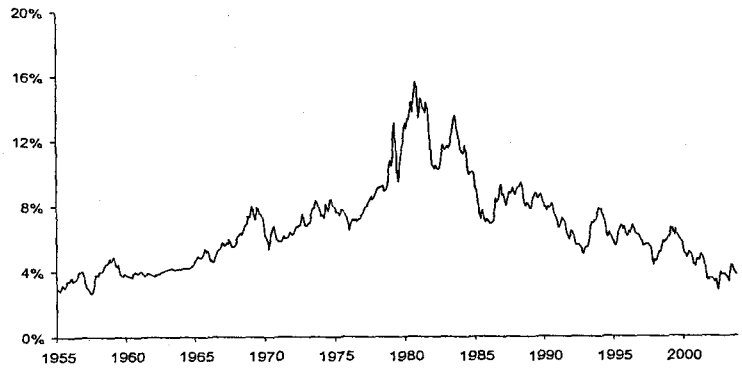


Source: Federal Reserve

Q. What has been the long-term trend in interest rates and what does it suggest for capital costs?

A. Chart 2 shows that interest rates have declined in the past twenty years and are currently at levels comparable to the 1960's. In retrospect, Chart 2 suggests that capital costs in general have declined significantly in the last 20 years.

Chart 2: History of 5- and 10-Year Treasury Yields



Source: Federal Reserve

Q. Does the cost of equity represent actual returns?

A. No. As mentioned earlier, the cost of equity represents the investors' *expected* returns as opposed to actual returns.

Q. What have historical returns been for average risk securities?

A. Jeremy Siegel, a Wharton School finance professor, found that the average arithmetic and compound annual returns on U.S. equities have been 9.7 percent and 8.3 percent, respectively, using 199 years of data through 2001.[2]

Q. What do these historical returns suggest about the cost of equity capital?

A. These historical returns suggest that an allowed ROE at or above 11.25 percent as proposed by the Applicant exceeds the arithmetic and compound average historical return on U.S. equities for the period studied by Professor Siegel.

Q. What information is available to provide insight into the relationship between the required return on equity for a regulated water utility and the average return on the market?

A. The average beta (0.68)[3] for a water utility is lower than the theoretical average beta for all stocks (1.0). This implies that the required return on equity for a regulated water utility is below the average required return on the market.

---

[2] Siegel, Jeremy J. *Stocks for the Long Run*, third edition. McGraw-Hill, New York. 2002. p.13.
[3] See Schedule AXR-5

Risk

Q. Please define risk.

A. Risk can be defined as the level of uncertainty which is inherent in a financial opportunity[4]. Risk is usually separated into two categories: market risk (also known as systematic risk) and non-market risk (also known as unique risk).

Q. What is market risk?

A. Market risk (systematic risk) is defined as the sensitivity of an investment's return to market returns. Market risk is related to the economy-wide perils that affect all business such as inflation, interest rates, and general business cycles. Market risk affects all stocks. But the impact on each company is not necessarily the same. Given that market risk affects all the stocks, this risk is non-diversifiable (it cannot be eliminated). Accordingly, market risk is the only risk that affects the cost of equity, and it is measured by beta. Beta reflects both the business risk and financial risk of a firm.

Q. What is non-market risk?

A. Non-market risk (unique risk) is the one which is uncorrelated across firms in the economy. Unique risk is related to the risk of an individual project or firm; therefore, it can be eliminated through diversification. Investors can eliminate unique risk by holding a diversified portfolio. Unique risk is not measured by beta, nor does it affect the cost of equity because these firm-specific risks can be eliminated through shareholder diversification.

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[4] Jacob, Nancy, Pettit, Richardson R. *Investments*, second edition. Irwin, Homewood. 1988. p.34.

Q. Do Investors require additional return to account for unique risk?

A. No. Investors who hold diversified portfolios do not require additional return for unique risk because as mentioned earlier, non-market risk is eliminated through diversification. Because investors who choose to be less than fully diversified must compete in the market with fully diversified investors, the former cannot expect to be compensated for unique risk.

Q. It was mentioned that beta includes both the business and the financial risk of a firm. How are business risk and financial risk defined?

A. Business risk is that risk which is associated with the fluctuation in earnings due to the basic nature of a firm's business. Financial risk is that risk which affects shareholders due to a firm's reliance on debt financing.

Q. Do both business and financial risk affect the cost of equity?

A. Yes, they do.

Q. What is the relationship between the capital structure of a firm and its financial risk?

A. Financial risk is closely related to how a firm finances its assets (capital structure of the firm). A greater percentage of debt in a capital structure results in a higher level of financial risk, which in turns affects the cost of equity. As a firm increases its reliance on debt, it becomes more leveraged, increasing the firm's financial risk. Financial risk affects the cost of equity: as a firm becomes more leveraged, it becomes more risky. As the firm's risk increases, the firm's cost of equity also increases.

Q. How does Arizona Water's financial risk compare to the sample water companies' financial risk?

A. Arizona Water's capital structure is composed of 26.6 percent long-term debt and 73.4 percent equity. Schedule AXR-2 shows the capital structures of six publicly traded water companies ("sample water companies") as of September 2004, as well as Arizona Water's capital structure. As of September 2004, the sample water utilities were capitalized with approximately 49.5 percent debt and 50.5 percent equity. The Applicant's shareholders' bear less financial risk than the average sample water companies.

IV. ESTIMATING THE COST OF EQUITY

Introduction

Q. Did Staff directly estimate the cost of equity for the Applicant?

A. No. Staff did not directly estimate Arizona Water's cost of equity for two reasons. First, the Applicant does not have publicly traded stock; therefore, the required information to estimate Arizona Water's cost of equity is not available. Second, any estimate of the cost of equity for a single company stock would likely contain a high degree of random fluctuations and thus be subject to considerable error. Using the average of a sample group gives a more reliable estimate. Accordingly, Staff used a sample of water utilities to estimate Arizona Water's cost of equity.

Q. What companies did Staff select as proxies or comparables for Arizona Water?

A. Staff selected six publicly traded water utilities shown on Schedule AXR-2. These companies represent the water utilities that are currently analyzed by *The Value Line Investment Survey Small and Mid Cap Edition* ("*Value Line Small Cap*") and *The Value Line Investment Survey* ("*Value Line*") that have a significant amount of revenues derived from regulated operations: American States Water, California Water, Connecticut Water Services, Middlesex Water, Aqua America (formerly named Philadelphia Suburban), and SJW Corp. These six water utilities are the same ones that Arizona Water's witness Dr. Zepp used in his cost of equity analysis.

Q. What models did Staff implement to estimate Arizona Water's cost of equity?

A. As mentioned earlier, the cost of equity is determined by the market; therefore, Staff used two widely accepted and known market-based models to estimate the Applicant's cost of equity: the discounted cash flow ("DCF") model and the CAPM.

Q. Explain why Staff chose the DCF and CAPM market-based models?

A. Staff chose to use the DCF and CAPM models because they are widely recognized and used. Further explanation of these models is provided later in the following section of this testimony.

Discounted Cash Flow Model Analysis

Q. Please provide a brief summary of the theory upon which the DCF method of estimating the cost of equity is based.

A. The DCF method of estimating the cost of capital is based on the theory that the present value of a stock (current market price) is calculated the same way as it is for the present

value of any other asset. In other words, the current market price of a stock (asset) is equal to the present value of all expected future dividends (cash flows).

In the 1960s, Professor Myron Gordon pioneered the use of the DCF method to estimate the cost of capital for a public utility. This model has become widely used due to its theoretical merit and its simplicity.

Through a mathematical formula, the discount rate, or cost of capital, can be estimated from the expected dividend, the market price, and a dividend growth rate. The formula is then applied to each company included in a sample that exhibits similar risk to the company whose cost of equity is being estimated. The results are averaged to arrive at the estimate of the cost of equity.

Q. How did Staff apply the DCF Model?

A. Staff applied two different versions of the DCF model. The first version of the DCF used by Staff is the constant-growth DCF Model. The second version is a multi-stage or non-constant growth DCF. The constant-growth DCF Model assumes that a company will grow at the same rate indefinitely. The main assumption and advantage in the non-constant growth DCF model is that it does not assume that dividends grow at a constant rate over time.

The Constant-Growth DCF

Q. What is the constant-growth DCF formula used in Staff's analysis?

A. The constant-growth DCF formula used in Staff's analysis is:

Equation 2:

$$K = \frac{D_1}{P_0} + g$$

where:

K	=	the cost of equity
D_1	=	the expected annual dividend
P_0	=	the current stock price
g	=	the expected infinite annual growth rate of dividends

Equation 2 assumes that the company has a constant retention rate and that its earnings are expected to grow at a constant rate. Therefore, if a stock has a current market price of $10 per share, an expected annual dividend of $0.25 per share, and if its dividends were expected to grow 5 percent per year, then the cost of equity to the company would be 7.5 percent (the 2.5 percent dividend yield plus the growth rate of 5.0 percent per year).

Q. How did Staff calculate the dividend yield component (D_1/P_0) of the constant-growth DCF formula?

A. Staff calculated the yield component of the DCF formula by dividing the expected annual dividend (D_1) by the spot stock price (P_0) after the close of the market on March 23rd, 2005, as reported by *MSN Money*.

Q. Why did Staff use the spot stock price rather than a historical average stock price to calculate the dividend yield component of the DCF formula?

A. Staff used the current market stock price (spot stock price) rather than a historical average to be consistent with finance theory. According to the efficient market hypothesis, the current stock price includes investors' expectations of future returns and it is the best indicator of those expectations.

Q. How did Staff estimate the dividend growth (g) component of the DCF model?

A. Equation 2 shows that the DCF model depends on dividend growth (g). Staff used a combination of historical and projected dividend-per-share ("DPS") growth provided by *Value Line*. In addition, Staff also examined historical and projected growth in earnings-per-share ("EPS") and intrinsic growth when estimating the dividend growth rate.

Q. Why did Staff examine EPS growth to estimate the dividend growth component of the constant-growth DCF model?

A. Staff took into account EPS growth (both historical and projected) when estimating the dividend growth component of the constant-growth DCF model because dividends are not independent of earnings. It would be unreasonable to assume that investors expect long-term dividend growth to exceed long-term earnings growth because it would lead to payout ratios in excess of 100 percent. Therefore, Staff considered historical and projected EPS growth when estimating expected dividend growth.

Q. How did Staff estimate historical DPS growth?

A. Staff estimated historical DPS growth by calculating the average rate of growth in DPS of the sample water companies from 1993 to 2003. The results of the analysis are shown on Schedule AXR-3. Staff's analysis indicates an average historical DPS growth rate of 2.6 percent for the sample water utilities.

Q. What DPS growth rate does *Value Line* project for the sample water utilities?

A. *Value Line* projects a 3.3 percent DPS growth rate for the sample water utilities, also shown in Schedule AXR-3.

Q. What is Staff's historical EPS growth rate?

A. Schedule AXR-3 shows Staff's historical average rate of growth in EPS for the sample water utilities. Staff's average historical EPS growth rate is 1.5 percent for the period 1993 to 2003.

Q. What EPS growth rate does *Value Line* project?

A. *Value Line's* projected EPS growth rate is 14.3 percent for the sample water utilities, as shown in Schedule AXR-3. It is important to take into account that Analysts' projections of the future earnings are usually high[5] and vary widely.

Q. How was Staff's intrinsic growth rate calculated?

A. Staff's intrinsic growth rate was calculated by adding the retention growth rate term (br) to the stock financing growth rate term (vs).

Q. What is retention growth?

A. Retention growth is the growth in dividends due to the retention of earnings. This concept is based on the theory that dividend growth will not be achieved unless the company retains and reinvests some of its earnings. In other words, retention growth rate is the product of the retention ratio and the book/accounting return on equity. Retention growth is a component of Staff's intrinsic growth calculation.

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[5] See Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. p. 100. Malkiel, Burton G. A Random Walk Down Wall Street. 1999. W.W. Norton & Co. New York. p. 169. Dreman, David. Contrarian Investment Strategies: The Next Generation. 1998. Simon & Schuster. New York. pp. 97-98. Testimony of Professors Myron J. Gordon and Lawrence I. Gould, consultant to the Trial Staff (Common Carrier Bureau), FCC Docket 79-63, p. 95.

Q. What is the formula for the retention growth rate?

A. The retention growth rate formula is:

Equation 3:

$$\text{Retention Growth Rate} = br$$

where: b = the retention ratio (1 – dividend payout ratio)
r = the accounting/book return on common equity

Q. What historical retention (br) growth rate did Staff calculate for the sample water utilities?

A. Staff calculated a historical average retention (br) growth of 3.1 percent for the sample water utilities, shown on Schedule AXR-4. This rate was calculated by averaging the retention growth rate for the years 1994 through 2003.

Q. Does *Value Line* project retention growth?

A. Yes, it does. *Value Line* projects an average retention growth rate of 5.3 percent for the period 2007-2009 for the sample water utilities, as shown on Schedule AXR-4.

Q. When is the br growth a reasonable estimate of future dividend growth?

A. The br growth rate is a reasonable estimate of future dividend growth when the retention ratio is fairly constant and the company's market price to book value ("market-to-book ratio") is expected to be 1.0. The average retention ratio has been fairly constant over the past several years. However, the market to book ratio for the sample water utilities is higher than 1.0 (As shown is Schedule AXR-5, it is 2.3). Staff assumes that investors expect the market-to-book ratio to remain above 1.0.

Q. Is there any financial implication of a market-to-book ratio greater than 1.0?

A. Yes. A market-to-book ratio greater than 1.0 implies that investors expect the company to earn an accounting/book return on its equity higher than its cost of equity.

Q. How has Staff accounted for the assumption that investors expect the average market-to-book ratio of the sample water utilities to remain above 1.0?

A. Staff added a second growth term (stock financing growth rate or vs) to the br growth rate to account for the assumption that investors expect the average market-to-book ratio of the sample water utilities to remain above 1.0.

Q. What is stock financing growth?

A. Stock financing growth is the growth in a company's dividends due to the sale of stock. This term, derived by Myron Gordon in his book, *The Cost of Capital to a Public Utility*[6], is the product of the fraction of the funds raised from the sale of stock that accrues to existing shareholders (v) and the funds raised from the sale of stock as a fraction of the existing common equity (s).

Q. What is the formula for the stock financing growth rate?

A. The stock financing growth formula is:

[6] Gordon, Myron J. *The Cost of Capital to a Public Utility*. MSU Public Utilities Studies, Michigan, 1974. pp 31-35.

Equation 4 :

$$\text{Stock Financing Growth} = vs$$

where : v = Fraction of the funds raised from the sale of stock that accrues to existing shareholders

s = Funds raised from the sale of stock as a fraction of the existing common equity

Q. How is the variable v presented above calculated?

A. Variable v is calculated as follows:

Equation 5 :

$$v = 1 - \left(\frac{book\ value}{market\ value} \right)$$

For example, let's assume that a share of stock has a $20 book value and is selling for $25. Then, to find the value of v, the formula is applied:

$$v = 1 - \left(\frac{20}{25} \right)$$

In this example, v would be equal to 0.20. Staff found that the average v for the sample water utilities is 0.50.

Q. How is the variable s presented above calculated?

A. Variable s is calculated as follows:

Equation 6:

$$s = \frac{\text{Funds raised from the issuance of stock}}{\text{Total existing common equity before the issuance}}$$

For example, assume that a company has $100 in existing equity, and it sells $10 of stock. Then, to find the value of s, the formula is applied:

$$s = \left(\frac{10}{100}\right)$$

In this example, s would be equal to 10.0 percent. Staff found the average s for the sample water utilities to be 3.7 percent.

Q. What would happen to the vs term if the market-to-book ratio is equal to 1.0?

A. As mentioned earlier, when investors expect to earn a book/accounting return on their equity investment equal to the cost of equity, the market-to-book ratio will be equal to 1.0. If the market-to-book ratio is equal to 1.0, then the term v will equal zero (0.0), and consequently, the stock financing growth term will equal zero (0.0). In summary, when the market-to-book ratio is equal to 1.0, no funds raised from sale of stock will accrue to existing stock holders, and dividend growth will depend on the br term.

Q. How does the vs term work when the market-to-book ratio is higher than 1.0?

A. When investors expect a company to earn a book/accounting return on equity higher than its cost of equity, the market-to-book ratio will be higher than 1.0. In this case, the v term will be different from zero (0.0). When new shares are issued and sold, the book value per share of outstanding stock is less than the contribution per share of the new stockholders. This excess per share contribution over the book value per share will accrue to existing stockholders in the form of a higher book value. The resulting higher book value leads to higher expected earnings and dividends.

Q. What is the vs estimate for the sample water utilities?

A. Staff estimated an average stock financing growth (vs) of 2.2 percent for the sample water utilities, as it is shown on Schedule AXR-4.

Q. When investors expect the company to earn a book/accounting return on equity higher than its cost of equity, the market-to-book ratio is higher than 1.0. What would happen to a utility's market-to-book ratio if its authorized (book/accounting) ROE is set equal to its cost of equity?

A. In theory, if a utility's authorized ROE is set equal to its cost of equity, the utility's market-to-book ratio should decline to 1.0. This implies that in the long-run, the vs term is unnecessary. However, in reality, rate orders might not force the market-to-book ratios to 1.0 for a variety of reasons. For example, the company might have sources of income that are not regulated, and regulatory commissions do not issue orders simultaneously for utilities that operate in different jurisdictions. Staff's inclusion of the vs term in its constant-growth DCF analysis might result in an over estimate of its intrinsic dividend growth rate and the resulting DCF estimate. Staff's DCF estimates are too high if investors expect the average market-to-book ratio of the sample water utilities' to fall to 1.0 due to falling authorized ROEs.

Q. What is Staff's intrinsic growth rate?

A. Staff estimated an intrinsic growth rate of 5.3 percent when using historical retention growth and an intrinsic growth rate of 8.5 percent when using retention growth projected by *Value Line*. Schedule AXR-4 presents Staff's estimates of the intrinsic growth rate.

Q. What is Staff's expected infinite annual growth rate in dividends?

A. Staff averaged historical and projected growth in dividends per share ("DPS"), earnings per share ("EPS"), and intrinsic growth to calculate the expected infinite annual growth rate in dividends. Schedule AXR-6 presents the calculation of the expected infinite annual growth rate in dividends. Staff's estimate is 5.9 percent.

Q. What is Staff's constant-growth DCF estimate?

A. Staff's constant-growth DCF estimate is 9.1 percent, which is shown on Schedule AXR-8.

The Multi-Stage DCF

Q. Why did Staff implement the multi-stage DCF model to estimate Arizona Water's cost of equity?

A. As previously stated, Staff implemented the multi-stage DCF model to account for the assumption that dividends may not grow at a constant rate. Staff's multi-stage DCF model incorporates two growth rates: a near term growth rate and a long-term growth rate.

Q. What is the multi-stage DCF formula?

A. The multi-stage DCF formula is shown in the following equation:

Equation 7 :

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n$$

Where : P_0 = current stock price
D_t = dividends expected during stage 1
K = cost of equity
n = years of non – constant growth
D_n = dividend expected in year n
g_n = constant rate of growth expected after year n

As mentioned above, Staff incorporated two growth rates. This assumes that investors expect dividends to grow at a non-constant rate in the near-term ("Stage -1 growth"), and then to grow at constant rate in the long-term ("Stage-2 growth").

Q. How did Staff implement the multi-stage DCF model to find the cost of equity?

A. First, Staff forecasted a stream of dividends for each of the sample water utilities. The forecasted stream of dividends was calculated based on two different growth rates (near-term growth and long-term growth). Second, given the current stock price for each of the sample water utilities, Staff found the rate (cost of equity) which equates the present value of the stream of dividends to the current stock price.

Q. How did Staff calculate stage-1 growth (near-term growth)?

A. Staff forecasted four years of dividends for each of the sample water utilities using expected dividends over the next twelve months for the first year and *Value Line*'s projected DPS growth rate for the subsequent years (Refer to Schedule AXR-7).

Q. How did Staff estimate stage-2 growth (long-term growth)?

A. Staff used the rate of growth in gross domestic product ("GDP") from 1929 to 2004. This historical growth is appropriate because it assumes that the water utility industry is expected to grow neither faster, nor slower, than the overall economy.

Q. What is the historical growth in GDP that Staff used to estimate stage-2 growth?

A. The historical growth in GDP that Staff used to estimate stage-2 growth is 6.5 percent (1929-2004).

Q. What is Staff's multi-stage DCF estimate?

A. Staff's multi-stage DCF estimate is 9.5 percent, as shown on Schedule AXR-7.

Q. What is Staff's overall DCF estimate?

A. Staff's overall DCF estimate is 9.3 percent, as shown in Schedule AXR-8. Staff's overall DCF estimate was calculated by averaging Staff's constant growth DCF and Staff's multi-stage DCF estimates.

Capital Asset Pricing Model

Q. Please describe the capital asset pricing model.

A. The CAPM is the best known model of risk and return. This model is concerned with the

determination of prices of capital assets in a competitive market. An important assumption of the CAPM is that investors are risk adverse—they require a greater return for bearing greater risk. This model also assumes that investors diversify because it allows them to reduce the level of risk exposure for a given level of expected return.[7] In 1990, Professors Harry Markowitz, William Sharpe, and Merton Miller earned the Nobel Prize in Economic Sciences for their contribution to the development of the CAPM.

Q. What is the CAPM formula?

A. The CAPM formula is shown in the following equation:

Equation 8 :

$$K = R_f + \beta\,(R_m - R_f)$$

where :

R_f	=	risk free rate
R_m	=	return on market
β	=	beta
$R_m - R_f$	=	market risk premium
K	=	expected return

Mathematically represented, the expected return on a risky asset is equal to the prevailing risk-free interest rate plus the market risk premium which is adjusted for the riskiness (beta) of the investment relative to the market.

[7] The CAPM also assumes the following: 1. Single holding period 2. Perfect and competitive securities market 3. No transaction costs 4. No restrictions on short selling or borrowing 5. The existence of a risk-free rate 6. Homogeneous expectations.

Q. What does beta measure?

A. Beta measures the systematic risk of a company. As stated previously, systematic risk is the only form of risk that is relevant when estimating a company's required return because it is the only risk that cannot be eliminated through diversification. The market's beta is 1.0; therefore, a security with a beta higher than 1.0 is riskier than the market, and a security with a beta lower than 1.0 is less risky than the market.

Q. How was the CAPM implemented to estimate Arizona Water's cost of equity?

A. Staff implemented the CAPM on the same sample water utilities used in Staff's DCF analysis.

Q. What risk-free rate of interest did Staff estimate?

A. Staff calculated an estimate of the risk-free rate of interest by averaging intermediate-term U.S. Treasury securities' spot rates published in *The Wall Street Journal*. Staff averaged the yields-to-maturity of three intermediate-term[8] (five, seven, and ten-year) U.S. Treasury securities published in the March 24th, 2005, edition of *The Wall Street Journal*. Staff estimated the risk-free rate to be 4.45percent.[9]

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[8] The use of intermediate-term securities is based on the theoretical specification that the time to maturity approximates the investor's holding period, and assumes that most investors consider the intermediate time frame (5-10 years) a more appropriate investment horizon. See Reilly, Frank K., and Keith C. Brown. Investment Analysis and Portfolio Management. 2003. South-Western. Mason, OH. p. 439.

[9] Average yield on 5-, 7-, and 10-year Treasury notes according to the March 24th, 2005, edition of *The Wall Street Journal*: 4.29%, 4.46%, and 4.60%, respectively.

Q. Why did Staff use U.S Treasury security spot rates to calculate an estimate of the risk-free rate?

A. Staff used U.S. Treasury securities' spot rates published in *The Wall Street Journal* because they are verifiable, objective and readily available.

Q. What beta (β) did Staff use?

A. Staff estimated Arizona Water's beta (β) to be 0.68. Staff averaged the *Value Line* betas of the sample water utilities and used this average as a proxy for Arizona Water's beta. Schedule AXR-5 shows the *Value Line* betas for each of the sample water utilities.

Q. What is the expected market risk premium ($R_m - R_f$)?

A. The expected market risk premium is the additional amount of return over the risk-free rate that investors expect to receive from investing in the market (or an average-risk security). Staff used two approaches to calculate the market risk premium: the historical market risk premium approach and the current market risk premium approach.

Q. Could you describe the historical market risk premium estimate approach?

A. In this approach, Staff assumed that if one consistently uses the long-run average market risk premium to estimate the expected market risk premium, one should, on average, be correct. In this approach Staff assumed that the average historical market risk premium estimate is a reasonable estimate of the expected market risk premium.

Q. How did Staff calculate the historical market risk premium?

A. For the market risk premium estimate, Staff used the intermediate-horizon equity risk premium published in the Ibbotson Associates' *Stocks, Bonds, Bills, and Inflation 2004 Yearbook* for the period 1926-2003. Ibbotson Associates calculated the historical risk premium by averaging the historical arithmetic differences between the S&P 500 and the intermediate-term government bond income returns. Staff's historical market risk premium estimate is 7.6 percent.

Q. How did Staff calculate the current market risk premium estimate?

A. In this approach, Staff found a DCF-derived ROE using the expected dividend yield (over the next twelve months) and growth that *Value Line* projects for all dividend-paying stocks under its review (March 25, 2005). Given the DCF-derived ROE, the market's average beta of 1.0 and the current long-term risk-free rate, Staff used the CAPM formula to solve for the implied current market risk premium.

According to the March 25, 2005, edition of *Value Line*, the expected dividend yield is 1.6 percent and the expected annual growth in share price is 9.73 percent.[10] Therefore, the constant-growth DCF estimate of the cost of equity to all dividend-paying stocks followed by *Value Line* is 11.33 percent (9.73 percent + 1.6 percent). The current market risk premium implied by the CAPM equation using the yield on the 30-year Treasury note (4.86 percent) is 6.47 percent.[11]

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[10] 3 to 5 year price appreciation potential is 45%. $1.45^{1/4} - 1 = 9.73\%$

[11] 11.33% = 4.86% + (1) (6.47%)

Q. What is Staff's expected market risk premium estimate?

A. Staff's market risk premium estimate is 5.9 percent to 7.6 percent.

Q. What is the result of Staff's CAPM analysis?

A. Staff's overall CAPM estimate is 9.2 percent, as shown in Schedule AXR-8. Staff's overall CAPM estimate was calculated by averaging Staff's historical market risk premium CAPM (9.6 percent) and the current market risk premium CAPM (8.8 percent) estimates.

V. FINDINGS OF STAFF'S COST OF EQUITY ANALYSIS

Q. What is the result of Staff's constant-growth DCF analysis?

A. Schedule AXR-8 shows the result of Staff's constant-growth DCF Analysis. The result of Staff's constant-growth DCF analysis is as follows:

$$k = 3.2\% + 5.9\%$$

$$k = \mathbf{9.1\%}$$

Staff's constant-growth DCF estimate of the cost of equity to the sample water utilities is 9.1 percent.

Q. What is the result of Staff's multi-stage DCF analysis?

A. Schedule AXR-7 shows the result of Staff's multi-stage DCF Analysis. The result of Staff's multi-stage DCF analysis is:

Company	Equity Cost Estimate (k)
American States Water	9.7%
California Water	9.5%
Aqua America	8.7%
Connecticut Water	9.7%
Middlesex Water	10.1%
SJW Corp	9.3%
Average	**9.5%**

Staff's multi-stage DCF estimate of the cost of equity to the sample water utilities is 9.5 percent.

Q. What is Staff's overall DCF estimate?

A. Staff's overall DCF estimate is 9.3 percent, as shown in Schedule AXR-8. Staff's overall DCF estimate was calculated by averaging Staff's constant growth DCF and Staff's multi-stage DCF estimates.

Q. What is the result of Staff's CAPM analysis using the historical market risk premium estimate?

A. Schedule AXR-8 shows the result of Staff's CAPM analysis using the historical risk premium estimate. The result is as follows:

$$k = 4.45\% + 0.68*(7.6\%)$$

$$k = 9.6\%$$

Staff's CAPM estimate (using the historical market risk premium) of the cost of equity to the sample water utilities is 9.6 percent.

Q. What is the result of Staff's CAPM analysis using the current market risk premium estimate?

A. Schedule AXR-8 shows the result of Staff's CAPM Analysis using the current market risk premium estimate. The result is:

$$k = 4.45\% + 0.68*(6.47\%)$$

$$k = 8.8\%$$

Staff's CAPM estimate (using the current market risk premium) of the cost of equity to the sample water utilities is 8.8 percent.

Q. What is Staff's overall CAPM estimate?

A. Staff's overall CAPM estimate is 9.2 percent, as shown in Schedule AXR-8. Staff's overall CAPM estimate was calculated by averaging Staff's historical market risk premium CAPM (9.6 percent) and the current market risk premium CAPM (8.8 percent) estimates.

Q. Please summarize the results of Staff's cost of equity analysis.

A. The following table shows the results of Staff's cost of equity analysis:

Table 2

Method	Estimate
Average DCF Estimate	9.3%
Average CAPM Estimate	9.2%
Overall Average	**9.3%**

Staff's average estimate of the cost of equity to the sample water utilities is 9.3 percent.

VI. FINAL COST OF EQUITY ESTIMATES FOR ARIZONA WATER

Q. Does Arizona Water's cost of equity depend on its capital structure?

A. Yes, it does. It was mentioned previously in this testimony that as a company increases its leverage (debt), its cost of equity increases. The average capital structure for the sample water utilities is composed of 49.5 percent long-term debt and 50.5 percent equity, as shown on Schedule AXR-2. As mentioned previously, Arizona Water's capital structure is composed of 26.6 long-term debt and 73.4 percent equity; therefore, its stockholders do bear less financial risk than the average sample water utilities, and the Applicant's cost of equity is lower than that of the water sample utilities.

Q. Did Staff calculate the effect of Arizona Water's capital structure on its cost of equity?

A. Yes. Staff relied on the methodology developed by Professor Robert Hamada of the University of Chicago, which incorporates capital structure theory with the CAPM, to estimate the effect of Arizona Water's capital structure on its cost of equity. On average, Arizona Water's cost of equity is approximately 60 basis points *lower* than the cost of equity to the water sample utilities. Subtracting these 60 basis points to the average estimate of the sample water utilities' cost of equity (9.3 percent) would result in a cost of equity estimate for Arizona Water of 8.7 percent. However, Staff is recommending a 9.1 percent cost of equity for the Applicant.

Q. How did Staff take into account the different financial risk between of the water sample utilities and Arizona water?

A. Staff's cost of equity estimates range from 8.8 percent to 9.6 percent for the water sample utilities. Staff's recommended ROE of 9.1 percent is at the lower end of Staff's average of DCF and CAPM estimates, and is therefore reasonable.

Q. What is Staff's ROE recommendation for Arizona Water?

A. Staff estimated a 9.1 percent ROE for the Applicant based on cost of equity estimates ranging from 8.8 percent to 9.6 percent.

VII. RATE OF RETURN RECOMMENDATION

Q. What is Staff's overall rate of return recommendation for Arizona Water?

A. Staff recommends a ROR of 8.9 percent for the Applicant, as shown in Schedule AXR-1 and the following table:

Table 3

	Weight	Cost	Weighted Cost
Long-term Debt	26.6%	8.4%	2.2%
Common Equity	73.4%	9.1%	6.7%
Cost of Capital/ROR			**8.9%**

VIII. COMMENT ON THE DIRECT TESTIMONY OF THE APPLICANT WITNESS THOMAS M. ZEPP.

Q. Please summarize Dr, Zepp's recommendations, analyses and estimates.

A. Doctor Zepp recommends an 11.25 percent ROE. He calculates two DCF estimates for the same sample water utilities (FERC one-step DCF and FERC two-step DCF). He also

conducts three premium risk analyses based on the sample water utilities. The average of all his cost of equity estimates is 10.8 percent.[12]

Then he argues that Arizona Water faces additional risks related to the use of an historical test year, the elimination of the Applicant's purchased power adjuster mechanism ("PPAM") and purchased water adjuster mechanism ("PWAM") in the Eastern Group, the Environmental Protection Agency's ("EPA") new arsenic standard and the Commission's policy of requiring inverted block rates, so he recommends adding at least 50 basis points to its cost of equity estimates. Dr. Zepp also contrasts the Applicants recommended ROE with past Commission decisions for water and gas utilities which indicate an average cost of equity of 11.0 percent. Finally, Dr. Zepp comes up with his recommended 11.25 percent return on equity.

General Comments

Q. Does Staff have any comments on Dr. Zepp's testimony?

A. Yes. Dr. Zepp states in his direct testimony that he has implemented the Federal Energy Regulatory Commission ("FERC") DCF method for estimating the cost of equity rather than Staff's because according to him, the FERC approaches are "clearly superior to the approaches taken by Staff in 2003"(Zepp Direct, Page 5 line 22 & 23). Then he adds that his cost of equity estimates "based on the risk premium methods and data relied upon by the CPUC Staff are clearly superior…" (Zepp Direct, Page 6, Lines 7 & 8). However, he has failed to demonstrate that the approaches taken by both the FERC and the CPUC Staff are superior to the ones used by Staff. In the following section, Staff discusses its

[12] Direct testimony of Thomas M. Zepp, Table 15.

concerns with the methods used by Dr. Zepp to estimate the cost of equity to Arizona Water. Staff's cost of equity models are clearly superior to the ones used by Dr. Zepp.

Dr. Zepp's unique risk argument

Q. Does Staff agree with Dr. Zepp's statement that Arizona Water is more risky than the water utilities used in the sample; therefore, Arizona Water's cost of equity should be at least 50 basis points higher than the benchmark water utilities?

A. No. Staff recommends that the Commission give no weight to Dr. Zepp's unique risks argument. Dr. Zepp's 50 basis points addition is arbitrary. Dr. Zepp argues that the Applicant is more risky than the water utilities used in the sample based on four so-called additional risk factors: (1) use of an historical test year, potential disallowances, (2) elimination of the Applicant's purchased power adjuster mechanism ("PPAM") and purchased water adjuster mechanism ("PWAM") in the Eastern Group, (3) the new Environmental Protection Agency's ("EPA") arsenic standard, (4) and use of inverted block rates. The following deals with each of these so-called risk factors in turn, and shows that they do not, or have not been shown to affect the cost of equity. As mentioned before, unsystematic (unique) risk is not priced by the market.[13]

[13] Weston, J. Fred, Thomas E. Copeland. Managerial Finance. 1986. Dryden Press, Chicago. p. 415.

Historical Test Year, Potential Disallowances

Q. On pages 17 and 18 of his direct testimony, Dr. Zepp asserts that Arizona Water faces more risk than the water sample utilities because it has rates based on an historical test year, with limited ability to make post test year adjustments. Is equity risk related to test year conventions?

A. No. The test year convention does not affect risk. Test years are the vehicle to determine average costs and tariffs. Dr. Zepp has failed to show how a test year convention affects Arizona Water's systematic risk, which as mentioned before, is the only relevant risk to the cost of equity.

Q. Has the Commission ever granted an equity premium to account for its use of a historical test year?

A. No. To my knowledge, the Commission has never granted a ROE premium to account for its use of a historical test year. The Commission should not grant an equity premium to account for a historical test year in this case either. Moreover, the Commission in Decision No.66849 dated March 19, 2004, stated that "... there is no precedent for recognizing a risk adjustment because the law requires an historical test year (page 23, lines 22-23)".

Q. Would potential rate base disallowances increase Arizona Water's systematic risk relative to the sample companies?

A. No. Dr. Zepp has failed to show how potential rate base disallowances would increase the Applicant's beta risk relative to the sample companies. All of the sample water companies presumably face the risk of potential disallowances. Therefore, to the extent that it

covaries with the market portfolio at all, it is accounted for in Staff's market-based analyses.

Q. Have any regulatory agencies addressed the issue of rate base disallowances?

A. Yes. In Docket No. 89-624 the FCC stated the following:

> Nothing in the Constitution or in the Communications Act requires the agency to adjust the prescribed rate of return to take into account the agency's policies regarding rate base disallowances.

Dr. Zepp is trying to justify his proposed high returns on equity for Arizona Water by adding irrelevant risks (unique risk) in the cost of equity.

Elimination of the PPAM and PWAM

Q. On page 20 of his direct testimony, Dr. Zepp argues that the Applicant's cost of equity should be higher than the ROE required by utilities in the water sample due to the elimination of the PPAM and PWAM in the Eastern Group. Does Staff have any comments?

A. Yes. Dr. Zepp's position is based on a *company-specific* simulation analysis (study developed in 2001 for California Water Service Company). Dr. Zepp has failed to demonstrate that this company-specific analysis he previously prepared in 2001 is representative and applicable to Arizona Water. In addition, he has not shown that all of the water companies in the sample have purchased power and purchased water adjusters similar to Arizona Water's recently eliminated PPAM and PWAM for the Eastern Group.

EPA's New Arsenic Standard

Q. Dr. Zepp claims that Arizona Water has more risk than the water utilities in the sample due to the new EPA arsenic requirement. Does Staff have any comments?

A. To the extent that any risk related to EPA requirements is unique to Arizona Water, it would not be priced by the market. The market does not price the unique risk of securities.[14] The new EPA arsenic requirement means that, at some point in the future, Arizona Water will have to add rate base. However, this growth in the Company's assets is simply *growth*, not risk. In addition, the Commission, in Decision No. 67518, dated January 20, 2005, authorized the deferral of capital costs and expenses incurred by the Applicant's Western group systems related to arsenic treatment.

Q. Has the Commission agreed with Staff on this issue?

A. Yes. In Arizona Water's Northern Group water system's rate case the Commission stated in Decision No. 64282, dated December 28, 2001:

> We do not agree with the Company's proposal to assign a risk premium to Arizona Water based on ... the United States Environmental Protection Agency's ("EPA") proposed revision to the arsenic drinking water standards (Page 18 line 28 and Page 19 lines 1-3).
>
> With respect to the EPA's standards, we note that all water companies will be affected by the new rules and we do not believe that the arsenic standards should be used to attach a higher level of risk to Arizona Water (Page 19, lines 5-7).

The Commission should make the same finding in this Arizona Water rate case.

[14] Weston, J. Fred, Thomas E. Copeland. P. 435.

Use of Inverted Block Rates

Q. Does Staff have any comments on Dr. Zepp's statement that inverted block rates create additional risk because they may "cause revenue erosion and instability." (Zepp Direct, Page 23, line 12)?

A. Yes. It seems that Dr. Zepp is implying that water demand is price elastic, but he has failed to demonstrate or quantify his argument.

Q. Has the Commission ever granted an equity premium to account for its use of inverted block rates?

A. To my knowledge, the Commission has not granted an equity premium due to the use of inverted block rates. The Applicant has failed to show how an inverted block rate design would impact the cost of equity. The Commission should not grant an equity premium to account for the use of inverted block rates in this case either.

Dr. Zepp's Testimony on the Market-to-Book Ratio

Q. Dr. Zepp offers several reasons for the market-to-book ratio of a regulated utility to be above 1.0. Please comment.

A. As stated previously in this testimony, rate orders do not force market-to-book ratios to 1.0 for a variety of reasons. However, the fact that market-to-book ratios for regulated companies may be above 1.0 for any of the reasons cited by Staff or Dr. Zepp does not mean that this basic proposition in finance is inaccurate. Professor Laurence Booth of the Rotman School of Management at the University of Toronto recognizes different reasons for the market-to-book ratio of a regulated utility to be above 1.0. Professor Booth also states the following:

> Theoretically, there is no question whatsoever that a market-to-book ratio of 1.50 indicates that the [cost of equity] is less than the [allowed rate of return on equity], *we have never even come across a company witness who would disagree with that proposition.*[15] (Emphasis added)

Dr. Zepp's DCF estimates

FERC one-step DCF

Q. Does Staff have any comments on Dr. Zepp's FERC one-step DCF estimates?

A. Yes, Staff has two comments on Dr. Zepp's one-step DCF estimates:

1. Miscalculation of dividend yields. Staff disagrees with Dr. Zepp's calculation of dividend yield based on historical prices. Only the most current spot stock price is relevant.

2. Forecasted growth problem. Staff disagrees with Dr. Zepp's sole use of analysts' forecasts to calculate the growth in dividends (g). This obviously causes inflated growth, thus, inflated cost of equity estimates.

Miscalculation of dividend yields

Q. Explain how Dr. Zepp's FERC one-step DCF estimates based on historical stock prices are inappropriate.

A. Dr. Zepp's calculation of dividend yield based on historical prices (highest and lowest during the last six months) is inappropriate because only the most current spot stock price is relevant. The dividend yield (D_1/P_0) represents the expected dividend yield for the next period divided by the current spot stock price. Professor Myron Gordon, the father of modern DCF analysis stated:

[15] Booth, Laurence. "The Importance of Market-to-Book Ratios in Regulation." NRRI Quarterly Bulletin. Winter 1997. pp. 415 - 425.

> The value assigned to P_0 should be the price of the share at the time the share yield is being estimated. The rationale for using the current price is that at each point in time it reflects all the information available to a company's investors regarding future dividends.[16]

Moreover, in February 1, 1996, an article published in *Public Utilities Fortnightly* stated:

> To the extent that prior yields form a reference point for expectations of future yields, the information content of historic yields is already included in the current spot yield.[17]

In addition, Dr. Zepp is inconsistent when he explains the DCF method of estimating the cost of equity and defines P_0 as the current stock price (Zepp Direct, page 28, line10), but uses a combination of high-low historical stock prices when implementing his FERC one-step DCF model.

By using historical prices to calculate the dividend yield on the DCF model, Dr. Zepp disregards the efficient market hypothesis. In order to be consistent with the efficient market hypothesis (key principle of modern corporate finance theory), the most recent stock price is the only appropriate price that should be used when calculating the dividend yield of the DCF model.

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[16] Testimony of professors Myron J. Gordon and Lawrence I. Gould, consultant to the Trial Staff (Common Carrier Bureau), FCC Docket 79-63, p. 63.

[17] Kihm, Steven G. "The Superiority of Spot Yields in Estimating Cost of Capital." *Public Utilities Fortnightly*. February 1, 1996. pp. 42-45.

Q. Has the Commission ruled on the use of spot market data in estimating the cost of capital?

A. Yes. In Decision No. 64727, dated April 17, 2002, the Commission agreed with Staff's use of spot market data in estimating the cost of debt and equity.[18]

Forecasted Growth Problem

Q. Is Dr. Zepp's sole reliance on analysts' forecasts for earnings growth appropriate to forecast DPS growth?

A. No. Dr. Zepp's sole reliance on analysts' forecasts of near-term earnings growth to forecast DPS growth in his DCF analysis is inappropriate because it assumes that investors do not look at other relevant information such as past dividend growth. In addition, analysts' forecasts of near-term are known to be overly optimistic; therefore, exclusive reliance on analyst's forecast for earnings growth to forecast DPS growth ultimately would result in inflated costs of equity estimates.

Q. In his direct testimony, Dr. Zepp cites a study conducted by David A. Gordon, Myron J. Gordon and Lawrence I. Gould[19] (Zepp Direct, page 30, footnote) to support his view of the exclusive use of analysts forecasts in the DCF model. Does Staff have any comments?

A. Yes. The article cited by Dr. Zepp does not conclude that investors ignore past growth when pricing stocks; therefore, it does not support the sole use of analysts' forecast in the DCF model.

[18] Application of Black Mountain Gas Company. Docket No. G-03703A-01-0263.
[19] Gordon, David A., Myron J. Gordon, Lawrence I. Gould. "Choice Among Methods of Estimating Share Yield." *The Journal of Portfolio Management.* Spring 1989. pp. 50-55.

Q. Has Professor Gordon recommended sole reliance of analysts' forecast as a measure of growth in the DCF model?

A. No. Subsequent to the study cited by Dr. Zepp[20], Professor Gordon provided the keynote address at the 30th Financial Forum of the Society of Utility and Regulatory Financial Analysts, in which he stated:

> I understand that companies coming before regulatory agencies liked and advocated the high growth rates in security analyst forecasts for arriving at their cost of equity capital. Instead of rejecting these forecasts, I understand that FERC and other regulatory agencies have decided to compromise with them. In particular, in arriving at the cost of equity for company X, the FERC has decided to arrive at the growth rate in my dividend growth model by using an average of two growth rates. One is security analysts forecast of the short-term growth rate in earnings provided by IBES or Value Line and the other a more long run and typically lower figure such as the past growth in GNP.
>
> Such an average can be questioned on various grounds. However, my judgment is that between the short-term forecast alone and its average with the past growth rate in GNP, *the latter may be a more reasonable figure.*[21] (Emphasis added)

Q. How does Staff respond to Dr. Zepp's statement that, "Logically, financial institutions and analysts would have taken such past information into account, and other recent information, when they make their forecasts for the future"? (Zepp Direct, Page 30, line 13-15)

A. The appropriate growth rate to use in the DCF formula is the dividend growth rate expected by *investors*, not analysts. Therefore, while it may be true that analysts may have considered historical measures of growth, it is a reasonable to assume that investors

[20] Gordon, David A., Myron J. Gordon, Lawrence I. Gould
[21] Gordon, M. J. Keynote Address at the 30th Financial Forum of the Society of Utility and Regulatory Financial Analysts. May 8, 1998. Transparency 3.

rely to some extent on past growth as well. This warrants consideration of both: analysts' forecasts and past growth.

Q. You mentioned earlier that sole reliance on analysts' forecast for earnings growth in the DCF model would result in inflated cost of equity estimates. Can you provide further evidence supporting this statement?

A. Yes. Experts in the financial community have commented on the optimism in analysts' forecasts of future earnings.[22] A study cited by David Breman in his book Contrarian Investment Strategies: The Next Generation found that *Value Line* analysts were optimistic in their forecasts by 9 percent annually, on average for the 1987 – 1989 period. Another study conducted by David Dreman found that between 1982 and 1997, analysts overestimated the growth of earnings of companies in the S&P 500 by 188 percent.

Burton Malkiel of Princeton University studied the one-year and five-year earnings forecasts made by some of the most respected names in the investment business. His results showed that the five-year estimates of professional analysts, when compared with actual earnings in growth rates, were much worse than the predictions from several naïve forecasting models, such as the long-run rate of growth of national income. In the following excerpt from Professor Malkiel's book A Random Walk Down Wall Street, he discusses the results of his study:

[22] See Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. p. 100. Dreman, David. Contrarian Investment Strategies: The Next Generation. 1998. Simon & Schuster. New York. pp. 97-98. Malkiel, Burton G. A Random Walk Down Wall Street. 2003. W.W. Norton & Co. New York. p. 175.
Testimony of Professors Myron J. Gordon and Lawrence I. Gould, consultant to the Trial Staff (Common Carrier Bureau), FCC Docket 79-63, p. 95.

> When confronted with the poor record of their five-year growth estimates, *the security analysts honestly, if sheepishly, admitted that five years ahead is really too far in advance to make reliable projections*. They protested that although long-term projections are admittedly important, they really ought to be judged on their ability to project earnings changes one year ahead. Believe it or not, it turned out that their one-year forecasts were even worse than their five-year projections.
>
> The analysts fought back gamely. They complained that it was unfair to judge their performance on a wide cross section of industries, because earnings for high-tech firms and various "cyclical" companies are notoriously hard to forecast. *"Try us on utilities," one analyst confidently asserted. At the time they were considered among the most stable group of companies because of government regulation. So we tried it and they didn't like it. Even the forecasts for the stable utilities were far off the mark.* (Emphasis added)

Q. Would investors be aware of the problems related to analysts' forecasts?

A. Yes. In addition to books, there are numerous published articles appearing in The Wall Street Journal and other financial publications that cast doubt as to how accurate research analysts are in their forecasts.[23] To the extent that investors are aware of the bias in analysts' projections of future earnings, they will make appropriate adjustments.

Q. Dr. Zepp did not consider DPS growth in his DCF analysis. Should he have considered DPS growth?

A. Yes. Dr. Zepp's not considering DPS growth in his DCF analysis implies that investors do not take into account DPS growth when pricing stocks. Again, as previously

[23] See Smith, Randall & Craig, Suzanne. "Big Firms Had Research Ploy: Quiet Payments Among Rivals." *The Wall Street Journal*. April 30, 2003. Brown, Ken. "Analysts: Still Coming Up Rosy." *The Wall Street Journal*. January 27, 2003. p. C1. Karmin, Craig. "Profit Forecasts Become Anybody's Guess." *The Wall Street Journal*. January 21, 2003. p. C1. Gasparino, Charles. "Merrill Lynch Investigation Widens." *The Wall Street Journal*. April 11, 2002. p. C4. Elstein, Aaron. "Earnings Estimates Are All Over the Map." *The Wall Street Journal*. August 2, 2001. p. C1. Dreman, David. "Don't Count on those Earnings Forecasts." *Forbes*. January 26, 1998. p. 110.

mentioned earlier in this testimony (Page 14), the current market price of a stock is equal to the present value of all expected future dividends not earnings. Professor Jeremy Siegel from the Wharton School of finance stated:

> Note that the price of the stock is always equal to the present value of all future *dividends* and not the present value of future earnings. Earnings not paid to investors can have value only if they are paid as dividends or other cash disbursements at a later date. Valuing stock as the present discounted value of future earnings is manifestly wrong and greatly overstates the value of the firm.[24]

Q. Has Dr. Zepp previously agreed with the assumption that investors would take into account DPS growth as well as EPS growth?

A. Yes. In a 1999 Oregon proceeding, when asked if investors preferred DPS growth or EPS growth, Dr. Zepp testified:

> *According to me, investors would look at both*, but this particular testimony here refers to your testimony, in which you didn't look at earnings per share growth. And my point is, if you're only going to look at one – in my view, if you were only going to look at one, investors would look at earnings per share growth. That's the testimony, and I still stand by that testimony, but as I've stated, *I would look at both.*[25] (Emphasis added)

Additionally, Dr. Zepp testified in the same proceeding:

> Investors would examine past and forecasted growth in earnings per share ("EPS"), *dividends per share ("DPS")* and other trends that provide indications about what future growth would be.[26]

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[24] Siegel, Jeremy J. *Stocks for the Long Run*, third edition. McGraw-Hill, New York. 2002. P. 93.
[25] Sworn Testimony of Dr. Thomas M. Zepp, dated January 21, 1999. Before the Public Utility Commission of Oregon. Docket UM 903. p. 9 at 19 – 25 and p. 10 at 1 – 3.
[26] Rebuttal Testimony of Thomas M. Zepp, dated December 17, 1998. Before the Public Utility Commission of Oregon. Docket UM 903. p. 17 at 12-14.

Based on his own testimony in a previous proceeding, Dr. Zepp should have considered DPS growth in his DCF analysis.

Q. Has the Commission stated its position in regard to exclusive reliance on analyst forecasts?

A. Yes. The Commission, in Decision No. 66849, dated March 19, 2004, stated that:

> "...the Company's exclusive reliance on analyst forecasts erroneously assumes that investors rely only on near-term earnings and sustainable growth without considering past earnings. Reliance solely on analyst projections tends to result in inflated growth projections without considering DPS and past EPS growth... (Page 22, lines 14-17)"

FERC two-step DCF model

Q. Does Staff have any comments on Dr. Zepp's FERC two-step DCF?

A. Yes, Staff disagrees with Dr. Zepp's exclusive reliance on forecasted earnings growth for the near-term (Stage -1 growth). As mentioned before, exclusive reliance on forecasted earnings growth likely results in inflated cost of equity estimates. Dr. Zepp ignores the fact that the DCF model is predicated on DPS growth.

Forecasted Growth Problem

Q. Does Staff have any comments on Dr. Zepp's reliance on forecasted earnings growth for the near-term ("Stage -1 growth") in his two-step DCF model?

A. Yes. As mentioned earlier, analysts' forecasts of earnings growth are known to be overly optimistic; therefore, exclusive reliance on analysts' forecasts of earnings growth to forecast DPS growth for the near-term would result in inflated cost of equity estimates (Page 43). The market price reflects the discounted value of investors' expected

dividends. While it is true that earnings allow dividends to be paid, DPS is the relevant factor in the near-term (Stage-1 growth) if investors expect the companies to pay a decreasing portion of earnings.

Dr. Zepp's "Risk Premium" Method

Q. Please describe Dr. Zepp's "risk premium" analysis.

A. Dr. Zepp examines the difference between the returns on proxies for Arizona Water and treasury yields. He performed three studies and calculated three ranges of risk premia. He then adds these risk premia to a range of consensus forecasts of the treasury rate compiled by *Blue Chip Financial Forecasts* and *Value Line.*

Q. In general, is Dr. Zepp's "risk premium" method valid to estimate Arizona Water's cost of equity?

A. No. Dr. Zepp's risk premium method is not valid to estimate Arizona Water's cost of equity because it relies on forecasts of 10-year treasury securities, long-term treasury securities and Baa corporate bond rates. The Commission should not rely on forecasts of interest rates. Analysts who forecast future rates do not have any more information about the future than what is already reflected in the current rate.

Relying on interest rate forecasts unnecessarily introduces forecasting error into cost of capital calculation. Cost of capital estimation errors should be minimized, not enlarged.

According to Nancy L. Jacob of the University of Washington and R. Richardson Pettit of the University of Houston:

> While we know something about many of the factors that *determine* interest rates (money supply, the demand for loanable funds, etc.) little evidence exists to suggest these factors can be predicted with enough accuracy to successfully *predict* the rates.[27]

This is consistent with the efficient markets hypothesis.

Q. Should interest rate forecasts made by professional analysts be relied on to estimate the cost of equity?

A. No. Forecasted interest rate projections should not be relied upon to estimate the cost of equity for the same reasons historical prices should not be used to calculate expected dividends in a DCF analysis. As previously stated, the best forecast of tomorrow's yield is simply today's yield. "Professional forecasts of financial variables are notoriously unreliable and appear to be getting worse, not better, over time." "The direction of interest rates [bond yields] cannot be predicted any better than by the flip of a coin."[28]

Q. Dr. Zepp states that the relevant rate used to determine the cost of equity is a forecasted rate because "...it is the period in which Arizona Water's new rates will first be put into place." (Zepp's Direct Testimony, page 41, lines 19 & 20) How does Staff respond to this statement?

A. Dr. Zepp's statement ignores the fact that the purpose of Staff's analysis is to estimate the *current* cost of equity to Arizona Water. The Commission could very well make an estimate of the current cost of equity on the day an order is issued in this proceeding. However, the Commission should not rely on a forecasted rate that is as accurate a predictor as that of a coin toss.

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[27] Jacob, Nancy L., R. Richardson Pettit. *Investments*. Irwin. Homewood, Ill. 1988. p. 499.
[28] Kihm, Steven G. "The Superiority of Spot Yields in Estimating Cost of Capital." *Public Utilities Fortnightly*. February 1, 1996. pp. 42 – 45.

Q. How does Staff respond to Dr. Zepp's argument that the Arizona Corporation Commission Staff has relied on forecasts of interest rates to determine the reasonableness of equity cost estimates (Dr. Zepp Direct Testimony, Page 41)?

A. Staff since then, has minimized forecasting error into cost of capital calculation. As it was previously stated, cost of capital estimation errors should be minimized, not enlarged. In addition, Staff has reviewed the copies provided by Arizona Water of the testimonies of Linda Jaress, dated December 2, 1991 (Docket No. U-1656-91-134) and J. David. Daer, dated April 19, 1993 (Docket No. U-1303-92-286). Linda Jaress stated in her testimony that "Blue Chip Financial Forecasts...projects the Prime Rate, which is currently 7.5 percent will have risen to eight percent by the third quarter of 1992..." In reality, by the end of the third quarter of 1992, the Prime Rate was only 6.0 percent[29]; two hundred (200) basis points *less* than what Blue Chip Financial Forecasts had forecasted. This shows how inaccurate professional analysts are at predicting future interest rates and why Staff no longer relies upon their interest forecasting.

Dr. Zepp's First Risk Premium Study

Q. What is Dr. Zepp's first study?

A. Dr. Zepp's first study is based on the difference between past accounting returns on equity for the six water utilities in Dr. Zepp's and Staff's sample water companies and average annual treasury rates. Dr. Zepp assumes that accounting returns on equity equal the cost of equity.

[29] Federal Reserve.

Q. Does Staff have any specific concerns regarding Dr. Zepp's first study?

A. Yes. As previously commented, Staff is concerned with Dr. Zepp's reliance on forecasted treasury rates. Moreover, replacing Dr. Zepp's forecasted interest rates with the spot yields of the treasury securities[30] would result in a cost of equity estimate for the water utilities sample of 9.6 (when using the long-term treasury) and 9.7 percent (when using the 10-year treasury). Schedule AXR-9 presents Dr. Zepp's first premium analysis using spot yields for the treasury securities instead of forecasted. These costs of equity estimates are very similar to Staff's historical market risk premium CAPM cost of equity estimate of 9.6 percent.

In addition, Staff is concerned with Dr. Zepp's assumption that accounting returns on equity equal the cost of equity. On page 39 of this testimony, Staff provided a quote from Professor Laurence Booth. Professor Booth stated in a *NRRI Quarterly Bulletin* article that "theoretically, there is no question whatsoever that a market-to-book ratio of 1.50 indicates that the [cost of equity] is less than the [allowed ROE]." Professor Booth has never come across a company witness who would disagree with that proposition.[31] The sample water companies have an average market-to-book ratio of 2.4. Therefore, it is unreasonable for Dr. Zepp to assume that equity costs equal accounting returns on equity.

Dr. Zepp's Second Risk Premium Study

Q. What is Dr. Zepp's second study?

A. Dr. Zepp's second study is based on the difference between previously authorized ROEs on equity for sample water companies and average annual treasury rates. Dr. Zepp

[30] According to March 24, 2005, edition of *The Wall Street Journal*: 4.60% (10-year treasury) and 4.86 (long-term treasury).
[31] Professor Booth is a colleague of Myron Gordon, who has been characterized in this testimony as the father of modern DCF analysis.

assumes that ROEs authorized by regulatory commissions provide proxies for the cost of equity. As previously stated in my testimony, the capital markets determine the cost of equity, not regulatory commissions. Dr. Zepp states in his direct testimony "To estimate that cost of equity, the analyst requires market data that reveal investors' required returns..." (Dr. Zepp Direct, Page 27, lines 16-18), yet, he uses authorized ROEs in his second risk premium analysis as proxies for the cost of equity. In addition, Dr. Zepp disregards that the Office of Ratepayers Advocates' ("ORA") Staff has rejected the use of authorized ROE as an accurate measure of what is expected by investors.[32] Further, this Commission has no way of knowing how these other cases were resolved. Allowed returns often reflect various incentives and disincentives put into place by each state commission for various purposes which likely do not, and would not, apply to Arizona Water. This Commission cannot rely on previously authorized ROEs because it cannot know the particulars behind each case nor could it cross-examine witnesses in those cases even if it did know the particulars.

In addition, by using past authorized ROEs, Dr. Zepp disregards that "A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities of investment, the money market, and business conditions generally."[33]

Q. Is Dr. Zepp's second study appropriate?

A. No. The Commission should not rely on Dr. Zepp's second study for the reasons stated above with respect to authorized ROEs granted by other commissions in other jurisdictions.

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[32] CPUC Staff Cost of Capital Report, A.03-07-036, January 2004.
[33] U.S. Supreme Court in *Bluefield Water works & Improvement Co. v. Public Utility Commission of West Virginia*, 262 U.S. 679 (1923).

Dr. Zepp's Third Risk Premium Study

Q. What is Dr. Zepp's third study?

A. Dr. Zepp's third study was implemented in three steps. This study is based on the difference between past accounting returns on equity for sample water companies and annual average Baa rates. Dr. Zepp finds the average earned ROE, Baa rate and "risk premium" for the two periods (1985-1992 and 1993-2002).

Q. Is his third risk premium study appropriate?

A. No. As mentioned before, Staff is concerned with the use of forecasted interest rates and Dr. Zepp's assumption that accounting returns on equity equal the cost of equity.

Q. Dr. Zepp tries to corroborate his estimates and recommendations by listing nine (9) past decisions for large water and gas utilities in Arizona and concurrent 10-year treasury rates. In addition, he states that "Implementation of finance models that lead to such low ROEs are inconsistent with ROEs this Commission authorized..." (Dr. Zepp Direct, Page 48, Lines 4 - 6). Does Staff have any comments on this?

A. Yes. First, Dr. Zepp is mixing water utilities and gas utilities in the same group. Implicitly, he is assuming that water and gas utilities have the same market risk. Second, the use of authorized ROEs to estimate the cost of equity is flawed as mentioned earlier. Third, as mentioned above, the use of forecasted interest rates to estimate the cost of equity is inappropriate. Dr. Zepp fails to corroborate that his estimates are reasonable.

CONCLUSION

Q. Please summarize Staff's recommendations.

A. Staff recommends the Commission adopt a 9.1 percent ROE, an 8.4 percent cost of long-term debt, and an 8.9 percent rate of return. Staff recommends the Commission give little weight to the testimony of the Company's witness, Dr. Thomas Zepp. Staff disagrees with his methods and his estimates are not representative of current costs of equity.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Docket No. W-01445A-04-0650

Arizona Water Company -Western Group-
Staff's Recommended
Capital Structure
And Weighted Cost of Capital

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Long-term Debt	26.6%	8.4%	2.20%
Common Equity	73.4%	9.1%	6.70%
Weighted Average Cost of Capital/ROR			**8.9%**

Supporting Schedules: Schedule AXR-2, Schedule AXR-8

Arizona Water Company -Western Group-
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Long-Term Debt	Common Equity	Total
American States Water	49.2%	50.8%	100.0%
California Water	49.7%	50.3%	100.0%
Aqua America	53.0%	47.0%	100.0%
Connecticut Water	43.1%	56.9%	100.0%
Middlesex Water	55.4%	44.6%	100.0%
SJW Corp	46.8%	53.2%	100.0%
Average Sample Water Utilities	**49.5%**	**50.5%**	**100.0%**
Arizona Water Company -Western Grou	**26.6%**	**73.4%**	**100.0%**

Source: Value Line, Arizona Water's application

Arizona Water Company -Western Group-
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 1993 to 2003 DPS	Dividends Per Share Projected DPS	Earnings Per Share 1993 to 2003 EPS	Earnings Per Share Projected EPS
American States Water	1.1%	1.8%	-4.2%	22.7%
California Water	1.6%	1.0%	-1.1%	10.6%
Aqua America	5.5%	7.2%	8.7%	9.6%
Connecticut Water	1.3%	No Projection	2.6%	No Projection
Middlesex Water	2.5%	No Projection	-0.9%	No Projection
SJW Corp	3.6%	No Projection	4.2%	No Projection
Average Sample Water Utilities	**2.6%**	**3.3%**	**1.5%**	**14.3%**

Source: Value Line

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Arizona Water Company -Western Group-
Intrinsic Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth 1994 to 2003 br	Retention Growth Projected br	Stock Financing Growth vs	Intrinsic Growth 1994 to 2003 br + vs	Intrinsic Growth Projected br + vs
American States Water	2.5%	5.5%	1.1%	3.6%	6.6%
California Water	2.5%	4.5%	1.6%	4.1%	6.1%
Aqua America	4.0%	6.0%	6.9%	10.9%	12.9%
Connecticut Water	3.0%	No Projection	0.6%	3.5%	No Projection
Middlesex Water	1.7%	No Projection	3.3%	5.0%	No Projection
SJW Corp	4.8%	No Projection	0.0%	4.8%	No Projection
Average Sample Water Utilities	**3.1%**	**5.3%**	**2.2%**	**5.3%**	**8.5%**

Source: Value Line, MSN Money

Arizona Water Company -Western Group-
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 3/23/05	Book Value 3/23/05	Mkt To Book	*Value Line* Beta β	Raw Beta β *raw*
American States Water	AWR	25.11	14.81	1.7	0.70	0.52
California Water	CWT	33.1	15.42	2.1	0.75	0.60
Aqua America	WTR	23.96	7.37	3.3	0.75	0.60
Connecticut Water	CTWS	24.95	10.83	2.3	0.65	0.45
Middlesex Water	MSEX	17.8	7.72	2.3	0.65	0.45
SJW Corp	SJW	36.01	18.40	2.0	0.55	0.30
Average				**2.3**	**0.68**	**0.49**

Source: Msn Money, Value Line

Arizona Water Company -Western Group-
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical	2.6%
DPS Growth - Projected	3.3%
EPS Growth - Historical	1.5%
EPS Growth - Projected	14.3%
Intrinsic Growth - Historical	5.3%
Intrinsic Growth - Projected	8.5%
Average	**5.9%**

Supporting Schedules: Schedule AXR-3 and Schedule AXR-4

Arizona Water Company -Western Group-
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_o)	Projected Dividends[1] (stage 1 growth) (D_t)				Stage 2 growth[2] (g_n)	Equity Cost Estimate (K)
		d_1	d_2	d_3	d_4		
American States Water	25.1	0.90	0.92	0.94	0.96	6.5%	9.7%
California Water	33.1	1.14	1.15	1.17	1.18	6.5%	9.5%
Aqua America	24.0	0.52	0.56	0.60	0.65	6.5%	8.7%
Connecticut Water	25.0	0.86	0.90	0.93	0.96	6.5%	9.7%
Middlesex Water	17.8	0.68	0.71	0.73	0.76	6.5%	10.1%
SJW Corp	36.0	1.08	1.12	1.16	1.20	6.5%	9.3%

Average **9.5%**

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n$$

Where : P_0 = current stock price

D_t = dividends expected during stage 1

K = cost of equity

n = years of non – constant growth

D_n = dividend expected in year n

g_n = constant rate of growth expected after year n

1 d_t = "Est'd Div'd next 12 mos." 03/25/2005, *Value Line* Summary & Index.

2 Average annual growth in GDP 1929 - 2003 in current dollars. http://www.bea.doc.gov/

Arizona Water Company -Western Group-
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0	+	g	=	k
Constant Growth DCF Estimate			3.2%	+	5.9%	=	9.1%
Multi-Stage DCF Estimate						=	9.5%
Average of DCF Estimates							**9.3%**
CAPM Method	Rf	+	β	x	(Rp)	=	k
Historical Market Risk Premium	4.5%	+	0.68	x	7.6%	=	9.6%
Current Market Risk Premium	4.5%	+	0.68	x	6.5%	=	8.8%
Average of CAPM Estimates							**9.2%**
					Average		**9.3%**

Source: The Wall Street Journal, Value Line, Ibbotson Associates SBBI 2004 Yearbook

Supporting Schedules: Schedule AXR-7

Arizona Water Company -Western Group-

Dr. Zepp's Re-stated First Risk Premium Equity Cost Analysis
Realized ROEs Adopted as Equity Cost Proxies

	Return on Equity[a/]	Annual Averages Long-term Treasury[a/]	Annual Averages 10-Year Treasury[a/]	Risk Premiums Long-term Treasury	Risk Premiums 10-Year Treasury
1993	11.57%	6.60%	5.87%	4.97%	5.70%
1994	10.87%	7.35%	7.09%	3.52%	3.78%
1995	11.20%	6.88%	6.57%	4.32%	4.63%
1996	12.02%	6.70%	6.44%	5.32%	5.58%
1997	11.82%	6.60%	6.35%	5.22%	5.47%
1998	10.90%	5.58%	5.26%	5.32%	5.64%
1999	10.59%	5.87%	5.65%	4.72%	4.94%
2000	9.75%	5.94%	6.03%	3.81%	3.72%
2001	10.27%	5.49%	5.02%	4.78%	5.25%
2002	10.58%	5.41%	4.61%	5.17%	5.97%
	10-Year Average Premium[a/]			4.72%	5.07%
	5-year Average Premium[a/]			4.76%	5.10%
	Long-term Treasury and 10-year Treasury Yields (February 16, 2005)			4.86%	4.60%
	Projected Returns on Equity				
	10-Year Average			9.6%	9.7%
	5-Year Average			9.6%	9.7%

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS	)	DOCKET NO. W-01445A-04-0650

SURREBUTTAL

TESTIMONY

OF

ALEJANDRO RAMIREZ

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMMISSION

MAY 25, 2005

ALL-STATE LEGAL®
EXHIBIT
S-7
admitted

EXECUTIVE SUMMARY
OF THE SURREBUTTAL TESTIMONY
OF STAFF WITNESS
ALEJANDRO RAMIREZ
ARIZONA WATER COMPANY
DOCKET NO. W-01445A-04-0650

The surrebuttal testimony of Staff witness Alejandro Ramirez addresses the following issues:

Capital Structure – Staff recommends the Commission adopt a capital structure consisting of 26.6 percent long-term debt and 73.4 percent equity for this proceeding.

Cost of Debt – Staff recommends the Commission adopt an 8.4 percent cost of long-term debt.

Cost of Equity – Staff recommends the Commission adopt a 9.1 percent return on equity ("ROE"). Staff bases its ROE recommendation on its discounted cash flow ("DCF") and capital asset pricing model ("CAPM") analyses. Staff's recommended ROE range is 8.8 percent to 9.3 percent.

Overall Rate of Return – Staff recommends the Commission adopt an overall rate of return ("ROR") of 8.9 percent.

Response to the rebuttal testimony of Company witness Thomas M. Zepp – Staff responds to the rebuttal testimony of Thomas M. Zepp:

Dr. Zepp's exclusive reliance on analysts' forecasts in his restatement of Staff's discounted cash flow ("DCF") analysis is inappropriate because it assumes that investors ignore other information such as past growth.

The Commission should *not* rely on Dr. Zepp's restatement of Staff's constant growth DCF estimate because Dr. Zepp relies solely on analysts' forecast which obviously causes inflated growth, thus, inflated cost of equity estimates.

The Commission should *not* rely on Dr. Zepp's restatement of Staff's multi-stage DCF estimate because Dr. Zepp misapplies Staff's br growth projections, and his assumptions are speculative.

The Commission should *not* rely on interest rate "projections" made by professional analysts because "the direction of interest rates cannot be predicted any better than by a flip of a coin." Analysts who project interest rates do not have any more information than what is already reflected in the current rate.

The Commission should *not* rely on Dr. Zepp's restatement of Staff's CAPM estimate because Dr. Zepp incorrectly uses the forecast of long-term treasury bond as his risk-free rate which results on upwardly biased estimates.

The "risk premium" analysis presented by Dr. Zepp should be rejected because (1) it relies on analysts' forecasts of future interest rates, and (2) it relies on past accounting returns on equity and past authorized returns on equity which cannot be meaningfully compared to the cost of equity.

Dr. Zepp's proposal for additional basis points due to unique risk should be rejected because it is (1) inconsistent with financial theory, and (2) Dr. Zepp has not demonstrated that these risks affect the cost of equity for Arizona Water.

Dr. Zepp's assumption that the spread between the cost of Arizona Water's last bond issue and A-rated/AA-rated bonds is due to business risk is unreasonable. The likely cause of this spread is default risk or liquidity risk, neither of which increase Arizona Water's cost of equity.

Staff also responds to the rebuttal testimony of Company witness Ralph J. Kennedy.

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Exhibit 1.

INTRODUCTION

Q. Please state your name and business address.

A. My name is Alejandro Ramirez. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Alejandro Ramirez who previously filed direct testimony in this proceeding for the Utilities Division Staff ("Staff")?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to update Staff's cost of equity analysis and present Staff's recommendations. This surrebuttal also responds to criticisms of Staff's direct testimony contained in the rebuttal testimonies of Ralph J. Kennedy and Thomas M. Zepp.

I. RATE OF RETURN RECOMMENDATION

Q. Have you updated Staff's cost of equity analysis for Arizona Water?

A. Yes, I have.

Q. Based on this updated analysis, what is Staff's recommendation in regard to the cost of equity for Arizona Water?

A. Staff is still recommending a 9.1 percent cost of equity (Direct testimony recommended 9.1 percent) for Arizona Water in this proceeding. Staff's ROE recommendation is based on its updated estimate of the cost of equity to the sample water companies (9.1 percent). In Staff's original recommendation, Staff adjusted for financial risk. Although it is Staff's position that financial risk should be taken into account when estimating the cost of

equity, Staff is still supporting its original recommendation of 9.1 percent ROE for Arizona Water's cost of equity. Schedules AXR-1 through AXR-8 support Staff's updated cost of equity recommendation. The results are also shown in the following table:

Table 1: Sample Water Companies

Model	Average Estimate
Discounted Cash Flow	9.0%
Capital Asset Pricing Model	9.2%
Average	9.1%

Staff updated its DCF and CAPM estimates of the cost of equity to the sample water companies and with current information from *Value Line* and market data of May 11, 2005. As shown in the above tables, the average estimate of the cost of equity to the sample water companies has decreased by 20 basis points.

Q. Did any factors affect Staff's updated cost of equity estimate other than use of more current *Value Line* market data?

A. Yes. Staff used Dr. Zepp's information for the year ended 2004. In addition, Staff also adjusted its br growth to recognize that *Value Line's* reported ROEs are based on the year-end equity.

Q. Is Staff updating its Rate of Return ("ROR") recommendation?

A. Staff's ROR recommendation remains 8.9 percent, as stated in Staff's direct testimony. Staff's ROR recommendation is shown in Schedule AXR-1. Staff's ROR recommendation is also shown below:

Table 2

	Weight	Cost	Weighted Cost
Long-term Debt	26.6%	8.4%	2.2%
Common Equity	73.4%	9.1%	6.7%
Cost of Capital/ROR			**8.9%**

II. RESPONSE TO THE REBUTTAL TESTIMONY OF RALPH J. KENNEDY.

Q. Do you have any general comments in regard to Mr. Kennedy's rebuttal testimony?

A. Yes. Although Mr. Kennedy states that forecasted interest rates indicate that interest rates will increase over the next year, as I have previously stated in my direct testimony (Ramirez Direct, Pages 49 – 51), forecasted interest rates are no better predictors of actual future interest rates than spot interest rates. The Commission should give no weight to forecasted interest rates when calculating the cost of equity.

Q. On pages 8 – 10, Mr. Kennedy argues that unique risk is priced by investors and it should be taken into account. Does Staff agree with Mr. Kennedy's statement?

A No. As I stated in Staff's direct testimony (Ramirez Direct, Pages 10, 11), and in this rebuttal testimony (Pages 14 & 15), unique risk does not affect the cost of equity. Market risk (systematic risk) is the only relevant risk when estimating the cost of equity.

Q. On Pages 8 and 9, Mr. Kennedy provides two examples that according to him, show that unique risk should not be ignored when estimating the cost of equity. Does Staff agree with Mr. Kennedy?

A. No. Mr. Kennedy's examples simply show that prices adjust quickly to reflect new public information. However, Mr. Kenney's examples by no means show that unique risks affect the cost of equity. Conceptually speaking:

> "If we view only the stock price decline associated with the increased firm-specific risk, as some analysts do, then we will draw the ***incorrect conclusion*** that the required return is increased—as manifested by a higher dividend yield. Careful analysis ***shows this conclusion to be in error***. The stock price declines in response to the increased risk because the firm's ability to generate cash flow is hampered. But this necessarily means that the firm's ability to produce long-term dividend growth is also compromised. The two impacts tend to offset each other, leaving the required return essentially unchanged relative to what it was before the increase in the firm-specific risk [Emphasis Added]".[1]

The price of the stock does not determine the cost of equity. It is the cost of equity which determines the price of the stock. Mr. Kennedy's conclusion that unique risks should not be ignored is misleading and ultimately flawed.

Q. Does Staff have any additional comments on Mr. Kennedy's rebuttal testimony?

A. Yes. On page 11, of his rebuttal testimony, Mr. Kennedy compares the book return on equity and the authorized return on equity of the sample water companies to the recommendations presented by Staff and RUCO. As Staff has explained in its direct testimony, Staff is concerned with Mr. Kennedy's assumption that the cost of equity is equal to the accounting returns on equity.

III. RESPONSE TO THE REBUTTAL TESTIMONY OF THOMAS M. ZEPP

On Dr. Zepp's Comments Regarding Staff's Recommended ROE.

Q. Dr. Zepp criticizes Staff's recommended cost of equity for Arizona Water arguing that it is less than the current authorized returns on equity for the water utilities sample used. Do you have any comments?

A. Yes. Dr. Zepp is following the same flawed reasoning that I referred to in my direct testimony by comparing authorized ROEs to the cost of equity. As previously stated in

[1] Kihm, Steven G. "How Improper Risk Assessment Leads to Overstatement of Required Returns for Utility Stocks." *National Regulatory Research Institute Journal of Applied Regulation*. Vol. 1, June 2003. pp. 88.

my direct testimony (Ramirez Direct, Page 52 & 53), the cost of equity is determined by the capital markets, not the commissions. The Commission has no way of knowing how these other cases were resolved and what incentives or disincentives, if any, were put into place by other states that affected the final decision on which authorized ROE should be granted.

Dr. Zepp's statement that "ROEs agreed to in settlements of water utility cases are the result of parties agreeing to a lower ROE in exchange for the water utility prevailing on an issue...(Zepp Rebuttal, Page 8, Lines 20-22)" is misleading. While ROEs agreed to in settlements may be lower than what the utility is requesting in that specific proceeding, this does not necessarily mean that this agreed ROE is lower than the cost of equity. Dr. Zepp is assuming that what the utility requests as a proper return on equity is actually the best estimate of cost of equity. His flawed logic in this issue leads him to believe that "to the extent that the reported ROEs... are the result of settlements, they probably understate the cost of equity (Zepp Rebuttal, Page 8, Lines 23-24)." The Commission should give no weight to Dr. Zepp's comparison of authorized ROEs to the cost of equity for Arizona Water.

Moreover, while Dr. Zepp supports the risk premium model used by the California Office of Ratepayer Advocate Staff ("ORA") to determine estimates of the cost of equity for water utilities (Zepp Surrebuttal, Page 35 & 36), he is not recognizing that ORA has rejected the use of authorized ROEs as an accurate measure of what is expected by investors.[2]

[2] CPUC Staff Cost of Capital Report, A.03-07-036, January 2004.

Q. On pages 8 and 9 of his rebuttal testimony, Dr. Zepp compares Staff's recommended cost of equity estimate for Arizona Water to the ROEs earned by the water utilities used in the sample. Is this comparison useful?

A. No. As discussed in my direct testimony, Staff is concerned with Dr. Zepp's assumption that accounting returns on equity equal the cost of equity. On page 52, my direct testimony provides a quote by Professor Laurence Booth in a *NRRI Quarterly Bulletin* article that "theoretically, there is no question whatsoever that a market-to-book ratio of 1.50 indicates that the [cost of equity] is less than the [allowed ROE]." The average market-to-book ratio for the sample water utilities is higher than 1.0 (Schedule AXR-5 shows that the average market-to-book ratio for the sample water utilities in 2.5); therefore, Dr. Zepp's comparison between the cost of equity and the book accounting return on equity to criticize Staff's recommendation is of no relevance

Q. Dr. Zepp further criticizes Staff's recommended ROE by comparing it to past Commission Decisions. Does Staff have any comments?

A. Yes. Dr. Zepp presents a table (Zepp Surrebuttal, Table 2) with authorized ROEs by the Commission prior to 2001. Then he calculates his *"risk premium"* by subtracting the average annual 10-year Treasury Rate to these past authorized ROEs. As stated in Staff testimony, Dr. Zepp's argument presents no solid financial basis for two reasons. First, he is assuming that water and gas utilities have the same market risk. Second, the use of authorized ROEs to estimate the cost of equity is flawed as mentioned earlier.

Q. Does Staff have any comments on Dr. Zepp's critique that Staff's recommendation for Arizona Water is lower than Staff's previous recommended ROE of 9.2 percent in 2003 for Arizona-American?

A. Yes. Dr. Zepp refers to the Arizona-American Water Company rate case (Docket No. WS-01303A-02-0867), where Staff in its direct testimony, found a cost of equity estimate of 9.2 percent for the sample water utilities. It is my understanding that Staff's recommendation in the direct testimony for that case was mainly influenced by a current market risk premium of 13.1 percent.

However, Dr. Zepp neglected to include Staff's updated cost of equity estimate presented in Staff's surrebuttal in Docket No. WS-01303A-02-0867. Staff's surrebuttal testimony for the Arizona-American Water Company rate case found an updated cost of equity estimate for the sample water utilities of 8.5 percent which is markedly below Staff's updated cost of equity estimate of 9.1 percent in this proceeding.

Dr. Zepp openly states that the methods implemented by Staff are intended to depress the cost of equity. Staff disagrees with this point. Staff's method used to estimate the cost of equity is based on widely known financial theory. Staff's goal is to estimate the cost of equity using the best procedures available and to provide appropriate recommendations to the Commission.

Q. Dr. Zepp criticizes Staff for recommending an ROE for Arizona Water that is lower than the ROE determined with the FERC DCF approach. Does Staff have any comments?

A. Yes. Staff's direct testimony (Ramirez Direct, Pages 41 – 48) identifies the following two problems with the FERC DCF methods used to estimate the cost of equity: (1)

miscalculation of dividend yields and (2) the forecasted growth problem. Staff has shown in its direct testimony that these two problems will lead to an upwardly biased cost of equity estimate.

Comments Regarding Dr. Zepp's Restatement of Staff's Constant Growth DCF.

Q. Does Staff have any general comments on Dr. Zepp's restatement of Staff's constant growth DCF?

A. Yes. Staff has updated the historical growth rates for EPS and DPS with the data provided in Dr. Zepp's workpapers with data ending in 2004 instead of 2003. In doing this, Staff has also corrected the unusually high estimate of EPS growth for American States that Dr. Zepp refers to in his rebuttal testimony (Zepp Rebuttal, Page 18). In addition, Staff has used the FERC method to adjust historical and projected "br" growth given that Value Line uses year-end equity. Schedule AXR-3 and AXR-4 present updated DPS, EPS, and intrinsic growth.

Q. Does Staff have any comments on Dr. Zepp's "updated" historical growth rates for DPS and EPS presented in Dr. Zepp's Rebuttal Table 7?

A. Yes. Dr. Zepp not only updates historical DPS and EPS for the year 2004, he also calculates the arithmetic average growth rather than the geometric growth. By doing this, Dr. Zepp overstates the historical EPS growth.

Q. Does Staff agree with the adjustment implemented by Dr. Zepp based on arithmetic growth?

A. No. By using the arithmetic average, Dr. Zepp overstates the historical EPS growth for the sample water utilities. I will explain this with the following example:

Suppose there is a company that in Year 1, its EPS is 10; in Year 2, its EPS is 5 and in Year 3, the EPS is 10. What was the historic EPS growth rate between Year 1 and 3? If we use Dr. Zepps average arithmetic mean, the average growth in EPS would be:

EPS Growth (Arithmetic Mean): (((5-10)/10) + ((10-5)/5))/2

EPS Growth (Arithmetic Mean): 25.0%

According to Dr. Zepp, the average growth in EPS for the period 1-3 is 25.0 percent. By contrast, using geometric mean, the growth in historical EPS for the company in the example would be given by:

EPS Growth (Geometric Mean): ((10/10) ^ (1/2))-1

EPS Growth (Geometric Mean): 0.0 percent.

By using the geometric average as Staff has done, the historical EPS growth in this example would be 0.0 percent. This makes sense since in Year 1, the company's EPS was 10 and in Year 3 the company's EPS was 10 as well. Dr. Zepp biased the historical EPS growth upwards in his Rebuttal Table 7, and the Commission should give no weight to his procedure.

Q. Does Staff have any comments on Dr. Zepp's restatement of Staff's constant growth DCF?

A. Yes. Dr. Zepp took into account only forecasted dividends per share ("DPS"), EPS and intrinsic growth to come up with the growth term (g) in the constant growth DCF. As I stated in my direct testimony (Ramirez Direct, Pages 43 – 48), Staff disagrees with Dr. Zepp's sole reliance on analyst forecasts because it provides inflated cost of equity estimates.

Q. Has the Commission ruled on the use of DPS and past EPS growth to estimating the cost of capital?

A. Yes. The Commission, in Decision No. 66849, dated March 19, 2004, found the following:

> "We also agree with Staff's witness that the Company's exclusive reliance on analyst forecasts ***erroneously*** assumes that investors rely only on near-term earnings and sustainable growth without considering past earnings. Reliance solely on analyst projections tends to result in inflated growth projections without considering DPS and past EPS growth, information that even Dr. Zepp has acknowledged should be considered in determining estimated growth [Emphasis added] (Decision No. 66849, Page 22, Lines 14 – 18)".

Comments Regarding Dr. Zepp's Restatement of Staff's Multi-Stage DCF.

Q. How does Dr. Zepp modify Staff's multi-stage DCF analysis?

A. On page 17 of his rebuttal testimony, Dr. Zepp modifies Staff's multi-stage DCF analysis by introducing a supernormal growth stage between the first and second stages of growth. He assumes that investors expect this supernormal growth to occur during years 2008 – 2017.

Q. Are his modifications appropriate?

A. No. His modifications are not appropriate for two reasons. First, Dr. Zepp takes Staff's projected BR growth rate for 2007 – 2009 and misapplies it to years 2008 – 2017. Dr. Zepp's perpetual growth rate does not begin until the year 2018. Therefore, inserting Staff's projected BR growth rate for the years 2007 – 2009 into years 2008 – 2017, before starting the perpetual growth rate in 2018, is speculative.

Second, Staff disagrees with Dr. Zepp's GDP growth. Dr. Zepp used the arithmetic average when calculating historical GDP growth. The arithmetic mean represents typical performance over *single periods* while the geometric average is typically concerned with long-term performance. Staff has correctly used the geometric average when calculating the GDP growth.

Comments Regarding Dr. Zepp's Restatement of Staff's CAPM.

Q. Does Staff have any comments on Dr. Zepp's selection of the long-term Treasury rate forecast as the measure of the risk-free rate ("RF") in his restatement of Staff's CAPM?

A. Yes. Staff has two concerns with Dr. Zepp's selection of long-term treasury forecast as the measure of RF. First, the CAPM is a holding period model (unlike the DCF). The use of a long-term U.S. Treasury bond for the RF implies a long-term holding period. This is not reasonable when, as stated in my direct testimony, "The use of intermediate-term securities is based on the theoretical specification that the time to maturity approximates the investor's holding period, and assumes that most investors consider the intermediate time frame (5-10 years) a more appropriate investment horizon (Ramirez Direct, Page 27, Footnote 8)".

Moreover, one of the assumptions of the Capital Market Theory ("CMT") (upon which the CAPM is based) is that "All investors have the same one-period time horizon... A difference in the time horizon would require investors to derive risk measures and risk-free assets that are consistent with their investment horizons".[3] The CMT clearly states that the horizon is the investors holding period, not the life of the asset.

[3] See Reilly, Frank K., and Keith C. Brown. Investment Analysis and Portfolio Management. 2003. South-Western. Mason, OH. p. 239.

Second, long-term treasury yields contain a liquidity risk premium (or what Ibbotson calls horizon premium). Before using the long-term Treasury bond as the RF in the CAPM, one should subtract the liquidity risk premium. Brealey and Myer's book, *Principles of Corporate Finance*, states the following, "The risk-free rate could be defined as a long-term Treasury bond yield. If you do this, however, you should subtract the risk premium of Treasury bonds over bills... [This figure] should be used in the CAPM..."[4] Dr. Zepp did not take into account this basic concept; therefore, his estimates of the RF rate are biased upward because they contain such a liquidity premium.

Third, Staff is concerned with Dr. Zepp's reliance on interest forecasts. As explained in my direct testimony, the Commission should not rely on forecasts of interest rates. The analysts who forecast future rates do not have any more information about the future than what is already reflected in the current rate (Ramirez Direct, Page 47-49).

Q. Can Staff provide any evidence that forecasted interest rates are not reliable, and therefore, should not be taken into account to estimate the cost of equity?

A. Yes. Let's take a simple example. Let's refer to Dr. Zepp's Direct testimony, Table 21, filed for Arizona-American Water Company, Docket No. WS-01303A-02-0867 (See Exhibit 1). In this Table he presented the range of consensus forecasts reported by *Blue Chip* for the Baa corporate bond rates, June 2002 for the period 2003 to 2004. According to this table, the forecasts of Baa corporate bond rates for the period 2003 to 2004 were between 8.10 percent and 8.20 percent. The average actual yield for Baa corporate bonds for the period 2003 to 2004 was 6.58 percent. This means that the *Blue Chip* forecasts *overstated* the Baa corporate bond rate by *152 – 162* basis points.

[4] Richard A. Brealey and Stewart C. Myers, *Principles of Corporate finance*. Mcgraw-Hill, 200. p. 233.

As stated in my direct testimony, the best forecast of tomorrow's yield is simply today's yield. "Professional forecasts of financial variables are notoriously unreliable and appear to be getting worse, not better, over time." "The direction of interest rates [bond yields] cannot be predicted any better than by the flip of a coin."[5]

Q. Is Dr. Zepp's restatement of Staff's CAPM using an historical risk premium correct?

A. No. For the reasons provided above, the Commission should give no weight to Dr. Zepp's restatement.

Q. Does Staff have any comments on Dr. Zepp's estimate of the current market risk premium?

A. Yes. Dr. Zepp used the *Value Line* Industrial Composite to estimate the current market risk premium. Dr. Zepp also stated that the *Value Line* Industrial Composite is based on a wide cross-section of companies. Dr. Zepp forgot to mention that the Industrial Composite consists of 637 industrial, retail and transportation companies (excluding the financial services and the utilities sectors) whereas Staff's calculation is based on Value Line projections for 1,700 stocks.

Comments Regarding Dr. Zepp's "Above-average Risks" Faced by Arizona Water.

Q. Does Staff have any response to Dr. Zepp's comments in regard to the "unique risks" he claims affect the Applicant's cost of equity?

A. Yes, as I have explained at length in my direct testimony, non-market risk (unique risks) does not affect the cost of equity. Non-market risk (unique risk) is uncorrelated across firms in the economy. Unique risk is related to the risk of an individual project or firm;

[5] Kihm, Steven G. "The Superiority of Spot Yields in Estimating Cost of Capital." *Public Utilities Fortnightly.* February 1, 1996. pp. 42-45.

therefore, it can be eliminated through diversification. Investors can eliminate unique risk by holding a diversified portfolio. Unique risk is not measured by beta, nor does it affect the cost of equity because these firm-specific risks can be eliminated through shareholder diversification.

Dr. Zepp states in his direct testimony that he would expect that these unique risks (historical test year, water supply risk, inverted tier rates and purchased power and purchased water adjusters) would increase the Applicant's beta. However, he has failed to show that these "above-average" unique risks mentioned affect the cost of equity. Richard Brealey and Stewart Myers noted:

> But in everyday usage *risk* simply equals "bad outcome." People think of the risks of a project as a list of things that can go wrong. For example,
>
> - A geologist looking for oil worries about the risk of a dry hole.
> - A pharmaceutical manufacturer worries about the risk that a new drug which cures baldness may not be approved by the Food and Drug Administration.
>
> Managers often add fudge factors to discount rates [the investors' required return] to offset worries such as these.[6]

Then they add:

> This sort of adjustment makes us nervous. First, the bad outcomes we cited appear to reflect unique (i.e., diversifiable) risk which would not affect the expected rate of return demanded by investors.[7]

Dr. Zepp does not provide any evidence of how these "above-average" (unique) risks affect the systematic risk which is the only relevant risk that affects the cost of equity.

[6] Richard A. Brealey and Stewart C. Myers, *Principles of Corporate finance*. Mcgraw-Hill, 200. p. 238.
[7] Richard A. Brealey and Stewart C. Myers. P. 238.

Q. Does Staff have any additional comments in regard to Dr. Zepp "above-average" risks?

A. Yes. Steven G. Kihm (senior financial analyst with the Wisconsin Public Service Commission) addressed the issue of including unique risks in a cost of equity analysis, in his award-winning article "How Improper Risk Assessment Leads to Overstatement of Required Returns for Utility Stocks".

> "Risk and return are important issues on regulatory proceedings. Understanding how risks affect stock prices leads to better estimates of the market's required return on utility stocks. Risks that are specific to the utility affect expectations about future utility cash flows, but they have little bearing on the investors' required return. Regulators should therefore ignore testimony suggesting that firm-specific risks influence the required return"[8]

Dr. Zepp attempts to justify his proposed high returns on equity for Arizona Water by adding irrelevant factors (unique risk) to the cost of equity.

[8] Kihm, Steven G. "How Improper Risk Assessment Leads to Overstatement of Required Returns for Utility Stocks." *National Regulatory Research Institute Journal of Applied Regulation.* Vol. 1, June 2003. pp. 101.

Dr. Zepp's Methods Employed to Estimate the Cost of Equity for Arizona Water.

Q. Does Staff have any comments in regard to Dr. Zepp's statement that Staff has not provided any evidence that the methods to estimate the cost of equity used by the FERC and the California Public Utilities Commission ("CPUC") are flawed?

A. Yes. Staff strongly disagrees with this statement from Dr. Zepp. Staff has demonstrated why the methods employed by the FERC and the CPUC are inferior to Staff's. Staff has consistently sought better methods to estimate the cost of equity based on sound financial theory. Staff has clearly provided evidence in its direct testimony that calculation of dividend yields based on historical prices is inappropriate and inconsistent with the efficient market hypothesis (a key principle of modern corporate finance) (Ramirez Direct, Pages 41 - 42). Moreover, Staff also provided evidence that sole reliance on analysts' forecasts would result in inflated cost of equity estimates (Ramirez Direct, Pages 43 - 46).

In addition, Staff provided evidence that forecasted interest should not be relied upon to estimate the cost of equity, and that the best forecast of tomorrow's yield is simply today's yield. Staff has also provided evidence in this surrebuttal testimony that supports Staff's position in this issue (Refer to Pages 11 – 12). Staff has also provided evidence that authorized ROEs or accounting returns on equity are not equal to the cost of equity (Ramirez Direct, Pages 50 & 51). This renders useless Dr. Zepp's (CPUC) risk premium methods used in his direct testimony.

Dr. Zepp goes further and states that he demonstrated that the approaches presented by him in this proceeding are superior to Staff's just because they are consistent with equity cost determinations made in other states and the Commission Decisions prior to 2001.

This statement lacks financial basis and does not recognize that the cost of equity changes over time. The Commission should rely on sound methods to estimate the cost of equity.

Q. On page 26 of his rebuttal testimony, Dr. Zepp finds puzzling your reference to David Dreman's book, *Contrarian Investment Strategies: The Next Generation* given that Mr. Dreman says that investors rely on analysts' forecasts. How puzzling and inconsistent is Staff's reference to Mr. Dreman?

A. Staff's reference to Mr. Dreman is neither puzzling nor inconsistent. Staff is simply showing evidence regarding the degree of optimism present in analysts' forecasts of future earnings. Staff is not contending that investors rely on forecasts of EPS. Staff contests the assumption that investors will rely solely on analysts' forecasts (Ramirez Direct, Pages 41–46).

Q. On page 33, Dr. Zepp criticizes Staff's position that DPS growth should be taken into account when applying the DCF model given that it is earnings growth that permits DPS to occur. Does Staff have any comments?

A. Yes. Dr. Zepp's rebuttal testimony in this issue does not bring anything new to the table. The fact that the DCF is predicated on DPS is undeniable (the current market price of a stock is equal to the present value of all expected future dividends, not future earnings). As presented in Staff's direct testimony, Professor Jeremy Siegel from the Wharton School of Finance stated:

> Note that the price of the stock is always equal to the present value of all future *dividends* and not the present value of future earnings. Earnings not paid to investors can have value only if they are paid as dividends or other cash disbursements at a later date. Valuing stock as the present discounted value of future earnings is manifestly wrong and greatly overstates the value of the firm.[9]

[9] See Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York P. 93.

Q. Dr. Zepp criticizes Staff's quotations of his 1999 testimony that implies he used forecasted DPS to estimate the cost of equity. Does Staff have any comments?

A. Yes. By citing Dr. Zepp's 1999 testimony, Staff did not mean in any way to imply that he used forecasted DPS to estimate the cost of equity. Staff has cited this testimony because Dr. Zepp stated that he would look at both, DPS and EPS growth when estimating the cost of equity. It is Staff's understanding that in his 1999 testimony, Dr. Zepp stated that both DPS and EPS should be taken into account. Dr. Zepp is misinterpreting Staff's quotation from his 1999 direct testimony. However, Dr. Zepp has not given a sound explanation as to why DPS growth should not now be taken into account when estimating the cost of equity when he has stated in the past (Dr. Zepp 1999 testimony) that he would also look at DPS growth.

Comments Regarding Dr. Zepp's critiques on financial risk

Q. Do you have any comments on Dr. Zepp's statement that "a negative ROE adjustment for Arizona Water should have never been considered (Zepp Rebuttal, Page 27, Lines 4 – 5)"?

A. Yes. As explained in my direct testimony, financial risk is closely related to how a firm finances its assets. "A greater percentage of debt in a capital structure results in higher level of financial risk, which in turns affects the cost of equity (Ramirez Direct, Page 11, Lines 20 & 21)". There is no magic in this: Higher leverage translates into higher financial risk which in turns increases the cost of equity. Lower leverage translates into lower financial risk which in turns decreases the cost of equity. Dr. Zepp completely disregards the fact Arizona Water is less leveraged than the sample water utilities which translates into lower financial risk for Arizona Water than the water sample utilities.

Q. Dr. Zepp relies on Arizona Water's Series K bonds to support a risk premium adjustment for the Applicant's cost of equity. Does Staff have any comments?

A. Yes. Dr. Zepp erroneously states that Arizona Water issued its Series K bonds at a cost that exceeded the cost of bonds for the water utilities sample; therefore, there is evidence that "supports a risk premium of no less than 37 to 49 basis points (Zepp Rebuttal, Page 27, Lines 24 & 25)".

Q. Can Staff explain why Dr. Zepp's statement that Arizona Water requires a risk premium of no less than 37 to 49 basis points is erroneous and misleading?

A. Yes. Dr. Zepp disregards the fact that corporate bonds contain some default risk which is diversifiable. Different companies have different perceived levels of default risk. Given that some default risk is diversifiable (unsystematic), it is irrelevant to the cost of equity.

Q. On page 27, of his rebuttal testimony, Dr. Zepp asserts that known market information indicates that Arizona Water has a beta that is closer to 1.0. Does Staff agree with this Statement?

A. No. The "known market information" that Dr. Zepp refers to is that the Applicant's Series K bonds were issued "at a cost that was 37 basis point higher than the cost of A-rated bonds at the time the Series K bonds were issued and 49 basis points higher than the cost of AA-rated bonds at the time of the issue (Zepp Rebuttal, Page 27, Lines 11 – 13)". This information does not imply that Arizona Water has a beta closer to 1.0. The most obvious cause of the yield spread would be the possibility of default.

In addition, Professor Frank Reilly of the University of Notre Dame and Professor Keith Brown of the University of Texas explain why a private placement may have a higher

cost than a public offering in their 2003 financial text Investment Analysis & Portfolio Management:

> "Rather than a public sale using one of these arrangements, primary offerings can be sold privately. In such an arrangement, referred to as a *private placement*, the firm designs an issue with the assistance of an investment banker and sells it to a small group of institutions. The firm enjoys lower issuing costs because it does not need to prepare the extensive registration statement required for a public offering. *The institution that buys the issue typically benefits because the issuing firm passes some of these cost savings on to the investor as a higher return.* In fact, the institution should require a higher return because of the absence of any secondary market for these securities, which implies higher liquidity risk.[10] (latter emphasis added.)"

Therefore, the yield spread between corporate bonds and privately placed bonds would likely be related to the risk of the institution being able to resell the placement in a secondary market, and *not* higher business risk (which affects the cost of equity).

Q. Has Dr. Zepp accounted for financial risk?

A. Yes. Dr. Zepp acknowledges this financial concept in pre-filed testimony in Docket No. WS-01303A-02-0867 et seq. (Arizona-American Water Company, Inc.) in which he adjusts his recommended ROE for increased financial risk. However, he does not adjust his recommended ROE for *decreased* financial risk in this docket.

[10]Reilly, Frank K., Keith C. Brown. Investment Analysis & Portfolio Management. 2003. Thomson South-Western. Mason, OH. p. 111.

Q. On page 28, of his rebuttal testimony, Dr. Zepp states that there is information that supports a positive risk premium for Arizona Water even though it is less leveraged than the water utilities sample, specifically due to the size of the Applicant. Does Staff have any comments?

A. Yes. Dr. Zepp has consistently tried to add the "size premium" before the Commission in previous proceedings. Staff agrees with the Commission finding that the firm size phenomenon does not exist for regulated utilities. Moreover, on page 94 of Intermediate Financial Management Brigham and Daves state:

> "Several of these studies suggest that the size effect is no longer having an effect on stock returns, that there never was a size effect (the previous results were caused by peculiarities in the data sources), or that the size effect doesn't apply to most companies".

Q. Has the Commission previously ruled on the issue of firm size with regard to the ROE?

A. Yes. In Arizona Water's previous rate case the Commission said the following in Decision No. 64282:

> We do not agree with the Company's proposal to assign a risk premium to Arizona Water based on its size relative to the other publicly traded water utilities...

Additionally, in Decision No. 64727 (Black Mountain Gas Company), dated April 17, 2002, the Commission agreed with Staff's position that "the 'firm size phenomenon' does not exist for regulated utilities, and that therefore there is no need to adjust for risk for small firm size in utility rate regulation."

CONCLUSION

Q. Please summarize Staff's recommendations.

A. Staff recommends the Commission adopt Staff's updated 9.1 percent ROE, an 8.4 percent cost of long-term debt, and an 8.9 percent rate of return. Staff recommends the Commission give little weight to the testimony of the Company's witness, Dr. Thomas Zepp. Staff disagrees with his methods and his estimates are not representative of current costs of equity.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Arizona Water Company -Western Group-
Staff's Recommended
Capital Structure
And Weighted Cost of Capital

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Long-term Debt	26.6%	8.4%	2.20%
Common Equity	73.4%	9.1%	6.70%
Weighted Average Cost of Capital/ROR			**8.9%**

Supporting Schedules: Schedule AXR-2, Schedule AXR-8

Arizona Water Company -Western Group-
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Long-Term Debt	Common Equity	Total
American States Water	49.2%	50.8%	100.0%
California Water	49.7%	50.3%	100.0%
Aqua America	53.0%	47.0%	100.0%
Connecticut Water	43.1%	56.9%	100.0%
Middlesex Water	55.4%	44.6%	100.0%
SJW Corp	46.8%	53.2%	100.0%
Average Sample Water Utilities	**49.5%**	**50.5%**	**100.0%**
Arizona Water Company -Western Grou	**26.6%**	**73.4%**	**100.0%**

Source: Value Line, Arizona Water's application

Arizona Water Company -Western Group-
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 1994 to 2004 DPS	Dividends Per Share Projected DPS	Earnings Per Share 1994 to 2004 EPS	Earnings Per Share Projected EPS
American States Water	1.1%	1.9%	2.2%	14.1%
California Water	1.3%	1.1%	1.8%	8.2%
Aqua America	5.8%	7.3%	9.3%	9.0%
Connecticut Water	1.4%	No Projection	2.5%	No Projection
Middlesex Water	2.3%	No Projection	0.9%	No Projection
SJW Corp	3.8%	No Projection	7.8%	No Projection
Average Sample Water Utilities	**2.6%**	**3.4%**	**4.1%**	**10.4%**

Source: Value Line, Zepp work papers

Arizona Water Company -Western Group-
Intrinsic Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth 1994 to 2003 br	Retention Growth Projected br	Stock Financing Growth vs	Intrinsic Growth 1994 to 2003 br + vs	Intrinsic Growth Projected br + vs
American States Water	2.6%	5.6%	1.2%	3.8%	6.8%
California Water	2.4%	4.6%	1.7%	4.1%	6.3%
Aqua America	3.7%	6.1%	7.3%	11.0%	13.4%
Connecticut Water	2.9%	No Projection	0.5%	3.5%	No Projection
Middlesex Water	1.6%	No Projection	3.5%	5.1%	No Projection
SJW Corp	5.0%	No Projection	0.0%	5.0%	No Projection
Average Sample Water Utilities	**3.1%**	**5.4%**	**2.4%**	**5.4%**	**8.8%**

Source: Value Line, MSN Money

Arizona Water Company -Western Group-
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 5/11/05	Book Value 5/11/05	Mkt To Book	*Value Line* Beta β	Raw Beta β *raw*
American States Water	AWR	27.18	14.90	1.8	0.70	0.52
California Water	CWT	35.75	15.51	2.3	0.75	0.60
Aqua America	WTR	27.84	7.40	3.8	0.75	0.60
Connecticut Water	CTWS	24.2	10.89	2.2	0.65	0.45
Middlesex Water	MSEX	18.97	7.74	2.5	0.65	0.45
SJW Corp	SJW	40.48	18.47	2.2	0.55	0.30
Average				**2.5**	**0.68**	**0.49**

Source: Msn Money, Value Line

Arizona Water Company -Western Group-
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical	2.6%
DPS Growth - Projected	3.4%
EPS Growth - Historical	4.1%
EPS Growth - Projected	10.4%
Intrinsic Growth - Historical	5.4%
Intrinsic Growth - Projected	8.8%
Average	**5.8%**

Supporting Schedules: Schedule AXR-3 and Schedule AXR-4

Arizona Water Company -Western Group-
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_o)	Projected Dividends[1] (stage 1 growth) (D_t)				Stage 2 growth[2] (g_n)	Equity Cost Estimate (K)
		d_1	d_2	d_3	d_4		
American States Water	27.2	0.90	0.92	0.94	0.96	6.5%	9.4%
California Water	35.8	1.14	1.15	1.17	1.18	6.5%	9.2%
Aqua America	27.8	0.52	0.56	0.60	0.65	6.5%	8.4%
Connecticut Water	24.2	0.86	0.90	0.93	0.96	6.5%	9.8%
Middlesex Water	19.0	0.68	0.71	0.73	0.76	6.5%	9.8%
SJW Corp	40.5	1.08	1.12	1.16	1.20	6.5%	9.0%

Average **9.3%**

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n .$$

Where : P_0 = current stock price

D_t = dividends expected during stage 1

K = cost of equity

n = years of non – constant growth

D_n = dividend expected in year n

g_n = constant rate of growth expected after year n

1 d_1 = "Est'd Div'd next 12 mos." 05/13/2005, *Value Line* Summary & Index.

2 Average annual growth in GDP 1929 - 2004 in current dollars. http://www.bea.doc.gov/

Arizona Water Company -Western Group-
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0	+	g	=	k
Constant Growth DCF Estimate			3.0%	+	5.8%	=	8.8%
Multi-Stage DCF Estimate						=	9.3%
Average of DCF Estimates							**9.0%**
CAPM Method	Rf	+	β	x	(Rp)	=	k
Historical Market Risk Premium	4.0%	+	0.68	x	7.6%	=	9.1%
Current Market Risk Premium	4.0%	+	0.68	x	7.8%	=	9.3%
Average of CAPM Estimates							**9.2%**
					Average		**9.1%**

Source: The Wall Street Journal, Value Line, Ibbotson Associates SBBI 2004 Yearbook

Supporting Schedules: Schedule AXR-7

Exhibit 1.

Arizona-American Water Company

Table 21

Risk Premiums Computed from Past ROEs Earned by Water Utilities
and Forecasted Cost of Equity Range for Water Utilities

Panel A:

	Baa Corporate Bond Rates-b/	Average Baa Bond Rate	Realized ROEs for Water Utilities-a/	Average ROE	Risk Premium-c/	Average Risk Premium
1991-1995						
1991	9.80%		12.00%		2.60%	
1992	8.98%		10.51%		1.93%	
1993	7.93%		11.60%		4.07%	
1994	8.63%		10.71%		2.48%	
1995	8.20%	8.71%	11.13%	11.19%	3.33%	2.88%
1996-2000						
1996	8.05%		11.60%		3.95%	
1997	7.87%		11.57%		4.10%	
1998	7.22%		10.91%		4.09%	
1999	7.88%		10.56%		3.08%	
2000	8.37%	7.88%	9.81%	10.89%	1.84%	3.41%
Differences in Averages:		-0.83%		-0.30%		0.53%
Relative Change		-100		-36		64

Panel B:

Forecasts of Baa Corporate Bond Rate-d/	Estimated Risk Premium-c/	Forecasted Equity Cost
8.10%	3.27%	11.4%
8.20%	3.21%	11.4%

Notes and Sources:

_a/ Source: Tables 2-4 of CPUC WNGB Report, dated March 2002, in A. 01-10-028.

_b/ Past Baa rates reported by the Federal Reserve.

_c/ Based on evidence reported by C. A. Turner Utility Reports at year-end for the last ten years, the average cost of equity was more than 40 basis points higher than an average of realized ROEs. See Table 11.

_d/ Range of consensus forecasts reported by *Blue Chip*, June 2002 for the period 2003 to 2004.

8/06/02

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both samples, yes.
Q. I have a general question for you, sir.
Does the level of earnings earned by the Miami system in Arizona Water Company's Eastern District have any effect on whether or not Arizona Water Company's Rimrock system will earn a profit?
A. If it's with respect to this? Well, okay. I'll try to answer your question.
You're saying actual earnings from one small system versus actual earnings from another one, are they in any way related? I would think they may be related because of weather. Weather may have an effect on actual earnings. But I'm not looking at actual earnings. I'm looking at equity costs.
Q. Okay, sir. But the question is whether one -- I understand that there may be events such as rain that may affect both equally, or a lack of rain, sir.
But just in general economic terms, does the fact that one would earn a profit have any effect on the other earning a profit?
A. It would just because of what you just said.
Q. And what was that, sir?
A. Weather. Weather would have an effect. There would probably be some differences and some similarities in what's affecting their results.

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Q. Well, say the Rimrock system, of course -- I don't know if you know where it's located or not, but the weather in Rimrock is pretty much independent of the weather in Miami, for instance.
So given that independence, can you now answer the question of whether one having the ability to earn a profit has an effect on the other?
A. If they're totally independent systems and weather doesn't have an impact or anything else, then they would be independent by the nature of your definition.
Q. Okay. Thank you, sir.
I've asked Ms. Finical to circulate another exhibit, sir.
Dr. Zepp, what you have been handed is a copy of a text entitled, "Introduction to Probability and Statistics," by William Mendenhall.
Do you see that?
A. Okay.
Q. Thank you. And there's also a page attached to the cover of the text, page 95 from the text.
Do you see there where it looks like there's a definitions section?
A. Yes.
Q. And there's a sentence beginning, "Translating

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this definition into words..."
Do you see that?
A. I do.
Q. Could you please read that first sentence into the record.
A. "Translating this definition into words, two events are independent if the occurrence or nonoccurrence of one of the events does not change the probability of the occurrence of the other event."
Q. Okay. And is that an acceptable definition to you of independence, sir?
A. Yes.
MR. HORTON: Thank you. Staff moves this as Exhibit S-18, "Introduction to Probability and Statistics."
ACALJ NODES: Any objections?
MR. JAMES: No objection.
ACALJ NODES: S-18 is admitted.
Q. (BY MR. HORTON) Now, if we can go back to Table 8 of your direct testimony for just a moment. Hopefully you have still got it open there, sir.
Are you there?
A. I am.
Q. Thank you. For the purposes of the next few

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questions, let's just go ahead and assume just for purposes of the questions that the paired-difference test that you conducted was the appropriate test. Is that okay?
A. Okay.
Q. Then looking at Table 8 of your direct testimony, you report a t-statistic of 1.405; is that correct?
A. Yes.
Q. And then in Footnote f/ you say that the t-statistic is significant at the 90 percent level; is that correct?
A. Yes.
Q. And is this conclusion based on a one- or a two-tailed test?
A. A one-tailed test.
Q. Now, if you could please turn to exhibit TMZ-R4 of your rebuttal testimony.
A. Okay.
Q. Same study you reported in Table 8 of your direct testimony in this case is presented in the article at TMZ-R4 as Table 2 on page 4; is that correct?
A. It is.
Q. These are the same studies?

EXHIBIT
S-8
admitted
ALL-STATE LEGAL®

ARIZONA WATER COMPANY

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June 14, 2005

VIA HAND DELIVERY

Mr. Timothy J. Sabo
Attorney, Legal Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Re: Docket No. W-01445A-04-0650
AWC's Responses to ACC Staff's Eleventh Set of Data Requests

Dear Mr. Sabo:

An original of Arizona Water Company's responses to Staff's Eleventh set of data requests is enclosed.

Very truly yours,

Robert W. Geake

Robert W. Geake
Vice President and General Counsel

gjd
Enclosures

EXHIBIT
S-9
admitted

RECEIVED
JUN 15 2005
LEGAL DIV.
ARIZ. CORPORATION COMMISSION

E-MAIL: mail@azwater.com

ARIZONA WATER COMPANY'S
RESPONSE TO ELEVENTH SET OF DATA REQUESTS
OF ARIZONA CORPORATION COMMISSION STAFF
(Docket No. W-01445A-04-0650)

Data request No. REL 11-1
Please provide a listing by system (i.e. Apache Junction, Casa Grande, Coolidge and White Tank) of its annual allocation in acre feet and the amount of CAP water sold by year in the following format.

	Allocation in Acre Feet	Water Sold in Acre Feet
2000		
2001		
2002		
2003		
2004		

Also, Please provide documents supporting how much water was received and how much was sold.

Response To Data Request No. REL 11-1
Annual Allocations and Water Sold provided in the following chart are reported in acre feet.

	Apache Junction		Casa Grande		Coolidge		White Tank	
	Allocation	Sold	Allocation	Sold	Allocation	Sold	Allocation	Sold
2000	6,000	5,141	8,884	0	2,000	0	968	0
2001	6,000	5,163	8,884	1,202	2,000	0	968	0
2002	6,000	5,429	8,884	2,753	2,000	0	968	0
2003	6,000	5,058	8,884	2,279	2,000	0	968	0
2004	6,000	4,431	8,884	2,271	2,000	0	968	0

Attached as Attachment A are copies of Water Use Accounting Reports for Arizona Water Company from Central Arizona Project (CAP) showing water delivered for December YTD for each of the above mentioned years. Those quantities represent all of the CAP water received and sold by Arizona Water Company.

Responder(s): Garfield

ATTACHMENT A
Staff's 11th Data Request

CENTRAL ARIZONA PROJECT

P.O. Box 43020 • Phoenix, Arizona 85080-3020 • 23636 North Seventh Street (85024)
(623) 869-2333 • www.cap-az.com

Date: January 12, 2001

RECEIVED
JAN 15 2000
ARIZONA WATER COMPANY
PHOENIX - EXECUTIVE

WATER USE ACCOUNTING REPORT

For

ARIZONA WATER COMPANY

****

APACHE JUNCTION:

1. Water scheduled for December 2000: = 150 AF
2. Water delivered for December 2000: = 329 AF
3. Water scheduled (January - December 2000): = 4,525 AF
4. Water delivered of scheduled amount YTD: = 5,141 AF

CASA GRANDE:

5. Water scheduled for December 2000: = 0 AF
6. Water delivered for December 2000: = 0 AF
7. Water scheduled (January - December 2000): = 0 AF
8. Water delivered of scheduled amount YTD: = 0 AF

TOTAL ARIZONA WATER COMPANY:

9. Total scheduled for December 2000: = 150 AF
10. Total delivered for December 2000: = 329 AF
11. Total scheduled (January - December 2000): = 4,525 AF
12. Total delivered of scheduled amount YTD: = 5,141 AF

****

REMARKS:
- Deliveries to Apache Creek Golf Course = 30 AF.
- Deliveries to Superstition = 117 AF.
- Deliveries through Mesa = 182 AF.

ATTACHMENT A
Staff's 11th Data Request

CENTRAL ARIZONA PROJECT

P.O. Box 43020 • Phoenix, Arizona 85080-3020 • 23636 North Seventh Street (85024)
(623) 869-2333 • www.cap-az.com

Date: January 17, 2002

RECEIVED
JAN 21 2002
ARIZONA WATER COMPANY
PHOENIX - EXECUTIVE

WATER USE ACCOUNTING REPORT

For

ARIZONA WATER COMPANY

****

APACHE JUNCTION:

1. Water scheduled for December 2001: = 190 AF
2. Water delivered for December 2001: = 218 AF
3. Water scheduled (January - December 2001): = 4,538 AF
4. Water delivered of scheduled amount YTD: = 5,163 AF

CASA GRANDE (delivered through MSIDD):

5. Water scheduled for December 2001: = 100 AF
6. Water delivered for December 2001: = 213 AF
7. Water scheduled (January - December 2001): = 964 AF
8. Water delivered of scheduled amount YTD: = 1,202 AF

TOTAL ARIZONA WATER COMPANY:

9. Total scheduled for December 2001: = 290 AF
10. Total delivered for December 2001: = 431 AF
11. Total scheduled (January - December 2001): = 5,502 AF
12. Total delivered of scheduled amount YTD: = 6,365 AF

****

REMARKS:
- Deliveries to Apache Creek Golf Course = 29 AF.
- Deliveries to Superstition = 86 AF.
- Deliveries through Mesa = 103 AF.

ATTACHMENT A
Staff's 11th Data Request

CENTRAL ARIZONA PROJECT

P.O. Box 43020 • Phoenix, Arizona 85080-3020 • 23636 North Seventh Street (85024)
(623) 869-2333 • www.cap-az.com

Date: January 16, 2003

RECEIVED
JAN 22 2003
ARIZONA WATER COMPANY
PHOENIX - EXECUTIVE

WATER USE ACCOUNTING REPORT

For

ARIZONA WATER COMPANY

****

APACHE JUNCTION:

1. Water scheduled for December 2002: = 120 AF
2. Water delivered for December 2002: = 273 AF
3. Water scheduled (January - December 2002): = 4,947 AF
4. Water delivered of scheduled amount YTD: = 5,429 AF

CASA GRANDE (delivered through MSIDD):

5. Water scheduled for December 2002: = 125 AF
6. Water delivered for December 2002: = 206 AF
7. Water scheduled (January - December 2002): = 2,462 AF
8. Water delivered of scheduled amount YTD: = 2,753 AF

TOTAL ARIZONA WATER COMPANY:

9. Total scheduled for December 2002: = 245 AF
10. Total delivered for December 2002: = 479 AF
11. Total scheduled (January - December 2002): = 7,409 AF
12. Total delivered of scheduled amount YTD: = 8,182 AF

****

REMARKS:
- Deliveries to Apache Creek Golf Course = 29 AF.
- Deliveries to Superstition = 65 AF.
- Deliveries through Mesa = 179 AF.

ATTACHMENT A
Staff's 11th Data Request

CENTRAL ARIZONA PROJECT

P.O. Box 43020 • Phoenix, Arizona 85080-3020 • 23636 North Seventh Street (85024)
(623) 869-2333 • www.cap-az.com

Date: January 15, 2004

RECEIVED
JAN 16 2004
ARIZONA WATER COMPANY
PHOENIX - EXECUTIVE

WATER USE ACCOUNTING REPORT

For

ARIZONA WATER COMPANY

****

APACHE JUNCTION:

1. Water scheduled for December 2003: = 65 AF
2. Water delivered for December 2003: = 402 AF
3. Water scheduled (January - December 2003): = 4,965 AF
4. Water delivered of scheduled amount YTD: = 5,058 AF

CASA GRANDE (delivered through MSIDD):

5. Water scheduled for December 2003: = 342 AF
6. Water delivered for December 2003: = 110 AF
7. Water scheduled (January - December 2003): = 2,256 AF
8. Water delivered of scheduled amount YTD: = 2,279 AF

TOTAL ARIZONA WATER COMPANY:

9. Total scheduled for December 2003: = 407 AF
10. Total delivered for December 2003: = 512 AF
11. Total scheduled (January - December 2003): = 7,221 AF
12. Total delivered of scheduled amount YTD: = 7,337 AF

****

REMARKS: - Deliveries to Apache Creek Golf Course = 33 AF.
- Deliveries to Superstition = 107 AF.
- Deliveries through Mesa = 262 AF.

ATTACHMENT A
Staff's 11th Data Request

CENTRAL ARIZONA PROJECT

P.O. Box 43020 • Phoenix, Arizona 85080-3020 • 23636 North Seventh Street (85024)
(602) 869-2333 • www.cap-az.com

Date: January 19, 2005

RECEIVED
JAN 21 2005
ARIZONA WATER COMPANY
PHOENIX - EXECUTIVE

WATER USE ACCOUNTING REPORT

For

ARIZONA WATER COMPANY

****

APACHE JUNCTION:

1. Water scheduled for December 2004: = 245 AF
2. Water delivered for December 2004: = 198 AF
3. Water scheduled (January - December 2004): = 4,645 AF
4. Water delivered of scheduled amount YTD: = 4,431 AF

CASA GRANDE (delivered through MSIDD):

5. Water scheduled for December 2004: = 172 AF
6. Water delivered for December 2004: = 69 AF
7. Water scheduled (January - December 2004): = 2,356 AF
8. Water delivered of scheduled amount YTD: = 2,271 AF

TOTAL ARIZONA WATER COMPANY:

9. Total scheduled for December 2004: = 417 AF
10. Total delivered for December 2004: = 267 AF
11. Total scheduled (January - December 2004): = 7,001 AF
12. Total delivered of scheduled amount YTD: = 6,702 AF

****

REMARKS: - Deliveries to Apache Creek Golf Course = 22 AF.
- Deliveries to Superstition = 59 AF.
- Deliveries through Mesa = 117 AF.

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS	)	DOCKET NO. W-01445A-04-0650

DIRECT

TESTIMONY

OF

RONALD E. LUDDERS

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 20, 2005

ALL-STATE LEGAL®
EXHIBIT
S-10
admitted

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INTRODUCTION

Q. Please state Staff's name, occupation and business address.

A. My name is Ronald E. Ludders. I am a Public Utilities Analyst V with the Utilities Division of the Arizona Corporation Commission ("Commission"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since December 1989.

Q. What are your responsibilities as a Public Utilities Analyst?

A. Among other responsibilities, I review and analyze the accounting books and records of regulated utilities for accuracy, completeness, and reasonableness; interpret rules and regulations, prepare work-papers, schedules, revenue requirements, rate design, staff reports and testimony for rate-making purposes regarding utility applications for rate adjustments, financing and other matters that come before the Commission.

Q. Have you previously testified before this Commission?

A. Yes.

Q. What is your educational background?

A. I obtained a Bachelor of Science Degree in Business Administration, with majors in Marketing and Accounting from Eastern Illinois University. I possess a minor in Business Management. I have attended National Association of Regulatory Utility Commissioners ("NARUC") classes, rate seminars and numerous in-house training classes and courses regarding statistics, utility auditing, management accounting, rate design, taxation, cash working capital studies, and utility service charges.

I have been a member of the National Association of Accountants (now the Institute of Management Accountants) and the Institute of Internal Auditors.

Q. Briefly describe Staff's pertinent work experience.

A. Prior to my employment with the Commission, I held several positions with Arizona Public Service, serving as a Project Accountant, Cost Control Analyst and Internal Auditor. I have also served as a Senior Auditor for the State of Arizona – Auditor General and the Governor's Management and Audit Team. Further, I have served as a Revenue Auditor with the Arizona Department of Transportation.

As a Commission employee I have been assigned water and wastewater rate cases, financing cases, acquisitions and sales of assets, fuel adjustors, Certificates of Convenience and Necessity, interim rate cases, depreciation and tariff matters.

Q. Please describe your duties as a Public Utilities Analyst.

A. I am responsible for the examination and verification of financial and statistical information included in assigned utility rate applications. I develop revenue requirements, design rates, prepare written reports, testimony, and schedules that support recommendations presented to the Commission. I am also responsible for testifying at formal hearings on these matters.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present the Commission Utilities Division's ("Staff") analysis and recommendations regarding the Western Group of Arizona Water Company's ("Arizona Water" or "Company") application for a permanent rate increase. I present

recommendations in the areas of rate base, operating income, revenue requirement and rate design. Staff witness Alejandro Ramirez presents the cost of capital recommendations. Staff witness Lyndon Hammon presents the engineering analysis and recommendations.

Q. What is the basis of Staff's recommendations contained in this testimony?

A. Staff performed a regulatory audit of the Company's records to determine whether sufficient, relevant and reliable evidence exists to support the proposals in Arizona Water's rate application. Staff's regulatory audit consisted of the following: (1) examining and testing Arizona Water's accounting ledgers, reports and supporting documents; (2) tracing recorded amounts to source documents; and, (3) verifying that the Company-applied accounting principles were in accordance with the NARUC Uniform System of Accounts ("USOA").

BACKGROUND

Q. Would you please review the Company's background?

A. Arizona Water is a certificated Arizona public service corporation with headquarters located in Phoenix, Arizona. The Company supplies water to nearly 72,000 customers in eight counties throughout Arizona. The Company is composed of 18 separate water systems located in Ajo Heights ("Ajo"), Apache Junction, Bisbee, Casa Grande, Coolidge, Lakeside, Miami, Oracle, Overgaard, Pinewood, Rimrock, San Manuel, Sedona, Sierra Vista, Stanfield, Superior, White Tanks, and Winkelman. The instant application applies only to the systems that comprise the Western Group (i.e. Casa Grande, Stanfield, White Tanks, Ajo, Coolidge). The Western Group serves over 20,000 customers.

Q. How is Arizona Water authorized to file these five systems as a group?

A. Decision No. 58120, dated December 23, 1992, authorized Arizona Water to make rate filings by group instead of filing all eighteen of its water systems simultaneously. Due to the complexity and time involved in processing eighteen simultaneous rate cases, Decision No. 58120 authorized Arizona Water to "implement the three-group concept..." for future rate proceedings. (See Decision No. 58120, page 39, line 10.) Under the three-group concept recognized in that Decision, the Company's operations would be divided into three groups: Northern Group, Eastern Group, and Western Group based on geographical and existing divisional considerations. On September 8, 2004, Arizona Water Company filed an application for a permanent rate increase for the Western Group. The application was found insufficient on October 8, 2004 and made sufficient on October 18, 2004.

Q. What Decision(s) authorized the Western Group's current rates?

A. Arizona Water's Western Group's current rates and charges were authorized in Decision No. 58120, dated December 23, 1992. The service charges were later modified in Decision No. 60512, dated December 3, 1997. The purchased power adjustor mechanisms ("PPAM") were changed in Decision No. 58293, dated May 19, 1993, and Decision No. 62755, dated July 25, 2000. The Monitoring Assistance Program ("MAP") surcharge was established in Decision No. 62141, dated December 14, 1999.

Q. Please summarize the Company's rate request for the Western Group.

A. The Company proposes rates that produce an increase in gross revenues of $2,654,063 for a 10.50 percent rate of return on an original cost rate base of $29,416,615. The Company's proposal would increase revenue by 24.9 percent for the Western Group.

Q. What test year was used by the Company in the instant case?

A. Arizona Water's rate filing is based on the historical test year over the twelve months ending December 31, 2003 ("test year").

Q. Did the Company prepare Reconstruction Cost New Rate Base Net of Depreciation ("RCND") schedules?

A. No. The Company did not file RCND schedules. Therefore, Staff used the original cost rate base ("OCLD") as the fair value rate base ("FVRB") for all systems of the Western Group.

ORDER OF TESTIMONY

Q. How is Staff's testimony organized?

A. Staff's testimony is organized to present analysis, recommendations, and supporting schedules for each of the five water systems independently. Staff testimony for the individual systems is presented in the following order: Casa Grande, Stanfield, White Tanks, Ajo Heights and Coolidge.

Q. Are there any items or adjustments in Staff's testimony that are common to all systems within the Western Group?

A. Yes, there are many items common to all its systems. Staff has chosen to discuss many of these items in this section rather than repeat this information in each individual system. Adjustments made to each system will include the dollar amount of the adjustment and any information specific to that system. The common issues discussed here are: lead-lag analysis, purchased power adjustment mechanism ("PPAM"), purchased water adjustment mechanism ("PWAM"), donations to charity, purchased water expenses, purchased power expenses, rate case expenses, property taxes, and rate design. Additionally, Central

Arizona Water ("CAP") issues will be discussed here since they affect three of the five systems.

Lead-Lag Analysis

Q. What is the purpose of a lead-lag analysis?

A. A lead-lag analysis measures the timing of cash receipts and disbursements. The purpose of a lead-lag study is to estimate the average amount of funds either supplied by shareholders or received in advance from ratepayers for business operations. If cash is received from the ratepayer prior to its use, a reduction is made to the rate base to reflect the actual amount of working capital provided by the ratepayers. When the Company makes payments prior to receiving cash from ratepayers, rate base is increased to reflect the additional funds supplied by shareholders.

Q. Does Staff agree with the Company's proposed cash working capital?

A. No. Staff believes the Company's proposed cash working capital calculation has incorrect amounts for revenue and expense lead-lag days.

Q. Does Staff agree with the Company's lead-lag analysis?

A. The Company's calculation of revenue lag days could not be verified by Staff.

Q. Did Staff prepare a lead-lag analysis?

A. Yes. Staff prepared its own calculation of lead–lag days and applied its results to the study.

For example, Staff adjusted the Company's use of 2.52 days for Federal and 27.05 for State tax lag days. Staff used 37 days as being more reflective of when the taxes are due, rather than when the Company actually pays its taxes.

Purchased Power Adjustment Mechanism

Q. Is the Company requesting continuation of its Purchased Power Adjustment Mechanism?

A. Yes, on page 23 at line 3 of Ms. Sheryl Hubbard's direct testimony she states, "The Company proposes that the adjustor mechanisms be reset to zero with new base levels established in this proceeding at the current level of expense."

Q. Please explain what a PPAM is and how it works.

A. The adjustor was established so the Company could pass the additional or reduced cost of electric power on to its customers thereby recovering or reducing the expense. In the past, the price of purchased power had been somewhat volatile with monthly fluctuations that would increase or decrease the cost of either purchased electric or natural gas power. In the case of Arizona Water, the adjustor mechanism applied to all its 18 systems. However, the Commission eliminated the use of PPAM's and PWAM's in the Eastern Group in Decision No. 66849, dated March 19, 2004.

Staff supports the elimination of adjustor mechanisms in the Western Group.

Q. Would you please explain why the PPAM should be discontinued?

A. Adjustor mechanisms traditionally have been established to mitigate the regulatory lag for volatile, very large expense items (such as purchased coal, oil, and gas in the case of electric utilities and purchased gas for natural gas distribution companies) that may have a

negative impact on the financial health of a utility. In Arizona Water's case, purchased power is not volatile and does not represent unusually large level of expense to place the Company in financial jeopardy.

In his book, Automatic Adjustment Clauses: Theory and Application, Dr. Michael Schmidt states that the automatic adjustment clause is not a substitute for a formal rate case. Dr. Schmidt goes on to say that adjustment mechanisms are strictly a policy option of the regulatory commission to ease unnecessary financial jeopardy of the utility during adverse economic conditions and should not serve as a mechanism to preserve the company's allowed rate of return.

Of the five systems in the Western group, none have significantly large purchased power bills and none meet the volatility criteria since increases in purchased power costs do not occur frequently. The following chart (Chart REL-1) illustrates the percent of purchased power expenses, by system, to its total operating expense. As can be seen, purchased power does not represent a significant component of each system's operating expense and does not warrant an adjustor mechanism.

Purchased Power as a Percent of Total Expense

System	Percent
Casa Grande	0.1202 %
Stanfield	0.1656 %
Ajo	0.0078 %
Coolidge	0.0734 %
White Tanks	0.1184 %

Chart REL-1 - Purchased Power as a Percent of Total Expense

Purchased Water Adjustment Mechanism

Q. Is the Company requesting continuation of its Purchased Water Adjustment Mechanism?

A. Yes, on page 21 of Mr. Ralph Kennedy's direct testimony he states that "Eliminating the adjustor mechanisms currently in place would increase the variability of operating income and hence the Company's perceived risk." The Company proposes that the adjustor mechanism be continued.

Q. Please explain what a PWAM is and how it works.

A. In 1986, the Company was granted a purchased water adjustment mechanism for the Ajo system that would increase or decrease the purchased water expense as the market price fluctuated. The adjustor mechanism would pass the additional or reduced cost of purchased water on to customers, thereby recovering or reducing the expense. In the recently approved Eastern Group Order, the Commission eliminated the PWAM in the San Manuel and Superior systems leaving Ajo as the only Arizona Water system with a purchased water mechanism. As with the PPAM, automatic adjustors should not be a substitute for a formal rate case and should not be used to preserve the Company's allowed rate of return.

In the case of the Ajo system, while the purchased water expense may be a large, non-volatile expense, there are compensating or offsetting savings in other areas. For instance, the aforementioned Chart REL-1 shows the Ajo purchased power expense to be appreciably lower as a percent of total operating expenses than other systems in the Western Group. Additionally, Ajo has the lowest cost of plant per customer, and the lowest rate base per customer. Therefore, Staff recommends the elimination of the adjustor mechanism altogether.

Donations to Charity

Q. Did Staff remove contributions to charities from the Company's income statement?

A. Yes. Company donations to charities are expenses that should be properly borne by shareholders and not ratepayers. Staff has made an adjustment to remove this item from operating expenses.

Purchased Water Expenses

Q. Did Staff remove any of the Company's proposed purchased water expenses?

A. Yes. The Company had included in its test year expenses pro forma adjustments reflecting CAP municipal & industrial capital charges ("M&I charges") in the test year for CAP water allocations not used or useful. This applied to the Casa Grande, White Tanks, and Coolidge systems. Staff removed the Company's pro forma adjustments.

Purchased Power Expenses

Q. Did Staff adjust any of the Company's proposed purchased power expenses?

A. Yes. In conjunction with the Company's proposed purchased water adjustment, the Company also reduced purchased power expenses to reflect a corresponding decrease in pumping power needs by its use of CAP water. As above, Staff removed the Company's pro forma adjustments, since the Company will not actually be using CAP water and therefore will not save the pumping power represented by those adjustments.

Rate Case Expenses

Q. Did the Company increase its proposed Rate Case Expense?

A. Yes. The Company has projected its rate case expenses to be $253,550 (work paper C2-14a).

Q. Does Staff agree with the Company's proposed rate case expense?

A. No. Staff is concerned with the large increase in the Company' rate case costs.

In the Company's 1992 rate case that included all 18 systems at a cost of $90,970 or $5,053 per system. In that case, the Commission allowed rate case expense of $90,970 amortized over three-years or $30,323 per year.

In more recent rate applications, the Company's rate case expense for its Eastern Group was $329,000 for 8 systems and the Commission approved amount was $250,000 or $31,250 per system. For the Company's Northern Group the amount allowed was $43,400 per system. The Company is now proposing to recover rate case expense that will be approximately $50,710 per system ($253,550/5).

Due to the aforementioned rate case expenses allowed and the fact that this case has fewer controversial matters, Staff is recommending a normalized rate case expense level of $225,000 or $45,000 per system.

Q. Does Staff agree with the Company's proposal to amortize rate case expense over three years?

A. Yes. This time period is consistent with the amortization period for the Company's Eastern Group. Staff also believes the Company will make general rate applications more often than in the past due to its need to recover CAP costs (see below), and arsenic or other water treatment costs.

Deferred Central Arizona Project Charges

Q. Has the Company requested special treatment of its deferred CAP M&I charges?

A. Yes it has. In 1986 the Company entered into a contract with the United States Bureau of Reclamation ("Bureau of Reclamation") and the Central Arizona Water Conservation District ("CAWCD") for annual allocations of CAP water. Since 1993, the Western Group has been deferring CAP Municipal and Industrial capital charges ("M&I charges") on its accounting records. Delivery charges will be expensed as CAP water deliveries are actually made. The Company wishes to include all of its deferred M&I charges in its rate base and to amortize these costs over a ten-year period even though no delivery date for water has been determined. As of the end of the test year, the M&I deferral balance was $3,525,803 for Casa Grande, $506,268 for White Tanks and $1,046,011 for Coolidge. The annual amortization of these amounts would result in an additional expense of $352,580, $50,627, and $104,601, respectively.

Q. Does the Company actually receive any of its Western Group CAP allocation?

A. The White Tanks and Coolidge systems receive none of their allocation and the Casa Grande system receives only a non-potable portion of their allocation for use by several golf courses and a near-by power plant. Under the NP-260 tariff, revenues collected have been used to reduce the associated M&I deferral charges and to recover the associated delivery charges. No potable water is being delivered to the Casa Grande system. The Company states that it is currently in the process of evaluating the feasibility of using a yet un-built Casa Grande treatment facility to treat CAP water for Coolidge.

At the end of the test year, the Western Group, deferred M&I account balance was over $5,000,000. Staff retains its belief that before rate payers are charged with an expense it must be in service and used and useful and therefore recommends the Company's request

for recovery be denied. On two separate occasions the Company requested recovery of its deferred CAP expenses (Decision Number 54392, March 4, 1985, and Decision Number 58120, December 23, 1992) and both were denied.

Staff is concerned with the increasing deferred balance of the CAP M&I costs. In 1993, when M&I charges started escalating significantly, this Commission required all water companies to submit plans for use of CAP water within a five-year window in order to maintain its allotment and the ability to defer M&I charges. Staff notes that the Commission never authorized any company to defer more than five years of accruals and certainly not more than 12 years. The Company has not prepared a comprehensive plan stating conclusively the dates the CAP water will be used and the cost of such application. Without such a plan, the Company will continue using groundwater, while deferring the CAP M&I expenses, leaving future customers with ever increasing CAP costs.

Q. **What does Staff propose that the Commission allow Arizona Water to treat its CAP M&I charges?**

A. Staff believes that having a CAP allocation and using CAP water is a benefit to the Company and its customers. In addition, using CAP water promotes the State's goal of using renewable water sources and relying less on groundwater. However, Staff believes that having a CAP allotment, but not using the actual water to serve customers benefits no one and does not advance the State's goal of using less groundwater. Therefore, Staff is recommending that the Commission order Arizona Water to submit a detailed plan explaining how it plans to actually use its CAP water to serve its customers and reduce its use of groundwater.

The plan should be filed in Docket Control by no later than December 31, 2006. The plan must demonstrate that by December 31, 2010, Arizona Water will be using a significant portion of its CAP allocation to serve its customers. If the plan is filed on time and demonstrates this significant use of CAP water, Staff recommends that Arizona Water be allowed to begin recovering it's prudently incurred deferred M&I charges as part of its next rate case for the Western Group. The method of cost recovery can be established in the next rate case. However, if the CAP water use plan submitted by Arizona Water does not comply with the above, Staff recommends that the Company not be allowed to recover its deferred CAP M&I charges and that the Company discontinue deferring such costs.

If the Company complies with the plan filing as described above and the Commission allows the Company to begin recovering its prudently incurred deferred M&I charges but the Company does not begin using a significant portion of its CAP water by December 31, 2010, then the Company should be ordered to discontinue recovering such costs on January 1, 2011, and at the same time also discontinue deferring such costs if it is still doing so.

Property Tax

Q. How did Staff determine each system's Property Tax expense?

A. Staff used the Arizona Department of Revenue ("ADOR") Valuation Methodology for Water and Sewer Companies. The calculation is based upon Staff's recommended revenue requirement. It is also adjusted to properly reflect the tax treatment for licensed vehicles and construction work in process. Staff obtained the appropriate rates from ADOR.

Metered Revenue Requirement

Q. How did Staff determine its metered revenue requirement?

A. Once Staff determined a system's revenue requirement, it deducted revenue obtained from other operating revenue. The resulting revenue requirement was the basis for Staff's metered rates.

Q. How does Staff's proposed rate structure compare with the Company's?

A. The Company proposed single-tier rates for each of it systems based on customer class distinguished by meter size, in addition to a monthly minimum charge. Staff proposes a three-tier rate structure for the commodity charge. Customer class is distinguished by meter size and the monthly minimum.

Q. What are the advantages of a three-tier inverted rate structure over a uniform rate?

A. Flat commodity rates assume there are no increases in costs associated with increases in usage. Under uniform rates there is no incentive to reduce water usage. Because of the ever-increasing demand for a finite resource, innovative and more complex rate structures are being proposed nationwide and internationally in an attempt to properly affect consumer choices.

Q. Has Staff reviewed the Company's requested Service Charges?

A. Yes. The Company has proposed Service Charges that are consistent with those recommended in the Northern Group rate case (Decision No. 64282, dated December 28, 2001) and the Eastern Group rate case (Decision No. 66849, dated March 19,2004). Staff recommends approval of the Company proposed Service Charges.

Q. Is the Company's Western Group in compliance with the new EPA regulations that require water systems to reduce arsenic maximum contaminant levels from 50 parts per billion ("ppb") to 10 ppb, effective January 23, 2006?

A. No. However, the Company has been issued an Accounting Order in Decision 67518, dated January 20, 2005, for its Western Group which provides for an arsenic cost recovery mechanism ("ACRM").

Q. Does Staff recommend inclusion of the ACRM in this case consistent with those approved for the Company's Eastern and Northern Groups?

A. Yes.

Casa Grande

Q. What adjustments is Staff proposing for the Casa Grande Group?

A. The primary adjustments for Casa Grande include a reduction to rate base to reflect deferral of the CAP M&I amount totaling $3,525,803; an adjustment to cash working capital as discussed above; adjustments to eliminate PPAM and PWAM amounts as discussed above; adjustments to purchased water and power expenses; revise rate case expense amortization as discussed above; elimination of any charitable contributions; and adjustments for property and income taxes to conform to Staff's recommended revenue requirement.

Staff has also excluded $824,324 from the Casa Grande rate base for legal costs incurred by the Company related to condemnation proceedings with the City of Casa Grande. Preservation of the Company's business in Casa Grande benefits the Company's shareholders, not ratepayers. If the condemnation succeeded, the Company's ratepayers would continue to receive service from the new provider.

Stanfield

Q. What adjustments is Staff proposing for the Stanfield Group?

A. The primary adjustments for the Stanfield Group are an adjustment to cash working capital as discussed above; adjustments to eliminate PPAM and PWAM amounts as discussed above; revised rate case expense amortization as discussed above, elimination of any charitable contributions; and adjustments for property and income taxes to conform to Staff's recommended revenue requirement.

White Tanks

Q. What adjustments is Staff proposing for the White Tanks Group?

A. The primary adjustments for White Tanks include a reduction to rate base to reflect deferral of the CAP M&I charges totaling $506,268; an adjustment to cash working capital as discussed above; adjustments to eliminate PPAM and PWAM amounts as discussed above; adjustments to purchased water and power expenses; revise rate case expense amortization as discussed above; elimination of any charitable contributions; and adjustments for property and income taxes to conform to Staff's recommended revenue requirement.

Ajo Heights

Q. What adjustments is Staff proposing for the Ajo Heights Group?

A. The primary adjustments for Ajo Heights are an adjustment to cash working capital as discussed above; revise rate case expense amortization as discussed above; elimination of any charitable contributions; and adjustments for property and income taxes to conform to Staff's recommended revenue requirement.

Coolidge

Q. What adjustments is Staff proposing for the Coolidge Group?

A. The primary adjustments for Coolidge include a reduction to rate base to reflect deferral of the CAP M&I charges totaling $1,046,011; an adjustment to cash working capital as discussed above; adjustments to eliminate PPAM and PWAM amounts as discussed above; adjustments to purchased water and power expenses; revise rate case expense amortization as discussed above; elimination of any charitable contributions; and adjustments for property and income taxes to conform to Staff's recommended revenue requirement.

Q. Does that conclude Staff's discussion on the Western Group?

A. Yes it does.

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Schedule REL-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	CASA GRANDE [A] COMPANY ORIGINAL COST	CASA GRANDE [B] STAFF ORIGINAL COST	STANFIELD [A] COMPANY ORIGINAL COST	STANFIELD [B] STAFF ORIGINAL COST	WHITE TANK [A] COMPANY ORIGINAL COST	WHITE TANK [B] STAFF ORIGINAL COST	AJO [A] COMPANY ORIGINAL COST	AJO [B] STAFF ORIGINAL COST	COOLIDGE [A] COMPANY ORIGINAL COST	COOLIDGE [B] STAFF ORIGINAL COST	TOTAL WESTERN GROUP [A] COMPANY ORIGINAL COST	TOTAL WESTERN GROUP [B] STAFF ORIGINAL COST
1	Adjusted Rate Base	$ 21,996,652	$17,352,671	$ 314,131 x	$ 310,269	$ 2,441,155 x	$ 1,898,133	$ 847,167 x	$ 837,088	$ 3,817,510	$ 2,713,030	$ 29,416,615 x	$ 23,111,191
2	Adjusted Operating Income (Loss)	$ 1,180,181	$ 1,279,158	$ 25,878	$ 23,872	$ 121,440	$ 135,790	$ 34,697	$ 35,675	$ 100,737	$ 165,567	$ 1,462,933	$ 1,640,062
3	Current Rate of Return (L2 / L1)	5.37%	7.37%	8.24%	7.69%	4.97%	7.15%	4.10%	4.26%	2.64%	6.10%	4.97%	7.10%
4	Required Rate of Return	10.5000%	8.9000%	10.5000% x	8.9000%	10.5000%	8.9000%	10.5000%	8.9000%	10.5000%	8.9000%	10.5000%	8.9000%
5	Required Operating Income (L4 * L1)	$ 2,309,648	$ 1,544,388	$ 32,984	$ 27,614	$ 256,321	$ 168,934	$ 88,953	$ 74,501	$ 400,839	$ 241,460	$ 3,088,745	$ 2,056,896
6	Operating Income Deficiency (L5 - L2)	$ 1,129,467	$ 265,230	$ 7,106	$ 3,742	$ 134,881	$ 33,144	$ 54,256	$ 38,826	$ 300,102	$ 75,892	$ 1,625,812	$ 416,834
7	Gross Revenue Conversion Factor	1.63245	1.63246	1.63245 x	1.63246	1.63245	1.63246	1.63245	1.63246	1.63245	1.63246	1.63245	1.63246
8	Increase In Gross Revenue (L7 * L6)	$ 1,843,799	$ 432,977	$ 11,600	$ 6,108	$ 220,187	$ 54,107	$ 88,569	$ 63,382	$ 489,901	$ 123,891	$ 2,654,056	$ 680,464
9	Adjusted Test Year Revenue	$ 7,921,381	$ 7,921,381	$ 131,003	$ 131,003	$ 783,483	$ 783,483	$ 412,203	$ 412,203	$ 1,427,285	$ 1,427,285	$ 10,675,355	$ 10,675,355
10	Proposed Annual Revenue (L8 + L9) Note A	$ 9,765,180	$ 8,354,358	$ 142,603	$ 137,111	$ 1,003,670	$ 837,590	$ 500,772	$ 475,585	$ 1,917,186	$ 1,551,176	$ 13,329,411	$ 11,355,819
11	Require Increase in Revenue (%) (L8/L9)	23.28%	5.47%	8.85%	4.66%	28.10%	6.91%	21.49%	15.38%	34.32%	8.68%	24.86%	6.37%

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Schedule REL-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	$ 21,996,652	$ 17,352,671
2	Adjusted Operating Income (Loss)	$ 1,180,181	$ 1,279,158
3	Current Rate of Return (L2 / L1)	5.37%	7.37%
4	Required Rate of Return	10.5000%	8.9000%
5	Required Operating Income (L4 * L1)	$ 2,309,648	$ 1,544,388
6	Operating Income Deficiency (L5 - L2)	$ 1,129,467	$ 265,230
7	Gross Revenue Conversion Factor	1.63245	1.63246
8	Increase In Gross Revenue (L7 * L6)	$ 1,843,799	$ 432,977
9	Adjusted Test Year Revenue	$ 7,921,381	$ 7,921,381
10	Proposed Annual Revenue (L8 + L9) Note A	$ 9,765,180	$ 8,354,358
11	Require Increase in Revenue (%) (L8/L9)	23.28%	5.47%

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Schedule REL- 2

GROSS REVENUE CONVERSION FACTOR

Line No.			
	Calculation of Gross Revenue Conversion Factor:		
1	Recommended Revenue Increase:		
2	Billings		1.000000
3	Combined Federal and State Income Tax Rate	38.59888%	
4	Uncollectible Rate After Income Taxes	0.14374%	
5	Total Tax Rate		38.74262%
6	Gross Revenue Conversion Factor		**1.632456**
	Calculation of Effective Income Tax Rate:		
7	Operating Income Before Taxes (Arizona Taxable Income)	100.00000%	
8	Arizona State Income Tax Rate	6.96800%	
9	Federal Taxable Income (L5 - L6)	93.03200%	
10	Applicable Federal Income Tax Rate (Line 32)	34.00000%	
11	Effective Federal Income Tax Rate (L7 x L8)	31.63088%	
12	Combined Federal and State Income Tax Rate (L6 +L9)	38.59888%	
	Calculation of Uncollectible Rate After Income Taxes:		
13	Uncollectible Rate		0.23410%
14	Combined Federal and State Income Tax Rate	38.59888%	
15	1 minus Combined Federal and State Income Tax Rate		61.40112%
16	Uncollectible Rate After Income Taxes		0.14374%
	Revenue Reconciliation:		
17	Recommended Increase in Revenue (from REL-1, L8)	$ 432,977	
18	Uncollectible Rate	0.234100%	
19	Required Increase in Revenue to Provide for Uncollectibles		$ 1,014
20	Recommended Increase in Revenue (from REL-1,L8)	$ 432,977	
21	Required Increase in Revenue to Provide for Uncollectibles	1,014	
22	Incremental Taxable Income	$ 431,963	
23	Combined Federal and State Income Tax Rate	38.59888%	
24	Required Increase in Revenue to Provide for Income Taxes		166,733
25	Required Operating Income	$ 1,544,388	
26	Adjusted Test Year Operating Income (Loss)	1,279,158	
27	Required Increase in Operating Income		265,230
28	Total Required Increase In Revenue		$ 432,977

Line No.	*Calculation of Income Tax:*	Test Year		STAFF Recommended	
29	Revenue	$ 7,921,381		$ 8,354,358	
30	Less: Operating Expenses Excluding Income Taxes	$ 6,078,087		$ 6,079,101	
31	Less: Synchronized Interest	$ 381,759		$ 381,759	
32	Arizona Taxable Income	$ 1,461,535		$ 1,893,498	
33	Arizona State Income Tax Rate	6.968%		6.968%	
34	Arizona Income Tax		$ 101,840		$ 131,939
35	Federal Taxable Income	$ 1,359,695		$ 1,761,559	
36	Federal Income Tax @ 34%		$ 462,296		$ 598,930
37	Combined Federal and State Income Tax		$ 564,136		$ 730,869
				$ 166,733	

Line No.	*Calculation of Interest Synchronization:*	
38	Rate Base	$ 17,352,671
39	Weighted Average Cost of Debt	2.200%
40	Synchronized Interest	$ 381,759

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Schedule REL-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 51,556,199	$ (4,350,177)	$ 47,206,022
2	Less: Accumulated Depreciation	(12,072,217)	-	(12,072,217)
3	Net Plant in Service	$ 39,483,982 x	$ (4,350,177)	$ 35,133,805
	LESS:			
4	Advances in Aid of Construction (AIAC)	(8,891,444)	-	(8,891,444)
5	Contributions in Aid of Construction (CIAC)	$ (7,754,812)	$ -	$ (7,754,812)
6	Less: Accumulated Amortization	1,348,820	-	1,348,820
7	Net CIAC	(6,405,992)	-	(6,405,992)
8	Total Advances and Contributions	(15,297,436)	-	(15,297,436)
9	Customer Deposits	-	-	-
10	Meter Advances	-	-	-
11	Deferred Income Tax Credits	(3,387,966)	-	(3,387,966)
	ADD:			
12	Working Capital	250,254	(293,804)	(43,550) x
13	Phoenix Office Allocation	930,536	-	930,536
14	Meter Shop Allocation	17,282	-	17,282
15		-	-	-
16		-	-	-
17		-	-	-
18	**Total Rate Base**	$ 21,996,652	$ (4,643,981)	$ 17,352,671

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Schedule REL-4

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED		[B] ADJ No.1	[C] ADJ No. 2	[D] ADJ No. 3	[E] STAFF ADJUSTED
	PLANT IN SERVICE:						
1	Organization	$ -		$ -	$ -	$ -	$ -
2	Franchises	3,018		-	-	-	3,018
3	Other Intangibles	824,374		(824,374)	-	-	-
4	Water Rights	67,192		-	-	-	67,192
5	Other Source of Supply Land	93,865		-	-	-	93,865
6	Wells	2,711,417		-	-	-	2,711,417
7	Pumping Plant Land	6,013		-	-	-	6,013
8	Pumping Plant Structures & Improvements	91,607		-	-	-	91,607
9	Electric Pumping Equipment	2,394,587		-	-	-	2,394,587
10	Gas Engine Equipment	-		-	-	-	-
11	Water Treatment Land	-		-	-	-	-
12	Water Treatment Structures & Improvmnts	70,538		-	-	-	70,538
13	Water Treatment Equipment	133,666		-	-	-	133,666
14	Transmission and Distribution Land	64,886		-	-	-	64,886
15	Storage Tanks	1,699,748		-	-	-	1,699,748
16	Transmission and Distribution Mains	25,581,627		-	-	-	25,581,627
17	Fire Sprinkler Taps	849,998		-	-	-	849,998
18	Services	8,672,173		-	-	-	8,672,173
19	Meters	1,205,217		-	-	-	1,205,217
20	Hydrants	2,390,623		-	-	-	2,390,623
21	General Plant Land	8,772		-	-	-	8,772
22	General Plant Structures	368,806		-	-	-	368,806
23	Leasehold Improvements	-		-	-	-	-
24	Office Furniture and Improvements	161,506		-	-	-	161,506
25	Warehouse Equipment	12,913		-	-	-	12,913
26	Tools, Shop and Garage Equipment	130,579		-	-	-	130,579
27	Laboratory Equipment	5,253		-	-	-	5,253
28	Power Operated Equipment	59,810		-	-	-	59,810
29	Communication Equipment	376,139		-	-	-	376,139
30	Miscellaneous Equipment	46,069		-	-	-	46,069
31	Total Plant in Service - Actual	48,030,396	x	(824,374)	-	-	47,206,022
32	CAP Pro-forma Adjustment - Post TY Plant	3,525,803		-	(3,525,803)	-	-
33	Accumulated Depreciation, Retired Plant	-			-		-
34	Total Plant in Service - Adjusted	$ 51,556,199	x	$ (824,374)	$ (3,525,803)	$ -	$ 47,206,022
35	Less: Accumulated Depreciation - Actual	$ (12,087,978)	x	-	-	-	(12,087,978)
36	Less: Accumulated Depreciation - Post TY	15,761	x	-	-	-	15,761
37	Less: Accumulated Depreciation - 12 Mos TY	-		-	-		-
38	Less: Accumulated Depreciation - Retired Plant						-
39	Total Accumulated Depreciation - Adjusted	$ (12,072,217)	x	$ -	$ -	$ -	$ (12,072,217)
40	Plus: Construction Work In Progress	-		-	-	-	-
41	Net Plant in Service	$ 39,483,982	x	$ (824,374)	$ (3,525,803)	$ -	$ 35,133,805
	LESS:						
42	Advances in Aid of Construction (AIAC)	$ (8,891,444)	x	$ -	$ -	$ -	(8,891,444)
43	Contributions in Aid of Construction (CIAC)	(7,754,812)	x	-	-	-	(7,754,812)
44	Less: Accumulated Amortization	1,348,820	x	-	-	-	1,348,820
45	Net CIAC (L25 - L26)	(6,405,992)	x	-	-	-	(6,405,992)
46	Total Advances and Contributions	(15,297,436)	x	-	-	-	(15,297,436)
47	Customer Deposits	-		-	-	-	-
48	Meter Advances	-		-	-	-	-
49	Deferred Income Tax Credits	(3,387,966)	x	-	-	-	(3,387,966)
	ADD:						
50	Working Capital Allowance	250,254	x	-	-	(293,804)	(43,550)
51	Phoenix Office Allocation	930,536	x	-	-	-	930,536
52	Meter Shop Allocation	17,282	x	-	-	-	17,282
53	Projected Capital Expenditures	-		-	-	-	-
54	Deferred Debits	-		-	-	-	-
55	Other Additions	-		-	-	-	-
56	**Total Rate Base**	$ 21,996,652		$ (824,374)	$ (3,525,803)	$ (293,804)	$ 17,352,671

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Schedule REL-5

RATE BASE ADJUSTMENT NO. 1 - PLANT IN SERVICE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Actual Test Year Plant	$ 824,374	$ (824,374)	$ -
2	Post-Test Year Plant	$ -	$ -	$ -
3	Post Test Year Retired Plant	$ -	$ -	$ -
4	**Adjusted Test Year Plant**	**$ 824,374**	**$ (824,374)**	**$ -**

To eliminate $824,374 in expenses associated with the condemnation of the Casa Grande Water System. Staff believes the costs benefit shareholders and not ratepayers. These costs were incurred as follows:

2000	$	427,432
2001	$	224,505
2002	$	114,163
2003	$	58,274
	$	824,374

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Schedule REL-6

RATE BASE ADJUSTMENT NO. 2 - DEFERED CAP M&I CHARGES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Deferred CAP M&I Charges	$ 3,525,803	$ (3,525,803)	$ -
2	*Accumulated Depreciation, Post-Test Year Plant*	$ -	$ -	$ -
3	*Accumulated Depreciation, Test Year Plant*	$ -	$ -	$ -
4	*Accumulated Deprec, Test Year Retired Plant*	$ -	$ -	$ -
		$ 3,525,803	**$ (3,525,803)**	**$ -**

To eliminated deferred M&I charges because the CAP water is not being delivered and therefore not and useful.

Adjustments:

Column [A]: Company Schedule
Column [B]: Testimony (REL)
Column [C]: Column (A) plus or minus column (B)

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Schedule REL- 7

OPERATING INCOME ADJUSTMENT NO. 3 - CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Cash Working Capital	$ (34,386)	$ (293,804)	$ (328,190)
2	Materials and Supplies Inventory	62,214	-	62,214
3	Required Bank Balances	134,829	-	134,829
4	Prepayments and Special Deposits	87,597	-	87,597
5	Total	$ 250,254	$ (293,804)	$ (43,550)

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Schedule REL-8

OPERATING INCOME - TEST YEAR AND STAFF PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:					
1	Total Operating Revenues	$ 7,921,381	$ -	$ 7,921,381	$ 432,977	$ 8,354,358
	EXPENSES:					
	Source of Supply Expenses:					
2	Purchased Water	$ 498,013	$ (159,449)	$ 338,564	$ -	$ 338,564
3	Other	45,935	-	45,935	-	45,935
	Pumping Expenses:	-	-	-	-	-
4	Purchased Power	810,343	1,467	811,810	-	811,810
5	Purchased Gas	-	-	-	-	-
6	Other	286,696	-	286,696	-	286,696
7	Water Treatment Expenses	187,995	-	187,995	-	187,995
8	Transmission and Distribution Expenses	786,616	-	786,616	-	786,616
9	Customer Account Expenses	604,959	-	604,959	1,014	605,973
10	Sales Expenses	2,962	-	2,962	-	2,962
11	Administrative and General Expenses	952,718	(20,495)	932,223	-	932,223
12	Total Operation and Maintenance	$ 4,176,237	(178,477)	3,997,760	1,014	3,998,774
13	Depreciation and Amortization	1,368,007	-	1,368,007	-	1,368,007
15	Ad Valorem (Property)	612,639	22,930	635,569	-	635,569
	Taxes:					
14	Federal & State Income Tax	507,566	56,570	564,136	166,733	730,869
16	Other	76,751	-	76,751	-	76,751
17	**Total Operating Expenses**	$ 6,741,200	$ (98,977)	$ 6,642,223	$ 167,746	$ 6,809,970
18	**Operating Income (Loss)**	$ 1,180,181	$ 98,977	$ 1,279,158	$ 265,230	$ 1,544,388

Schedule REL-9

Arizona Water Company - Casa Grande
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SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] ADJ #6	[H] ADJ #7	[I] STAFF ADJUSTED
	REVENUES:									
1	**Total Operating Revenues**	$ 7,921,381	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,921,381
	EXPENSES:									
	Source of Supply Expenses:									
2	Purchased Water	$ 498,013	$(159,449)	$ -	$ -	$ -	$ -	$ -	$ -	$ 338,564
3	Other	45,935	-	-	-	-	-	-	-	45,935
	Pumping Expenses:									
4	Purchased Power	810,343	-	1,467	-	-	-	-	-	811,810
5	Purchased Gas	-	-	-	-	-	-	-	-	-
6	Other	286,696	-	-	-	-	-	-	-	286,696
7	Water Treatment Expenses	187,995	-	-	-	-	-	-	-	187,995
8	Transmission and Distribution Expenses	786,616	-	-	-	-	-	-	-	786,616
9	Customer Account Expenses	604,959	-	-	-	-	-	-	-	604,959
10	Sales Expenses	2,962	-	-	-	-	-	-	-	2,962
11	Administrative and General Expenses	952,718	-	-	(6,954)	(13,541)	-	-	-	932,223
12	Total Operation and Maintenance	4,176,237	(159,449)	1,467	(6,954)	(13,541)	-	-	-	3,997,760
13	Depreciation and Amortization	1,368,007	-	-		-	-	-	-	1,368,007
15	Ad Valorem (Property)	612,639	-	-	-		22,930		-	635,569
	Taxes:									
14	Federal & State Income Tax	507,566	-	-	-		-	23,276	33,294	564,136
16	Other	76,751								76,751
17	**Total Operating Expenses**	$ 6,741,200	$(159,449)	$ 1,467	$ (6,954)	$ (13,541)	$ 22,930	$ 23,276	$ 33,294	$ 6,642,223
18	**Operating Income (Loss)**	$ 1,180,181 x	$ 159,449	$ (1,467)	$ 6,954	$ 13,541	$ (22,930)	$ (23,276)	$ (33,294)	**$ 1,279,158**

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Schedule REL- 10

OPERATING INCOME ADJUSTMENT NO. 1 - PURCHASED WATER EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Purchased Water Expense	$ 498,013	$ (159,449)	$ 338,564

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Schedule REL-11

OPERATING INCOME ADJUSTMENT NO. 2 - PURCHASED PUMPING POWER EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Purchased Pumping Power	$ 810,343	$ 1,467	$ 811,810

Arizona Water Company - Casa Grande
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Schedule REL- 12

OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Rate Case Expense for Eastern Group	$ 253,550	$ (28,550)	$ 225,000
2	Allocation Factor	0.73070		0.73070
3	Annual Rate Case Expense for Eastern Group	$ 185,269	$ (20,861)	$ 164,408
4	Number of Years Amortized	3		3
5	Annual Rate Case Expense	$ 61,756	$ (6,954)	$ 54,803

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Schedule REL-13

OPERATING INCOME ADJUSTMENT NO. 4 - CHARITABLE CONTRIBUTIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Charitable Contributions, Gifts, Awards, Etc.	$ 16,695	$ (13,541)	$ 3,154

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Schedule REL- 14

OPERATING INCOME ADJUSTMENT NO. 5 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTMENT
1	2001 Annual Gross Revenues			$ 8,247,209
2	2002 Annual Gross Revenues			$ 7,921,381
3	2003 Annual Gross Revenues			$ 8,849,491
4	Plus Staff's Recommended Increase			$ 432,977
5	Subtotal (Lines 1 + 2 + 3 + 4)			$ 25,451,058
6	Three Year Average Calculation			3
7	Three Year Average (Line 5 / Line 6)			$ 8,483,686
8	Department of Revenue Multiplier			2
9	Revenue Base Value (Line 7 x Line 8)			$ 16,967,372
10	Plus: 10% of 2001 CWIP			14,715
11	Less: Net Book Vaule of Leased Vehicles (See Note A Below)			$ 201,384
12	Full Cash Value (Line 9 + Line 10 - Line 11)			$ 16,780,703
13	Assessment Ratio			0.25
14	Assessed Value (Line 12 x Line 13)			$ 4,195,176
15	Composite Property Tax Rate (See Note B Below)			0.1515
16	**Staff Proposed Property Tax Expense (Line 14 x Line 15)**	$ 612,639	$ 22,930	$ 635,569

Note A: Net Book Value of Licensed Vehicles provided by Arizona Water.

Note B: Property tax rate provided by Arizona Dept. of Revenue.

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Schedule REL- 15

OPERATING INCOME ADJUSTMENT NO. 6 and 7 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Federal Income Taxes	$ 439,020	$ 23,276	$ 462,296
2	State Income Taxes	68,546	33,294	101,840
3	Total Income Taxes	$ 507,566	$ 56,570	$ 564,136

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Schedule REL-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST		[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	$ 314,131	x	$ 310,269
2	Adjusted Operating Income (Loss)	$ 25,878		$ 23,872
3	Current Rate of Return (L2 / L1)	8.24%		7.69%
4	Required Rate of Return	10.5000%	x	8.9000%
5	Required Operating Income (L4 * L1)	$ 32,984		$ 27,614
6	Operating Income Deficiency (L5 - L2)	$ 7,106		$ 3,742
7	Gross Revenue Conversion Factor	1.63245	x	1.63246
8	Increase In Gross Revenue (L7 * L6)	$ 11,600		$ 6,108
9	Adjusted Test Year Revenue	$ 131,003		$ 131,003
10	Proposed Annual Revenue (L8 + L9) Note A	$ 142,603		$ 137,111
11	Require Increase in Revenue (%) (L8/L9)	8.85%		4.66%

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Schedule REL- 2

GROSS REVENUE CONVERSION FACTOR

Line No.			
	Calculation of Gross Revenue Conversion Factor:		
1	Recommended Revenue Increase:		
2	Billings		1.000000
3	Combined Federal and State Income Tax Rate	38.59888%	
4	Uncollectible Rate After Income Taxes	0.14374%	
5	Total Tax Rate		38.74262%
6	Gross Revenue Conversion Factor		1.632456
	Calculation of Effective Income Tax Rate:		
7	Operating Income Before Taxes (Arizona Taxable Income)	100.00000%	
8	Arizona State Income Tax Rate	6.96800%	
9	Federal Taxable Income (L5 - L6)	93.03200%	
10	Applicable Federal Income Tax Rate (Line 32)	34.00000%	
11	Effective Federal Income Tax Rate (L7 x L8)	31.63088%	
12	Combined Federal and State Income Tax Rate (L6 +L9)	38.59888%	
	Calculation of Uncollectible Rate After Income Taxes:		
13	Uncollectible Rate		0.23410%
14	Combined Federal and State Income Tax Rate	38.59888%	
15	1 minus Combined Federal and State Income Tax Rate		61.40112%
16	Uncollectible Rate After Income Taxes		0.14374%
	Revenue Reconciliation:		
17	Recommended Increase in Revenue (from REL-1, L8)	$ 6,108	
18	Uncollectible Rate	0.234100%	
19	Required Increase in Revenue to Provide for Uncollectibles		$ 14
20	Recommended Increase in Revenue (from REL-1,L8)	$ 6,108	
21	Required Increase in Revenue to Provide for Uncollectibles	14	
22	Incremental Taxable Income	$ 6,094	
23	Combined Federal and State Income Tax Rate	38.59888%	
24	Required Increase in Revenue to Provide for Income Taxes		2,352
25	Required Operating Income	$ 27,614	
26	Adjusted Test Year Operating Income (Loss)	23,872	
27	Required Increase in Operating Income		3,742
28	Total Required Increase In Revenue		$ 6,108

		Test Year		STAFF Recommended	
	Calculation of Income Tax:				
29	Revenue	$ 131,003		$ 137,111	
30	Less: Operating Expenses Excluding Income Taxes	$ 96,415		$ 96,429	
31	Less: Synchronized Interest	$ 6,826		$ 6,826	
32	Arizona Taxable Income	$ 27,762		$ 33,856	
33	Arizona State Income Tax Rate	6.968%		6.968%	
34	Arizona Income Tax		$ 1,934		$ 2,359
35	Federal Taxable Income	$ 25,828		$ 31,497	
36	Federal Income Tax @ 34%		$ 8,781		$ 10,709
37	Combined Federal and State Income Tax		$ 10,716		$ 13,068
				$ 2,352	

	Calculation of Interest Synchronization:	
38	Rate Base	$ 310,269
39	Weighted Average Cost of Debt	2.200%
40	Synchronized Interest	$ 6,826

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Schedule REL-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED		(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 602,560		$ -	$ 602,560
2	Less: Accumulated Depreciation	(195,716)		-	(195,716)
3	Net Plant in Service	$ 406,844	x	$ -	$ 406,844
	LESS:				
4	Advances in Aid of Construction (AIAC)	-		-	-
5	Contributions in Aid of Construction (CIAC)	$ (49,164)		$ -	$ (49,164)
6	Less: Accumulated Amortization	7,813		-	7,813
7	Net CIAC	(41,351)		-	(41,351)
8	Total Advances and Contributions	(41,351)		-	(41,351)
9	Customer Deposits	-		-	-
10	Meter Advances	-		-	-
11	Deferred Income Tax Credits	(62,528)	x	-	(62,528)
	ADD:				
12	Working Capital	(3,029)	x	(3,862)	(6,891)
13	Phoenix Office Allocation	13,936	x	-	13,936
14	Meter Shop Allocation	259	x	-	259
15		-		-	-
16		-		-	-
17		-		-	-
18	**Total Rate Base**	$ 314,131	x	$ (3,862)	$ 310,269

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Schedule REL-4

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED		[B] ADJ No.1	[C] STAFF ADJUSTED
	PLANT IN SERVICE:				
1	Organization	$ -		$ -	$ -
2	Franchises	-		-	-
3	Other Intangibles	-		-	-
4	Water Rights	1,128		-	1,128
5	Other Source of Supply Land	600		-	600
6	Wells	106,975		-	106,975
7	Pumping Plant Land	200		-	200
8	Pumping Plant Structures & Improvements	1,243		-	1,243
9	Electric Pumping Equipment	190,368		-	190,368
10	Gas Engine Equipment	-		-	-
11	Water Treatment Land	-		-	-
12	Water Treatment Structures & Improvmnts	6,778		-	6,778
13	Water Treatment Equipment	13,763		-	13,763
14	Transmission and Distribution Land	-		-	-
15	Storage Tanks	40,876		-	40,876
16	Transmission and Distribution Mains	99,139		-	99,139
17	Fire Sprinkler Taps	268		-	268
18	Services	35,888		-	35,888
19	Meters	17,035		-	17,035
20	Hydrants	9,243		-	9,243
21	General Plant Land	-		-	-
22	General Plant Structures	1,312		-	1,312
23	Leasehold Improvements	-		-	-
24	Office Furniture and Improvements	-		-	-
25	Warehouse Equipment	-		-	-
26	Tools, Shop and Garage Equipment	534		-	534
27	Laboratory Equipment	-		-	-
28	Power Operated Equipment	-		-	-
29	Communication Equipment	76,676		-	76,676
30	Miscellaneous Equipment	534		-	534
31	Total Plant in Service - Actual	602,560	x	-	602,560
32	Pro-forma Adjustment - Post TY Plant	-		-	-
33	Accumulated Depreciation, Retired Plant	-			-
34	Total Plant in Service - Adjusted	$ 602,560	x	$ -	$ 602,560
35	Less: Accumulated Depreciation - Actual	$ (195,716)	x	-	(195,716)
36	Less: Accumulated Depreciation - Post TY	-		-	-
37	Less: Accumulated Depreciation - 12 Mos TY	-		-	-
38	Less: Accumulated Depreciation - Retired Plant				-
39	Total Accumulated Depreciation - Adjusted	$ (195,716)	x	$ -	$ (195,716)
40	Plus: Construction Work In Progress	-		-	-
41	Net Plant in Service	$ 406,844	x	$ -	$ 406,844
	LESS:				
42	Advances in Aid of Construction (AIAC)	$ -	x	$ -	-
43	Contributions in Aid of Construction (CIAC)	(49,164)	x	-	(49,164)
44	Less: Accumulated Amortization	7,813	x	-	7,813
45	Net CIAC (L25 - L26)	(41,351)	x	-	(41,351)
46	Total Advances and Contributions	(41,351)	x	-	(41,351)
47	Customer Deposits	-		-	-
48	Meter Advances	-		-	-
49	Deferred Income Tax Credits	(62,528)	x	-	(62,528)
	ADD:				
50	Working Capital Allowance	(3,029)	x	(3,862)	(6,891)
51	Phoenix Office Allocation	13,936	x	-	13,936
52	Meter Shop Allocation	259	x	-	259
53	Projected Capital Expenditures	-		-	-
54	Deferred Debits	-		-	-
55	Other Additions	-		-	-
56	**Total Rate Base**	$ 314,131		$ (3,862)	$ 310,269

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Schedule REL- 5

OPERATING INCOME ADJUSTMENT NO. 1 - CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Cash Working Capital	$ (7,291)	$ (3,862)	$ (11,153)
2	Materials and Supplies Inventory	931	-	931
3	Required Bank Balances	2,019	-	2,019
4	Prepayments and Special Deposits	1,312	-	1,312
5	Total	$ (3,029)	$ (3,862)	$ (6,891)

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Schedule REL-6

OPERATING INCOME - TEST YEAR AND STAFF PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:					
1	Total Operating Revenues	$ 131,003	$ -	$ 131,003	$ 6,108	$ 137,111
	EXPENSES:					
	Source of Supply Expenses:					
2	Purchased Water	$ -	$ -	$ -	$ -	$ -
3	Other	396	-	396	-	396
	Pumping Expenses:	-	-	-	-	-
4	Purchased Power	17,409	-	17,409	-	17,409
5	Purchased Gas	-	-	-	-	-
6	Other	4,120	-	4,120	-	4,120
7	Water Treatment Expenses	430	-	430	-	430
8	Transmission and Distribution Expenses	12,240	-	12,240	-	12,240
9	Customer Account Expenses	8,604	-	8,604	14	8,618
10	Sales Expenses	44	-	44	-	44
11	Administrative and General Expenses	14,451	(150)	14,301	-	14,301
12	Total Operation and Maintenance	$ 57,694	(150)	57,544	14	57,559
13	Depreciation and Amortization	24,713	-	24,713	-	24,713
15	Ad Valorem (Property)	13,290	(287)	13,003	-	13,003
	Taxes:					
14	Federal & State Income Tax	8,274	2,442	10,716	2,352	13,068
16	Other	1,154	-	1,154	-	1,154
17	**Total Operating Expenses**	$ 105,125	$ 2,006	$ 107,131	$ 2,366	$ 109,497
18	**Operating Income (Loss)**	$ 25,878	$ (2,006)	$ 23,872	$ 3,742	$ 27,614

Schedule REL-7

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SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] STAFF ADJUSTED
	REVENUES:							
1	**Total Operating Revenues**	$ 131,003	$ -	$ -	$ -	$ -	$ -	$ 131,003
	EXPENSES:							
	Source of Supply Expenses:							
2	Purchased Water	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3	Other	396	-	-	-	-	-	396
	Pumping Expenses:							
4	Purchased Power	17,409	-	-	-	-	-	17,409
5	Purchased Gas	-	-	-	-	-	-	-
6	Other	4,120	-	-	-	-	-	4,120
7	Water Treatment Expenses	430	-	-	-	-	-	430
8	Transmission and Distribution Expenses	12,240	-	-	-	-	-	12,240
9	Customer Account Expenses	8,604	-	-	-	-	-	8,604
10	Sales Expenses	44	-	-	-	-	-	44
11	Administrative and General Expenses	14,451	(104)	(46)	-	-	-	14,301
12	Total Operation and Maintenance	57,694	(104)	(46)	-	-	-	57,544
13	Depreciation and Amortization	24,713		-	-	-	-	24,713
15	Ad Valorem (Property)	13,290	-		(287)		-	13,003
	Taxes:							
14	Federal & State Income Tax	8,274	-		-	1,560	881	10,716
16	Other	1,154						1,154
17	**Total Operating Expenses**	$ 105,125 x	$ (104)	$ (46)	$ (287)	$ 1,560	$ 881	$ 107,131
18	**Operating Income (Loss)**	$ 25,878	$ 104	$ 46	$ 287	$ (1,560)	$ (881)	**$ 23,872**
			Rate Case	Charity	Prop Tax	Fed Tax	State Tax	

Arizona Water Company - Stanfield
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Schedule REL- 8

OPERATING INCOME ADJUSTMENT NO. 1 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Rate Case Expense for Eastern Group	$ 253,550	$ (28,550)	$ 225,000
2	Allocation Factor	0.01090		0.01090
3	Annual Rate Case Expense for Eastern Group	$ 2,764	$ (311)	$ 2,453
4	Number of Years Amortized	3		3
5	Annual Rate Case Expense	$ 921	$ (104)	$ 818

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Schedule REL-9

OPERATING INCOME ADJUSTMENT NO. 2 - CHARITABLE CONTRIBUTIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Charitable Contributions, Gifts, Awards, Etc.	$ 216	$ (46)	$ 170

Arizona Water Company - Stanfield
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Schedule REL- 10

OPERATING INCOME ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTMENT
1	20021 Annual Gross Revenues			$ 142,033
2	2003Annual Gross Revenues			$ 131,003
3	2004 Annual Gross Revenues			$ 130,572
4	Plus Staff's Recommended Increase			$ 6,108
5	Subtotal (Lines 1 + 2 + 3 + 4)			$ 409,716
6	Three Year Average Calculation			3
7	Three Year Average (Line 5 / Line 6)			$ 136,572
8	Department of Revenue Multiplier			2
9	Revenue Base Value (Line 7 x Line 8)			$ 273,144
10	Plus: 10% of 2001 CWIP			1.000
11	Less: Net Book Vaule of Leased Vehicles (See Note A Below)			$ 242
12	Full Cash Value (Line 9 + Line 10 - Line 11)			$ 273,902
13	Assessment Ratio			0.25
14	Assessed Value (Line 12 x Line 13)			$ 68,476
15	Composite Property Tax Rate (See Note B Below)			0.1899
16	**Staff Proposed Property Tax Expense (Line 14 x Line 15)**	$ 13,290	$ (287)	$ 13,003

Note A: Net Book Value of Licensed Vehicles provided by Arizona Water.

Note B: Property tax rate provided by Arizona Dept. of Revenue.

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Schedule REL- 11

OPERATING INCOME ADJUSTMENT NO. 4 and 5 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Federal Income Taxes	$ 7,221	$ 1,560	$ 8,781
2	State Income Taxes	1,053	881	1,934
3	Total Income Taxes	$ 8,274	$ 2,442	$ 10,716

Arizona Water Company - White Tank
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST		[B] STAFF ORIGINAL COST	
1	Adjusted Rate Base	$ 2,441,155	x	$ 1,898,133	
2	Adjusted Operating Income (Loss)	$ 121,440		$ 135,790	
3	Current Rate of Return (L2 / L1)	4.97%		7.15%	
4	Required Rate of Return	10.5000%		8.9000%	8.6000
5	Required Operating Income (L4 * L1)	$ 256,321		$ 168,934	
6	Operating Income Deficiency (L5 - L2)	$ 134,881		$ 33,144	
7	Gross Revenue Conversion Factor	1.63245		1.63246	
8	Increase In Gross Revenue (L7 * L6)	$ 220,187		$ 54,107	
9	Adjusted Test Year Revenue	$ 783,483		$ 783,483	
10	Proposed Annual Revenue (L8 + L9) Note A	$ 1,003,670		$ 837,590	
11	Require Increase in Revenue (%) (L8/L9)	28.10%		6.91%	

Arizona Water Company - White Tank
Docket No. W-01445A-04-0650
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Schedule REL- 2

GROSS REVENUE CONVERSION FACTOR

Line No.			
	Calculation of Gross Revenue Conversion Factor:		
1	Recommended Revenue Increase:		
2	Billings		1.000000
3	Combined Federal and State Income Tax Rate	38.59888%	
4	Uncollectible Rate After Income Taxes	0.14374%	
5	Total Tax Rate		38.74262%
6	Gross Revenue Conversion Factor		1.632456
	Calculation of Effective Income Tax Rate:		
7	Operating Income Before Taxes (Arizona Taxable Income)	100.00000%	
8	Arizona State Income Tax Rate	6.96800%	
9	Federal Taxable Income (L5 - L6)	93.03200%	
10	Applicable Federal Income Tax Rate (Line 32)	34.00000%	
11	Effective Federal Income Tax Rate (L7 x L8)	31.63088%	
12	Combined Federal and State Income Tax Rate (L6 +L9)	38.59888%	
	Calculation of Uncollectible Rate After Income Taxes:		
13	Uncollectible Rate		0.23410%
14	Combined Federal and State Income Tax Rate	38.59888%	
15	1 minus Combined Federal and State Income Tax Rate		61.40112%
16	Uncollectible Rate After Income Taxes		0.14374%
	Revenue Reconciliation:		
17	Recommended Increase in Revenue (from REL-1, L8)	$ 54,107	
18	Uncollectible Rate	0.234100%	
19	Required Increase in Revenue to Provide for Uncollectibles		$ 127
20	Recommended Increase in Revenue (from REL-1,L8)	$ 54,107	
21	Required Increase in Revenue to Provide for Uncollectibles	127	
22	Incremental Taxable Income	$ 53,980	
23	Combined Federal and State Income Tax Rate	38.59888%	
24	Required Increase in Revenue to Provide for Income Taxes		20,836
25	Required Operating Income	$ 168,934	
26	Adjusted Test Year Operating Income (Loss)	135,790	
27	Required Increase in Operating Income		33,144
28	Total Required Increase in Revenue		$ 54,107

	Calculation of Income Tax:	Test Year		STAFF Recommended	
29	Revenue	$ 783,483		$ 837,590	
30	Less: Operating Expenses Excluding Income Taxes	$ 588,583		$ 588,709	
31	Less: Synchronized Interest	$ 41,759		$ 41,759	
32	Arizona Taxable Income	$ 153,141		$ 207,121	
33	Arizona State Income Tax Rate	6.968%		6.968%	
34	Arizona Income Tax		$ 10,671		$ 14,432
35	Federal Taxable Income	$ 142,471		$ 192,689	
36	Federal Income Tax @ 34%		$ 48,440		$ 65,514
37	Combined Federal and State Income Tax		$ 59,111		$ 79,947
				$ 20,836	

	Calculation of Interest Synchronization:	
38	Rate Base	$ 1,898,133
39	Weighted Average Cost of Debt	2.200%
40	Synchronized Interest	$ 41,759

Arizona Water Company - White Tank
Docket No. W-01445A-04-0650
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Schedule REL-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED		(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 6,086,788		$ (506,268)	$ 5,580,520
2	Less: Accumulated Depreciation	(1,088,906)		-	(1,088,906)
3	Net Plant in Service	$ 4,997,882	x	$ (506,268)	$ 4,491,614
	LESS:				
4	Advances in Aid of Construction (AIAC)	(1,887,880)		-	(1,887,880)
5	Contributions in Aid of Construction (CIAC)	$ (554,839)		$ -	$ (554,839)
6	Less: Accumulated Amortization	111,896		-	111,896
7	Net CIAC	(442,943)		-	(442,943)
8	Total Advances and Contributions	(2,330,823)		-	(2,330,823)
9	Customer Deposits	-		-	-
10	Meter Advances	-		-	-
11	Deferred Income Tax Credits	(352,670)		-	(352,670)
	ADD:				
12	Working Capital	36,105		(36,754)	(649)
13	Phoenix Office Allocation	89,008		-	89,008
14	Meter Shop Allocation	1,653		-	1,653
15		-		-	-
16		-		-	-
17		-		-	-
18	**Total Rate Base**	$ 2,441,155		$ (543,022)	$ 1,898,133

Arizona Water Company - White Tank
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Test Year Ended December 31, 2003

Schedule REL-4

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED		[B] ADJ No.1	[C] ADJ No. 2	[D] STAFF ADJUSTED
	PLANT IN SERVICE:					
1	Organization	$ -		$ -	$ -	$ -
2	Franchises	-		-	-	-
3	Other Intangibles	-		-	-	-
4	Water Rights	5,379		-	-	5,379
5	Other Source of Supply Land	28,521		-	-	28,521
6	Wells	535,369		-	-	535,369
7	Pumping Plant Land	-		-	-	-
8	Pumping Plant Structures & Improvements	18,637		-	-	18,637
9	Electric Pumping Equipment	509,917		-	-	509,917
10	Gas Engine Equipment	-		-	-	-
11	Water Treatment Land	-		-	-	-
12	Water Treatment Structures & Improvmnts	79		-	-	79
13	Water Treatment Equipment	15,053		-	-	15,053
14	Transmission and Distribution Land	35,990		-	-	35,990
15	Storage Tanks	481,206		-	-	481,206
16	Transmission and Distribution Mains	2,979,570		-	-	2,979,570
17	Fire Sprinkler Taps	11,849		-	-	11,849
18	Services	554,285		-	-	554,285
19	Meters	90,488		-	-	90,488
20	Hydrants	218,331		-	-	218,331
21	General Plant Land	-		-	-	-
22	General Plant Structures	19,976		-	-	19,976
23	Leasehold Improvements	-		-	-	-
24	Office Furniture and Improvements	15,017		-	-	15,017
25	Warehouse Equipment	1,043		-	-	1,043
26	Tools, Shop and Garage Equipment	18,697		-	-	18,697
27	Laboratory Equipment	2,477		-	-	2,477
28	Power Operated Equipment	635		-	-	635
29	Communication Equipment	27,428		-	-	27,428
30	Miscellaneous Equipment	10,573		-	-	10,573
31	Total Plant in Service - Actual	5,580,520	x	-	-	5,580,520
32	CAP Pro-forma Adjustment - Post TY Plant	506,268	x	(506,268)	-	-
33	Accumulated Depreciation, Retired Plant	-			-	-
34	Total Plant in Service - Adjusted	$ 6,086,788	x	$ (506,268)	$ -	$ 5,580,520
35	Less: Accumulated Depreciation - Actual	$ (1,079,029)	x	-	-	(1,079,029)
36	Less: Accumulated Depreciation - Post TY	(9,877)		-	-	(9,877)
37	Less: Accumulated Depreciation - 12 Mos TY	-		-	-	-
38	Less: Accumulated Depreciation - Retired Plant					-
39	Total Accumulated Depreciation - Adjusted	$ (1,088,906)	x	$ -	$ -	$ (1,088,906)
40	Plus: Construction Work In Progress	-		-	-	-
41	Net Plant in Service	$ 4,997,882	x	$ (506,268)	$ -	$ 4,491,614
	LESS:					
42	Advances in Aid of Construction (AIAC)	$ (1,887,880)	x	$ -	$ -	(1,887,880)
43	Contributions in Aid of Construction (CIAC)	(554,839)	x	-	-	(554,839)
44	Less: Accumulated Amortization	111,896	x	-	-	111,896
45	Net CIAC (L25 - L26)	(442,943)	x	-	-	(442,943)
46	Total Advances and Contributions	(2,330,823)	x	-	-	(2,330,823)
47	Customer Deposits	-		-	-	-
48	Meter Advances	-		-	-	-
49	Deferred Income Tax Credits	(352,670)	x	-	-	(352,670)
	ADD:					
50	Working Capital Allowance	36,105	x	-	(36,754)	(649)
51	Phoenix Office Allocation	89,008	x	-	-	89,008
52	Meter Shop Allocation	1,653	x	-	-	1,653
53	Projected Capital Expenditures	-		-	-	-
54	Deferred Debits	-		-	-	-
55	Other Additions	-		-	-	-
56	**Total Rate Base**	$ 2,441,155	?	$ (506,268)	$ (36,754)	$ 1,898,133

Arizona Water Company - White Tank
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Schedule REL-5

RATE BASE ADJUSTMENT NO. 1 - DEFERED CAP M&I CHARGES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Deferred CAP M&I Charges	$ 506,268	$ (506,268)	$ -
2	*Post-Test Year Plant*	$ -	$ -	$ -
3	*Post Test Year Retired Plant*	$ -	$ -	$ -
4	**Adjusted Test Year Plant**	**$ 506,268**	**$ (506,268)**	**$ -**

To eliminated deferred M&I charges because the CAP water is not being delivered and therefore not used and useful.

Adjustments:

Column [A]: Company Schedule
Column [B]: Testimony (REL)
Column [C]: Column (A) plus or minus column (B)

Arizona Water Company - White Tank
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Schedule REL- 6

OPERATING INCOME ADJUSTMENT NO. 2 - CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Cash Working Capital	$ 9,329	$ (36,754)	$ (27,425)
2	Materials and Supplies Inventory	5,500	-	5,500
3	Required Bank Balances	12,897	-	12,897
4	Prepayments and Special Deposits	8,379	-	8,379
5	Total	$ 36,105	$ (36,754)	$ (649)

Arizona Water Company - White Tank
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Schedule REL-7

OPERATING INCOME - TEST YEAR AND STAFF PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:					
1	Total Operating Revenues	$ 783,483	$ -	$ 783,483	$ 54,107	$ 837,590
	EXPENSES:					
	Source of Supply Expenses:					
2	Purchased Water	$ 37,383	$ (27,104)	$ 10,279	$ -	$ 10,279
3	Other	2,880	-	2,880	-	2,880
	Pumping Expenses:	-	-	-	-	-
4	Purchased Power	78,404	456	78,860	-	78,860
5	Purchased Gas	-	-	-	-	-
6	Other	27,057	-	27,057	-	27,057
7	Water Treatment Expenses	9,655	-	9,655	-	9,655
8	Transmission and Distribution Expenses	79,261	-	79,261	-	79,261
9	Customer Account Expenses	54,850	-	54,850	127	54,977
10	Sales Expenses	263	-	263	-	263
11	Administrative and General Expenses	87,371	(960)	86,411	-	86,411
12	Total Operation and Maintenance	$ 377,124	(27,608)	349,516	127	349,642
13	Depreciation and Amortization	182,626	-	182,626	-	182,626
15	Ad Valorem (Property)	41,993	7,840	49,833	-	49,833
	Taxes:					
14	Federal & State Income Tax	53,692	5,419	59,111	20,836	79,947
16	Other	6,608	-	6,608	-	6,608
17	**Total Operating Expenses**	$ 662,043	$ (14,350)	$ 647,693	$ 20,962	$ 668,656
18	**Operating Income (Loss)**	$ 121,440	$ 14,350	$ 135,790	$ 33,144	$ 168,934

Schedule REL-8

Arizona Water Company - White Tank
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] ADJ #6	[H] ADJ #7	[I] STAFF ADJUSTED
	REVENUES:									
1	**Total Operating Revenues**	$ 783,483	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 783,483
	EXPENSES:									
	Source of Supply Expenses:									
2	Purchased Water	$ 37,383	(27,104)	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,279
3	Other	2,880	-	-	-	-	-	-	-	2,880
	Pumping Expenses:									
4	Purchased Power	78,404	-	456	-	-	-	-	-	78,860
5	Purchased Gas	-	-	-	-	-	-	-	-	-
6	Other	27,057	-	-	-	-	-	-	-	27,057
7	Water Treatment Expenses	9,655	-	-	-	-	-	-	-	9,655
8	Transmission and Distribution Expenses	79,261	-	-	-	-	-	-	-	79,261
9	Customer Account Expenses	54,850	-	-	-	-	-	-	-	54,850
10	Sales Expenses	263	-	-	-	-	-	-	-	263
11	Administrative and General Expenses	87,371	-	-	(665)	(295)	-	-	-	86,411
12	Total Operation and Maintenance	377,124	(27,104)	456	(665)	(295)	-	-	-	349,516
13	Depreciation and Amortization	182,626	-	-		-	-	-	-	182,626
15	Ad Valorem (Property)	41,993	-	-	-		7,840		-	49,833
	Taxes:									
14	Federal & State Income Tax	53,692	-	-	-		-	1,871	3,548	59,111
16	Other	6,608								6,608
17	**Total Operating Expenses**	$ 662,043 x	$ (27,104)	$ 456	$ (665)	$ (295)	$ 7,840	$ 1,871	$ 3,548	$ 647,693
18	**Operating Income (Loss)**	$ 121,440 x	$ 27,104	$ (456)	$ 665	$ 295	$ (7,840)	$ (1,871)	$ (3,548)	**$ 135,790**

Arizona Water Company - White Tank
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL- 9

OPERATING INCOME ADJUSTMENT NO. 1 - PURCHASED WATER EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Purchased Water Expense	$ 37,383	$ (27,104)	$ 10,279

Arizona Water Company - White Tank
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-10

OPERATING INCOME ADJUSTMENT NO. 2 - PURCHASED PUMPING POWER EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Purchased Pumping Power	$ 78,404	$ 456	$ 78,860

Arizona Water Company - White Tank
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Test Year Ended December 31, 2003

Schedule REL- 11

OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Rate Case Expense for Eastern Group	$ 253,550	$ (28,550)	$ 225,000
2	Allocation Factor	0.06990		0.06990
3	Annual Rate Case Expense for Eastern Group	$ 17,723	$ (1,996)	$ 15,728
4	Number of Years Amortized	3		3
5	Annual Rate Case Expense	$ 5,908	$ (665)	$ 5,243

Arizona Water Company - White Tank
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Test Year Ended December 31, 2003

Schedule REL-12

OPERATING INCOME ADJUSTMENT NO. 4 - CHARITABLE CONTRIBUTIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Charitable Contributions, Gifts, Awards, Etc.	$ 1,029	$ (295)	$ 734

Arizona Water Company - White Tank
Docket No. W-01445A-04-0650
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Schedule REL- 13

OPERATING INCOME ADJUSTMENT NO. 5 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTMENT
1	2001 Annual Gross Revenues			$ 740,876
2	2002 Annual Gross Revenues			$ 783,483
3	2003 Annual Gross Revenues			$ 889,507
4	Plus Staff's Recommended Increase			$ 54,107
5	Subtotal (Lines 1 + 2 + 3 + 4)			$ 2,467,973
6	Three Year Average Calculation			3
7	Three Year Average (Line 5 / Line 6)			$ 822,658
8	Department of Revenue Multiplier			2
9	Revenue Base Value (Line 7 x Line 8)			$ 1,645,315
10	Plus: 10% of 2001 CWIP			10
11	Less: Net Book Vaule of Leased Vehicles (See Note A Below)			$ 38,463
12	Full Cash Value (Line 9 + Line 10 - Line 11)			$ 1,606,862
13	Assessment Ratio			0.25
14	Assessed Value (Line 12 x Line 13)			$ 401,716
15	Composite Property Tax Rate (See Note B Below)			0.12405
16	**Staff Proposed Property Tax Expense (Line 14 x Line 15)**	$ 41,993	$ 7,840	$ 49,833

Note A: Net Book Value of Licensed Vehicles provided by Arizona Water.

Note B: Property tax rate provided by Arizona Dept. of Revenue.

Arizona Water Company - Oracle
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Test Year Ended December 31, 2001

Schedule REL- 14

OPERATING INCOME ADJUSTMENT NO. 6 and 7 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Federal Income Taxes	$ 46,569	$ 1,871	$ 48,440
2	State Income Taxes	7,123	3,548	10,671
3	Total Income Taxes	$ 53,692	$ 5,419	$ 59,111

Arizona Water Company - Coolidge
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Test Year Ended December 31, 2003

Schedule REL-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	$ 3,817,510	$ 2,713,030
2	Adjusted Operating Income (Loss)	$ 100,737	$ 165,567
3	Current Rate of Return (L2 / L1)	2.64%	6.10%
4	Required Rate of Return	10.5000%	8.9000%
5	Required Operating Income (L4 * L1)	$ 400,839	$ 241,460
6	Operating Income Deficiency (L5 - L2)	$ 300,102	$ 75,892
7	Gross Revenue Conversion Factor	1.63245	1.63246
8	Increase In Gross Revenue (L7 * L6)	$ 489,901	$ 123,891
9	Adjusted Test Year Revenue	$ 1,427,285	$ 1,427,285
10	Proposed Annual Revenue (L8 + L9) Note A	$ 1,917,186	$ 1,551,176
11	Require Increase in Revenue (%) (L8/L9)	34.32%	8.68%

Arizona Water Company - Coolidge
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Test Year Ended December 31, 2003

Schedule REL- 2

GROSS REVENUE CONVERSION FACTOR

Line No.			
	Calculation of Gross Revenue Conversion Factor:		
1	Recommended Revenue Increase:		
2	Billings		1.000000
3	Combined Federal and State Income Tax Rate	38.59888%	
4	Uncollectible Rate After Income Taxes	0.14374%	
5	Total Tax Rate		38.74262%
6	Gross Revenue Conversion Factor		**1.632456**
	Calculation of Effective Income Tax Rate:		
7	Operating Income Before Taxes (Arizona Taxable Income)	100.00000%	
8	Arizona State Income Tax Rate	6.96800%	
9	Federal Taxable Income (L5 - L6)	93.03200%	
10	Applicable Federal Income Tax Rate (Line 32)	34.00000%	
11	Effective Federal Income Tax Rate (L7 x L8)	31.63088%	
12	Combined Federal and State Income Tax Rate (L6 +L9)	38.59888%	
	Calculation of Uncollectible Rate After Income Taxes:		
13	Uncollectible Rate		0.23410%
14	Combined Federal and State Income Tax Rate	38.59888%	
15	1 minus Combined Federal and State Income Tax Rate		61.40112%
16	Uncollectible Rate After Income Taxes		0.14374%
	Revenue Reconciliation:		
17	Recommended Increase in Revenue (from REL-1, L8)	$ 123,891	
18	Uncollectible Rate	0.234100%	
19	Required Increase in Revenue to Provide for Uncollectibles		$ 290
20	Recommended Increase in Revenue (from REL-1,L8)	$ 123,891	
21	Required Increase in Revenue to Provide for Uncollectibles	290	
22	Incremental Taxable Income	$ 123,601	
23	Combined Federal and State Income Tax Rate	38.59888%	
24	Required Increase in Revenue to Provide for Income Taxes		47,709
25	Required Operating Income	$ 241,460	
26	Adjusted Test Year Operating Income (Loss)	165,567	
27	Required Increase in Operating Income		75,892
28	Total Required Increase In Revenue		$ 123,891

	Calculation of Income Tax:	Test Year		STAFF Recommended	
29	Revenue	$ 1,427,285		$ 1,551,176	
30	Less: Operating Expenses Excluding Income Taxes	$ 1,195,157		$ 1,195,447	
31	Less: Synchronized Interest	$ 59,687		$ 59,687	
32	Arizona Taxable Income	$ 172,441		$ 296,042	
33	Arizona State Income Tax Rate	6.968%		6.968%	
34	Arizona Income Tax		$ 12,016		$ 20,628
35	Federal Taxable Income	$ 160,425		$ 275,414	
36	Federal Income Tax @ 34%		$ 54,545		$ 93,641
37	Combined Federal and State Income Tax		$ 66,560		$ 114,269
				$ 47,709	

	Calculation of Interest Synchronization:	
38	Rate Base	$ 2,713,030
39	Weighted Average Cost of Debt	2.200%
40	Synchronized Interest	$ 59,687

Arizona Water Company - Coolidge
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED		(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED	
1	Plant in Service	$ 7,129,140		$ (1,046,011)	$ 6,083,129	
2	Less: Accumulated Depreciation	(2,271,697)		-	(2,271,697)	
3	Net Plant in Service	$ 4,857,443	x	$ (1,046,011)	$ 3,811,432	
	LESS:					
4	Advances in Aid of Construction (AIAC)	(406,644)	x	-	(406,644)	
5	Contributions in Aid of Construction (CIAC)	$ (437,102)		$ -	$ (437,102)	
6	Less: Accumulated Amortization	74,970		-	74,970	
7	Net CIAC	(362,132)	x	-	(362,132)	
8	Total Advances and Contributions	(768,776)		-	(768,776)	
9	Customer Deposits	-		-	-	
10	Meter Advances	-		-	-	
11	Deferred Income Tax Credits	(504,369)	x	-	(504,369)	
	ADD:					
12	Working Capital	32,202	x	(58,469)	(26,267)	x
13	Phoenix Office Allocation	197,345	x	-	197,345	
14	Meter Shop Allocation	3,665	x	-	3,665	
15		-		-	-	
16		-		-	-	
17		-			-	
18	**Total Rate Base**	$ 3,817,510		$ (1,104,480)	$ 2,713,030	

Arizona Water Company - Coolidge
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Test Year Ended December 31, 2003

Schedule REL-4

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED		[B] ADJ No.1	[C] ADJ No. 2	[D] STAFF ADJUSTED
	PLANT IN SERVICE:					
1	Organization	$ -		$ -	$ -	$ -
2	Franchises	8,740		-	-	8,740
3	Other Intangibles	-		-	-	-
4	Water Rights	13,508		-	-	13,508
5	Other Source of Supply Land	2,927		-	-	2,927
6	Wells	226,328		-	-	226,328
7	Pumping Plant Land	25,684		-	-	25,684
8	Pumping Plant Structures & Improvements	8,348		-	-	8,348
9	Electric Pumping Equipment	732,365		-	-	732,365
10	Gas Engine Equipment	20,026		-	-	20,026
11	Water Treatment Land	-		-	-	-
12	Water Treatment Structures & Improvmnts	1,847		-	-	1,847
13	Water Treatment Equipment	103,606		-	-	103,606
14	Transmission and Distribution Land	-		-	-	-
15	Storage Tanks	286,758		-	-	286,758
16	Transmission and Distribution Mains	2,721,370		-	-	2,721,370
17	Fire Sprinkler Taps	73,130		-	-	73,130
18	Services	1,151,206		-	-	1,151,206
19	Meters	209,735		-	-	209,735
20	Hydrants	218,296		-	-	218,296
21	General Plant Land	-		-	-	-
22	General Plant Structures	25,180		-	-	25,180
23	Leasehold Improvements	48,181		-	-	48,181
24	Office Furniture and Improvements	77,911		-	-	77,911
25	Warehouse Equipment	-		-	-	-
26	Tools, Shop and Garage Equipment	47,217		-	-	47,217
27	Laboratory Equipment	6,726		-	-	6,726
28	Power Operated Equipment	15,016		-	-	15,016
29	Communication Equipment	52,470		-	-	52,470
30	Miscellaneous Equipment	6,554		-	-	6,554
31	Total Plant in Service - Actual	6,083,129	x	-	-	6,083,129
32	Pro-forma Adjustment - Post TY Plant	1,046,011		(1,046,011)	-	-
33	Accumulated Depreciation, Retired Plant	-			-	-
34	Total Plant in Service - Adjusted	$ 7,129,140	x	$ (1,046,011)	$ -	$ 6,083,129
35	Less: Accumulated Depreciation - Actual	$ (2,249,826)	x	-	-	(2,249,826)
36	Less: Accumulated Depreciation - Post TY	(21,871)		-	-	(21,871)
37	Less: Accumulated Depreciation - 12 Mos TY	-		-	-	-
38	Less: Accumulated Depreciation - Retired Plant					-
39	Total Accumulated Depreciation - Adjusted	$ (2,271,697)		$ -	$ -	$ (2,271,697)
40	Plus: Construction Work In Progress	-		-	-	-
41	Net Plant in Service	$ 4,857,443	x	$ (1,046,011)	$ -	$ 3,811,432
	LESS:					
42	Advances in Aid of Construction (AIAC)	$ (406,644)	x	$ -	$ -	(406,644)
43	Contributions in Aid of Construction (CIAC)	(437,102)	x	-	-	(437,102)
44	Less: Accumulated Amortization	74,970	x	-	-	74,970
45	Net CIAC (L25 - L26)	(362,132)	x	-	-	(362,132)
46	Total Advances and Contributions	(768,776)	x	-	-	(768,776)
47	Customer Deposits	-		-	-	-
48	Meter Advances	-		-	-	-
49	Deferred Income Tax Credits	(504,369)	x	-	-	(504,369)
	ADD:					
50	Working Capital Allowance	32,202	x	-	(58,469)	(26,267)
51	Phoenix Office Allocation	197,345	x	-	-	197,345
52	Meter Shop Allocation	3,665	x	-	-	3,665
53	Projected Capital Expenditures	-		-	-	-
54	Deferred Debits	-		-	-	-
55	Other Additions	-		-	-	-
56	**Total Rate Base**	$ 3,817,510		$ (1,046,011)	$ (58,469)	$ 2,713,030

Arizona Water Company - Coolidge
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Schedule REL-5

RATE BASE ADJUSTMENT NO. 1 - DEFERED CAP M&I CHARGES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Deferred CAP M&I Charges	$ 1,046,011	$ (1,046,011)	$ -
2	*Post-Test Year Plant*	$ -	$ -	$ -
3	*Post Test Year Retired Plant*	$ -	$ -	$ -
4	**Adjusted Test Year Plant**	**$ 1,046,011**	**$ (1,046,011)**	**$ -**

To eliminated deferred M&I charges because the CAP water is not being delivered and therefore not a useful.

Adjustments:

Column [A]: Company Schedule
Column [B]: Testimony (REL)
Column [C]: Column (A) plus or minus column (B)

Arizona Water Company - Coolidge
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Test Year Ended December 31, 2003

Schedule REL- 6

OPERATING INCOME ADJUSTMENT NO. 2 - CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Cash Working Capital	$ (14,437)	$ (58,469)	$ (72,906)
2	Materials and Supplies Inventory	(533)	-	(533)
3	Required Bank Balances	28,594	-	28,594
4	Prepayments and Special Deposits	18,577	-	18,577
5	Total	$ 32,201	$ (58,469)	$ (26,268)

Arizona Water Company - Coolidge
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Test Year Ended December 31, 2003

Schedule REL-7

OPERATING INCOME - TEST YEAR AND STAFF PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:					
1	Total Operating Revenues	$ 1,427,285	$ -	$ 1,427,285	$ 123,891	$ 1,551,176
	EXPENSES:					
	Source of Supply Expenses:					
2	Purchased Water	$ 56,000	$ (56,000)	$ -	$ -	$ -
3	Other	7,914	-	7,914	-	7,914
	Pumping Expenses:	-	-	-	-	-
4	Purchased Power	97,408	283	97,691	-	97,691
5	Purchased Gas	603	-	603	-	603
6	Other	37,838	-	37,838	-	37,838
7	Water Treatment Expenses	13,267	-	13,267	-	13,267
8	Transmission and Distribution Expenses	196,681	-	196,681	-	196,681
9	Customer Account Expenses	191,070	-	191,070	290	191,360
10	Sales Expenses	259	-	259	-	259
11	Administrative and General Expenses	235,586	(1,967)	233,619	-	233,619
12	Total Operation and Maintenance	$ 836,626	(57,684)	778,942	290	779,232
13	Depreciation and Amortization	275,122	-	275,122	-	275,122
15	Ad Valorem (Property)	127,110	(10,594)	116,516	-	116,516
	Taxes:					
14	Federal & State Income Tax	63,113	3,447	66,560	47,709	114,269
16	Other	24,577	-	24,577	-	24,577
17	**Total Operating Expenses**	$ 1,326,548	$ (64,830)	$ 1,261,718	$ 47,999	$ 1,309,716
18	**Operating Income (Loss)**	$ 100,737	$ 64,830	$ 165,567	$ 75,892	$ 241,460

Schedule REL-8

Arizona Water Company - Coolidge
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #5	[F] ADJ #7	[G] ADJ #8	[H] ADJ #9	[I] STAFF ADJUSTED
	REVENUES:									
1	**Total Operating Revenues**	$ 1,427,285	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,427,285
	EXPENSES:									
	Source of Supply Expenses:									
2	Purchased Water	$ 56,000	$ (56,000)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3	Other	7,914	-		-	-	-	-	-	7,914
	Pumping Expenses:									
4	Purchased Power	97,408	-	283	-	-	-	-	-	97,691
5	Purchased Gas	603	-	-	-	-	-	-	-	603
6	Other	37,838	-	-	-	-	-	-	-	37,838
7	Water Treatment Expenses	13,267	-	-	-	-	-	-	-	13,267
8	Transmission and Distribution Expenses	196,681	-	-	-	-	-	-	-	196,681
9	Customer Account Expenses	191,070	-	-	-	-	-	-	-	191,070
10	Sales Expenses	259	-	-	-	-	-	-	-	259
11	Administrative and General Expenses	235,586	-	-	(1,475)	(492)	-	-	-	.233,619
12	Total Operation and Maintenance	836,626	(56,000)	283	(1,475)	(492)	-	-	-	778,942
13	Depreciation and Amortization	275,122	-	-	-	-	-	-	-	275,122
15	Ad Valorem (Property)	127,110	-	-		-	(10,594)	-	-	116,516
	Taxes:									
14	Federal & State Income Tax	63,113	-	-		-	-	(1,044)	4,492	66,560
16	Other	24,577								24,577
17	**Total Operating Expenses**	$ 1,326,548 x	$ (56,000)	$ 283	$ (1,475)	$ (492)	$ (10,594)	$ (1,044)	$ 4,492	$ 1,261,718
18	**Operating Income (Loss)**	$ 100,737 x	$ 56,000	$ (283)	$ 1,475	$ 492	$ 10,594	$ 1,044	$ (4,492)	**$ 165,567**

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Schedule REL-9

OPERATING INCOME ADJUSTMENT NO. 1 - PURCHASED WATER EXPENSE

		[A]	[B]	[C]
LINE NO.	DESCRIPTION	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Purchased Water	$ 56,000	$ (56,000)	$ -

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Schedule REL- 10

OPERATING INCOME ADJUSTMENT NO. 2 - PURCHASED PUMPING POWER EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Purchased Pumping Power	$ 97,408	$ 283	$ 97,691

Arizona Water Company - Coolidge
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Schedule REL- 11

OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Rate Case Expense for Eastern Group	$ 253,550	$ (28,550)	$ 225,000
2	Allocation Factor	0.15500		0.15500
3	Annual Rate Case Expense for Eastern Group	$ 39,300	$ (4,425)	$ 34,875
4	Number of Years Amortized	3		3
5	Annual Rate Case Expense	$ 13,100	$ (1,475)	$ 11,625

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Schedule REL-12

OPERATING INCOME ADJUSTMENT NO. 4 - CHARITABLE CONTRIBUTIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Charitable Contributions, Gifts, Awards, Etc.	$ 7,923	$ (492)	$ 7,431

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Schedule REL-13

OPERATING INCOME ADJUSTMENT NO. 5 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTMENT
1	2002 Annual Gross Revenues			$ 1,544,584
2	2003Annual Gross Revenues			$ 1,427,285
3	2004 Annual Gross Revenues			$ 1,583,163
4	Plus Staff's Recommended Increase			$ -123,891
5	Subtotal (Lines 1 + 2 + 3 + 4)			$ 4,678,923
6	Three Year Average Calculation			3
7	Three Year Average (Line 5 / Line 6)			$ 1,559,641
8	Department of Revenue Multiplier			2
9	Revenue Base Value (Line 7 x Line 8)			$ 3,119,282
10	Plus: 10% of 2001 CWIP			12,794.00
11	Less: Net Book Vaule of Leased Vehicles (See Note A Below)			$ 38,379
12	Full Cash Value (Line 9 + Line 10 - Line 11)			$ 3,093,697
13	Assessment Ratio			0.25
14	Assessed Value (Line 12 x Line 13)			$ 773,424
15	Composite Property Tax Rate (See Note B Below)			0.15065
16	**Staff Proposed Property Tax Expense (Line 14 x Line 15)**	$ 127,110	$ (10,594)	$ 116,516

Note A: Net Book Value of Licensed Vehicles provided by Arizona Water.

Note B: Property tax rate provided by Arizona Dept. of Revenue.

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Schedule REL- 14

OPERATING INCOME ADJUSTMENT NOS. 6 and 7 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Federal Income Taxes	$ 55,589	$ (1,044)	$ 54,545
2	State Income Taxes	7,524	4,492	12,016
3	Total Income Taxes	$ 63,113	$ 3,447	$ 66,560

Arizona Water Company - Ajo
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Schedule REL-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST		[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	$ 847,167	x	$ 837,088
2	Adjusted Operating Income (Loss)	$ 34,697		$ 35,675
3	Current Rate of Return (L2 / L1)	4.10%		4.26%
4	Required Rate of Return	10.5000%		8.9000%
5	Required Operating Income (L4 * L1)	$ 88,953		$ 74,501
6	Operating Income Deficiency (L5 - L2)	$ 54,256		$ 38,826
7	Gross Revenue Conversion Factor	1.63245		1.63246
8	Increase In Gross Revenue (L7 * L6)	$ 88,569		$ 63,382
9	Adjusted Test Year Revenue	$ 412,203		$ 412,203
10	Proposed Annual Revenue (L8 + L9) Note A	$ 500,772		$ 475,585
11	Require Increase in Revenue (%) (L8/L9)	21.49%		15.38%

Arizona Water Company - Ajo
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Schedule REL- 2

GROSS REVENUE CONVERSION FACTOR

Line No.			
	Calculation of Gross Revenue Conversion Factor:		
1	Recommended Revenue Increase:		
2	Billings		1.000000
3	Combined Federal and State Income Tax Rate	38.59888%	
4	Uncollectible Rate After Income Taxes	0.14374%	
5	Total Tax Rate		38.74262%
6	Gross Revenue Conversion Factor		**1.632456**
	Calculation of Effective Income Tax Rate:		
7	Operating Income Before Taxes (Arizona Taxable Income)	100.00000%	
8	Arizona State Income Tax Rate	6.96800%	
9	Federal Taxable Income (L5 - L6)	93.03200%	
10	Applicable Federal Income Tax Rate (Line 32)	34.00000%	
11	Effective Federal Income Tax Rate (L7 x L8)	31.63088%	
12	Combined Federal and State Income Tax Rate (L6 +L9)	38.59888%	
	Calculation of Uncollectible Rate After Income Taxes:		
13	Uncollectible Rate		0.23410%
14	Combined Federal and State Income Tax Rate	38.59888%	
15	1 minus Combined Federal and State Income Tax Rate		61.40112%
16	Uncollectible Rate After Income Taxes		0.14374%
	Revenue Reconciliation:		
17	Recommended Increase in Revenue (from REL-1, L8)	$ 63,382	
18	Uncollectible Rate	0.234100%	
19	Required Increase in Revenue to Provide for Uncollectibles		$ 148
20	Recommended Increase in Revenue (from REL-1,L8)	$ 63,382	
21	Required Increase in Revenue to Provide for Uncollectibles	148	
22	Incremental Taxable Income	$ 63,233	
23	Combined Federal and State Income Tax Rate	38.59888%	
24	Required Increase in Revenue to Provide for Income Taxes		24,407
25	Required Operating Income	$ 74,501	
26	Adjusted Test Year Operating Income (Loss)	35,675	
27	Required Increase in Operating Income		38,826
28	Total Required Increase In Revenue		$ 63,382

	Calculation of Income Tax:	Test Year		STAFF Recommended	
29	Revenue	$ 412,203		$ 475,585	
30	Less: Operating Expenses Excluding Income Taxes	$ 365,678		$ 365,827	
31	Less: Synchronized Interest	$ 18,416		$ 18,416	
32	Arizona Taxable Income	$ 28,109		$ 91,342	
33	Arizona State Income Tax Rate	6.968%		6.968%	
34	Arizona Income Tax		$ 1,959		$ 6,365
35	Federal Taxable Income	$ 26,150		$ 84,977	
36	Federal Income Tax @ 34%		$ 8,891		$ 28,892
37	Combined Federal and State Income Tax		$ 10,850		$ 35,257
				$ 24,407	

	Calculation of Interest Synchronization:	
38	Rate Base	$ 837,088
39	Weighted Average Cost of Debt	2.200%
40	Synchronized Interest	$ 18,416

Arizona Water Company - Ajo
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Schedule REL-3

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED		(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 1,656,478		$ -	$ 1,656,478
2	Less: Accumulated Depreciation	(624,244)		-	(624,244)
3	Net Plant in Service	$ 1,032,234	x	$ -	$ 1,032,234
	LESS:				
4	Advances in Aid of Construction (AIAC)	(36,395)	x	-	(36,395)
5	Contributions in Aid of Construction (CIAC)	$ (41,263)		$ -	$ (41,263)
6	Less: Accumulated Amortization	10,797		-	10,797
7	Net CIAC	(30,466)	x	-	(30,466)
8	Total Advances and Contributions	(66,861)		-	(66,861)
9	Customer Deposits	-		-	-
10	Meter Advances	-		-	-
11	Deferred Income Tax Credits	(157,495)		-	(157,495)
	ADD:				
12	Working Capital	(4,209)		(10,079)	(14,288)
13	Phoenix Office Allocation	42,706		-	42,706
14	Meter Shop Allocation	792		-	792
15		-		-	-
16		-		-	-
17		-		-	-
18	**Total Rate Base**	$ 847,167		$ (10,079)	$ 837,088

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Schedule REL-4

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED		[B] ADJ No.1	[C] STAFF ADJUSTED
	PLANT IN SERVICE:				
1	Organization	$ -		$ -	$ -
2	Franchises	-		-	-
3	Other Intangibles	-		-	-
4	Water Rights	2,916		-	2,916
5	Other Source of Supply Land	-		-	-
6	Wells	-		-	-
7	Pumping Plant Land	3,208		-	3,208
8	Pumping Plant Structures & Improvements	3,015		-	3,015
9	Electric Pumping Equipment	74,000		-	74,000
10	Gas Engine Equipment	-		-	-
11	Water Treatment Land	-		-	-
12	Water Treatment Structures & Improvmnts	-		-	-
13	Water Treatment Equipment	-		-	-
14	Transmission and Distribution Land	6,065		-	6,065
15	Storage Tanks	160,356		-	160,356
16	Transmission and Distribution Mains	984,946		-	984,946
17	Fire Sprinkler Taps	104		-	104
18	Services	244,045		-	244,045
19	Meters	49,367		-	49,367
20	Hydrants	41,536		-	41,536
21	General Plant Land	-		-	-
22	General Plant Structures	46,411		-	46,411
23	Leasehold Improvements	-		-	-
24	Office Furniture and Improvements	9,381		-	9,381
25	Warehouse Equipment	193		-	193
26	Tools, Shop and Garage Equipment	8,362		-	8,362
27	Laboratory Equipment	2,103		-	2,103
28	Power Operated Equipment	3,234		-	3,234
29	Communication Equipment	16,468		-	16,468
30	Miscellaneous Equipment	768		-	768
31	Total Plant in Service - Actual	1,656,478	x	-	1,656,478
32	Pro-forma Adjustment - Post TY Plant	-		-	-
33	Accumulated Depreciation, Retired Plant	-			-
34	Total Plant in Service - Adjusted	$ 1,656,478		$ -	$ 1,656,478
35	Less: Accumulated Depreciation - Actual	$ (627,369)	x	-	(627,369)
36	Less: Accumulated Depreciation - Post TY	3,125		-	3,125
37	Less: Accumulated Depreciation - 12 Mos TY	-		-	-
38	Less: Accumulated Depreciation - Retired Plant				-
39	Total Accumulated Depreciation - Adjusted	$ (624,244)	x	$ -	$ (624,244)
40	Plus: Construction Work In Progress	-		-	-
41	Net Plant in Service	$ 1,032,234	x	$ -	$ 1,032,234
	LESS:				
42	Advances in Aid of Construction (AIAC)	$ (36,395)	x	$ -	(36,395)
43	Contributions in Aid of Construction (CIAC)	(41,263)	x	-	(41,263)
44	Less: Accumulated Amortization	10,797	x	-	10,797
45	Net CIAC (L25 - L26)	(30,466)	x	-	(30,466)
46	Total Advances and Contributions	(66,861)	x	-	(66,861)
47	Customer Deposits	-		-	-
48	Meter Advances	-		-	-
49	Deferred Income Tax Credits	(157,495)	x	-	(157,495)
	ADD:				
50	Working Capital Allowance	(4,209)	x	(10,079)	(14,288)
51	Phoenix Office Allocation	42,706	x	-	42,706
52	Meter Shop Allocation	792	x	-	792
53	Projected Capital Expenditures	-		-	-
54	Deferred Debits	-		-	-
55	Other Additions	-		-	-
56	**Total Rate Base**	$ 847,167		$ (10,079)	$ 837,088

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Schedule REL- 5

OPERATING INCOME ADJUSTMENT NO. 1 - CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Cash Working Capital	$ (17,417)	$ (10,079)	$ (27,496)
2	Materials and Supplies Inventory	3,000	-	3,000
3	Required Bank Balances	6,188	-	6,188
4	Prepayments and Special Deposits	4,020	-	4,020
5	Total	$ (4,209)	$ (10,079)	$ (14,288)

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Schedule REL-6

OPERATING INCOME - TEST YEAR AND STAFF PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:					
1	Total Operating Revenues	$ 412,203	$ -	$ 412,203	$ 63,382	$ 475,585
	EXPENSES:					
	Source of Supply Expenses:					
2	Purchased Water	$ 162,114	$ -	$ 162,114	$ -	$ 162,114
3	Other	316	-	316	-	316
	Pumping Expenses:	-	-	-	-	-
4	Purchased Power	2,976	-	2,976	-	2,976
5	Purchased Gas	-	-	-	-	-
6	Other	14,594	-	14,594	-	14,594
7	Water Treatment Expenses	3,443	-	3,443	-	3,443
8	Transmission and Distribution Expenses	38,687	-	38,687	-	38,687
9	Customer Account Expenses	27,613	-	27,613	148	27,761
10	Sales Expenses	142	-	142	-	142
11	Administrative and General Expenses	45,617	(465)	45,152	-	45,152
12	Total Operation and Maintenance	$ 295,502	(465)	295,037	148	295,186
13	Depreciation and Amortization	39,981	-	39,981	-	39,981
15	Ad Valorem (Property)	27,099	(198)	26,901	-	26,901
	Taxes:					
14	Federal & State Income Tax	11,165	(315)	10,850	24,407	35,257
16	Other	3,759	-	3,759	-	3,759
17	**Total Operating Expenses**	$ 377,506	$ (978)	$ 376,528	$ 24,556	$ 401,084
18	**Operating Income (Loss)**	$ 34,697	$ 978	$ 35,675	$ 38,826	$ 74,501

Schedule REL-7

Arizona Water Company - Ajo
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SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED		[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] ADJ #6	[H] STAFF ADJUSTED
	REVENUES:									
1	**Total Operating Revenues**	$ 412,203	x	$ -	$ -	$ -	$ -	$ -	$ -	$ 412,203
	EXPENSES:									
	Source of Supply Expenses:									
2	Purchased Water	$ 162,114		$ -	$ -	$ -	$ -	$ -	$ -	$ 162,114
3	Other	316		-	-	-	-	-	-	316
	Pumping Expenses:									
4	Purchased Power	2,976		-	-	-	-	-	-	2,976
5	Purchased Gas	-		-	-	-	-	-	-	-
6	Other	14,594		-	-	-	-	-	-	14,594
7	Water Treatment Expenses	3,443		-	-	-	-	-	-	3,443
8	Transmission and Distribution Expenses	38,687		-	-	-	-	-	-	38,687
9	Customer Account Expenses	27,613		-	-	-	-	-	-	27,613
10	Sales Expenses	142		-	-	-	-	-	-	142
11	Administrative and General Expenses	45,617		(319)	(146)	-	-	-	-	45,152
12	Total Operation and Maintenance	295,502	x	(319)	(146)	-	-	-	-	295,037
13	Depreciation and Amortization	39,981			-	-	-	-	-	39,981
15	Ad Valorem (Property)	27,099		-		(198)		-		26,901
	Taxes:									
14	Federal & State Income Tax	11,165		-		-	(865)	550	-	10,850
16	Other	3,759								3,759
17	**Total Operating Expenses**	$ 377,506	x	$ (319)	$ (146)	$ (198)	$ (865)	$ 550	$ -	$ 376,528
18	**Operating Income (Loss)**	$ 34,697	x	$ 319	$ 146	$ 198	$ 865	$ (550)	$ -	**$ 35,675**

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Schedule REL- 8

OPERATING INCOME ADJUSTMENT NO. 1 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Rate Case Expense for Eastern Group	$ 253,550	$ (28,550)	$ 225,000
2	Allocation Factor	0.03350		0.03350
3	Annual Rate Case Expense for Eastern Group	$ 8,494	$ (956)	$ 7,538
4	Number of Years Amortized	3		3
5	Annual Rate Case Expense	$ 2,831	$ (319)	$ 2,513

Arizona Water Company - Ajo
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-9

OPERATING INCOME ADJUSTMENT NO. 2 - CHARITABLE CONTRIBUTIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Charitable Contributions, Gifts, Awards, Etc.	$ 770	$ (146)	$ 624

Arizona Water Company - Ajo
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL- 10

OPERATING INCOME ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTMENT
1	2002 Annual Gross Revenues			$ 460,666
2	2003 Annual Gross Revenues			$ 412,203
3	2004 Annual Gross Revenues			$ 457,383
4	Plus Staff's Recommended Increase			$ 63,382
5	Subtotal (Lines 1 + 2 + 3 + 4)			$ 1,393,634
6	Three Year Average Calculation			3
7	Three Year Average (Line 5 / Line 6)			$ 464,545
8	Department of Revenue Multiplier			2
9	Revenue Base Value (Line 7 x Line 8)			$ 929,089
10	Plus: 10% of 2001 CWIP			3
11	Less: Net Book Vaule of Leased Vehicles (See Note A Below)			$ 664
12	Full Cash Value (Line 9 + Line 10 - Line 11)			$ 928,428
13	Assessment Ratio			0.25
14	Assessed Value (Line 12 x Line 13)			$ 232,107
15	Composite Property Tax Rate (See Note B Below)			0.1159
16	**Staff Proposed Property Tax Expense (Line 14 x Line 15)**	$ 27,099	$ (198)	$ 26,901

Note A: Net Book Value of Licensed Vehicles provided by Arizona Water.

Note B: Property tax rate provided by Arizona Dept. of Revenue.

Arizona Water Company - Ajo
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL- 11

OPERATING INCOME ADJUSTMENT NO. 4 and 5 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTED
1	Federal Income Taxes	$ 9,756	$ (865)	$ 8,891
2	State Income Taxes	1,409	550	1,959
3	Total Income Taxes	$ 11,165	$ (315)	$ 10,850

Michel

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS.	DOCKET NO. W-01445A-04-0650 **Staff's Notice of Late Filing Schedules**

The Utilities Division ("Staff") hereby provides notice of late filing of Staff's rate design and typical bill analysis schedules. These schedules relate to the direct testimony of Ronald E. Ludders; however, Staff was unfortunately unable to include them with the direct testimony that Staff filed yesterday. Staff apologizes for the delay.

RESPECTFULLY SUBMITTED this 21st day of April 2005.

Timothy J. Sabo
Diane M. Targovnik
Attorneys, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

The original and thirteen (13) copies of the foregoing were filed this 21st day of April 2005 with:

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

Copies of the foregoing were mailed this 21st day of April 2005 to:

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Viola R. Kizis
Viola R. Kizis
Secretary to Timothy J. Sabo

RATE DESIGN

	Minimum Monthly Usage Charge		
	Present	---Proposed Rates---	
Monthly Usage Charge:	Rates	Company	Staff
5/8" x 3/4" Meter	$ 10.36	$ 13.03	$ 10.50
1" Meter	$ 24.86	$ 31.92	$ 25.00
2" Meter	$ 62.15	$ 91.21	$ 70.00
3" Meter	$ 103.58	$ 162.88	$ 125.00
4" Meter	$ 207.16	$ 293.18	$ 240.00
6" Meter	$ 362.53	$ 553.78	$ 375.00
8" Meter	$ 362.53	$ 749.23	$ 600.00
10" Meter	$ 673.27	$ 1,687.41	$ 837.19
Gallons Included In Minimum Charge:			
5/8" x 3/4" Meter	1,000	0	0
1" Meter	1,000	0	0
2" Meter	1,000	0	0
3" Meter	1,000	0	0
4" Meter	1,000	0	0
6" Meter	1,000	0	0
8" Meter	1,000	0	0
10" Meter	1,000	0	0
Fire Hydrants Used For Construction Water	1,000	0	0
Commodity Rates : 5/8 x 3/4 Inch Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 1.5590	N/A	N/A
Per 1,000 Gallons for 0 to 3,000 Gallons	$ 1.5590	$ 1.8250	$ 1.2500
Per 1,000 Gallons for 3,001 to 10,000 Gallons	$ 1.5590	$ 1.8250	$ 1.5000
Per 1,000 Gallons for Gallons in Excess of 10,000	$ 1.5590	$ 1.8250	$ 2.2500
Commodity Rates : 1 Inch Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 1.5590	N/A	N/A
Per 1,000 Gallons for 0 to 30,000 Gallons	$ 1.5590	$ 1.8250	$ 1.5000
Per 1,000 Gallons for Gallons in Excess of 30,000	$ 1.5590	$ 1.8250	$ 2.2500
Commodity Rates : 2 Inch Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 1.5590	N/A	N/A
Per 1,000 Gallons for 0 to 150,000 Gallons	$ 1.5590	$ 1.8250	$ 1.5000
Per 1,000 Gallons for Gallons in Excess of 150,000	$ 1.5590	$ 1.8250	$ 2.2500
Commodity Rates : 3 Inch Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 1.5590	N/A	N/A
Per 1,000 Gallons for 0 to 300,000 Gallons	$ 1.5590	$ 1.8250	$ 1.5000
Per 1,000 Gallons for Gallons in Excess of 300,000	$ 1.5590	$ 1.8250	$ 2.2500

Arizona Water Company - Casa Grande
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-17

TYPICAL BILL ANALYSIS
General Service 5/8 x 3/4 - Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	10,709	$25.50	$32.57	$7.08	27.8%
Median Usage	7,370	$20.29	$26.48	$6.19	30.5%
Staff Proposed					
Average Usage	10,709	$25.50	$26.35	$0.85	3.3%
Median Usage	7,370	$20.29	$20.80	$0.51	2.5%

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	$10.36	$13.03	25.8%	$10.50	1.4%
1,000	10.36	14.86	43.4%	11.75	13.4%
2,000	11.92	16.68	39.9%	13.00	9.1%
3,000	13.48	18.51	37.3%	14.25	5.7%
4,000	15.04	20.33	35.2%	15.75	4.7%
5,000	16.60	22.16	33.5%	17.25	3.9%
6,000	18.16	23.98	32.1%	18.75	3.3%
7,000	19.71	25.81	30.9%	20.25	2.7%
8,000	21.27	27.63	29.9%	21.75	2.2%
9,000	22.83	29.46	29.0%	23.25	1.8%
10,000	24.39	31.28	28.2%	24.75	1.5%
15,000	32.19	40.41	25.5%	36.00	11.8%
20,000	39.98	49.53	23.9%	47.25	18.2%
25,000	47.78	58.66	22.8%	58.50	22.4%
50,000	86.75	104.28	20.2%	114.75	32.3%
75,000	125.73	149.91	19.2%	171.00	36.0%
100,000	164.70	195.53	18.7%	227.25	38.0%

RATE DESIGN

	Minimum Monthly Usage Charge		
	Present	---Proposed Rates---	
Monthly Usage Charge:	Rates	Company	Staff
5/8" x 3/4" Meter	$ 14.50	$ 15.95	$ 15.00
1" Meter	$ 36.25	$ 39.88	$ 43.00
2" Meter	$ 116.01	$ 127.60	$ 133.00
3" Meter	$ 155.37	$ 250.63	$ 220.51
4" Meter	$ 207.16	$ 384.36	$ 286.45
6" Meter	$ 492.01	$ 818.64	$ 335.79
8" Meter	$ 621.48	$ 1,203.00	$ 625.36
10" Meter	$ 673.27	$ 1,687.41	$ 837.19
Gallons Included In Minimum Charge:			
5/8" x 3/4" Meter	1,000	0	0
1" Meter	1,000	0	0
2" Meter	1,000	0	0
3" Meter	1,000	0	0
4" Meter	1,000	0	0
6" Meter	1,000	0	0
8" Meter	1,000	0	0
10" Meter	1,000	0	0
Fire Hydrants Used For Construction Water	1,000	0	0
Commodity Rates : 5/8 x 3/4 Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 3.0140	N/A	N/A
Per 1,000 Gallons for 0 to 3,000 Gallons	$ 3.0140	$ 3.0160	$ 2.0000
Per 1,000 Gallons for 3,001 to 10,000 Gallons	$ 3.0140	$ 3.0160	$ 2.8000
Per 1,000 Gallons for Gallons in Excess of 10,000	$ 3.0140	$ 3.0160	$ 3.6000
Commodity Rates : 1 Inch Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 3.0140	N/A	N/A
Per 1,000 Gallons for 0 to 30,000 Gallons	$ 3.0140	$ 3.0160	$ 2.8000
Per 1,000 Gallons for Gallons in Excess of 30,000	$ 3.0140	$ 3.0160	$ 3.6000
Commodity Rates : 2 Inch Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 3.0140	N/A	N/A
Per 1,000 Gallons for 0 to 50,000 Gallons	$ 3.0140	$ 3.0160	$ 2.8000
Per 1,000 Gallons for Gallons in Excess of 50,000	$ 3.0140	$ 3.0160	$ 3.6000
Service Line and Meter Installation Charge:			
5/8" x 3/4" Meter	(a)	(a)	(a)
1" Meter	(a)	(a)	(a)
2" Meter	(b)	(b)	(b)
3" Meter	(b)	(b)	(b)
4" Meter	(b)	(b)	(b)
6" Meter	(b)	(b)	(b)

(a) No charge for 5/8" and 1" if on existing pipelines. Full cost for 5/8" and 1" if if on new pipelines.

(b) Full cost for 2"and larger if on existing or new pipelines.

RATE DESIGN
CONTINUED

	Present Rates	---Proposed Rates---	
		Company	Staff
Service Charges:			
Establishment	$ 16.00	$ 16.00	$ 16.00
Guarantee Deposit	(c)	(c)	(c)
Reconnection for Delinquency (per disconnection)	$ 16.00	$ 16.00	$ 16.00
Re-establishement	(d)	(d)	(d)
Service Call Out (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00
Returned Check Charge	$ 10.00	$ 25.00	$ 25.00
Meter Re-read (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00
Meter Test	$ 50.00	$ 50.00	$ 50.00
Late Charge	N/A	(e)	(e)

(c) Per Commission Rule A.A.C. R14-2-403B
(d) Eight (8) times the customer's monthly minimum charge,
or payment of the minimums since disconnection, whichever is less.
N/A No current tariff.
(e) 1.5 percent after 15 days

Arizona Water Company - Stanfield
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-13

TYPICAL BILL ANALYSIS
General Service 5/8 x 3/4 - Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	9,933	$41.43	$45.91	$4.48	10.8%
Median Usage	7,521	$34.15	$38.63	$4.48	13.1%
Staff Proposed					
Average Usage	9,933	$41.43	$40.41	($1.01)	-2.4%
Median Usage	7,521	$34.15	$33.66	($0.50)	-1.5%

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	$14.50	$15.95	10.0%	$15.00	3.4%
1,000	14.50	18.97	30.8%	17.00	17.2%
2,000	17.51	21.98	25.5%	19.00	8.5%
3,000	20.53	25.00	21.8%	21.00	2.3%
4,000	23.54	28.01	19.0%	23.80	1.1%
5,000	26.56	31.03	16.8%	26.60	0.2%
6,000	29.57	34.05	15.1%	29.40	-0.6%
7,000	32.58	37.06	13.7%	32.20	-1.2%
8,000	35.60	40.08	12.6%	35.00	-1.7%
9,000	38.61	43.09	11.6%	37.80	-2.1%
10,000	41.63	46.11	10.8%	40.60	-2.5%
15,000	56.70	61.19	7.9%	58.60	3.4%
20,000	71.77	76.27	6.3%	76.60	6.7%
25,000	86.84	91.35	5.2%	94.60	8.9%
50,000	162.19	166.75	2.8%	184.60	13.8%
75,000	237.54	242.15	1.9%	274.60	15.6%
100,000	312.89	317.55	1.5%	364.60	16.5%

RATE DESIGN

	Minimum Monthly Usage Charge		
	Present	---Proposed Rates---	
Monthly Usage Charge:	Rates	Company	Staff
5/8" x 3/4" Meter	$ 16.50	$ 20.90	$ 17.00
1" Meter	$ 31.07	$ 46.40	$ 36.00
2" Meter	$ 82.86	$ 137.52	$ 90.00
3" Meter	$ 155.37	$ 257.91	$ 200.00
4" Meter	$ 207.16	$ 384.36	$ 286.45
6" Meter	$ 492.01	$ 818.64	$ 335.79
8" Meter	$ 621.48	$ 1,203.00	$ 625.36
10" Meter	$ 673.27	$ 1,687.41	$ 837.19
Gallons Included In Minimum Charge:			
5/8" x 3/4" Meter	1,000	0	0
1" Meter	1,000	0	0
2" Meter	1,000	0	0
3" Meter	1,000	0	0
4" Meter	1,000	0	0
6" Meter	1,000	0	0
8" Meter	1,000	0	0
10" Meter	1,000	0	0
Fire Hydrants Used For Construction Water	1,000	0	0
Commodity Rates : 5/8 x 3/4 Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 2.4240	N/A	N/A
Per 1,000 Gallons for 0 to 3,000 Gallons	$ 2.4240	$ 2.9210	$ 1.5000
Per 1,000 Gallons for 3,001 to 10,000 Gallons	$ 2.4240	$ 2.9210	$ 2.2500
Per 1,000 Gallons for Gallons in Excess of 10,000	$ 2.4240	$ 2.9210	$ 3.3000
Commodity Rates : 1 Inch Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 2.4240	N/A	N/A
Per 1,000 Gallons for 0 to 25,000 Gallons	$ 2.4240	$ 2.9210	$ 2.2500
Per 1,000 Gallons for Gallons in Excess of 25,000	$ 2.4240	$ 2.9210	$ 3.3000
Commodity Rates : 2 Inch Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 2.4240	N/A	N/A
Per 1,000 Gallons for 0 to 100,000 Gallons	$ 2.4240	$ 2.9210	$ 2.2500
Per 1,000 Gallons for Gallons in Excess of 100,000	$ 2.4240	$ 2.9210	$ 3.3000
Commodity Rates : 3 Inch Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 2.4240	N/A	N/A
Per 1,000 Gallons for 0 to 200,000 Gallons	$ 2.4240	$ 2.9210	$ 2.2500
Per 1,000 Gallons for Gallons in Excess of 200,000	$ 2.4240	$ 2.9210	$ 3.3000

RATE DESIGN
CONTINUED

	Present Rates	---Proposed Rates--- Company	Staff
Service Line and Meter Installation Charge:			
5/8" x 3/4" Meter	(a)	(a)	(a)
1" Meter	(a)	(a)	(a)
2" Meter	(b)	(b)	(b)
3" Meter	(b)	(b)	(b)
4" Meter	(b)	(b)	(b)
6" Meter	(b)	(b)	(b)

(a) No charge for 5/8" and 1" if on existing pipelines. Full cost for 5/8" and 1" if if on new pipelines.
(b) Full cost for 2"and larger if on existing or new pipelines.

Service Charges:			
Establishment	$ 16.00	$ 16.00	$ 16.00
Guarantee Deposit	(c)	(c)	(c)
Reconnection for Delinquency (per disconnection)	$ 16.00	$ 16.00	$ 16.00
Re-establishement	(d)	(d)	(d)
Service Call Out (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00
Returned Check Charge	$ 10.00	$ 25.00	$ 25.00
Meter Re-read (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00
Meter Test	$ 50.00	$ 50.00	$ 50.00
Late Charge	N/A	(e)	(e)

(c) Per Commission Rule A.A.C. R14-2-403B
(d) Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
N/A No current tariff.
(e) 1.5 percent after 15 days

Arizona Water Company - White Tank
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-16

TYPICAL BILL ANALYSIS
General Service 5/8 x 3/4 - Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	13,035	$45.22	$58.98	$13.75	30.4%
Median Usage	8,684	$34.68	$46.27	$11.59	33.4%
Staff Proposed					
Average Usage	13,035	$45.22	$47.27	$2.04	4.5%
Median Usage	8,684	$34.68	$34.29	($0.39)	-1.1%

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	$16.05	$20.90	30.2%	$17.00	5.9%
1,000	16.05	23.82	48.4%	18.50	15.3%
2,000	18.47	26.74	44.8%	20.00	8.3%
3,000	20.90	29.66	41.9%	21.50	2.9%
4,000	23.32	32.58	39.7%	23.75	1.8%
5,000	25.75	35.51	37.9%	26.00	1.0%
6,000	28.17	38.43	36.4%	28.25	0.3%
7,000	30.59	41.35	35.1%	30.50	-0.3%
8,000	33.02	44.27	34.1%	32.75	-0.8%
9,000	35.44	47.19	33.1%	35.00	-1.2%
10,000	37.87	50.11	32.3%	37.25	-1.6%
15,000	49.99	64.72	29.5%	53.75	7.5%
20,000	62.11	79.32	27.7%	70.25	13.1%
25,000	74.23	93.93	26.5%	86.75	16.9%
50,000	134.83	166.95	23.8%	169.25	25.5%
75,000	195.43	239.98	22.8%	251.75	28.8%
100,000	256.03	313.00	22.3%	334.25	30.6%

RATE DESIGN

	Minimum Monthly Usage Charge		
	Present	---Proposed Rates---	
Monthly Usage Charge:	Rates	Company	Staff
5/8" x 3/4" Meter	$ 10.88	$ 14.79	$ 11.00
1" Meter	$ 26.93	$ 36.83	$ 24.00
2" Meter	$ 88.04	$ 119.06	$ 85.00
3" Meter	$ 165.73	$ 223.62	$ 160.00
4" Meter	$ 274.49	$ 371.38	$ 255.00
6" Meter	$ 543.80	$ 739.35	$ 650.00
8" Meter	$ 621.48	$ 1,203.00	$ 625.36
10" Meter	$ 673.27	$ 1,687.41	$ 837.19
Gallons Included In Minimum Charge:			
5/8" x 3/4" Meter	1,000	0	0
1" Meter	1,000	0	0
2" Meter	1,000	0	0
3" Meter	1,000	0	0
4" Meter	1,000	0	0
6" Meter	1,000	0	0
8" Meter	1,000	0	0
10" Meter	1,000	0	0
Fire Hydrants Used For Construction Water	1,000	0	0
Commodity Rates : 5/8 x 3/4 Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 2.0920	N/A	N/A
Per 1,000 Gallons for 0 to 3,000 Gallons	$ 2.0920	$ 2.6340	$ 1.2500
Per 1,000 Gallons for 3,001 to 10,000 Gallons	$ 2.0920	$ 2.6340	$ 2.0000
Per 1,000 Gallons for Gallons in Excess of 10,000	$ 2.0920	$ 2.6340	$ 3.0000
Commodity Rates : 1 Inch Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 2.0920	N/A	N/A
Per 1,000 Gallons for 0 to 25,000 Gallons	$ 2.0920	$ 2.6340	$ 2.0000
Per 1,000 Gallons for Gallons in Excess of 25,000	$ 2.0920	$ 2.6340	$ 3.0000
Commodity Rates : 2 Inch Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 2.0920	N/A	N/A
Per 1,000 Gallons for 0 to 150,000 Gallons	$ 2.0920	$ 2.6340	$ 2.0000
Per 1,000 Gallons for Gallons in Excess of 150,000	$ 2.0920	$ 2.6340	$ 3.0000
Commodity Rates : 3 Inch Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 2.0920	N/A	N/A
Per 1,000 Gallons for 0 to 225,000 Gallons	$ 2.0920	$ 2.6340	$ 2.0000
Per 1,000 Gallons for Gallons in Excess of 225,000	$ 2.0920	$ 2.6340	$ 3.0000

RATE DESIGN
CONTINUED

	Present Rates	---Proposed Rates--- Company	Staff
Commodity Rates : 4 and 6 Inch Meters			
Per 1,000 Gallons (In Excess of Minimum)	$ 2.0920	N/A	N/A
Per 1,000 Gallons for 0 to 700,000 Gallons	$ 2.0920	$ 2.6340	$ 2.0000
Per 1,000 Gallons for Gallons in Excess of 700,000	$ 2.0920	$ 2.6340	$ 3.0000
Service Line and Meter Installation Charge:			
5/8" x 3/4" Meter	(a)	(a)	(a)
1" Meter	(a)	(a)	(a)
2" Meter	(b)	(b)	(b)
3" Meter	(b)	(b)	(b)
4" Meter	(b)	(b)	(b)
6" Meter	(b)	(b)	(b)

(a) No charge for 5/8" and 1" if on existing pipelines. Full cost for 5/8" and 1" if if on new pipelines.
(b) Full cost for 2"and larger if on existing or new pipelines.

Service Charges:			
Establishment	$ 16.00	$ 16.00	$ 16.00
Guarantee Deposit	(c)	(c)	(c)
Reconnection for Delinquency (per disconnection)	$ 16.00	$ 16.00	$ 16.00
Re-establishement	(d)	(d)	(d)
Service Call Out (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00
Returned Check Charge	$ 10.00	$ 25.00	$ 25.00
Meter Re-read (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00
Meter Test	$ 50.00	$ 50.00	$ 50.00
Late Charge	N/A	(e)	(e)

(c) Per Commission Rule A.A.C. R14-2-403B
(d) Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
N/A No current tariff.
(e) 1.5 percent after 15 days

RATE DESIGN
CONTINUED

Service Charges:	Present Rates	---Proposed Rates--- Company	Staff
Establishment	$ 16.00	$ 16.00	$ 16.00
Guarantee Deposit	(c)	(c)	(c)
Reconnection for Delinquency (per disconnection)	$ 16.00	$ 16.00	$ 16.00
Re-establishement	(d)	(d)	(d)
Service Call Out (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00
Returned Check Charge	$ 10.00	$ 25.00	$ 25.00
Meter Re-read (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00
Meter Test	$ 50.00	$ 50.00	$ 50.00
Late Charge	N/A	(e)	(e)

(c) Per Commission Rule A.A.C. R14-2-403B
(d) Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
N/A No current tariff.
(e) 1.5 percent after 15 days

Arizona Water Company - Coolidge
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-16

TYPICAL BILL ANALYSIS
General Service 5/8 x 3/4 - Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	10,080	$29.88	$41.34	$11.47	38.4%
Median Usage	7,307	$24.07	$34.04	$9.96	41.4%
Staff Proposed					
Average Usage	10,080	$29.88	$28.99	($0.89)	-3.0%
Median Usage	7,307	$24.07	$23.36	($0.71)	-3.0%

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	$10.88	$14.79	35.9%	$11.00	1.1%
1,000	10.88	17.42	60.1%	12.25	12.6%
2,000	12.97	20.06	54.6%	13.50	4.1%
3,000	15.06	22.69	50.6%	14.75	-2.1%
4,000	17.16	25.33	47.6%	16.75	-2.4%
5,000	19.25	27.96	45.3%	18.75	-2.6%
6,000	21.34	30.59	43.4%	20.75	-2.8%
7,000	23.43	33.23	41.8%	22.75	-2.9%
8,000	25.52	35.86	40.5%	24.75	-3.0%
9,000	27.62	38.50	39.4%	26.75	-3.1%
10,000	29.71	41.13	38.4%	28.75	-3.2%
15,000	40.17	54.30	35.2%	43.75	8.9%
20,000	50.63	67.47	33.3%	58.75	16.0%
25,000	61.09	80.64	32.0%	73.75	20.7%
50,000	113.39	146.49	29.2%	148.75	31.2%
75,000	165.69	212.34	28.2%	223.75	35.0%
100,000	217.99	278.19	27.6%	298.75	37.0%

RATE DESIGN

	Minimum Monthly Usage Charge		
	Present	---Proposed Rates---	
Monthly Usage Charge:	Rates	Company	Staff
5/8" x 3/4" Meter	$ 18.02	$ 21.90	$ 21.00
1" Meter	$ 46.61	$ 55.63	$ 52.00
2" Meter	$ 140.87	$ 173.20	$ 170.00
3" Meter	$ 155.37	$ 250.63	$ 220.51
4" Meter	$ 207.16	$ 384.36	$ 286.45
6" Meter	$ 492.01	$ 818.64	$ 335.79
8" Meter	$ 621.48	$ 1,203.00	$ 625.36
10" Meter	$ 673.27	$ 1,687.41	$ 837.19
Gallons Included In Minimum Charge:			
5/8" x 3/4" Meter	1,000	0	0
1" Meter	1,000	0	0
2" Meter	1,000	0	0
3" Meter	1,000	0	0
4" Meter	1,000	0	0
6" Meter	1,000	0	0
8" Meter	1,000	0	0
10" Meter	1,000	0	0
Fire Hydrants Used For Construction Water	1,000	0	0
Commodity Rates : 5/8 x 3/4 Meter			
Per 1,000 Gallons (In Excess of Minimum)	$ 5.4560	N/A	N/A
Per 1,000 Gallons for 0 to 3,000 Gallons	$ 5.4560	$ 5.7450	$ 4.5000
Per 1,000 Gallons for 3,001 to 10,000 Gallons	$ 5.4560	$ 5.7450	$ 5.5000
Per 1,000 Gallons for Gallons in Excess of 10,000	$ 5.4560	$ 5.7450	$ 6.5000
Commodity Rates for 1 Inch and 2 Inch Meters			
Per 1,000 Gallons (In Excess of Minimum)	$ 5.4560	N/A	N/A
Per 1,000 Gallons for 0 to 25,000 Gallons	$ 5.4560	$ 5.7450	$ 5.5000
Per 1,000 Gallons for Gallons in Excess of 25,000	$ 5.4560	$ 5.7450	$ 6.5000
Service Line and Meter Installation Charge:			
5/8" x 3/4" Meter	(a)	(a)	(a)
1" Meter	(a)	(a)	(a)
2" Meter	(b)	(b)	(b)
3" Meter	(b)	(b)	(b)
4" Meter	(b)	(b)	(b)
6" Meter	(b)	(b)	(b)

(a) No charge for 5/8" and 1" if on existing pipelines. Full cost for 5/8" and 1" if if on new pipelines.
(b) Full cost for 2"and larger if on existing or new pipelines.

RATE DESIGN
CONTINUED

	Present Rates	---Proposed Rates---	
		Company	Staff
Service Charges:			
Establishment	$ 16.00	$ 16.00	$ 16.00
Guarantee Deposit	(c)	(c)	(c)
Reconnection for Delinquency (per disconnection)	$ 16.00	$ 16.00	$ 16.00
Re-establishement	(d)	(d)	(d)
Service Call Out (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00
Returned Check Charge	$ 10.00	$ 25.00	$ 25.00
Meter Re-read (After Regular Working Hours Only)	$ 35.00	$ 35.00	$ 35.00
Meter Test	$ 50.00	$ 50.00	$ 50.00
Late Charge	N/A	(e)	(e)

(c) Per Commission Rule A.A.C. R14-2-403B
(d) Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.
N/A No current tariff.
(e) 1.5 percent after 15 days

Arizona Water Company - Ajo
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-13

TYPICAL BILL ANALYSIS
General Service 5/8 x 3/4 - Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	20,021	$244.65	$288.25	$43.60	17.8%
Median Usage	14,333	$213.62	$255.58	$41.96	19.6%
Staff Proposed					
Average Usage	20,021	$244.65	$280.14	$35.49	14.5%
Median Usage	14,333	$213.62	$248.83	$35.22	16.5%

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Proposed Rates	% Increase
0	$140.87	$173.23	23.0%	$170.00	20.7%
1,000	140.87	178.98	27.0%	175.50	24.6%
2,000	146.33	184.72	26.2%	181.00	23.7%
3,000	151.78	190.47	25.5%	186.50	22.9%
4,000	157.24	196.21	24.8%	192.00	22.1%
5,000	162.69	201.96	24.1%	197.50	21.4%
6,000	168.15	207.70	23.5%	203.00	20.7%
7,000	173.61	213.45	22.9%	208.50	20.1%
8,000	179.06	219.19	22.4%	214.00	19.5%
9,000	184.52	224.94	21.9%	219.50	19.0%
10,000	189.97	230.68	21.4%	225.00	18.4%
15,000	217.25	259.41	19.4%	252.50	16.2%
20,000	244.53	288.13	17.8%	280.00	14.5%
25,000	271.81	316.86	16.6%	312.50	15.0%
50,000	408.21	460.48	12.8%	475.00	16.4%
75,000	544.61	604.11	10.9%	637.50	17.1%
100,000	681.01	747.73	9.8%	800.00	17.5%

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CITY OF CASA GRANDE, an Arizona Municipal Corporation, Complainant, v. ARIZONA WATER COMPANY, an Arizona Corporation, Respondent.	W-01445A-00-0391 **ARIZONA WATER COMPANY'S (1) OPPOSITION TO THE CITY OF CASA GRANDE'S APPLICATION FOR A TRO, PRELIMINARY INJUNCTION AND ORDER TO SHOW CAUSE, AND (2) REPLY IN SUPPORT OF ITS RENEWED MOTION TO DISMISS**

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Respondent Arizona Water Company submits the following (1) opposition to the application by the City of Casa Grande (the "City") for a TRO, preliminary injunction and order to show cause and (2) reply in support of its renewed motion to the City's complaint.

In its combined application for injunctive relief and response memorandum, the City has failed to respond specifically to the arguments raised in Arizona Water Company's renewed motion to dismiss, and the renewed motion should be granted for that reason. Rather than responding to Arizona Water Company's renewed motion, the City instead seeks a TRO and preliminary injunction to restrain Arizona Water Company from making certain arguments "before any tribunal other than the Commission." Application at 2. The City's requested relief would result in an improper and unconstitutional prior restraint on speech in violation of the First Amendment to the United States Constitution, as well as several

sections of Article II of the Arizona Constitution. Moreover, this Commission lacks jurisdiction to issue the City's requested TRO and preliminary injunction and the City cannot show irreparable harm entitling it to such relief. For these reasons, the City's application should be denied.

I. The City's Application for a TRO and Preliminary Injunction Before the Commission Must be Denied.

A. The City Has Requested an Unconstitutional Prior Restraint Which, If Granted, Would Violate Both the Federal and State Constitutions.

The United States Supreme Court held long ago that "Any system of prior restraints of expression comes to this Court bearing a heavy presumption against its constitutional validity." New York Times Co. v. United States, 403 U.S. 713, 714 (1971). Thus, the government "carries a heavy burden of showing justification for the imposition of such a restraint." Id.; see also Bantam Books v. Sullivan, 372 U.S. 58, 70 (1963)(a prior restraint "is a form of regulation that creates hazards to protected freedoms markedly greater than those that attend reliance upon criminal law"); Near v. Minnesota, 283 U.S. 697, 713 (1931)("This is the essence of censorship"). The prevention of prior restraints is the "main purpose of the First Amendment." Nebraska Press Ass'n v. Stuart, 427 U.S. 539, 557 (1976)(brackets and quotation marks removed). In fact, "prior restraints on speech and publication are the most serious and least tolerable infringement on First Amendment rights." Id. at 559. Moreover, injunctions against particular speech "carry greater risks of censorship and discriminatory application than do general ordinances." Madsen v. Women's Health Center, Inc., 512 U.S. 753, 764 (1994).

The relief the City seeks is remarkable, as well as unlawful: it asks the Commission, an administrative agency with no injunctive powers in these circumstances, to bar Arizona Water Company from "contending before any tribunal other than the Commission" for the Company's legal rights. Application at 1. The City argues that it "has incurred and will continue to incur substantial litigation expenses in defending against AWC's attempts to have

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this question decided by a court," Id. at 22, and therefore the Commission should enjoin "AWC from pursuing this issue in court." Id.

It is difficult to conceive of a more egregious and unconstitutional demand for a prior restraint, as a recent United States Supreme Court decision makes clear. In Legal Services Corp. v. Velazquez, 121 S. Ct. 1043 (2001), Congress sought to prevent any attorney receiving funding from the Legal Services Corporation from making certain arguments in court. Id. at 1046. The Court held that the restrictions amounted to an improper viewpoint-based restriction on speech in violation of the First Amendment. Id. The Court described the Congressional action as seeking "to use an existing medium of expression and to control it, in a class of cases, in ways which distort its usual functioning." Id. at 1049. The restriction not only violated the constitutional rights of the attorneys and their clients, but also twisted the underpinnings of our legal system:

> Restricting [Legal Service Corporation] attorneys in advising their clients and in presenting arguments and analyses to the courts distorts the legal system by altering the traditional role of attorneys . . . . [Government] may not design a subsidy to effect this serious and fundamental restriction on advocacy by attorneys and the functioning of the judiciary.

Id. at 1050. By seeking to prevent attorneys from making certain arguments in court, the restrictions also breached the separation of powers and encroached upon the role of the courts:

> Interpretation of the law and the Constitution is the primary mission of the judiciary when it acts within the sphere of its authority to resolve a case or controversy. Marbury v. Madison, 1 Cranch 137, 177, 2 L Ed. 60 (1803)("It is emphatically the province and duty of the judicial department to say what the law is"). An informed, independent judiciary presumes an informed, independent bar. . . . By seeking to prohibit the analysis of certain legal issues and to truncate presentation to the courts, the enactment under review prohibits speech and expression upon which the courts must depend for the proper exercise of the judicial power. Congress cannot wrest the law from the Constitution which is its source. . . . A scheme so inconsistent with accepted separation of powers principles is an insufficient basis to sustain or uphold the restriction on speech.

Id. at 1051.

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The United States Supreme Court held that "The Constitution does not permit the Government to confine litigants and their attorneys in this manner. . . . Where private speech is involved, even Congress' antecedent funding decision cannot be aimed at the suppression of ideas thought inimical to the Government's own interest." Id. at 1052. The City's actions here are not even as subtle as a funding regulation; instead, it blatantly seeks an order from the Commission providing for the direct prior restraint of Arizona Water Company's legal rights to seek relief in the court system. Besides violating the United States Constitution, the City's request violates numerous provisions of Article 2 of the Arizona Constitution, including due process of law contained in Section 4, the right to petition the courts contained in Section 5, freedom of speech contained in Section 6, the open administration of justice contained in Section 11, and various restrictions on the power of eminent domain contained in Section 17.

The City's requested injunction is breathtaking in its unconstitutionality. In Legal Services Corporation v. Velazquez, Congress at least funded the attorneys it sought to restrain. Here, the City lacks even that argument. Instead, the City asks that this Commission, a branch of the state executive department, issue an injunction prohibiting Arizona Water Company's attorneys from making certain arguments in state and federal courts. The City's requested injunction would even have the Commission set the rules of procedure and limits of argument in federal courts which, of course, would violate the Supremacy Clause. See U.S. Constitution, art. VI, section 2. By seeking such an injunction, the City would "insulate [itself] from legitimate judicial challenge," id. at 1052, impose a gag order on Arizona Water Company, distort the judicial process and invade the province of the courts.

B. The Commission Lacks Jurisdiction to Grant the City's Requested Relief.

The City contends that the Commission has power to grant the City its requested relief, citing various procedural rules promulgated by the Commission concerning procedure, evidence and the enforcement of subpoenas. Application at 2 n.1. The City conspicuously fails to cite Article 15 of the Arizona Constitution, or any Arizona statutes. Indeed, nothing

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in the Arizona Constitution grants to the Commission the power to issue injunctions, particularly prior restraints prohibiting a party from petitioning the courts. Similarly, nothing in Title 40 of the Arizona Revised Statutes grants the Commission such powers over public service corporations.

Moreover, A.R.S. § 40-422 strongly suggests that the Commission has no such power. Rather, that statute directs the Commission to file an action in court if it wants an injunction:

> When the commission is of the opinion that a public service corporation is failing or about to fail to do anything required of it by law or an order or requirement of the commission, or is doing or about to do or permitting or about to permit anything to be done contrary to law or any order or requirement of the commission, it shall commence a proceeding in the name of the state to have such violations or threatened violations prevented, either by mandamus or injunction. The commission shall bring the action in superior court . . . .

A.R.S. § 40-422(A)(emphasis added); see also Visco v. State ex rel. Pickrell, 95 Ariz. 154, 388 P.2d 155 (1963)(Attorney General acted on request of the Corporation Commission and brought suit against a corporation seeking to enjoin it from operating as a common carrier without receiving a certificate or permit from the Commission). Arizona law would not require the Commission to seek an injunction in superior court if the Commission could simply issue such injunctions on its own. Under any common sense reading of A.R.S. § 40-422, the Commission lacks power to issue the TRO and preliminary injunction sought by the City.

Arizona Public Service Co. v. Southern Union Gas Co., 76 Ariz. 373, 265 P.2d 435 (1954), the case the City primarily relies upon for its arguments, has no application to this matter. There, after the Commission decided between competing CC&N applications for natural gas service in Prescott, the losing CC&N applicant brought a separate court action seeking the same relief it failed to achieve before the Commission. The new court action sought injunctive and declaratory relief, as opposed to seeking a rehearing or appealing the Commission's decision in superior court. Under those circumstances, the state courts properly refused to interfere with the Commission's decision.

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Here the City seeks the opposite result: for the Commission to intrude into the affairs of active state and federal court cases, enjoin Arizona Water Company from making arguments in those courts, and take jurisdiction over matters in which it has no statutory authority. This is not a case of Arizona Water Company seeking an end run of a Commission ruling in court, as in Southern Union Gas Co.. Nor does the doctrine of exhaustion of administrative remedies apply here. Application at 6. There is no Commission order being appealed, and the City's argument that the legal issue of whether effluent is water under current Arizona law is "in connection with a CC&N issued by the Commission," Application at 6, is a smoke screen.

C. The City Cannot Show Irreparable Harm Entitling It to Injunctive Relief.

Even if the Commission could hear the City's application, to prevail on a request for a TRO or a preliminary injunction, a party must establish "the strong possibility of irreparable injury not remediable by damages." Powell-Cerkoney v. TCR-Montana Ranch Joint Venture, 176 Ariz. 275, 280, 860 P.2d 1328, 1333 (App. 1993). The courts have repeatedly held that legal expenses and attorney's fees -- the only "irreparable harm" cited by the City -- do not constitute irreparable injury. See, e.g., Renegotiation Board v. Bannercraft Clothing Co., 415 U.S. 1, 24 (1974)("Mere litigation expense, even substantial and unrecoupable cost, does not constitute irreparable injury"); Entergy, Arkansas v. Nebraska, 210 F.3d 887, 899 (8th Cir. 2000)(the "expense of prosecuting an action" does not constitute irreparable harm); Tejidos de Caomo, Inc. v. International Ladies' Garment Workers' Union, 22 F.3d 8, 14 (1st Cir. 1994)("courts have ordinarily not deemed litigation expense to be substantial and irreparable injury warranting an injunction"); Arnold v. Commodity Futures Trading Comm'n, 987 F. Supp. 1463, 1468 (S.D. Fla. 1997) (mere litigation expenses do not amount to irreparable injury).

The City's claimed irreparable injury consists solely of "irreparable harm in the form of substantial legal and other expenses in contesting this issue with AWC." Application at 3. The City claims that it "has incurred and will continue to incur substantial litigation expenses in defending against AWC's attempts to have this question decided by a court." Id. at 22.

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Such litigation expenses, even if substantial and unrecoupable, do not entitle the City to injunctive relief, particularly an unconstitutional prior restraint issued by a body which lacks jurisdiction to grant such relief. The City's claim is especially remarkable in that the City is the cause of all of these fees; rather than holding a public election and condemning Arizona Water Company's rights legally, the City continues to persist in a filing spree of complaints and objections, spending public funds in an attempt to economically coerce a public service corporation into yielding its property rights for no compensation.

II. The City Has Failed to Respond to Arizona Water Company's Renewed Motion to Dismiss, and Therefore the Renewed Motion Should Be Granted.

The City premised its complaint against Arizona Water Company on two statutes, A.R.S. §§ 40-246(A) and 40-252. The first statute provides that "any person" may file a complaint with the Commission "setting forth any act or thing done or omitted to be done by any public service corporation in violation or claimed to be in violation of any provision of law or any order or rule of the commission . . . ." A.R.S. § 40-246(A). Arizona Water Company pointed out in its renewed motion to dismiss that the City failed to identify any violation of any law, order or rule by Arizona Water Company. In response, the City argued that "AWC is attempting to illegally expand the breadth of its CC&N <u>by contending before the Commission in this proceeding and the state and federal courts that its CC&N includes effluent</u> . . . ." Application at 20. The Commission should dismiss the City's frivolous argument. Arizona Water Company's presentation of its position in litigation does not constitute a violation of law, order or rule within the meaning of the statute. Nor is Arizona Water Company attempting to serve effluent without a tariff in place. As previously noted, the Commission has approved Arizona Water Company's tariff for effluent service in Apache Junction and the Company will consider filing separate tariffs for future effluent service as required by its customers. There is simply no "violation of any provision of law or any order or rule" being alleged by the City.

Similarly, A.R.S. § 40-252 provides that the Commission may "rescind, alter or amend any order or decision made by it." The City claims that it "is asking the Commission

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to alter, amend or clarify AWC's CC&N to exclude effluent" (emphasis added). Application at 21. Tellingly, the word "clarify" does not appear in this statute. The City has contended in court that Arizona Water Company's CC&N does not provide for effluent service. The City is grossly mischaracterizing and abusing the meaning of A.R.S. § 40-252, which does not provide for advisory "clarification" of public policy issues.

Finally, the City continues to claim that Arizona Water Company has violated its Arizona Department of Water Resources gallons per capita per day requirements. However, Arizona Water Company noted in its renewed motion that the Commission Staff has already found that Arizona Water Company is in compliance with applicable ADWR regulations concerning service in its Casa Grande CC&N area. See May 31, 2000 Staff Report in Line Siting Docket Nos. L-00000I-091 & L-00000I-00094 at page 11. The City contends that a letter dated seven months earlier from Dennis Kimberlin of ADWR "supports" the City's claim that Arizona Water Company has violated ADWR regulations. Application at 21. In response to Arizona Water Company's argument that the issue is not ripe, the City can merely argue that "the Commission should fully investigate this issue." Id. However, the City offers no legal basis for this request. This Commission should not entertain requests for declaratory judgments "as to future rights in anticipation of an event which may never happen." Merritt-Chapman & Scott Corp. v. Frazier, 92 Ariz. 136, 139, 375 P.2d 18, 20 (1962). The City has completely ignored the ripeness argument in its briefing.

CONCLUSION

Arizona Water Company has already briefed the arguments concerning the Arizona Water Co. v. City of Bisbee case in other forums.[1] Contrary to the City's repeated

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[1] Arizona Water Company's Opposition has focused primarily on the constitutional and jurisdictional flaws inherent in the City's application for a TRO and preliminary injunction from this Commission. If the Commission were to rule that it wishes to conduct a hearing on the City's application for injunctive relief, numerous factual and legal issues would be implicated and Arizona Water Company requests leave to address those factual and legal issues in separate filings directed to those issues.

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suggestions in its brief, the legal issue of whether the City's delivery of fully treated effluent water to Arizona Water Company's customers within Arizona Water Company's CC&N area violates the law has not yet been decided. The federal court dismissed on purely jurisdictional grounds. State Court Judge Jeffrey A. Hotham only hesitated to enjoin a publicly-noticed City Council meeting that evening to address the City's effluent agreement with Reliant Energy, and his minute entry makes no mention of any ruling on the merits whatsoever.

The court system is the correct forum and branch of government to interpret the distinguishing facts and superseded law that surround the City of Bisbee case. The effluent service issue is ripe for determination only in that forum. As a regulated public utility, Arizona Water Company is familiar with the Commission's regulatory jurisdiction, but the City abuses the Commission's processes by urging the Commission to issue injunctions banning arguments before the judicial branch, or to issue broad declaratory opinions on matters that are not properly before it.

The Commission should not allow such abuse of its processes and accordingly should deny the City's request for a TRO and a preliminary injunction and grant Arizona Water Company's renewed motion to dismiss the City's complaint.

DATED this 18th day of May, 2001.

BRYAN CAVE LLP

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ARIZONA WATER COMPANY

WATER RATES

Filed by:	R. E. Polenske	A.C.C. No.	413
Title:	President	Cancelling A.C.C. No.	None
Date of Original Filing:	12-01-89	Tariff or Schedule No.	RW-256
	APACHE JUNCTION	Filed:	12-1-89
System:		Effective:	For all service rendered on or after January 1, 1990

RECLAIMED WATER SERVICE

AVAILABILITY:

Reclaimed water service to specific portions of Gold Canyon Resort and elsewhere as provided, limited, and delineated in that certain Agreement dated March 15, 1989 between Arizona Water Company, Gold Canyon Sewer Company, and Superstition Mountain Investment, Ltd. (the "Reclaimed Water Agreement"), approved by the Arizona Corporation Commission in Decision No. 56631 on September 14, 1989.

RATE:

$250.00 per acre foot; or such rate as the Arizona Corporation Commission approves; plus the applicable monthly minimum charge as set forth in the Arizona Water Company Apache Junction General Service tariff schedule, for appropriate meter size and applicable taxes and governmental levies pursuant to Paragraphs 4 and 11 of the Reclaimed Water Agreement.

TERMS AND CONDITIONS:

Subject to the terms and conditions of the Reclaimed Water Agreement and the applicable rules, regulations, and conditions of Arizona Water Company and the Arizona Corporation Commission.

EXHIBIT
S-12
admitted

MEMORANDUM

TO: Diane Targovnik
Counsel
Legal Division

FROM: Lori H. Miller
Programs & Projects Specialist II
Utilities Division

DATE: June 17, 2005

RE: ARIZONA WATER COMPANY – CASA GRANDE

After receiving a research request from your office to provide copies of Arizona Water Company's effluent tariff (period 1999-2005) for the Casa Grande system, I have come to the conclusion that there is not such a tariff on file.

Should you require further assistance in regards to this tariff, please do not hesitate to contact me.

/lhm

ARIZONA CORPORATION COMMISSION STAFF'S
SIXTH SET OF DATA REQUESTS TO ARIZONA WATER COMPANY
DOCKET NO. W-01445A-04-0650
March 10, 2005

REL 6-1 Regarding Casa Grande Account Number 303.0, did the Company seek an Accounting Order to provide instruction as to how to post these expenses?

REL 6-2 If an Accounting Order was not requested, why did the Company post these expenses in the manner in which it did? (Please include in your response why it was considered a non-depreciable asset.)

REL 6-3 Please explain how ratepayers benefit from this expenditure. Please quantify any such benefits.

REL 6-4 Please identify how shareholders benefit from this expenditure.

REL 6-5 Please identify how the Company treated other condemnation expenditures incurred in the sale of other systems.

REL 6-6 Please provide details of the offer extended by the City of Casa Grande in condemnation case.

REL 6-7 Please provide a full and complete copy of all legal bills associated with the Casa Grande condemnation proceedings (which equal the amount posted to Account Number 303.0.)

REL 6-8 Please provide a copy of the final judgment of the court in the condemnation matter.

REL 6-9 Please provide a description of the current status of the Company's discussions with the Arizona American Water Company in its efforts to develop a joint treatment facility to treat CAP water in the White Tank system.

S:\LEGAL\TSabo\datarequests\04-0650DR6.doc

ALL-STATE LEGAL®
EXHIBIT
S-14
admitted

Senate Engrossed House Bill

State of Arizona
House of Representatives
Forty-fourth Legislature
Second Regular Session
2000

HOUSE BILL 2636

AN ACT

AMENDING SECTION 9-514, ARIZONA REVISED STATUTES; RELATING TO CITY UTILITIES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1

Be it enacted by the Legislature of the State of Arizona:

Section 1. Section 9-514, Arizona Revised Statutes, is amended to read:

9-514. Authority to engage in utility business

A. Before construction, purchase, acquisition or lease by a municipal corporation, as authorized in sections 9-511, ~~to~~ 9-511.01, 9-511.02, 9-512 AND 9-513, ~~inclusive,~~ of any plant or property or portion ~~thereof~~ OF PLANT OR PROPERTY devoted to the business of or services rendered by a public utility shall be undertaken, the construction, purchase, acquisition or lease shall be authorized by the affirmative vote of a majority of the qualified electors who are taxpayers of the municipal corporation voting at a general or special municipal election duly called and held for the purpose of voting upon the question.

B. THIS SECTION DOES NOT APPLY TO THE CONSTRUCTION, PURCHASE, ACQUISITION OR LEASE OF WATER OR SEWAGE SYSTEM UTILITIES BY A CITY OR TOWN INCORPORATED PURSUANT TO SECTION 9-101.02.

BRYAN CAVE LLP

ST. LOUIS, MISSOURI
WASHINGTON, D.C.
NEW YORK, NEW YORK
\NSAS CITY, MISSOURI
ƨRLAND PARK, KANSAS
PHOENIX, ARIZONA
SANTA MONICA, CALIFORNIA
IRVINE, CALIFORNIA

EMPLOYER IDENTIFICATION NUMBER: 43-0602162
(602) 364-7000

LONDON, ENGLAND
RIYADH, SAUDI ARABIA
KUWAIT CITY, KUWAIT
ABU DHABI, UNITED ARAB EMIRATES
DUBAI, UNITED ARAB EMIRATES
HONG KONG
ASSOCIATED OFFICE IN
SHANGHAI, PEOPLE'S REPUBLIC OF CHINA

RECEIVED
MAY 0 2 2000
ARIZONA WATER COMPANY
PHOENIX - LEGAL

Arizona Water Company
ATTN: Robert W. Geake
VP & General Counsel
3805 N. Black Canyon Hwy.
Phoenix, AZ 85015

April 28, 2000
Invoice # 634407
Client # C30730

Payment is due upon
Receipt

STATEMENT OF ACCOUNT

BALANCE FORWARD:

Balance per Statement Dated March 22, 2000	$	15,406.65	
Payments and Other Credits	(	15,406.65)	
BALANCE FORWARD		$	0.00

CURRENT CHARGES FOR MATTER:

File #110700
adv. City of Casa Grande

Fees for Legal Services	$	10,779.00	
Expenses and Other Charges		448.54	
TOTAL CHARGES THIS INVOICE		$	11,227.54

STATEMENT TOTAL $ 11,227.54

CONFIDENTIAL

INVOICE DUE UPON RECEIPT

PLEASE RETURN REMITTANCE ADVICE WITH PAYMENT IN THE ENCLOSED ENVELOPE AND MAIL TO
BRYAN CAVE LLP, P.O. BOX 503089, SAINT LOUIS, MO 63150-3089
OR WIRE TRANSFER FUNDS TO BOATMEN'S NATIONAL BANK OF ST. LOUIS, ROUTING #081000032. ACCOUNT #100101007976
PLEASE INCLUDE REFERENCE TO INVOICE NUMBER. THANK YOU.

RECEIVED
MAY 02 2000
ARIZONA WATER COMPANY
PHOENIX - LEGAL

For Legal Services Rendered Through March 31, 2000

File #110700
adv. City of Casa Grande

03/01/00	J. Harrison	Telephone conference with E. Van Riper regarding Judge Campbell's minute entry requesting case law in support of motion for attorney fees; review memoranda regarding same; draft index for same and begin process of compiling cases.	1.50 hrs. 225.00
03/02/00	L. A. Keeling	Research the movement of HB 2636; review the support of legislators and the opposition; research whether the Bill is really for Lake Havasu.	3.00 hrs. 570.00
03/03/00	J. Harrison	Continue compilation of cases; review and edit index; review notebook to ensure in complete for submission to Court; draft letter to Judge Campbell regarding notebook of cases; telephone conference with R. Garfield.	2.20 hrs. 330.00
03/03/00	L. A. Keeling	Contact Representative McGrath, Representative McGibbon, Representative Voss and Griffin to discuss concerns about the Bill; research potential support in the Senate.	2.80 hrs. 532.00
03/06/00	L. A. Keeling	Attend the Senate Government and Environmental Committee Hearing to ensure no amendments are placed on the Binder Bill (HB 2636); speak with the Mayor of Havasu about the specifics behind the Bill; meet with Representative McGrath to research reasons for opposition in the House of Representatives; meet with Representative Hart; meet with Richard Bark.	4.50 hrs. 855.00
03/08/00	S. A. Malone	Review ACC Utilities Division database regarding hearings scheduled in late 1999 and 2000 regarding Reliant Energy.	

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		.80 hrs.	84.00
03/10/00	L. A. Keeling	Discreetly speak with other legislators about the impact of HB 2636; research the irrigation and sanitary districts at the Treasurer's office; verify whether any other cities are impacted. 5.30 hrs.	1,007.00
03/13/00	L. A. Keeling	Discuss the history of Lake Havasu and why it's unique with League of Cities and Towns; contact attorney at Lake Havasu to obtain necessary information; contact Lake Havasu City Clerk's office to obatin information; contact the Mayor for information. 2.20 hrs.	418.00
03/16/00	L. A. Keeling	Verify that Lake Havasu needs a 9-514 vote and review options for the amendment; work with Pinnacle West and other interested parties to narrowly construe the amendment; speak with Senator Gnant regarding concerns about the Bill. 3.30 hrs.	627.00
03/17/00	L. A. Keeling	Research other options for amendments that prevent the acquisition of private water companies by Lake Havasu; express concerns to the League of Cities and Towns. 2.50 hrs.	475.00
03/20/00	L. A. Keeling	Discuss the ramifications of the Bill with the League of Cities and Towns. .40 hrs.	76.00
03/23/00	R. W. Ott	Review City's appeal brief. 1.00 hrs.	220.00
03/27/00	R. W. Ott	Review recent correspondence; work on answering brief for Court of Appeals. 4.00 hrs.	880.00
03/27/00	L. A. Keeling	Discuss progress of HB 2636 with Majority Staff, Research Analyst and determine issues within the Senate; review the current amendment and further research the repeal option for the statute. 1.50 hrs.	285.00

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MAY 02 2000
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03/28/00	S. A. Hirsch	Draft memorandum to Senator Spitzer regarding HB 2636; telephone conference with B. Geake regarding same. 1.80 hrs.	450.00
03/28/00	R. W. Ott	Continue work on answering brief. 4.50 hrs.	990.00
03/28/00	L. A. Keeling	Research 1978 election ballot and review the legal requirements of the language; discuss compliance with League of Cities and Towns and their opposition to our repealer of the statute; request support of Arizona Water Utilities Association; review and strategize on an approach to educating the Senate and getting the Bill pulled. 4.50 hrs.	855.00
03/29/00	L. A. Keeling	Contact Arizona Water Users Association regarding letter to the Representative Binder; prepare letter and explanation of the issues regarding HB 2636; deliver letter to each Senator before Committee of the Whole; followup on Bill progress. 3.00 hrs.	570.00
03/30/00	L. A. Keeling	Attend the Senate Committee of the Whole regarding HB 2636. 1.50 hrs.	285.00
03/31/00	L. A. Keeling	Meet with legislators to rally opposition to HB 2636; seek support from the AWUA; prepare a letter for each Representative with the Senate Engrossed Bill. 5.50 hrs.	1,045.00

TIMEKEEPER SUMMARY OF FEES

	Hours	Rate/Hr	Dollars
J. Harrison	3.70	150.00	555.00
S. A. Hirsch	1.80	250.00	450.00
L. A. Keeling	40.00	190.00	7,600.00
S. A. Malone	.80	105.00	84.00
R. W. Ott	9.50	220.00	2,090.00
TOTAL	55.80	193.17	10,779.00

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MAY 0 _ 2000
ARIZONA WATER COMPANY
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	Total Hours	55.80	
	Total Fees for Legal Services	$	10,779.00

EXPENSES AND OTHER CHARGES

03/10/00	Obtain copies of documents relating to Reliant Energy	$	13.80
	Computerized support services		45.00
	Copying expenses		244.55
	Telecopier/fax charges		123.00
	Postage		7.38
	Delivery & messenger service		90.00
	Long distance telephone charges		24.61
	Westlaw computerized research		150.20
	Sub-Total Expenses and Other Charges		698.54
03/31/00	Courtesy credit for telecopier/fax charges		-250.00
	Total Expenses and Other Charges	$	448.54

TOTAL CHARGES FOR THIS MATTER $ **11,227.54**

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BRYAN CAVE LLP

ST. LOUIS, MISSOURI
WASHINGTON, D.C.
NEW YORK, NEW YORK
'ANSAS CITY, MISSOURI
ERLAND PARK, KANSAS
PHOENIX, ARIZONA
SANTA MONICA, CALIFORNIA
IRVINE, CALIFORNIA

EMPLOYER IDENTIFICATION NUMBER: 43-0602162
(602) 364-7000

LONDON, ENGLAND
RIYADH, SAUDI ARABIA
KUWAIT CITY, KUWAIT
ABU DHABI, UNITED ARAB EMIRATES
DUBAI, UNITED ARAB EMIRATES
HONG KONG
ASSOCIATED OFFICE IN
SHANGHAI, PEOPLE'S REPUBLIC OF CHINA

Arizona Water Company
ATTN: Robert W. Geake
VP & General Counsel
3805 N. Black Canyon Hwy.
Phoenix, AZ 85015

RECEIVED
JUN 0 1 2000
ARIZONA WATER COMPANY
PHOENIX - LEGAL

May 24, 2000
Invoice # 639255
Client # C30730

Payment is due upon
Receipt

STATEMENT OF ACCOUNT

BALANCE FORWARD:

Balance per Statement Dated April 28, 2000	$ 11,227.54	
BALANCE FORWARD		$ 11,227.54 pd 6-10

CURRENT CHARGES FOR MATTER:

File #110700
adv. City of Casa Grande

Fees for Legal Services	$ 23,618.00	
Expenses and Other Charges	1,686.23	
TOTAL CHARGES THIS INVOICE		$ 25,304.23

STATEMENT TOTAL $ 36,531.77

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INVOICE DUE UPON RECEIPT

PLEASE RETURN REMITTANCE ADVICE WITH PAYMENT IN THE ENCLOSED ENVELOPE AND MAIL TO
BRYAN CAVE LLP, P.O. BOX 503089, SAINT LOUIS, MO 63150-3089
OR WIRE TRANSFER FUNDS TO BOATMEN'S NATIONAL BANK OF ST. LOUIS, ROUTING #081000032. ACCOUNT #100101007976
PLEASE INCLUDE REFERENCE TO INVOICE NUMBER. THANK YOU.

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JUN 0 1 2000
ARIZONA WATER COMPANY
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For Legal Services Rendered Through April 30, 2000

File #110700
adv. City of Casa Grande

04/03/00	L. A. Keeling	Develop letter of opposition to distribute to all representatives who apposed HB2636; attend majority caucus hearing to try to meet with Representative Binder; meet with Representative Hart, Weiers, Weason, Griffin, Blewster, Voss, Gray, Schottell, Flake, Preble, Groscost, Carpenter; Horne, Gerard, Knaparek, McGibbon and McGrath to rally opposition. 8.00 hrs.	1,520.00
04/04/00	L. A. Keeling	Personally deliver letters of opposition to supporters of HB 2636; meet with research analyst on governor's veto; attend majority caucus; discuss veto with AWUA; contact Maria Baeier and Stuart Goodman about a position paper; speak with Cathy Connolly about opposition. 5.20 hrs.	988.00
04/05/00	L. A. Keeling	Draft and transmit letter for Water Utility Association of Arizona; review issues and strategy with President of WUAA; meet with Governor's executive assistant to discuss strategy for veto and identify key players; begin issue paper for the governor. 6.70 hrs.	1,273.00
04/05/00	S. A. Hirsch	Legal research regarding legislative advocacy and revise memorandum to legislature regarding same; telephone conferences with R. Havasu, bond counsel V. Hicks. .70 hrs.	175.00
04/06/00	L. A. Keeling	Research users from the Water Users Association of Arizona; transmit requested information to Representative Flake; review strategy and update on communication with Representative Binder and bond attorney. 7.80 hrs.	1,482.00

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04/06/00 S. A. Hirsch	Continue legal research and revise memoranda on legislating lobbying efforts regarding HB 2636.	.70 hrs.	175.00
04/07/00 L. A. Keeling	Communicate with each representative requesting opposition to HB 2636; submit all the known water utilties for each district to each representative to clarify the companies impacted; advise the president of WUAA on the bill being withdrawn or vetoed; transmit all information to WUAA for their support; initial draft of the governor's issue paper.	6.00 hrs.	1,140.00
04/07/00 S. A. Hirsch	Continue communications regarding lobbying on HB 2636 and legal research regarding same.	.50 hrs.	125.00
04/10/00 L. A. Keeling	Research and draft the issue statement for the governor; research alternative legislation for the issue statement.	7.20 hrs.	1,368.00
04/11/00 J. Harrison	Preparation of authorities for oral argument on attorney's fees.	.60 hrs.	90.00
04/11/00 M. LaBianca	Complete draft of issue paper in support of governor's veto of HB 2636.	1.40 hrs.	231.00
04/11/00 S. A. Hirsch	Telephone conference with B. Geake and B. Garfield concerning ongoing events at City of Casa Grande and advice concerning upcoming counsel meetings and pending oral argument concerning attorney fee issue.	.90 hrs.	225.00
04/12/00 L. A. Keeling	Review strategy and persuasion in issue paper for the governor; monitor bill progress and meet with representatives to identify movement of votes.	3.90 hrs.	741.00

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PHOENIX - LEGAL

04/12/00	M. LaBianca	Review draft of letter to governor requesting veto of HB 2636 and supporting issue paper, and make final changes. 1.20 hrs.	198.00
04/13/00	S. A. Hirsch	Continue telephone calls and letters regarding HB 2636 and follow final progress of bill in legislature; telephone conference with B. Geake; attend telephonic conference with Judge Campbell regarding recusal and follow-up with B. Geake. 1.40 hrs.	350.00
04/17/00	R. W. Ott	Work on answering brief for appeal. 2.50 hrs.	550.00
04/18/00	L. A. Keeling	Develop last handout for each representative; discuss bill with Representatives May, Schottel, Flake, Laughter, McClendon, Binder, the League of Cities and Towns, Loredo, Clark, Horton, and Landrum; monitor floor activity. 8.00 hrs.	1,520.00
04/18/00	S. A. Hirsch	Conference with L.A. Keeling and B. Geake concerning status of legislation. .20 hrs.	50.00
04/19/00	R. W. Ott	Work on response brief for appeal. 5.20 hrs.	1,144.00
04/19/00	L. A. Keeling	Complete Governor's position paper and personally deliver. 3.50 hrs.	665.00
04/20/00	R. W. Ott	Work on appeal brief; research on issues related to appeal. 6.70 hrs.	1,474.00
04/21/00	R. W. Ott	Work on appeal brief. 7.20 hrs.	1,584.00
04/21/00	S. A. Hirsch	Review veto memorandum to Governor regarding HB 2636. .20 hrs.	50.00

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04/24/00 R. W. Ott	Work on response brief for appeal.	5.50 hrs.	1,210.00
04/24/00 S. A. Hirsch	Continue outline and draft of responsive brief on appeal.	.30 hrs.	75.00
04/25/00 R. W. Ott	Draft and revise draft answering brief on appeal.	6.50 hrs.	1,430.00
04/25/00 S. A. Hirsch	Continue work on appellate brief.	.30 hrs.	75.00
04/26/00 R. W. Ott	Further work on answering brief on appeal.	4.90 hrs.	1,078.00
04/26/00 J. Harrison	Review City of Casa Grande's opening appellate brief; review and edit Arizona Water Company's answering appellate brief.	3.50 hrs.	525.00
04/26/00 S. A. Hirsch	Telephone conference with B. Geake regarding status and continued revisions to draft appellate brief.	.40 hrs.	100.00
04/27/00 R. W. Ott	Work related to answering brief on appeal; further revisions and research.	2.90 hrs.	638.00
04/27/00 J. Harrison	Edits to appellate brief.	1.00 hrs.	150.00
04/27/00 S. A. Hirsch	Further revision and edit to appellate case; telephone conference with B. Geake regarding same.	1.30 hrs.	325.00
04/28/00 R. W. Ott	Further revisions to answering brief for review by client.	2.70 hrs.	594.00
04/28/00 S. A. Hirsch	Telephone conference with B. Geake concerning appellate brief edits and developing events regarding Apache Junction system/ADWR matter.	.60 hrs.	150.00

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JUN 0 1 2000
ARIZONA WATER COMPANY
PHOENIX - LEGAL

04/29/00 J. Harrison	Edit draft of appellate brief.	1.00 hrs.	150.00

TIMEKEEPER SUMMARY OF FEES

	Hours	Rate/Hr	Dollars
J. Harrison	6.10	150.00	915.00
S. A. Hirsch	7.50	250.00	1,875.00
L. A. Keeling	56.30	190.00	10,697.00
M. LaBianca	2.60	165.00	429.00
R. W. Ott	44.10	220.00	9,702.00
TOTAL	116.60	202.56	23,618.00

Total Hours 116.60

Total Fees for Legal Services $ 23,618.00

EXPENSES AND OTHER CHARGES

Computerized support services	20.50
Copying expenses	260.40
Telecopier/fax charges	194.00
Postage	.77
Delivery & messenger service	238.00
Long distance telephone charges	.89
Westlaw computerized research	971.67
Total Expenses and Other Charges	$ 1,686.23

TOTAL CHARGES FOR THIS MATTER $ 25,304.23

CONFIDENTIAL

Page 86

1 those expenses that were justified, as evidenced by our
2 adjustor mechanism filing.
3 The fact that the Commission Staff inquired
4 about other options of supply in our last purchased
5 water adjustor mechanism tells me that there is a
6 concern on the Staff's part that costs are reasonable.
7 And we have looked at that to see what our options
8 would be, and we have actually looked at what other
9 alternatives might be available to the company for
10 supplying the water of San Manuel.
11 Q. Compared to a situation where no purchased
12 water adjustor mechanism was in effect, would --
13 (Cell phone ringing.)
14 FEMALE VOICE: Sorry. I thought I had it off.
15 Q. (BY MR. SABO) Compared to a situation where
16 there is no purchased water adjustor mechanism in
17 effect, isn't it true that Arizona Water has less
18 incentive to seek new sources of supply, either from
19 BHP or elsewhere, because any rate increases would be
20 passed on to its customers?
21 A. Are you asking me my opinion whether it would
22 be less risky with or without an adjustor mechanism?
23 Q. I'm asking you with or without an adjustor
24 mechanism, which one is the incentive less to go seek
25 new sources of supply?

Page 87

1 A. I think I understand your question. The
2 provision within the agreement that we have with BHP
3 requires them to, I believe, notify us of a change in
4 rates and for us to review their costs to see whether
5 they're reasonable or not and can be justified by the
6 cost of increase to us.
7 Is there an incentive for us to go out and
8 develop a new supply with or without an adjustor? I
9 think there's probably less of an incentive with an
10 adjustor than without one.
11 Q. Thank you.
12 Mr. Geake is the vice president and general
13 counsel of Arizona Water; is that correct?
14 A. Yes. That's correct.
15 Q. And in that position, he supervises all legal
16 matters for Arizona Water; is that correct?
17 A. That's correct.
18 Q. And you would agree with me that Mr. Geake has
19 many years of experience practicing before the
20 Commission?
21 A. He has many years of experience. That's
22 correct.
23 Q. Including experience before the Commission?
24 A. As far as rate proceedings, I believe our vice
25 president and counsel was the lead counsel in our last

Page 88

1 rate case.
2 Q. And Mr. Geake also has been counsel on many
3 other matters such as CC&Ns before the Commission;
4 correct?
5 A. Yes. That's correct. He's a competent
6 attorney.
7 Q. And you view him as, indeed, a skillful
8 attorney, and that's why you employ him in that
9 position?
10 A. As opposed to unskillful? Yes. He's skillful.
11 Q. Thank you.
12 Is it your understanding that Staff is
13 recommending that if water loss for a system exceeds 20
14 percent, Arizona Water should file a report with the
15 Utilities Division Director explaining how water loss
16 will be reduced, or explaining why it is not practical
17 to reduce the water loss for that system?
18 Is that your understanding of Staff's proposal?
19 A. I believe that's not the full extent of the
20 proposal. It's beyond just a report. It's also filing
21 of a plan and approval of that plan by the Utilities
22 Director, and potential hearings to have that plan
23 subject to review and change by the Utilities Division.
24 So that is not my understanding that it's just
25 the filing of a report.

Page 89

1 Q. Do you draw some distinction between a report
2 and a plan?
3 A. There are many differences between a report and
4 a plan. I do draw a distinction between them, yes.
5 Q. Okay. In 1992, Mr. -- and I don't know how to
6 pronounce his name, so I'm going to spell it out and
7 maybe you can tell me how it's pronounced.
8 F-J-E-L-D-E.
9 A. Mr. Fjelde.
10 Q. He was the vice president of engineering for
11 Arizona Water; is that correct?
12 A. Yes. That's correct.
13 MR. SABO: And Ms. Finical is going to pass out
14 an exhibit. It's marked S-4. And I'll give her a
15 minute to do that.
16 And, Your Honor, this is a copy of a transcript
17 from the 1992 rate case for Arizona Water Company. In
18 particular, page 294. Or I'm sorry. Page 249 of that
19 transcript. And I would ask that you take official
20 notice that this is a correct copy of that transcript
21 page.
22 ACALJ NODES: All right.
23 Q. (BY MR. SABO) And Mr. Garfield, could you read
24 lines 9 through 19 of that transcript, the testimony of
25 Mr. -- I'm sorry. I forgot how to pronounce his name.

EXHIBIT
S-14
admitted

△ MSU Public Utility Studies

AUTOMATIC ADJUSTMENT CLAUSES: Theory and Application

MICHAEL SCHMIDT

EXHIBIT
S-17

Automatic Adjustment Clauses: Theory and Application

by

MICHAEL SCHMIDT

1980
MSU Public Utilities Studies
Division of Research
Graduate School of Business Administration
Michigan State University

7 Conclusions

The goal of this research has been to examine past and present applications of automatic adjustment clauses in electric utility tariffs as an alternative to traditional ratemaking. The automatic adjustment clause has been used to promote managerial efficiency and/or mitigate cost increases during periods of abnormally high inflation. Three general types of clauses have been used: the sliding scale, service at cost, and operating cost adjustments.

Adjustments based on a sliding scale were designed to reward the firm for its efficiency (as measured by reductions in the price of service to the consumer) by allowing greater profit margins. However, the potential of the sliding scale as a solution to current financial problems and requirements of the electric utility industry is tenuous because of several inherent weaknesses in the methodology. These weaknesses include general inflation and cost increases beyond management control, holding company abuses, rigid rates of return prescribed as part of the formula, gains from productivity increases beyond the company's control, valuation of plant, and price elasticity and/or shifts in demand for electric service. Each of these factors alone or in combination negatively affected the results of the sliding-scale application.

Unlike the sliding scale, the service-at-cost or comprehensive adjustment clause continues in limited application. In its basic form, this clause is designed to act as a cost-plus contract between the utility and the consumer subject to regulatory approval. Under the plan, the utility has prior assurance that if any cost items vary, the service price can be adjusted in direct proportion.

.e past and present appli-
lectric utility tariffs as an
ɜ automatic adjustment
ɜl efficiency and/or miti-
ıormally high inflation.
used: the sliding scale,
ts.
:e designed to reward the
ɜductions in the price of
:er profit margins. How-
ɜolution to current finan-
ɜctric utility industry is
sses in the methodology.
ɜ and cost increases be-
ɜy abuses, rigid rates of
ins from productivity in-
ation of plant, and price
:c service. Each of these
ffected the results of the

:-cost or comprehensive
:cation. In its basic form,
ɜs contract between the
ɔry approval. Under the
any cost items vary, the
tion.

In its modern day form, service at cost has been modified to build in managerial incentives through penalties and rewards. Thus, although the sliding scale is no longer in use, it has been reincarnated to some extent in modifying the service-at-cost concept.

Recent attempts at service at cost have built in external targets or controls to limit recovery. One such attempt involves tying the amount of recovery to external indices, such as the consumer price index. In addition, the concept has been tied to productivity measurements as well as to rate of return incentives. Although its application and modifications have certain drawbacks, service at cost does provide a refreshing attempt to improve the regulatory environment in which a firm must operate.

The most widespread application of automatic adjustment allows electric rates to vary automatically in response to changes in one or more preselected uncontrollable operating cost items, the primary example being the fuel adjustment clause (FAC). The fuel clause was used in the past during brief periods of abnormally high inflation. Its use, however, has increased with a vengeance since the Arab oil embargo of 1973. In addition, FACs have been applied to all customer classes since the early 1970s, in contrast to their previous limited application to large industrial users.

The fuel adjustment clause, although unpopular with many consumers, is necessary to mitigate the continuing volatility and uncertainty experienced by utilities in fuel markets. Without the chilling effect of the FAC, uncertainty coupled to rapid increases in fuel prices would result in an overwhelming number of formal rate applications that would greatly exceed the cost of administering fuel adjustment.

A critical issue concerning fuel adjustment clauses is that of managerial efficiency. Without managerial incentives, the firm appears to be operating under simple cost-plus conditions. It is the conclusion of this research that a special effort must be made to build in managerial incentives when the automatic adjustment clause is being used. Incentives such as traditional lag, partial passthrough, and target efficiency measures can serve to promote public acceptance or at least public tolerance of FAC use. In addition, careful and explicit regulatory review of the FAC can serve to promote both managerial efficiency and public acceptability of the concept.

Finally, the fuel adjustment clause should not serve to preserve the utility's allowed rate of return per se but only to mitigate the

effect of changes in cost of a relatively uncontrollable cost item or items. Such cost items should be relatively beyond management control and subject to a degree of price volatility and/or uncertainty in the marketplace. In addition, the clause must be subject to formal regulatory review. Such review can counteract the public impression that cost increases recovered through the fuel adjustment clause go unnoticed by public utility regulators. Deficiencies in earning the allowed rate of return must not be an excuse for lack of fuel clause vigilance by either the regulator or the utility.

The automatic adjustment clause can be a very valuable tool for the regulator. Although many may disagree with the findings and conclusions of this research, it is hoped that this work has added material of substantial value to the debate.

R14-2-1507. Approval Procedure

A. Unless otherwise ordered by the Commission, a hearing will not be held for a request for approval of an interconnection agreement.

B. The Commission will enter an order approving or rejecting the interconnection agreement within 30 days of request for approval of arbitrated agreements and agreements containing both arbitrated and negotiated provisions, or within 90 days of request for approval of negotiated agreements, with written findings as to any deficiencies.

Historical Note

Emergency rule adopted effective July 23, 1996, effective for a maximum of 180 days, under a court-ordered exemption as determined by the Arizona Corporation Commission; filed with the Office of the Secretary of State July 15, 1996 (Supp. 96-3). Emergency expired. Emergency rule adopted again effective January 17, 1997, for a maximum of 180 days, under a court-ordered exemption as determined by the Arizona Corporation Commission (Supp. 97-1). Emergency expired. New Section adopted effective August 27, 1997, under an exemption as determined by the Arizona Corporation Commission (Supp. 97-3).

Editor's Note: The Arizona Corporation Commission has determined that the following Section is exempt from the Attorney General approval provisions of the Arizona Administrative Procedure Act (A.R.S. § 41-1041) by a court order (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301 (App. 1992)).

R14-2-1508. Amendments

Any amendments to an interconnection agreement shall be filed with the Commission and, if not rejected by the Commission within 30 days of filing, such amended agreements will become effective.

1. For negotiated amendments, including amendments resolved by Commission or private mediation, Commission rejection shall be limited to discrimination against nonparty telecommunications carriers, lack of consistency with the public interest, convenience, and necessity, or lack of consistency with applicable state law requirements.
2. For amendments resolved through arbitration, whether by the Commission or private arbitrator, Commission rejection shall be limited to failure to meet any of the applicable specific requirements of 47 U.S.C. 251, including any applicable Federal Communications Commission regulations.

Historical Note

Adopted effective August 27, 1997, under an exemption as determined by the Arizona Corporation Commission (Supp. 97-3).

Editor's Note: The Arizona Corporation Commission has determined that the following Section is exempt from the Attorney General approval provisions of the Arizona Administrative Procedure Act (A.R.S. § 41-1041) by a court order (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301 (App. 1992)).

R14-2-1509. Replacement or Subsequent Interconnection Agreements

Replacement or subsequent interconnection agreements are subject to the provisions of this Article.

Historical Note

Adopted effective August 27, 1997, under an exemption as determined by the Arizona Corporation Commission (Supp. 97-3).

ARTICLE 16. RETAIL ELECTRIC COMPETITION

Editor's Note: The Arizona Corporation Commission has determined that the following Section is exempt from the Attorney General approval provisions of the Arizona Administrative Procedure Act (A.R.S. § 41-1041) by a court order (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301 (App. 1992)).

R14-2-1601. Definitions

In this Article, unless the context otherwise requires:

1. "Affected Utilities" means the following public service corporations providing electric service:
   Tucson Electric Power Company, Arizona Public Service Company, Citizens Utilities Company, Arizona Electric Power Cooperative, Trico Electric Cooperative, Duncan Valley Electric Cooperative, Graham County Electric Cooperative, Mohave Electric Cooperative, Sulphur Springs Valley Electric Cooperative, Navopache Electric Cooperative, Ajo Improvement Company, and Morenci Water and Electric Company.
2. "Aggregation" means the combination and consolidation of loads of multiple customers.
3. "Aggregator" means an Electric Service Provider that, as part of its business, combines retail electric customers into a purchasing group.
4. "Ancillary Services" means those services designated as ancillary services in Federal Energy Regulatory Commission Order 888, including the services necessary to support the transmission of electricity from resource to load while maintaining reliable operation of the transmission system in accordance with good utility practice.
5. "Bundled Service" means electric service provided as a package to the consumer including all generation, transmission, distribution, ancillary and other services necessary to deliver and measure useful electric energy and power to consumers.
6. "Competition Transition Charge" (CTC) is a means of recovering Stranded Costs.
7. "Competitive Services" means all aspects of retail electric service except those services specifically defined as "Noncompetitive Services" pursuant to R14-2-1601(29) or noncompetitive services as defined by the Federal Energy Regulatory Commission.
8. "Consumer Education" is the provision of impartial information to consumers about competition or Competitive and Noncompetitive Services and is distinct from advertising and marketing.
9. "Control Area Operator" is the operator of an electric system or systems, bounded by interconnection metering and telemetry, capable of controlling generation to maintain its interchange schedule with other such systems and contributing to frequency regulation of the interconnection.
10. "Current Transformer" (CT) is an electrical device used in conjunction with an electric meter to provide a measurement of energy consumption for metering purposes.
11. "Delinquent Accounts" means customer accounts with outstanding past-due payment obligations that remain unpaid after the due date.
12. "Direct Access Service Request" (DASR) means a form that contains all necessary billing and metering information to allow customers to switch electric service providers. This form must be submitted to the Utility Distribution Company by the customer's Electric Service Provider.

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admitted

13. "Distribution Primary Voltage" is voltage as defined under the Affected Utility's Federal Energy Regulatory Commission (FERC) Open Access Transmission Tariff, except for Meter Service Providers, for which Distribution Primary Voltage is voltage at or above 600 volts (600V) through and including 25 kilovolts (25 kV).
14. "Distribution Service" means the delivery of electricity to a retail consumer through wires, transformers, and other devices that are not classified as transmission services subject to the jurisdiction of the Federal Energy Regulatory Commission; Distribution Service excludes Metering Services, Meter Reading Services, and billing and collection services, as those terms are used herein.
15. "Electric Service Provider" (ESP) means a company supplying, marketing, or brokering at retail any Competitive Services pursuant to a Certificate of Convenience and Necessity.
16. "Electric Service Provider Service Acquisition Agreement" or "Service Acquisition Agreement" means a contract between an Electric Service Provider and a Utility Distribution Company to deliver power to retail end users or between an Electric Service Provider and a Scheduling Coordinator to schedule transmission service.
17. "Electronic Data Interchange" (EDI) is the computer-to-computer electronic exchange of business documents using standard formats which are recognized both nationally and internationally.
18. "Generation" means the production of electric power or contract rights to the receipt of wholesale electric power.
19. "Green Pricing" means a program offered by an Electric Service Provider where customers elect to pay a rate premium for renewable generated electricity.
20. "Independent Scheduling Administrator" (ISA) is an entity, independent of transmission-owning organizations, intended to facilitate nondiscriminatory retail direct access using the transmission system in Arizona.
21. "Independent System Operator" (ISO) is an independent organization whose objective is to provide nondiscriminatory and open transmission access to the interconnected transmission grid under its jurisdiction, in accordance with the Federal Energy Regulatory Commission principles of independent system operation.
22. "Load Profiling" is a process of estimating a customer's hourly energy consumption based on measurements of similar customers.
23. "Load-Serving Entity" means an Electric Service Provider, Affected Utility, or Utility Distribution Company, excluding a Meter Service Provider, and Meter Reading Service Provider.
24. "Meter Reading Service" means all functions related to the collection and storage of consumption data.
25. "Meter Reading Service Provider" (MRSP) means an entity providing Meter Reading Service, as that term is defined herein and that reads meters, performs validation, editing, and estimation on raw meter data to create billing-ready meter data; translates billing-ready data to an approved format; posts this data to a server for retrieval by billing agents; manages the server; exchanges data with market participants; and stores meter data for problem resolution.
26. "Meter Service Provider" (MSP) means an entity providing Metering Service, as that term is defined herein.
27. "Metering and Metering Service" means all functions related to measuring electricity consumption.
28. "Must-Run Generating Units" are those local generating units that are required to run to maintain distribution system reliability and to meet load requirements in times of congestion on certain portions of the interconnected transmission grid.
29. "Net Metering" or "Net Billing" is a method by which customers can use electricity from customer-sited solar electric generators to offset electricity purchased from an Electric Service Provider. The customer only pays for the "Net" electricity purchased.
30. "Noncompetitive Services" means Distribution Service, Standard Offer Service, transmission, and any ancillary services deemed to be non-competitive by the Federal Energy Regulatory Commission, Must-Run Generating Units services, provision of customer demand and energy data by an Affected Utility or Utility Distribution Company to Electric Service Providers, and those aspects of Metering Service set forth in R14-2-1612(K).
31. "OASIS" is Open Access Same-Time Information System, which is an electronic bulletin board where transmission-related information is posted for all interested parties to access via the Internet to enable parties to engage in transmission transactions.
32. "Operating Reserve" means the generation capability above firm system demand used to provide for regulation, load forecasting error, equipment forced and scheduled outages, and local area protection to provide system reliability.
33. "Potential Transformer (PT)/Voltage Transformer (VT)" is an electrical device used to step down primary voltages to 120V for metering purposes.
34. "Provider of Last Resort" means a provider of Standard Offer Service to customers within the provider's certificated area whose annual usage is 100,000 kWh or less and who are not buying Competitive Services.
35. "Public Power Entity" incorporates by reference the definition set forth in A.R.S. § 30-801.16.
36. "Retail Electric Customer" means the person or entity in whose name service is rendered.
37. "Scheduling Coordinator" means an entity that provides schedules for power transactions over transmission or distribution systems to the party responsible for the operation and control of the transmission grid, such as a Control Area Operator, Arizona Independent Scheduling Administrator, or Independent System Operator.
38. "Self-Aggregation" is the action of a retail electric customer that combines its own metered loads into a single purchase block.
39. "Standard Offer Service" means Bundled Service offered by the Affected Utility or Utility Distribution Company to all consumers in the Affected Utility's or Utility Distribution Company's service territory at regulated rates including metering, meter reading, billing and collection services, demand side management services including but not limited to time-of-use, and consumer information services. All components of Standard Offer Service shall be deemed noncompetitive as long as those components are provided in a bundled transaction under R14-2-1606(A).
40. "Stranded Cost" includes:
    a. The verifiable net difference between:
        i. The net original cost of all the prudent jurisdictional assets and obligations necessary to furnish electricity (such as generating plants, purchased power contracts, fuel contracts, and regulatory assets), acquired or entered into prior to December 26, 1996, under traditional regulation of Affected Utilities; and

ii. The market value of those assets and obligations directly attributable to the introduction of competition under this Article;

b. Reasonable costs necessarily incurred by an Affected Utility to effectuate divestiture of its generation assets;

c. Reasonable employee severance and retraining costs necessitated by electric competition, where not otherwise provided; and

d. Other transition and restructuring costs as approved by the Commission as part of the Affected Utility's Stranded Cost determination under R14-2-1607.

41. "System Benefits" means Commission-approved utility low income, demand side management, Consumer Education, environmental, renewables, long-term public benefit research and development, and nuclear fuel disposal and nuclear power plant decommissioning programs, and other programs that may be approved by the Commission from time to time.
42. "Transmission Primary Voltage" is voltage above 25 kV as it relates to metering transformers.
43. "Transmission Service" refers to the transmission of electricity to retail electric customers or to electric distribution facilities and that is so classified by the Federal Energy Regulatory Commission or, to the extent permitted by law, so classified by the Arizona Corporation Commission.
44. "Unbundled Service" means electric service elements provided and priced separately, including, but not limited to, such service elements as generation, transmission, distribution, Must Run Generation, metering, meter reading, billing and collection, and ancillary services. Unbundled Service may be sold to consumers or to other Electric Service Providers.
45. "Universal Node Identifier" is a unique, permanent, identification number assigned to each service delivery point.
46. "Utility Distribution Company" (UDC) means the electric utility entity regulated by the Commission that operates, constructs, and maintains the distribution system for the delivery of power to the end user point of delivery on the distribution system.
47. "Utility Industry Group" (UIG) refers to a utility industry association that establishes national standards for data formats.

Historical Note

Adopted effective December 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-4). Amended by an emergency action effective August 10, 1998, pursuant to A.R.S. § 41-1026, in effect for a maximum of 180 days (Supp. 98-3). Emergency amendment replaced by exempt permanent amendment effective December 31, 1998 (Supp. 98-4). Amended by exempt rulemaking at 5 A.A.R. 3933, effective September 24, 1999 (Supp. 99-3). Amended by exempt rulemaking at 6 A.A.R. 4180, effective October 13, 2000 (Supp. 00-4). Amended by exempt rulemaking at 7 A.A.R. 1661, effective March 30, 2001 (Supp. 01-1).

Editor's Note: The Arizona Corporation Commission has determined that the following Section is exempt from the Attorney General approval provisions of the Arizona Administrative Procedure Act (A.R.S. § 41-1041) by a court order (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301 (App. 1992)).

R14-2-1602. Commencement of Competition

A. An Affected Utility's customers will be eligible for competitive electric services, subject to the phase-in schedule in R14-2-1604, on the date set by Commission Order in each Affected Utility's Stranded Cost and Unbundled Tariff proceeding.

B. An Affected Utility's competitive electric affiliates or an affiliate of which it is a member shall not be permitted to offer Competitive Services in any other Affected Utility's service territory until the Commission has ordered the service area of the potential competitor's affiliated Affected Utility opened to competition.

Historical Note

Adopted effective December 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-4). Section repealed; new Section adopted by exempt rulemaking at 5 A.A.R. 3933, effective September 24, 1999 (Supp. 99-3).

Editor's Note: The Arizona Corporation Commission has determined that the following Section is exempt from the Attorney General approval provisions of the Arizona Administrative Procedure Act (A.R.S. § 41-1041) by a court order (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301 (App. 1992)).

R14-2-1603. Certificates of Convenience and Necessity

A. Any Electric Service Provider intending to supply Competitive Services shall obtain a Certificate of Convenience and Necessity from the Commission pursuant to this Article. An Affected Utility need not apply for a Certificate of Convenience and Necessity to continue to provide electric service in its service area during the transition period set forth in R14-2-1604. A Utility Distribution Company providing Standard Offer Service, or services authorized in R14-2-1615, after January 1, 2001, need not apply for a Certificate of Convenience and Necessity. All other Affected Utility affiliates created in compliance with R14-2-1615(A) shall be required to apply for appropriate Certificates of Convenience and Necessity.

B. Any company desiring such a Certificate of Convenience and Necessity shall file with the Docket Control Center the required number of copies of an application. In support of the request for a Certificate of Convenience and Necessity, the following information must be provided:

1. A description of the electric services that the applicant intends to offer;
2. The proper name and correct address of the applicant, and
   a. The full name of the owner if a sole proprietorship,
   b. The full name of each partner if a partnership,
   c. A full list of officers and directors if a corporation, or
   d. A full list of the members if a limited liability corporation;
3. A tariff for each service to be provided that states the maximum rate and terms and conditions that will apply to the provision of the service;
4. A description of the applicant's technical ability to obtain and deliver electricity if appropriate and to provide any other proposed services;
5. Documentation of the financial capability of the applicant to provide the proposed services, including the most recent income statement and balance sheet, the most recent projected income statement, and other pertinent financial information. Audited information shall be provided if available;
6. A description of the form of ownership (for example, partnership, corporation);

7. For an applicant that is an affiliate of an Affected Utility, a statement of whether the Affected Utility has complied with the requirements of R14-2-1616, including the Commission Decision approving the Code of Conduct, where applicable; and
8. Such other information as the Commission or the staff may request.

C. The applicant shall report in a timely manner during the application process any changes in the information initially reported to the Commission in the application for a Certificate of Convenience and Necessity.

D. The applicant shall provide public notice of the application as required by the Commission.

E. At the time of filing for a Certificate of Convenience and Necessity, each applicant shall notify the Affected Utilities, Utility Distribution Companies, or an electric utility not subject to the jurisdiction of the Arizona Corporation Commission in whose service territories it wishes to offer service of the application by providing a copy of the application to the Affected Utilities, Utility Distribution Companies, or an electric utility not subject to the jurisdiction of the Arizona Corporation Commission. No later than 10 days after application is filed, each applicant shall provide written notice to the Commission, through Docket Control, that it has provided notification to each of the respective Affected Utilities, Utility Distribution Companies, or an electric utility not subject to the jurisdiction of the Arizona Corporation Commission. The attachment to the CC&N application should include a listing of the names and addresses of the notified Affected Utilities, Utility Distribution Companies or an electric utility not subject to the jurisdiction of the Arizona Corporation Commission.

F. The Commission may issue a Certificate of Convenience and Necessity that is effective for a specified period of time if the applicant has limited or no experience in providing the retail electric service that is being requested. An applicant receiving such approval shall have the responsibility to apply for appropriate extensions.

G. The Commission may deny certification to any applicant who:
1. Does not provide the information required by this Article;
2. Does not possess adequate technical or financial capabilities to provide the proposed services;
3. Seeks certification as a Load-Serving Entity and does not have an Electric Service Provider Service Acquisition Agreement with a Utility Distribution Company and Scheduling Coordinator, if the applicant is not its own Scheduling Coordinator;
4. Fails to provide a performance bond, if required;
5. Fails to demonstrate that its certification will serve the public interest;
6. Seeks certification as a Load-Serving Entity and fails to submit an executed Service Acquisition Agreement with a Utility Distribution Company or a Scheduling Coordinator for approval by the Director, Utilities Division, prior to the offering of service to potential customers. Agreements are to be filed with the Compliance Section, Utilities Division.

H. A Request for approval of an executed Service Acquisition Agreement may be included with an application for a Certificate of Convenience and Necessity. In all negotiations relative to Service Acquisition Agreements, Affected Utilities or their successor entities are required to negotiate in good faith.

I. Every Electric Service Provider obtaining a Certificate of Convenience and Necessity under this Article shall obtain certification subject to the following conditions:
1. The Electric Service Provider shall comply with all Commission rules, orders, and other requirements relevant to the provision of electric service;
2. The Electric Service Provider shall maintain accounts and records as required by the Commission;
3. The Electric Service Provider shall file with the Director, Utilities Division, through the Compliance Section, all financial and other reports that the Commission may require and in a form and at such times as the Commission may designate;
4. The Electric Service Provider shall maintain on file with the Commission all current tariffs and any service standards that the Commission shall require;
5. The Electric Service Provider shall cooperate with any Commission investigation of customer complaints;
6. The Electric Service Provider shall obtain all necessary permits and licenses, including relevant tax licenses;
7. The Electric Service Provider shall comply with all disclosure requirements pursuant to R14-2-1617;
8. Failure to comply with any of the above conditions may result in rescission of the Electric Service Provider's Certificate of Convenience and Necessity.

J. In appropriate circumstances, the Commission may require, as a precondition to certification, the procurement of a performance bond sufficient to cover any advances or deposits the applicant may collect from its customers, or order that such advances or deposits be held in escrow or trust.

K. Time-frames for processing applications for Certificates of Convenience and Necessity
1. This rule prescribes time-frames for the processing of any application for a Certificate of Convenience and Necessity issued by the Arizona Corporation Commission pursuant to this Article. These time-frames shall apply to applications filed on or after the effective date of this rule.
2. Within 120 calendar days after receipt of an application for a new Certificate of Convenience and Necessity, or to amend or change the status of any existing Certificate of Convenience and Necessity, staff shall notify the applicant, in writing, that the application is either administratively complete or deficient. If the application is deficient, the notice shall specify all deficiencies.
3. Staff may terminate an application if the applicant does not remedy all deficiencies within 60 calendar days of the notice of deficiency.
4. After receipt of a corrected application, staff shall notify the applicant within 90 calendar days if the corrected application is either administratively complete or deficient. The time-frame for administrative completeness review shall be suspended from the time the notice of deficiency is issued until staff determines that the application is complete.
5. Within 180 calendar days after an application is deemed administratively complete, the Commission shall approve or reject the application.
6. For purposes of A.R.S. § 41-1072, et seq., the Commission has established the following time-frames:
   a. Administrative completeness review time-frame: 120 calendar days;
   b. Substantive review time-frame: 180 calendar days;
   c. Overall time-frame: 300 calendar days.
7. If an applicant requests, and is granted, an extension or continuance, the appropriate time-frames shall be tolled from the date of the request during the duration of the extension or continuance.

8. During the substantive review time-frame, the Commission may, upon its own motion or that of any interested party to the proceeding, request a suspension of the time-frame rules.

Historical Note

Adopted effective December 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-4). Amended by an emergency action effective August 10, 1998, pursuant to A.R.S. § 41-1026, in effect for a maximum of 180 days (Supp. 98-3). Emergency amendment replaced by exempt permanent amendment effective December 31, 1998 (Supp. 98-4). Amended effective December 31, 1998, under an exemption as determined by the Arizona Corporation Commission (Supp. 98-4). Amended by exempt rulemaking at 5 A.A.R. 3933, effective September 24, 1999 (Supp. 99-3). Amended by exempt rulemaking at 6 A.A.R. 4180, effective October 13, 2000 (Supp. 00-4).

Editor's Note: The Arizona Corporation Commission has determined that the following Section is exempt from the Attorney General approval provisions of the Arizona Administrative Procedure Act (A.R.S. § 41-1041) by a court order (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301 (App. 1992)).

R14-2-1604. Competitive Phases

A. At the date established under R14-2-1602(A), each Affected Utility shall make available at least 20% of its 1995 system retail peak demand for competitive generation supply on a first-come, first-served basis as further described in this rule. First-come, first-served, for the purpose of this rule, shall be determined for nonresidential customers by the date and time of an Electric Service Provider's filing of a Direct Access Service Request with the Affected Utility or Utility Distribution Company. The effective date of the Direct Access Service Request must be within 60 days of the filing date of the Direct Access Service Request. Residential customer selection will be determined under approved residential phase-in programs as specified in subsection (B)(4).
   1. All Affected Utility customers with single premise non-coincident peak demand load of 1 MW or greater will be eligible for competitive electric services upon the commencement of competition. Customers meeting this requirement shall be eligible for competitive services until at least 20% of the Affected Utility's 1995 system peak demand is served by competition.
   2. Any class of customer may aggregate into a minimum combined load of 1 MW or greater within an Affected Utility's service territory and be eligible for competitive electric services. From the commencement of competition under R14-2-1602 through December 31, 2000, aggregation of new competitive customers will be allowed until such time as at least 20% of the Affected Utility's 1995 peak demand is served by competitors.
   3. Affected Utilities shall notify customers eligible under this subsection of the terms of the subsection no later than 60 days prior to the start of competition within its service territory.
   4. Effective January 1, 2001, all Affected Utility customers irrespective of size will be eligible for Aggregation and Self-Aggregation. Aggregation and Self-Aggregation customers purchasing their electricity and related services at any time after the effective date of these rules must do so from a certificated Electric Provider as provided for in these rules.

B. As part of the minimum 20% of 1995 system peak demand set forth in subsection (A), each Affected Utility shall reserve a residential phase-in program that provides an increasing minimum percentage of residential customers with access to competitive electric services according to the following schedule:
   1.

January 1, 1999	1 1/4%
April 1, 1999	2 1/2%
July 1, 1999	3 3/4%
October 1, 1999	5%
January 1, 2000	6 1/4%
April 1, 2000	7 1/2%
July 1, 2000	8 3/4%
October 1, 2000	10%

   2. Access to the residential phase-in program will be on a first-come, first-served basis. The Affected Utility shall create and maintain a waiting list to manage the residential phase-in program, which list shall promptly be made available to any certificated Load-Serving Electric Service Provider upon request.
   3. Residential customers participating in the residential phase-in program shall be permitted to use load profiling to satisfy the requirements for hourly consumption data; however, they may choose other metering options offered by their Electric Service Provider consistent with the Commission's rules on metering.
   4. If not already done, each Affected Utility shall file a residential phase-in program proposal to the Commission, through Docket Control, for approval by Director, Utilities Division, by September 15, 1999. Interested parties will have until September 30, 1999, to comment on any proposal. At a minimum, the residential phase-in program proposal will include specifics concerning the Affected Utility's proposed:
      a. Process for customer notification of residential phase-in program;
      b. Selection and tracking mechanism for customers based on first-come, first-served method;
      c. Customer notification process and other education and information services to be offered;
      d. Load Profiling methodology and actual load profiles, if available; and
      e. Method for calculation of reserved load.
   5. After the commencement of competition under R14-2-1602, each Affected Utility shall file quarterly residential phase-in program reports with the Compliance Section, Utilities Division, within 45 days of the end of each quarter. The first such report shall be due within 45 days of the first quarter ending after the start of the phase-in of competition for that Affected Utility. The final report due under this rule shall be due within 45 days of the quarter ending December 31, 2002. As a minimum, these quarterly reports shall include:
      a. The number of customers and the load currently enrolled in residential phase-in program by Energy Service Provider,
      b. The number of customers currently on the waiting list,
      c. A description and examples of all customer education programs and other information services including the goals of the education program and a discussion of the effectiveness of the programs, and
      d. An overview of comments and survey results from participating residential customers.

6. Aggregation or Self-Aggregation of residential customers is allowed subject to the limitations of the phase-in percentages in this rule.

C. Each Affected Utility shall file a report by November 1, 1999, detailing possible mechanisms to provide benefits, including rate reductions of 3% - 5%, to all Standard Offer customers.

D. All customers shall be eligible to obtain competitive electric services no later than January 1, 2001.

E. Retail consumers served under existing contracts are eligible to participate in the competitive market prior to expiration of the existing contract only if the Affected Utility and the consumer agree that the retail consumer may participate in the competitive market.

F. Schedule Modifications for Cooperatives

1. An electric cooperative may request that the Commission modify the schedule described in subsections (A) through (E) so as to preserve the tax-exempt status of the cooperative or to allow time to modify contractual arrangements pertaining to delivery of power supplies and associated loans.
2. As part of the request, the cooperative shall propose methods to enhance consumer choice among generation resources.
3. The Commission shall consider whether the benefits of modifying the schedule exceed the costs of modifying the schedule.

Historical Note

Adopted effective December 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-4). Amended by an emergency action effective August 10, 1998, pursuant to A.R.S. § 41-1026, in effect for a maximum of 180 days (Supp. 98-3). Emergency amendment replaced by exempt permanent amendment effective December 31, 1998 (Supp. 98-4). Amended by exempt rulemaking at 5 A.A.R. 3933, effective September 24, 1999 (Supp. 99-3). Amended by exempt rulemaking at 6 A.A.R. 4180, effective October 13, 2000 (Supp. 00-4).

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R14-2-1605. Competitive Services

Except as provided in R14-2-1615(C), Competitive Services shall require a Certificate of Convenience and Necessity and a tariff as described in R14-2-1603. A properly certificated Electric Service Provider may offer Competitive Services under bilateral or multilateral contracts with retail consumers.

Historical Note

Adopted effective December 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-4). Amended by an emergency action effective August 10, 1998, pursuant to A.R.S. § 41-1026, in effect for a maximum of 180 days (Supp. 98-3). Emergency amendment replaced by exempt permanent amendment effective December 31, 1998 (Supp. 98-4). Amended by exempt rulemaking at 5 A.A.R. 3933, effective September 24, 1999 (Supp. 99-3).

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R14-2-1606. Services Required to be Made Available

A. On the date its service area is open to competition under R14-2-1602, each Affected Utility or Utility Distribution Company shall make available Standard Offer Service and Noncompetitive Services at regulated rates. After January 1, 2001, Standard Offer Service and Noncompetitive Services shall be provided by Utility Distribution Companies who shall also act as Providers of Last Resort.

B. After January 1, 2001, power purchased by an investor owned Utility Distribution Company for Standard Offer Service shall be acquired from the competitive market through prudent, arm's length transactions, and with at least 50% through a competitive bid process.

C. Standard Offer Tariffs

1. By July 1, 1999, or pursuant to Commission Order, whichever occurs first, each Affected Utility shall file proposed tariffs to provide Standard Offer Service. Such rates shall not become effective until approved by the Commission. Any rate increase proposed by an Affected Utility or Utility Distribution Company for Standard Offer Service must be fully justified through a rate case proceeding.
2. Standard Offer Service tariffs shall include the following elements, each of which shall be clearly unbundled and identified in the filed tariffs:
   a. Competitive Services:
      i. Generation, which shall include all transaction costs and line losses;
      ii. Competition Transition Charge, which shall include recovery of generation related regulatory assets;
      iii. Generation-related billing and collection;
      iv. Transmission Services;
      v. Metering Services;
      vi. Meter Reading Services; and
      vii. Optional Ancillary Services, which shall include spinning reserve service, supplemental reserve, regulation and frequency response service, and energy imbalance service.
   b. Non-Competitive Services:
      i. Distribution services;
      ii. Required Ancillary services, which shall include scheduling, system control and dispatch service, and reactive supply and voltage control from generation sources service;
      iii. Must-Run Generating Units;
      iv. System Benefit Charges; and
      v. Distribution-related billing and collection.
3. Affected Utilities and Utility Distribution Companies may file proposed revisions to such rates with the Commission through Docket Control. Any rate increase proposed by an Affected Utility or Utility Distribution Company for Standard Offer Service must be fully justified through a rate case proceeding, which may be expedited at the discretion of the Utilities Division Director.
4. Such rates shall reflect the costs of providing the service.
5. Consumers receiving Standard Offer Service are eligible for potential future rate reductions as authorized by the Commission.
6. After January 2, 2001, tariffs for Standard Offer Service shall not include any special discounts or contracts with terms, or any tariff that prevents the customer from accessing a competitive option, other than time-of-use rates, interruptible rates, or self-generation deferral rates.

D. By the effective date of these rules, or pursuant to Commission Order, whichever occurs first, each Affected Utility or Utility Distribution Company shall file an Unbundled Service tariff that shall include a Noncompetitive Services tariff. The Unbundled Service tariff shall calculate the items listed in R14-2-1606(C)(2)(b) on the same basis as those items are calculated in the Standard Offer Service tariff.

E. To manage its risks, an Affected Utility or Electric Service Provider may include in its tariffs deposit requirements and advance payment requirements for Unbundled Services.

F. Affected Utilities and Utility Distribution Companies must accept power and energy delivered to their distribution systems by other Load-Serving Entities and offer distribution and distribution-related ancillary services comparable to services they provide to themselves at their Noncompetitive Services tariffed rates.

G. Customer Data
1. Upon written authorization by the customer, a Load-Serving Entity shall release in a timely and useful manner that customer's billing data, including consumption, demand, and power factor (if available), for the most recent 12-month period to a customer-specified properly certificated Electric Service Provider.
2. The Electric Service Provider requesting such customer data shall provide an accurate account number for the customer.
3. The form of data shall be mutually agreed upon by the parties and such data shall not be unreasonably withheld.
4. Utility Distribution Companies shall be allowed access to the Meter Reading Service Provider server for customers served by the Utility Distribution Company's distribution system.

H. Rates for Unbundled Services
1. The Commission shall review and approve rates for Competitive Services and Noncompetitive Services subject to Commission jurisdiction, before such services can be offered.
2. Such rates shall reflect the costs of providing the services.
3. Such rates may be downwardly flexible if approved by the Commission.

I. Electric Service Providers offering Competitive Services under this R14-2-1606 shall provide adequate supporting documentation for their proposed rates. Where rates are approved by another jurisdiction, such as the Federal Energy Regulatory Commission, those rates shall be provided as part of the supporting documentation.

Historical Note

Adopted effective December 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-4). Amended by an emergency action effective August 10, 1998, pursuant to A.R.S. § 41-1026, in effect for a maximum of 180 days (Supp. 98-3). Emergency amendment replaced by exempt permanent amendment effective December 31, 1998 (Supp. 98-4). Amended by exempt rulemaking at 5 A.A.R. 3933, effective September 24, 1999 (Supp. 99-3). Amended by exempt rulemaking at 6 A.A.R. 4180, effective October 13, 2000 (Supp. 00-4).

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R14-2-1607. Recovery of Stranded Cost of Affected Utilities

A. The Affected Utilities shall take every reasonable, cost-effective measure to mitigate or offset Stranded Cost by reducing costs, expanding wholesale or retail markets, or offering a wider scope of permitted regulated utility services for profit, among others.

B. The Commission shall allow a reasonable opportunity for recovery of unmitigated Stranded Cost by Affected Utilities.

C. The Affected Utilities shall file estimates of unmitigated Stranded Cost on or before July 1, 1999, or pursuant to Commission Order, whichever occurs first. Such estimates shall be fully supported by analyses and by records of market transactions undertaken by willing buyers and willing sellers.

D. An Affected Utility shall request Commission approval, on or before July 1, 1999, or pursuant to Commission Order, whichever occurs first, of distribution charges or other means of recovering unmitigated Stranded Cost. The filing may include a discounted stranded cost exit methodology that a consumer may choose to use to determine an amount due the Affected Utility in lieu of making monthly distribution charge or other payments.

E. The Commission shall, after hearing and consideration of analyses and recommendations presented by the Affected Utilities, staff, and intervenors, determine for each Affected Utility the magnitude of Stranded Cost, and appropriate Stranded Cost recovery mechanisms and charges. In making its determination of mechanisms and charges, the Commission shall consider at least the following factors:
1. The impact of Stranded Cost recovery on the effectiveness of competition;
2. The impact of Stranded Cost recovery on customers of the Affected Utility who do not participate in the competitive market;
3. The impact, if any, on the Affected Utility's ability to meet debt obligations;
4. The impact of Stranded Cost recovery on prices paid by consumers who participate in the competitive market;
5. The degree to which the Affected Utility has mitigated or offset Stranded Cost;
6. The degree to which some assets have values in excess of their book values;
7. Appropriate treatment of negative Stranded Cost;
8. The time period over which such Stranded Cost charges may be recovered. The Commission shall limit the application of such charges to a specified time period;
9. The applicability of Stranded Cost to interruptible customers.

F. A Competition Transition Charge (CTC) may be assessed on all retail customers based on the amount of generation purchased from any supplier. Any reduction in electricity purchases from an Affected Utility resulting from self-generation, demand side management, or other demand reduction attributable to any cause other than the retail access provisions of this Article shall not be used to calculate or recover any Stranded Cost from a consumer.

G. Stranded Cost shall be recovered from customer classes in a manner consistent with the specific company's current rate treatment of the stranded asset, in order to effect a recovery of Stranded Cost that is in substantially the same proportion as the recovery of similar costs from customers or customer classes under current rates. In no event shall the Competition Transition Charge be utilized as a mechanism for double recovery of Stranded Cost from Standard Offer Service customers.

H. The Commission may consider securitization as a financing method for recovery of Stranded Cost of the Affected Utility if

the Commission finds that such method of financing will result in a lower cost alternative to customers.

I. The Commission may, after notice and hearing, order regular revisions to estimates of the magnitude of Stranded Cost.

Historical Note

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R14-2-1608. System Benefits Charges

A. Each Affected Utility or Utility Distribution Company shall file for Commission review non-bypassable rates or related mechanisms to recover the applicable pro-rata costs of System Benefits from all consumers located in the Affected Utility's or Utility Distribution Company's service area. Affected Utilities or Utility Distribution Companies shall file for review of the Systems Benefits Charge at least every three years. The amount collected annually through the System Benefits charge shall be sufficient to fund the Affected Utilities' or Utility Distribution Companies' Commission-approved System Benefits. Filings shall be made with the Commission through Docket Control.

B. Each Affected Utility or Utility Distribution Company shall provide adequate supporting documentation for its proposed rates for System Benefits.

C. An Affected Utility or Utility Distribution Company shall recover the costs of System Benefits only upon hearing and approval by the Commission of the recovery charge and mechanism. The Commission may combine its review of System Benefits charges with its review of filings pursuant to R14-2-1606.

Historical Note

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R14-2-1609. Transmission and Distribution Access

A. The Affected Utilities shall provide nondiscriminatory open access to transmission and distribution facilities to serve all customers. No preference or priority shall be given to any distribution customer based on whether the customer is purchasing power under the Affected Utility's Standard Offer or in the competitive market. Any transmission capacity that is reserved for use by the retail customers of the Affected Utility's Utility Distribution Company shall be allocated among Standard Offer customers and competitive market customers on a pro-rata basis.

B. Utility Distribution Companies shall retain the obligation to assure that adequate transmission import capability is available to meet the load requirements of all distribution customers within their service areas. Utility Distribution Companies shall retain the obligation to assure that adequate distribution system capacity is available to meet the load requirements of all distribution customers within their service areas.

C. The Commission supports the development of Federal Energy Regulatory Commission-approved Regional Transmission Organization (RTO), an Independent System Operator (ISO) or, absent a Regional Transmission Organization or an Independent System Operator, an Arizona Independent Scheduling Administrator (AISA). The Commission believes that such organizations are necessary in order to provide nondiscriminatory retail access and to facilitate a robust and efficient electricity market.

D. Affected Utilities that own or operate Arizona transmission facilities shall form an Arizona Independent Scheduling Administrator that shall file with the Federal Energy Regulatory Commission within 60 days of this Commission's adoption of final rules herein, for approval of an Independent Scheduling Administrator having the following characteristics:

1. The Arizona Independent Scheduling Administrator shall calculate Available Transmission Capacity (ATC) for Arizona transmission facilities that belong to the Affected Utilities or other Arizona Independent Scheduling Administrator participants and shall develop and operate an overarching statewide OASIS.
2. The Arizona Independent Scheduling Administrator shall implement and oversee the nondiscriminatory application of operating protocols to ensure statewide consistency for transmission access. These operating protocols shall include, but are not limited to, protocols for determining transmission system transfer capabilities, committed uses of the transmission system, available transfer capabilities, Must-Run Generating Units, energy scheduling, and energy imbalances.
3. The Arizona Independent Scheduling Administrator shall provide dispute resolution processes that enable market participants to expeditiously resolve claims of discriminatory treatment in the reservation, scheduling, use, and curtailment of transmission services.
4. All requests (wholesale, Standard Offer retail, and competitive retail) for reservation and scheduling of the use of Arizona transmission facilities that belong to the Affected Utilities or other Arizona Independent Scheduling Administrator participants shall be made to, or through, the Arizona Independent Scheduling Administrator using a single, standardized procedure.
5. The Arizona Independent Scheduling Administrator shall implement a transmission planning process that includes all Arizona Independent Scheduling Administrator participants and aids in identifying the timing and key characteristics of required reinforcements to Arizona

transmission facilities to assure that the future load requirements of all participants will be met.

E. If not previously filed, the Affected Utilities that own or operate Arizona transmission facilities shall file a proposed Arizona Independent Scheduling Administrator implementation plan with the Commission, through Docket Control, within 30 days of the Commission's adoption of final rules herein. The implementation plan shall address Arizona Independent Scheduling Administrator governance, incorporation, financing, and staffing; the acquisition of physical facilities and staff by the Arizona Independent Scheduling Administrator; the schedule for the phased development of Arizona Independent Scheduling Administrator functionality and proposed transition to a regional Independent System Operator or Regional Transmission Organization; contingency plans to ensure that critical functionality is in place no later than three months following adoption of final rules herein by the Commission; and any other significant issues related to the timely and successful implementation of the Arizona Independent Scheduling Administrator.

F. Each of the Affected Utilities shall make good faith efforts to develop a regional, multi-state Independent System Operator or Regional Transmission Organization, to which the Arizona Independent Scheduling Administrator should transfer its relevant assets and functions and characteristics as specified in R14-2-1609(D) as the Independent System Operator or Regional Transmission Organization becomes able to carry out those functions. Absent Federal Energy Regulatory Commission approval of an Arizona Independent Scheduling Administrator, the functions and characteristics as specified in R14-2-1609(D) will be assumed by the Independent System Operator or Regional Transmission Organization.

G. It is the intent of the Commission that prudently-incurred costs incurred by the Affected Utilities in the establishment and operation of the Arizona Independent Scheduling Administrator, and subsequently the Independent System Operator or Regional Transmission Organization, should be recovered from customers using the transmission system, including the Affected Utilities' wholesale customers, Standard Offer retail customers, and competitive retail customers on a nondiscriminatory basis through Federal Energy Regulatory Commission-regulated prices. Proposed rates for the recovery of such costs shall be filed with the Federal Energy Regulatory Commission and this Commission through Docket Control. In the event that the Federal Energy Regulatory Commission does not permit recovery of prudently incurred Independent Scheduling Administrator costs within 90 days of the date of making an application with the Federal Energy Regulatory Commission, the Commission may authorize Affected Utilities to recover such costs through a distribution surcharge.

H. The Commission supports the use of "Scheduling Coordinators" to provide aggregation of customers' schedules to the Independent Scheduling Administrator and the respective Control Area Operators simultaneously until the implementation of a regional Independent System Operator or Regional Transmission Organization, at which time the schedules will be submitted to the Independent System Operator or Regional Transmission Organization. The primary duties of Scheduling Coordinators are to:

1. Forecast their customers' load requirements;
2. Submit balanced schedules (that is, schedules for which total generation is equal to total load of the Scheduling Coordinator's customers plus appropriate transmission and distribution line losses) and North American Electric Reliability Council/Western Systems Coordinating Council tags;
3. Arrange for the acquisition of the necessary transmission and ancillary services;
4. Respond to contingencies and curtailments as directed by the Control Area Operators, Arizona Independent Scheduling Administrator, or Independent System Operator or Regional Transmission Organization;
5. Actively participate in the schedule checkout process and the settlement processes of the Control Area Operators, Arizona Independent Scheduling Administrator, or Independent System Operator or Regional Transmission Organization.

I. The Affected Utilities and Utility Distribution Companies shall provide services from the Must-Run Generating Units to Standard Offer Service retail customers and competitive retail customers on a comparable, nondiscriminatory basis at regulated prices. The Affected Utilities shall specify the obligations of the Must-Run Generating Units in appropriate sales contracts prior to any divestiture. Under auspices of the Arizona Independent Scheduling Administrator, the Affected Utilities and other stakeholders shall develop statewide protocols for pricing and availability of services from Must-Run Generating Units. These protocols shall be filed with Docket Control for Commission review and, when appropriate, approval, prior to being filed with the Federal Energy Regulatory Commission in conjunction with the Arizona Independent Scheduling Administrator tariff filing. Fixed Must-Run Generating Units costs are to be recovered through a regulated charge to end-use customers. This charge must be set by the Commission as part of the end-use customer distribution service charges.

J. The Affected Utilities and other stakeholders, under the auspices of the Arizona Independent Scheduling Administrator, shall identify statewide services to be settled on and develop fair and reasonable pricing mechanisms to assure a consistent and fair settlement process.

Historical Note

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R14-2-1610. In-state Reciprocity

A. The service territories of Arizona electric utilities that are not Affected Utilities or Public Power Entities shall not be open to competition under the provisions of this Article, nor shall Arizona electric utilities which are not Affected Utilities be able to compete for sales in the service territories of the Affected Utilities.

B. An Arizona electric utility, subject to the jurisdiction of the Commission, that is not an Affected Utility or a Public Power Entity may voluntarily participate under the provisions of this Article if it makes its service territory available for competing

sellers, if it agrees to all of the requirements of this Article, and if it obtains an appropriate Certificate of Convenience and Necessity.

C. An Arizona electric utility, not subject to the jurisdiction of the Commission, and that is not a Public Power Entity, may submit a statement to the Commission, through Docket Control, stating that it voluntarily opens its service territory for competing sellers in a manner similar to the provisions of this Article. Such statement shall be accompanied by the electric utility's nondiscriminatory Standard Offer Tariff, electric supply tariffs, Unbundled Services rates, Stranded Cost charges, System Benefits charges, Distribution Services charges and any other applicable tariffs and policies for services the electric utility offers, for which these rules otherwise require compliance by Affected Utilities or Electric Service Providers. Such filings shall serve as authorization for such electric utility to utilize the Commission's Rules of Practice and Procedure and other applicable rules concerning any complaint that an Affected Utility or Electric Service Provider is violating any provision of this Article or is otherwise discriminating against the filing electric utility or failing to provide just and reasonable rates in tariffs filed under this Article.

D. If an electric utility is an Arizona political subdivision or municipal corporation other than a Public Power Entity, then the existing service territory of such electric utility shall be deemed open to competition if the political subdivision or municipality has entered into an intergovernmental agreement with the Commission that establishes nondiscriminatory terms and conditions for Distribution Services and other Unbundled Services, provides a procedure for complaints arising therefrom, and provides for reciprocity with Affected Utilities or their affiliates. The Commission shall conduct a hearing to consider any such intergovernmental agreement.

E. An affiliate of an Arizona electric utility which is not an Affected Utility or a Public Power Entity shall not be allowed to compete in the service territories of Affected Utilities unless the affiliate's parent company, the nonaffected electric utility, submits a statement to the Commission, through Docket Control, indicating that the parent company will voluntarily open its service territory for competing sellers in a manner similar to the provisions of this Article and the Commission makes a finding to that effect.

Historical Note

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R14-2-1611. Rates

A. Market determined rates for Competitive Services, as defined in R14-2-1601 shall be deemed to be just and reasonable.

B. Each Electric Service Provider selling services under this Article shall have on file with the Commission tariffs describing such services and maximum rates for those services, but the services may not be provided until the Commission has approved the tariffs.

C. Prior to January 1, 2001, competitively negotiated contracts governed by this Article customized to individual customers which comply with approved tariffs do not require further Commission approval. However, all such contracts whose term is one year or more and for service of 1 MW or more must be filed with the Director, Utilities Division, through the Compliance Section, as soon as practicable. If a contract does not comply with the provisions of the Load Serving Entity's approved tariffs, it shall not become effective without a Commission order. The provisions of such contracts shall be kept confidential by the Commission.

D. Contracts entered into on or after January 1, 2001, which comply with approved tariffs need not be filed with the Director, Utilities Division. If a contract does not comply with the provisions of the Load Serving Entity's approved tariffs, it shall not become effective without a Commission order.

E. An Electric Service Provider holding a Certificate pursuant to this Article may price its Competitive Services, at or below the maximum rates specified in its filed tariff, provided that the price is not less than the marginal cost of providing the service.

F. Requests for changes in maximum rates or changes in terms and conditions of previously approved tariffs may be filed with the Commission through Docket Control. Such changes shall become effective only upon Commission approval.

Historical Note

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R14-2-1612. Service Quality, Consumer Protection, Safety, and Billing Requirements

A. Except as indicated elsewhere in this Article, R14-2-201 through R14-2-212, inclusive, are adopted in this Article by reference. However, where the term "utility" is used in R14-2-201 through R14-2-212, the term "utility" shall pertain to Electric Service Providers providing the services described in each subsection of R14-2-201 through R14-2-212. R14-2-203(E) and R14-2-212(H) shall pertain only to Utility Distribution Companies.

B. The following shall not apply to this Article:
   1. R14-2-202 in its entirety,
   2. R14-2-206 in its entirety,
   3. R14-2-207 in its entirety,
   4. R14-2-212 (F)(1),

5. R14-2-213,
6. R14-2-208(E) and (F).

C. No consumer shall be deemed to have changed providers of any service authorized in this Article (including changes from the Affected Utility to another provider) without written authorization by the consumer for service from the new provider. If a consumer is switched to a different ("new") provider without such written authorization, the new provider shall cause service by the previous provider to be resumed and the new provider shall bear all costs associated with switching the consumer back to the previous provider. A new provider who switches a customer without written authorization shall also refund to the retail electricity customer the entire amount of the customer's electricity charges attributable to the electric generation service from the new provider for three months, or the period of the unauthorized service, whichever is more. A Utility Distribution Company may request the Commission's Consumer Services Section to review or audit written authorizations to assure a customer switch was properly authorized. A written authorization that is obtained by deceit or deceptive practices shall not be deemed a valid written authorization. Electric Service Providers shall submit reports within 30 days of the end of each calendar quarter to the Commission, through the Compliance Section, Utilities Division, itemizing the direct complaints filed by customers who have had their Electric Service Providers changed without their authorization. Violations of the Commission's rules concerning unauthorized changes of providers may result in penalties, or suspension or revocation of the provider's certificate. The following requirements and restrictions shall apply to the written authorization form requesting electric service from the new provider:
   1. The authorization shall not contain any inducements;
   2. The authorization shall be in legible print with clear and plain language confirming the rates, terms, conditions, and nature of the service to be provided;
   3. The authorization shall not state or suggest that the customer must take action to retain the customer's current electricity supplier;
   4. The authorization shall be in the same language as any promotional or inducement materials provided to the retail electric customer; and
   5. No box or container may be used to collect entries for sweepstakes or a contest that, at the same time, is used to collect authorization by a retail electric customer to change their electricity supplier or to subscribe to other services.

D. A residential customer may rescind its authorization to change providers of any service authorized in this Article within three business days, without penalty, by providing written notice to the provider.

E. Customer-specific information shall not be released without specific prior written customer authorization unless the information is requested by a law enforcement or other public agency, or is requested by the Commission or its Staff, or is reasonably required for legitimate account collection activities, or is necessary to provide safe and reliable service to the customer.

F. Each Electric Service Provider providing service governed by this Article shall be responsible for meeting applicable reliability standards and shall work cooperatively with other companies with whom it has interconnections, directly or indirectly, to ensure safe, reliable electric service. Utility Distribution Companies shall make reasonable efforts to notify customers of scheduled outages and also provide notification to the Commission.

G. Each Electric Service Provider shall provide at least 45 days' written notice to all of its affected consumers of its intent to cease providing generation, transmission, distribution, or ancillary services necessitating that the consumer obtain service from another supplier of generation, transmission, distribution, or ancillary services.

H. All Electric Service Providers rendering service under this Article shall submit accident reports, through the Compliance Section, as required in R14-2-101.

I. An Electric Service Provider providing firm electric service governed by this Article shall make reasonable efforts to reestablish service within the shortest possible time when service interruptions occur and shall work cooperatively with other companies to ensure timely restoration of service where facilities are not under the control of the Electric Service Provider.

J. Electric Service Providers shall give at least five days' notice to their customer of scheduled return to Standard Offer Service. Electric Service Providers shall provide 15 calendar days' notice prior to the next scheduled meter read date to the appropriate Utility Distribution Company regarding the intent to terminate a service agreement. Return of that customer to Standard Offer Service will be at the next regular billing cycle if appropriate metering equipment is in place and the request is provided 15 calendar days prior to the next regular meter read date. Responsibility for charges incurred between the notice and the next scheduled read date shall rest with the Electric Service Provider.

K. Each Electric Service Provider shall ensure that bills rendered on its behalf include its address and the toll-free telephone numbers for billing, service, and safety inquiries. The bill must also include the address and toll-free telephone numbers for the Phoenix and Tucson Consumer Service Sections of the Arizona Corporation Commission Utilities Division. Each Electric Service Provider shall ensure that billing and collections services rendered on its behalf comply with subsection (A).

L. Additional Provisions for Metering and Meter Reading Services
   1. When authorized by the consumer, an Electric Service Provider who provides metering or meter reading services pertaining to a particular consumer shall provide appropriate meter reading data via standardized formats, approved by the Director, Utilities Division, to all applicable Electric Service Providers serving that same consumer.
   2. Any person or entity relying on metering information provided by an Electric Service Provider may request a meter test according to the tariff on file and approved by the Commission. However, if the meter is found to be in error by more than 3%, no meter testing fee will be charged.
   3. Each competitive point of delivery shall be assigned a Universal Node Identifier by the Affected Utility or the Utility Distribution Company whose distribution system serves the customer.
   4. Unless the Commission grants a specific waiver all competitive metered and billing data shall be translated into consistent, statewide formats, approved by the Director, Utilities Division, that shall be used by the Affected Utility or the Utility Distribution Company and the Electric Service Provider.
   5. Unless the Commission grants a specific waiver, the standardized data exchange formats approved by the Director, Utilities Division, shall be used for all data exchange transactions from the Meter Reading Service Provider to the Electric Service Provider, Utility Distribution Com-

pany, and Schedule Coordinator. This data will be transferred via the Internet using a secure sockets layer or other secure electronic media.

6. Minimum metering requirements for competitive customers over 20 kW, or 100,000 kWh annually, should consist of hourly consumption measurement meters or meter systems. Predictable loads will be permitted to use load profiles to satisfy the requirements for hourly consumption data. The Load-Serving Entity developing the load profile shall determine if a load is predictable.
7. Competitive customers with hourly loads of 20 kW (or 100,000 kWh annually) or less will be permitted to use Load Profiling to satisfy the requirements for hourly consumption data, however, they may choose other metering options offered by their Electric Service Provider consistent with the Commission rules on Metering.
8. Metering equipment ownership will be limited to the Affected Utility, Utility Distribution Company, and the Electric Service Provider, or the customer, who must obtain the metering equipment through the Affected Utility, Utility Distribution Company, or an Electric Service Provider.
9. Maintenance and servicing of the metering equipment (including Current Transformers and Potential Transformers) will be limited to the Affected Utility, Utility Distribution Company, and the Electric Service Provider.
10. Distribution primary voltage Current Transformers and Potential Transformers may be owned by the Affected Utility, Utility Distribution Company, or the Electric Service Provider.
11. Transmission primary voltage Current Transformers and Potential Transformers may be owned by the Affected Utility or Utility Distribution Company only.
12. North American Electric Reliability Council-recognized holidays will be used in calculating "working days" for meter data timeliness requirements. If a holiday officially occurs on a Saturday, the preceding Friday will be recognized as the date of the holiday. If a holiday officially occurs on a Sunday, the following Monday will be recognized as the date of the holiday.
13. The Director, Utilities Division shall approve operating procedures to be used by the Utility Distribution Companies and the Meter Service Providers for performing work on primary metered customers.
14. The Director, Utilities Division shall approve operating procedures to be used by the Meter Reading Service Provider for validating, editing, and estimating metering data.
15. The Director, Utilities Division shall approve performance metering specifications and standards to be used by all entities performing metering.

M. Electric Service Providers shall comply with applicable reliability standards and practices established by the Western Systems Coordinating Council and the North American Electric Reliability Council or successor organizations.

N. Electric Service Providers shall provide notification and informational materials to consumers about competition and consumer choices, such as a standardized description of services, as ordered by the Commission.

O. Billing Elements. After the commencement of competition within a service territory pursuant to R14-2-1602, all customer bills, including bills for Standard Offer Service customers within that service territory, will list, at a minimum, the following billing cost elements:

1. Competitive Services:
   a. Generation, which shall include generation-related billing and collection;
   b. Competition Transition Charge;
   c. Transmission and Ancillary Services;
   d. Metering Services; and
   e. Meter Reading Services.
2. Non-Competitive Services:
   a. Distribution services, including distribution-related billing and collection, required Ancillary Services and Must-Run Generating Units; and
   b. System Benefit Charges
3. Regulatory assessments; and
4. Applicable taxes.
5. In cases where the Utility Distribution Company and the Electric Service Provider provide separate bills to customers, the Electric Service Provider is not required to list the billing cost elements for non-competitive services. In cases where the Utility Distribution Company and the Electric Service Provider provide separate bills to customers, the Utility Distribution Company is not required to list the billing cost elements for competitive services if the customer is obtaining competitive services from an Electric Service Provider.

P. The operating procedures approved by the Director, Utilities Division, will be used for Direct Access Service Requests as well as other billing and collection transactions.

Historical Note

Adopted effective December 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-4). Amended by an emergency action effective August 10, 1998, pursuant to A.R.S. § 41-1026, in effect for a maximum of 180 days (Supp. 98-3). Emergency amendment replaced by exempt permanent amendment effective December 31, 1998 (Supp. 98-4). Former Section R14-2-1612 renumbered to R14-2-1611; new Section R14-2-1612 renumbered from R14-2-1613 and amended by exempt rulemaking at 5 A.A.R. 3933, effective September 24, 1999 (Supp. 99-3). Amended by exempt rulemaking at 6 A.A.R. 4180, effective October 13, 2000 (Supp. 00-4).

Editor's Note: The Arizona Corporation Commission has determined that the following Section is exempt from the Attorney General approval provisions of the Arizona Administrative Procedure Act (A.R.S. § 41-1041) by a court order (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301 (App. 1992)).

R14-2-1613. Reporting Requirements

A. Reports covering the following items, as applicable, shall be submitted to the Director, Utilities Division, through the Compliance Section, by Affected Utilities or Utility Distribution Companies and all Electric Service Providers granted a Certificate of Convenience and Necessity pursuant to this Article. These reports shall include the following information pertaining to competitive service offerings, Unbundled Services, and Standard Offer services in Arizona:

1. Type of services offered;
2. kW and kWh sales to consumers, disaggregated by customer class (for example, residential, commercial, industrial);
3. Revenues from sales by customer class (for example, residential, commercial, industrial);
4. Number of retail customers disaggregated as follows: residential, commercial/industrial under 21 kW, commercial/industrial 21 to 999 kW, commercial/industrial 1000

kW or more, agricultural (if not included in commercial), and other;

5. Retail kWh sales and revenues disaggregated by term of the contract (less than one year, one to four years, longer than four years), and by type of service (for example, firm, interruptible, other);
6. Amount of revenues from each type of Competitive Service and, if applicable, each type of Noncompetitive Service provided (using breakdown from R14-2-1612(O);
7. Value of all assets used to serve Arizona customers and accumulated depreciation;
8. Tabulation of Arizona electric generation plants owned by the Electric Service Provider broken down by generation technology, fuel type, and generation capacity;
9. The number of customers aggregated and the amount of aggregated load; and
10. Other data requested by staff or the Commission.

B. Reporting Schedule

1. For the period through December 31, 2003, semi-annual reports shall be filed by April 15 (covering the previous period of July through December) and October 15 (covering the previous period of January through June). The first such report shall cover the period January 1 through June 30, 1999.
2. For the period after December 31, 2003, annual reports shall be filed by April 15 (covering the previous period of January through December). The first such report shall cover the period January 1 through December 31, 2004.

C. The information listed above may, at the provider's option, be provided on a confidential basis. However, staff or the Commission may issue reports with aggregate statistics based on confidential information that do not disclose data pertaining to a particular seller or purchases by a particular buyer.

D. Any Electric Service Provider, Affected Utility, or Utility Distribution Company governed by this Article which fails to file the above data in a timely manner may be subject to a penalty imposed by the Commission or may have its Certificate rescinded by the Commission.

E. Any Electric Service Provider holding a Certificate pursuant to this Article shall file a request in Docket Control to discontinue any competitive tariff as soon as practicable after the decision to discontinue offering service is made.

F. In addition to the above reporting requirements, Electric Service Providers, Affected Utilities, and Utility Distribution Companies governed by this Article shall participate in Commission workshops or other forums whose purpose is to evaluate competition or assess market issues.

Historical Note

Adopted effective December 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-4). Amended by an emergency action effective August 10, 1998, pursuant to A.R.S. § 41-1026, in effect for a maximum of 180 days (Supp. 98-3). Emergency amendment replaced by exempt permanent amendment effective December 31, 1998 (Supp. 98-4). Former Section R14-2-1613 renumbered to R14-2-1612; new Section R14-2-1613 renumbered from R14-2-1614 and amended by exempt rulemaking at 5 A.A.R. 3933, effective September 24, 1999 (Supp. 99-3). Amended by exempt rulemaking at 6 A.A.R. 4180, effective October 13, 2000 (Supp. 00-4).

Editor's Note: The Arizona Corporation Commission has determined that the following Section is exempt from the Attorney General approval provisions of the Arizona Administrative Procedure Act (A.R.S. § 41-1041) by a court order (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301 (App. 1992)).

R14-2-1614. Administrative Requirements

A. Any Electric Service Provider certificated under this Article may file with the Commission, through Docket Control, proposed additional tariffs for Competitive Services at any time which include a description of the service, maximum rates, terms, and conditions.

B. Contracts filed pursuant to this Article shall not be open to public inspection or made public except on order of the Commission, or by the Commission or a Commissioner in the course of a hearing or proceeding.

C. The Commission may consider variations or exemptions from the terms or requirements of any of the rules in this Article upon the application of an affected party. The application must set forth the reasons why the public interest will be served by the variation or exemption from the Commission rules and regulations. Any variation or exemption granted shall require an order of the Commission. Where a conflict exists between these rules and an approved tariff or order of the Commission, the provisions of the approved tariff or order of the Commission shall apply.

D. The Commission may develop procedures for resolving disputes regarding implementation of retail electric competition.

E. Prior to October 1, 1999, the Director, Utilities Division, shall implement a Consumer Education Program as approved by the Commission.

Historical Note

Adopted effective December 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-4). Amended by an emergency action effective August 10, 1998, pursuant to A.R.S. § 41-1026, in effect for a maximum of 180 days (Supp. 98-3). Emergency amendment replaced by exempt permanent amendment effective December 31, 1998 (Supp. 98-4). Former Section R14-2-1614 renumbered to R14-2-1613; new Section R14-2-1614 renumbered from R14-2-1615 and amended by exempt rulemaking at 5 A.A.R. 3933, effective September 24, 1999 (Supp. 99-3). Amended by exempt rulemaking at 6 A.A.R. 4180, effective October 13, 2000 (Supp. 00-4).

Editor's Note: The Arizona Corporation Commission has determined that the following Section is exempt from the Attorney General approval provisions of the Arizona Administrative Procedure Act (A.R.S. § 41-1041) by a court order (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301 (App. 1992)).

R14-2-1615. Separation of Monopoly and Competitive Services

A. All competitive generation assets and competitive services shall be separated from an Affected Utility prior to January 1, 2001. Such separation shall either be to an unaffiliated party or to a separate corporate affiliate or affiliates. If an Affected Utility chooses to transfer its competitive generation assets or competitive services to a competitive electric affiliate, such transfer shall be at a value determined by the Commission to be fair and reasonable.

B. Beginning January 1, 2001, an Affected Utility or Utility Distribution Company shall not provide Competitive Services as defined in R14-2-1601.

1. This Section does not preclude an Affected Utility or Utility Distribution Company from billing its own customers for distribution service, or from providing billing services to Electric Service Providers in conjunction with its own billing, or from providing Meter Services and

Meter Reading Services for Load Profiled residential customers. Nor does this Section preclude an Affected Utility or Utility Distribution Company from providing billing and collections, Metering and Meter Reading Service as part of the Standard Offer Service tariff to Standard Offer Service customers.

2. This Section does not preclude an Affected Utility or Utility Distribution Company from owning distribution and transmission primary voltage Current Transformers and Potential Transformers.

C. An Electric Distribution Cooperative is not subject to the provisions of R14-2-1615 unless it offers competitive electric services outside of its distribution service territory.

Historical Note

Adopted effective December 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-4). Amended by an emergency action effective August 10, 1998, pursuant to A.R.S. § 41-1026, in effect for a maximum of 180 days (Supp. 98-3). Emergency amendment replaced by exempt permanent amendment effective December 31, 1998 (Supp. 98-4). Former Section R14-2-1615 renumbered to R14-2-1614; new Section R14-2-1615 renumbered from R14-2-1616 and amended by exempt rulemaking at 5 A.A.R. 3933, effective September 24, 1999 (Supp. 99-3).

Editor's Note: The Arizona Corporation Commission has determined that the following Section is exempt from the Attorney General approval provisions of the Arizona Administrative Procedure Act (A.R.S. § 41-1041) by a court order (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301 (App. 1992)).

R14-2-1616. Code of Conduct

A. If not previously filed, no later than 90 days after adoption of these Rules, each Affected Utility which plans to offer Noncompetitive Services and which plans to offer Competitive Services through its competitive electric affiliate shall propose a Code of Conduct to prevent anti-competitive activities. Each Affected Utility that is an electric cooperative, that plans to offer Noncompetitive Services, and that is a member of any electric cooperative that plans to offer Competitive Services shall also submit a Code of Conduct to prevent anti-competitive activities. All Codes of Conduct shall be filed in Docket Control and be subject to Commission approval after a hearing.

B. The Code of Conduct shall address the following subjects:

1. Appropriate procedures to prevent cross subsidization between the Utility Distribution Company and any competitive affiliates, including but not limited to the maintenance of separate books, records, and accounts;
2. Appropriate procedures to ensure that the Utility Distribution Company's competitive affiliate does not have access to confidential utility information that is not also available to other market participants;
3. Appropriate guidelines to limit the joint employment of personnel by both a Utility Distribution Company and its competitive affiliate;
4. Appropriate guidelines to govern the use of the Utility Distribution Company's name or logo by the Utility Distribution Company's competitive affiliate;
5. Appropriate procedures to ensure that the Utility Distribution Company does not give its competitive affiliate any preferential treatment such that other market participants are unfairly disadvantaged or discriminated against;
6. Appropriate policies to eliminate joint advertising, joint marketing, or joint sales by a Utility Distribution Company and its competitive affiliate;
7. Appropriate procedures to govern transactions between a Utility Distribution Company and its competitive affiliate; and
8. Appropriate policies to prevent the Utility Distribution Company and its competitive affiliate from representing that customers will receive better service as a result of the affiliation.
9. Complaints concerning violations of the Code of Conduct shall be processed under the procedures established in R14-2-212.

Historical Note

Adopted effective December 26, 1996, under an exemption as determined by the Arizona Corporation Commission (Supp. 96-4). Section R14-2-1616 repealed by emergency action; emergency new Section adopted by an emergency action effective August 10, 1998, pursuant to A.R.S. § 41-1026, in effect for a maximum of 180 days (Supp. 98-3). Emergency amendment replaced by exempt permanent amendment effective December 31, 1998 (Supp. 98-4). Former Section R14-2-1616 renumbered to R14-2-1615; new Section R14-2-1616 adopted by exempt rulemaking at 5 A.A.R. 3933, effective September 24, 1999 (Supp. 99-3). Amended by exempt rulemaking at 6 A.A.R. 4180, effective October 13, 2000 (Supp. 00-4).

Editor's Note: The Arizona Corporation Commission has determined that the following Section is exempt from the Attorney General approval provisions of the Arizona Administrative Procedure Act (A.R.S. § 41-1041) by a court order (State ex. rel. Corbin v. Arizona Corporation Commission, 174 Ariz. 216 848 P.2d 301 (App. 1992)).

R14-2-1617. Disclosure of Information

A. Each Load-Serving Entity providing either generation service or Standard Offer Service shall prepare a consumer information label that sets forth the following information:

1. Price to be charged for generation services,
2. Price variability information,
3. Customer service information,
4. Time period to which the reported information applies.

B. Each Load-Serving Entity providing either generation service or Standard Offer Service shall provide, upon request, the following information (to the extent reasonably known):

1. Composition of resource portfolio,
2. Fuel mix characteristics of the resource portfolio,
3. Emissions characteristics of the resource portfolio.

C. The Director, Utilities Division, shall develop the format and reporting requirements for the consumer information label to ensure that the information is appropriately and accurately reported and to ensure that customers can use the labels for comparisons among Load-Serving Entities. The format developed by the Director, Utilities Division, shall be used by each Load-Serving Entity.

D. Each Load-Serving Entity shall include the information disclosure label in a prominent position in all written marketing materials specifically targeted to Arizona. When a Load-Serving Entity advertises in nonprint media, or in written materials not specifically targeted to Arizona, the marketing materials shall indicate that the Load-Serving Entity shall provide the consumer information label to the public upon request.

E. Each Load-Serving Entity shall prepare an annual disclosure report that aggregates the resource portfolios of the Load-Serving Entity and its affiliates.

F. Each Load-Serving Entity shall prepare a statement of its terms of service that sets forth the following information:
   1. Actual pricing structure or rate design according to which the customer with a load of less than 1 MW will be billed, including an explanation of price variability and price level adjustments that may cause the price to vary;
   2. Length and description of the applicable contract and provisions and conditions for early termination by either party;
   3. Due date of bills and consequences of late payment;
   4. Conditions under which a credit agency is contacted;
   5. Deposit requirements and interest on deposits;
   6. Limits on warranties and damages;
   7. All charges, fees, and penalties;
   8. Information on consumer rights pertaining to estimated bills, third-party billing, deferred payments, and recision of supplier switches within three days of receipt of confirmation;
   9. A toll-free telephone number for service complaints;
   10. Low income programs and low income rate eligibility;
   11. Provisions for default service;
   12. Applicable provisions of state utility laws; and
   13. Method whereby customers will be notified of changes to the terms of service.

G. The consumer information label, the disclosure report, and the terms of service shall be distributed in accordance with the following requirements:
   1. Prior to the initiation of service for any retail customer,
   2. Prior to processing written authorization from a retail customer with a load of less than 1 MW to change Electric Service Providers,
   3. To any person upon request,
   4. Made a part of the semi-annual and annual reports required by R14-2-1613.
   5. The information described in this subsection shall be posted on any electronic information medium of the Load-serving Entities.

H. Failure to comply with the rules on information disclosure or dissemination of inaccurate information may result in suspension or revocation of certification or other penalties as determined by the Commission.

I. The Commission shall establish a consumer information advisory panel to review the effectiveness of the provisions of this Section and to make recommendations for changes in the rules.

Historical Note

Adopted by an emergency action effective August 10, 1998, pursuant to A.R.S. § 41-1026, in effect for a maximum of 180 days (Supp. 98-3). Emergency adoption replaced by exempt permanent adoption effective December 31, 1998 (Supp. 98-4). Former Section R14-2-1617 repealed; new Section R14-2-1617 renumbered from R14-2-1618 and amended by exempt rulemaking at 5 A.A.R. 3933, effective September 24, 1999 (Supp. 99-3). Amended by exempt rulemaking at 6 A.A.R. 4180, effective October 13, 2000 (Supp. 00-4).

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R14-2-1618. Environmental Portfolio Standard

A. Upon the effective implementation of a Commission-approved Environmental Portfolio Standard Surcharge tariff, any Load-Serving Entity selling electricity or aggregating customers for the purpose of selling electricity under the provisions of this Article must derive at least .2% of the total retail energy sold from new solar resources or environmentally-friendly renewable electricity technologies, whether that energy is purchased or generated by the seller. Solar resources include photovoltaic resources and solar thermal resources that generate electricity. New solar resources and environmentally-friendly renewable electricity technologies are those installed on or after January 1, 1997.
   1. Electric Service Providers, that are not UDCs, are exempt from portfolio requirements until 2004, but could voluntarily elect to participate. ESPs choosing to participate would receive a pro rata share of funds collected from the Environmental Portfolio Surcharge delineated in R14-2-1618.A.2 for portfolio purposes to acquire eligible portfolio systems or electricity generated from such systems.
   2. Utility Distribution Companies would recover part of the costs of the portfolio standard through current System Benefits Charges, if they exist, including a re-allocation of demand side management funding to portfolio uses. Additional portfolio standard costs will be recovered by a customer Environmental Portfolio Surcharge on the customers' monthly bill. The Environmental Portfolio Surcharge shall be assessed monthly to every metered and/or non-metered retail electric service. This monthly assessment will be the lesser of $0.000875 per kWh or:
      a. Residential Customers: $.35 per service,
      b. Non-Residential Customers: $13 per service,
      c. Non-Residential Customers whose metered demand is 3,000 kW or more for three consecutive months: $39.00 per service. In the case of unmetered services, the Load-Serving Entity shall, for purposes of billing the Environmental Portfolio Standard Surcharge and subject to the caps set forth above, use the lesser of (i) the load profile or otherwise estimated kWh required to provide the service in question; or (ii) the service's contract kWh.
   3. Customer bills shall reflect a line item entitled "Environmental Portfolio Surcharge, mandated by the Corporation Commission."
   4. Utility Distribution Companies or ESPs that do not currently have a renewables program may request a waiver or modification of this Section due to extreme circumstances that may exist.

B. The portfolio percentage shall increase after December 31, 2000.
   1. Starting January 1, 2001, the portfolio percentage shall increase annually and shall be set according to the following schedule:

YEAR	PORTFOLIO PERCENTAGE
2001	.2%
2002	.4%
2003	.6%
2004	.8%
2005	1.0%
2006	1.05%
2007-2012	1.1%

   2. The Commission would continue the annual increase in the portfolio percentage after December 31, 2004, only if the cost of environmental portfolio electricity has declined to a Commission-approved cost/benefit point. The Director, Utilities Division shall establish, not later

than January 1, 2003, an Environmental Portfolio Cost Evaluation Working Group to make recommendations to the Commission of an acceptable portfolio electricity cost/benefit point or portfolio kWh cost impact maximum that the Commission could use as a criteria for the decision to continue the increase in the portfolio percentage. The recommendations of the Working Group shall be presented to the Commission not later than June 30, 2003. In no event, however, shall the Commission increase the surcharge caps as delineated in R14-2-1618(A)(2).

3. The requirements for the phase-in of various technologies shall be:
   a. In 2001, the Portfolio kWh makeup shall be at least 50 percent solar electric, and no more than 50 percent other environmentally-friendly renewable electricity technologies or solar hot water or R&D on solar electric resources, but with no more than 10 percent on R&D.
   b. In 2002 and 2003, the Portfolio kWh makeup shall be at least 50 percent solar electric, and no more than 50 percent other environmentally-friendly renewable electricity technologies or solar hot water or R&D on solar electric resources, but with no more than 5 percent on R&D.
   c. In 2004, through 2012, the portfolio kWh makeup shall be at least 60 percent solar electric with no more than 40 percent solar hot water or other environmentally-friendly renewable electricity technologies.

C. Load-Serving Entities shall be eligible for a number of extra credit multipliers that may be used to meet the portfolio standard requirements. Extra credits may be used to meet portfolio requirements and extra credits from solar electric technologies will also count toward the solar electric fraction requirements in R14-2-1618(B)(3). With the exception of the Early Installation Extra Credit Multiplier, which has a five-year life from operational start-up, all other extra credit multipliers are valid for the life of the generating equipment.

1. Early Installation Extra Credit Multiplier: For new solar electric systems installed and operating prior to December 31, 2003, Load-Serving Entities would qualify for multiple extra credits for kWh produced for five years following operational start-up of the solar electric system. The five-year extra credit would vary depending upon the year in which the system started up, as follows:

YEAR	EXTRA CREDIT MULTIPLIER
1997	.5
1998	.5
1999	.5
2000	.4
2001	.3
2002	.2
2003	.1

   Eligibility to qualify for the Early Installation Extra Credit Multiplier would end in 2003. However, any eligible system that was operational in 2003 or before would still be allowed the applicable extra credit for the full five years after operational start-up.

2. Solar Economic Development Extra Credit Multipliers: There are two equal parts to this multiplier, an in-state installation credit and an in-state content multiplier.
   a. In-State Power Plant Installation Extra Credit Multiplier: Solar electric power plants installed in Arizona shall receive a .5 extra credit multiplier.
   b. In-State Manufacturing and Installation Content Extra Credit Multiplier: Solar electric power plants shall receive up to a .5 extra credit multiplier related to the manufacturing and installation content that comes from Arizona. The percentage of Arizona content of the total installed plant cost shall be multiplied by .5 to determine the appropriate extra credit multiplier. So, for instance, if a solar installation included 80% Arizona content, the resulting extra credit multiplier would be .4 (which is .8 X .5).
3. Distributed Solar Electric Generator and Solar Incentive Program Extra Credit Multiplier: Any distributed solar electric generator that meets more than one of the eligibility conditions will be limited to only one .5 extra credit multiplier from this subsection. Appropriate meters will be attached to each solar electric generator and read at least once annually to verify solar performance.
   a. Solar electric generators installed at or on the customer premises in Arizona. Eligible customer premises locations will include both grid-connected and remote, non-grid-connected locations. In order for Load-Serving Entities to claim an extra credit multiplier, the Load-Serving Entity must have contributed at least 10% of the total installed cost or have financed at least 80% of the total installed cost.
   b. Solar electric generators located in Arizona that are included in any Load-Serving Entity's Green Pricing program.
   c. Solar electric generators located in Arizona that are included in any Load-Serving Entity's Net Metering or Net Billing program.
   d. Solar electric generators located in Arizona that are included in any Load-Serving Entity's solar leasing program.
   e. All Green Pricing, Net Metering, Net Billing, and Solar Leasing programs must have been reviewed and approved by the Director, Utilities Division in order for the Load-Serving Entity to accrue extra credit multipliers from this subsection.
4. All multipliers are additive, allowing a maximum combined extra credit multiplier of 2.0 in years 1997-2003, for equipment installed and manufactured in Arizona and either installed at customer premises or participating in approved solar incentive programs. So, if a Load-Serving Entity qualifies for a 2.0 extra credit multiplier and it produces 1 solar kWh, the Load-Serving Entity would get credit for 3 solar kWh (1 produced plus 2 extra credit).

D. Load-Serving Entities selling electricity under the provisions of this Article shall provide reports on sales and portfolio power as required in this Article, clearly demonstrating the output of portfolio resources, the installation date of portfolio resources, and the transmission of energy from those portfolio resources to Arizona consumers. The Commission may conduct necessary monitoring to ensure the accuracy of these data. Reports shall be made according to the Reporting Schedule in R14-2-1613(B).

E. Photovoltaic or solar thermal electric resources that are located on the consumer's premises shall count toward the Environmental Portfolio Standard applicable to the current Load-Serving Entity serving that consumer unless a different Load-Serving Entity is entitled to receive credit for such resources under the provisions of R14-2-1618(C)(3)(a).

F. Any solar electric generators installed by an Affected Utility to meet the environmental portfolio standard shall be counted toward meeting renewable resource goals for Affected Utilities established in Decision No. 58643.

G. Any Load-Serving Entity that produces or purchases any eligible kWh in excess of its annual portfolio requirements may save or bank those excess kWh for use or sale in future years. Any eligible kWh produced subject to this rule may be sold or traded to any Load-Serving Entity that is subject to this rule. Appropriate documentation, subject to Commission review, shall be given to the purchasing entity and shall be referenced in the reports of the Load-Serving Entity that is using the purchased kWh to meet its portfolio requirements.

H. Environmental Portfolio Standard requirements shall be calculated on an annual basis, based upon electricity sold during the calendar year.

I. A Load-Serving Entity shall be entitled to receive a partial credit against the portfolio requirement if the Load-Serving Entity or its affiliate owns or makes a significant investment in any solar electric manufacturing plant that is located in Arizona. The credit will be equal to the amount of the nameplate capacity of the solar electric generators produced in Arizona and sold in a calendar year times 2,190 hours (approximating a 25% capacity factor).

1. The credit against the portfolio requirement shall be limited to the following percentages of the total portfolio requirement:
   2001: Maximum of 50% of the portfolio requirement
   2002: Maximum of 25% of the portfolio requirement
   2003 and on: Maximum of 20% of the portfolio requirement
2. No extra credit multipliers will be allowed for this credit. In order to avoid double-counting of the same equipment, solar electric generators that are used by other Load-Serving Entities to meet their Arizona portfolio requirements will not be allowable for credits under this Section for the manufacturer/Electric Service Provider to meet its portfolio requirements.

J. The Director, Utilities Division shall develop appropriate safety, durability, reliability, and performance standards necessary for solar generating equipment and environmentally-friendly renewable electricity technologies and to qualify for the portfolio standard. Standards requirements will apply only to facilities constructed or acquired after the standards are publicly issued.

K. A Load-Serving Entity shall be entitled to meet up to 20% of the portfolio requirement with solar water heating systems or solar air conditioning systems purchased by the Load-Serving Entity for use by its customers, or purchased by its customers and paid for by the Load-Serving Entity through bill credits or other similar mechanisms. The solar water heaters must replace or supplement the use of electric water heaters for residential, commercial, or industrial water heating purposes. For the purposes of this rule, solar water heaters will be credited with 1 kWh of electricity produced for each 3,415 British Thermal Units of heat produced by the solar water heater and solar air conditioners shall be credited with kWhs equivalent to those needed to produce a comparable cooling load reduction. Solar water heating systems and solar air conditioning systems shall be eligible for Early Installation Extra Credit Multipliers as defined in R14-2-1618(C)(1) and Solar Economic Development Extra Credit Multipliers as defined in R14-2-1618(C)(2)(b).

L. A Load-Serving Entity shall be entitled to meet the portfolio requirement with electricity produced in Arizona by environmentally-friendly renewable electricity technologies that are defined as in-state landfill gas generators, wind generators, and biomass generators, consistent with the phase-in schedule in R14-2-1618(B)(3). Systems using such technologies shall be eligible for Early Installation Extra Credit Multipliers as defined in R14-2-1618(C)(1) and Solar Economic Development Extra Credit Multipliers as defined in R14-2-1618(C)(2)(b).

Historical Note

Adopted by an emergency action effective August 10, 1998, pursuant to A.R.S. § 41-1026, in effect for a maximum of 180 days (Supp. 98-3). Emergency adoption replaced by exempt permanent adoption effective December 31, 1998 (Supp. 98-4). Section R14-2-1618 renumbered to R14-2-1617 by exempt rulemaking at 5 A.A.R. 3933, effective September 24, 1999 (Supp. 99-3). New Section adopted by exempt rulemaking at 7 A.A.R. 1661, effective March 20, 2001 (Supp. 01-1).

ARTICLE 17. RESERVED

ARTICLE 18. RESERVED

ARTICLE 19. CONSUMER PROTECTIONS FOR UNAUTHORIZED CARRIER CHANGES

Article 19, consisting of R14-2-1901 through R14-2-1913, made by final rulemaking at 10 A.A.R. 2409, effective July 23, 2004 (Supp. 04-2).

R14-2-1901. Definitions

A. "Authorized Carrier" means any Telecommunications Company that submits, on behalf of a Customer, a change in the Customer's selection of a provider of telecommunications service, with the Subscriber's authorization verified in accordance with the procedures specified in this Article.

B. "Commission" means Arizona Corporation Commission.

C. "Customer" means the person or entity in whose name service is rendered, as evidenced by the signature on the application or contract for service, or by the receipt or payment of bills regularly issued in their name regardless of the identity of the actual user of service.

D. "Executing Telecommunications Carrier" means a Telecommunications Company that effects a request that a Subscriber's Telecommunications Company be changed.

E. "Letter of Agency" means written authorization, including internet enabled with electronic signature, by a Subscriber authorizing a Telecommunications Company to act on the Subscriber's behalf to change the Subscriber's Telecommunications Company.

F. "Subscriber" means the Customer identified in the account records of a Telecommunications Company; and any person authorized by such Customer to change telecommunications services or to charge services to the account; or any person contractually or otherwise lawfully authorized to represent such Customer.

G. "Telecommunications Company" means a public service corporation, as defined in the Arizona Constitution, Article 15, § 2, which provides telecommunications services within the state of Arizona and over which the Commission has jurisdiction.

H. "Unauthorized Carrier" means any Telecommunications Company that submits, on behalf of a Customer, a change in the Customer's selection of a provider of telecommunications service without the subscriber's authorization verified in accordance with the procedures specified in this Article.

I. "Unauthorized Change" ("slamming") means a change in a Telecommunications Company submitted on behalf of a Sub-

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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JEFF HATCH-MILLER
MIKE GLEASON
KRISTEN K. MAYES

Arizona Corporation Commission
DOCKETED
JUN 29 2004
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IN THE MATTER OF THE APPLICATION OF AJO IMPROVEMENT COMPANY FOR A RATE INCREASE.

DOCKET NO. WS-01025A-03-0350

DECISION NO. 67092
WATER

OPINION AND ORDER

DATE OF PUBLIC COMMENT:	March 18, 2004
PLACE OF PUBLIC COMMENT:	Ajo, Arizona
DATE OF HEARING:	April 1, 2004
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Jane L. Rodda
IN ATTENDANCE:	Mike Gleason
APPEARANCES:	Mr. Michael Patten, Roshka, Heyman & DeWulf, PLC, attorneys for Ajo Improvement Company;
	Mr. Robert Geake, Vice President and General Counsel, Arizona Water Company; and
	Mr. David Ronald, Staff Attorney on behalf of the Utilities Division of the Arizona Corporation Commission.

EXHIBIT
S-19
admitted

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

1. Ajo Improvement Company ("AIC" or "Company") is certificated by the Commission to provide electric, water and wastewater service to customers in and around the unincorporated

community of Ajo, Pima County, Arizona.

2. AIC provides water service to approximately 1,119 customers and sewer service to approximately 1,089 customers.

3. On May 28, 2003, AIC filed an application with the Commission to increase its water revenues approximately $111,123 (or an increase of 17.3 percent over test year ended December 31, 2002 revenues), and an increase in sewer revenues of approximately $156,315 (or 163.7 percent over test year revenues).

4. The Company's current water rates were set in Decision No. 54709 (October 10, 1985). Its current wastewater rates were set in Decision No. 55233 (October 16, 1986).

5. On June 25, 2003, Commission Utilities Division Staff ("Staff") notified the Company that its application did not meet the sufficiency requirements of A.A.C R14-2-103.

6. On June 10 and 12, 2003, AIC filed amendments to its application.

7. On July 14, 2003, Staff notified the Company that its application met the sufficiency requirements of A.A.C. R14-2-103, and classified the Company as a Class B utility.

8. By Procedural Order dated August 11, 2003, the Commission set the matter for hearing at its offices in Phoenix, Arizona, set a public comment meeting in Ajo, Arizona, and established deadlines for pre-filing written testimony.

9. On September 15, 2003, the Commission granted intervention to Arizona Water Company ("AWC"), a wholesale water customer of AIC.

10. On October 15, 2003, pursuant to the September 15, 2003 Procedural Order, AIC filed an Affidavit of Proof of Mailing that it had mailed notice of the hearing to its customers on October 2, 2003.

11. On January 9, 2004, Staff filed the Direct Testimony and Exhibits of Crystal Brown and John Chelus. On February 6, 2004, AWC filed the Direct Testimony and Exhibits of Sheryl Hubbard.

12. On February 27, 2004, the Company filed the Rebuttal Testimony of Dan Neidlinger.

13. Upon agreement of the parties, and by Procedural Order dated March 12, 2004, the deadline for filing Surrebuttal Testimony and exhibits was extended to March 17, 2004. Staff and

AWC filed Surrebuttal Testimony on March 17, 2004.

14. On March 18, 2004, a public comment meeting was held at the Ajo Community Center, Ajo, Arizona. Several customers spoke, generally expressing concern about the size of the proposed increase.

15. On March 18, 2004, after being approached by the Company, Staff filed a Notice of Proposed Settlement Discussions.

16. On March 31, 2004, Staff filed a Notice of Stipulation ("Stipulation") which set out the terms of a settlement reached between Staff, the Company and AWC, concerning the revenue requirement and rate design.

17. On April 1, 2004, the hearing convened as scheduled at the Commission's Phoenix offices. Each party presented witnesses who testified in support of the Stipulation.

18. In the test year ended December 31, 2002 ("Test Year"), AIC's Water Department earned total revenues of $641,644, which produced an adjusted operating loss of $43,767, for a negative rate of return on an adjusted rate base of $115,786. The Wastewater Department earned revenues totaling $95,505 in the Test Year, resulting in an adjusted operating loss of $78,326, for a negative rate of return on an adjusted rate base of $219,254.

19. Prior to entering into the Stipulation, the Company proposed an increase in total revenue for its Water Department of $111,125, to $752,769, to produce Operating Income of $9,275 (based on the Company's Application), and a rate of return of 10 percent, based on a Company-proposed rate base of $92,745. For the Wastewater Department, the Company proposed an increase in gross revenue of $156,318, to $251,823, which would result in operating income of $21,782, and a 10 percent rate of return on a Company-proposed rate base of $217,822.

20. For the Water Department, Staff recommended a $68,833, or 10.73 percent, revenue increase from $641,644 to $710,477, which based on Staff's recommended expenses, would produce Operating Income of $10,187, for an 8.8 percent rate of return on a Fair Value Rate Base ("FVRB") of $115,786. For the Wastewater Department, Staff recommended a $135,071, or 141.43 percent, revenue increase from $95,505 to $230,576. Staff's recommended revenue increase would produce an Operating Income of $19,291, and an 8.8 percent rate of return on an adjusted FVRB of

$219,254.

21. AWC purchases treated water from AIC through one delivery point to serve AWC's nearly 700 customers. AIC and AWC have an agreement under which no more than half of AWC's actual daily consumption can be taken between 7:00 a.m. and 7:00 p.m. Prior to entering into the Stipulation, AWC was concerned that neither the Company's nor Staff's proposed rate designs recognized the service limitations under which AWC receives water or excluded any of the costs that are not attributable to the service to AWC.

22. Prior to the Stipulation, the AIC argued that Staff's proposed cost of equity of 8.5 percent is unreasonably low; that Staff utilized a federal income tax rate significantly lower than the actual rate paid by AIC; that Staff's proposed inverted block rates are not needed to encourage conservation; that the inverted block rates are not cost-based; that seasonal water rates are preferable; and that the rates proposed by AWC do not adequately cover the total costs of providing it with treated water.

23. Under the terms of the Stipulation, AIC agreed to Staff's proposed revenue requirements, and agreed to rate design schedules, a copy of which are attached as Exhibit A hereto and incorporated herein. AWC stipulated only to the water rates that affected it, and did not express opinion one way or the other on the revenue requirement or wastewater rates. AIC and AWC agreed that the stipulations relating to the income tax calculations and to the rate of return are only applicable to this particular case for purposes of settlement.

24. AIC's current rates, the Company-proposed rates, and the stipulated rates and charges for treated water are as follows:

	Present Rates	Proposed Company	Stipulated Rates
MONTHLY USAGE CHARGE:			
Treated Water			
5/8" x ¾" Meter	$ 9.00	$ 9.25	$ 9.45
¾" Meter	--	--	9.45
1" Meter	15.00	15.75	15.75
1 ½" Meter	25.00	26.25	26.25
2" Meter	50.00	52.50	52.50
3" Meter	100.00	105.00	105.00

4" Meter	200.00	210.00	210.00
6" Meter	300.00	300.00	300.00

COMMODITY RATES - TREATED WATER

For 5/8 & ¾ inch meters – per 1,000 Gallons	2.54	3.14	
First 3,000 Gallons			2.50
3,001-10,000 Gallons			2.90
In excess of 10,000 Gallons			3.30
1 Inch meter – per 1,000 Gallons	2.54	3.14	
First 25,000 Gallons			2.90
Over 25,000 Gallons			3.30
1 ½ inch meters	2.54	3.14	
First 42,000 Gallons			2.90
Over 42,000 Gallons			3.30
2 inch meters	2.54		
First 63,000 Gallons			2.90
Over 63,000 Gallons			3.30
3 inch meters	2.54		
First 120,000 Gallons			2.90
Over 120,000 Gallons			3.30
4 inch meters	2.54		
First 290,000 Gallons			2.90
Over 290,000 Gallons			3.30
6 inch meters	2.54		
First 290,000 Gallons			2.90
Over 290,000 Gallons			3.30
Commodity Rates for Public Water Systems (During Off-Peak hours) – Treated Water for 1,000 Gallons (Applies to 4 inch meters and larger)			2.80

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-40-5)

5/8" x ¾" Meter	100.00	400.00	400.00
¾" Meter	--	--	450.00
1" Meter	150.00	500.00	500.00

1 ½" Meter	200.00	750.00	750.00
2" Meter	250.00	1,300.00	1,300.00
3" Meter	250.00	1,300.00	2,000.00
4" Meter	Cost	Cost	3,000.00
6" Meter	Cost	Cost	6,035.00

SERVICE CHARGE:

Establishment	25.00	25.00	25.00
Establishment (After Hours)	--	40.00	40.00
Meter Test (If Correct)	Cost **	Cost**	Cost **
Deposit	*	*	*
Deposit Interest	*	*	*
Reestablishment (Within 12 Months)	***	***	***
Re-connection of Service (regular hours)	10.00	50.00	25.00
Re-connection of Service (after hours)	--	65.00	40.00
NSF Check	10.00	20.00	20.00
Deferred Payment	1.5%	1.5%	1.5%
Meter Reread (If Correct)	10.00	10.00	10.00
Late Charge	1.5%	1.5%	1.5%

* Per Commission rule A.A.C. R-14-2-403(B).
** Cost includes materials, labor and overheads
*** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

25. The rates for untreated water and for the Wastewater Department as originally proposed and agreed to by the parties are attached as Exhibit A to the May 18, 2004 Recommended Order. After Commission discussion at the June 15, 2004 Open Meeting on the possibility of phased-in rates for the Wastewater Department, the Staff and AIC filed stipulated phased-in rates for Commission consideration, attached as Exhibit B.

26. The parties have agreed to Staff's recommended adjusted Original Cost Rate Base of $115,786 for the Water Department and $219,254 for the Wastewater Department. Staff's adjustments to rate base, as reflected in the testimony of Ms. Brown, are reasonable and should be adopted. The Company has waived Reconstruction Cost New less Depreciation ("RCND") and consequently, its Original Cost Rate Base is deemed to be its Fair Value Rate Base.

27. Under the stipulated rates, the median monthly water bill for the 5/8 inch meter would increase from $20.18 to $21.01, or 4.11 percent, and the average monthly water bill would increase from $23.51 to $24.81, or 5.53 percent.

28. Under the stipulated rates, if not phased-in, the typical residential wastewater bill would increase from $6.08 to $15.65, an increase of $9.57, or 157.4 percent.

29. At the June 15, 2004 Open Meeting, the Commission discussed the possibility of phased-in rates for the Wastewater Department. After the Open Meeting, Staff and AIC met and discussed a phased-in plan for Wastewater Department rates. The rates and schedules for phased-in rates agreed to by Staff and AIC as one method for phasing-in rates if the Commission determines phased-in rates are appropriate, are attached as Exhibit B.

30. Exhibit B reflects Wastewater Department rates and phased-in schedules as follows: This method for phased-in rates provides for three equal increases of $3.34 as follows: (1) The first phase-in would increase the current rate by $3.34 from $6.08 to $9.42 on July 1, 2004; (2) the second phase-in would increase rates by $3.34 from $9.42 to $12.76 and would occur on the 1st day of the month following the 3rd month after AIC's notification to the Director of the Utilities Division that ADEQ has determined that its Wastewater Department meets the standards required by the Arizona Administrative Code; (3) the third phase-in would increase rates by $3.34 from $12.76 to $16.10 and would occur 6 months after the second phase-in goes into effect.

31. The relatively large percentage increase in the wastewater rates is a result of significant capital improvements made to AIC's wastewater improvement plant. At the Commission's June 15, 2004 Open Meeting, the Company and Staff confirmed that the capital improvements were required to comply with Arizona Aquifer Protection Permit requirements. Phelps Dodge, AIC's parent company, paid for the improvements which exceeded $1.8 million. The Company wrote off all but $200,000 of the capital improvements and did not seek to have them included in rate base.

32. The Arizona Department of Environmental Quality ("ADEQ") has determined that the water system is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

33. The U. S. Environmental Protection Agency has reduced the maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (μg/l) to 10 μg/l. The date for compliance with the new MCL is January 23, 2006. The most recent lab analysis by the Company indicated that the arsenic level in the source supply is 75 μg/l. AIC has the treatment facilities in place to bring the level down to 22 μg/l. This level of treatment is adequate to reach the current MCL of 50 μg/l, but will fall short of meeting the new standard of 10 μg/l. The Company will be required to implement a plan to address this issue, which could mean installing additional treatment facilities or locating better sources of water to achieve 10 μg/l or less.

34. Staff recommends that the Company, within six (6) months from the effective date of a Decision in this case, submit a report to the Commission's Utilities Division describing what steps the Company is planning to take in order to reduce the arsenic level in its water to a concentration of below 10 μg/l.

35. AIC is not within any Active Management Area, and is not subject to reporting and conservation rules.

36. A curtailment tariff is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts or other unforeseeable events. Since AIC does not have a curtailment tariff, Staff believes this rate application provides an opportune time to prepare and file such a tariff. Staff recommends that the Company file a curtailment tariff within 45 days of the date of the effective date of any Decision pursuant to the application. The tariff shall be submitted to the Director of the Utilities Division for his review and certification. Staff also recommends that the tariff generally conform to the sample tariff posted on the Commission website or available upon request from Staff.

37. ADEQ reported that the wastewater system is in non-compliance with the state aquifer protection rules for the following: a) exceedance of total fluoride on April 28, 2003, monitoring point 15494; b) exceedance of total arsenic on April 28, 2003, monitoring point 15494; c) missing data for daily average flow, all weekends, 2nd quarter of 2003; and d) exceedance of freeboard, 2nd quarter of 2003, monitoring point 15498.

38. Staff recommends that any permanent rates and charges, if not phased-in, in this

matter shall become effective on the first day of the month after the Director of the Utilities Division receives notice from ADEQ that AIC's Wastewater Department meets the standards required by the A.A.C.

39. AIC is current on its property and sales taxes.

40. We agree that the residential wastewater rates should be phased-in as agreed to by the Company and as set forth in Exhibit B, resulting in an ultimate authorized rate of return of 13% on the Wastewater FVRB of $219,254.

CONCLUSIONS OF LAW

1. AIC is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-282 and 40-285.

2. The Commission has jurisdiction over AIC and of the subject matter of the application.

3. Notice of the application was given in accordance with the law.

4. The stipulated rates and charges as set forth and approved herein, and attached as Exhibit A and Exhibit B, are reasonable.

5. The recommendations set forth in Findings of Fact Nos. 32, 34 and 36 are reasonable and should be adopted.

ORDER

IT IS THEREFORE ORDERED that the rates and charges set forth in Exhibit A for Water Department Services and Exhibit B for Wastewater Department phased-in rates are approved and Ajo Improvement Company shall file on or before June 30, 2004, a tariff that complies with the rates and charges approved herein.

IT IS FURTHER ORDERED that the new rates and charges for the Water Department shall be effective for all service provided on and after July 1, 2004, and that the rates and charges for the Wastewater Department shall be phased-in and become effective under the following schedule. This method for phased-in rates provides for three equal increases of $3.34 as follows: (1) The first phase-in would increase the current rate by $3.34 from $6.08 to $9.42 on July 1, 2004; (2) the second phase-

in would increase rates by $3.34 from $9.42 to $12.76 and would occur on the 1st day of the month following the 3rd month after Ajo Improvement Company's notification to the Director of the Utilities Division that ADEQ has determined that its Wastewater Department meets the standards required by the Arizona Administrative Code; (3) the third phase-in would increase rates by $3.34 from $12.76 to $16.10 and would occur 6 months after the second phase-in goes into effect.

IT IS FURTHER ORDERED that within 30 days of the effective date of this Order, Ajo Improvement Company shall notify its customers of the rates and charges authorized herein and the effective date of same.

IT IS FURTHER ORDERED that Ajo Improvement Company shall provide Staff a copy of the notice that it sends to customers within 60 days of the effective date of this Order.

IT IS FURTHER ORDERED that Ajo Improvement Company shall, within six (6) months from the effective date of this Decision, submit a report to the Commission's Utilities Division describing what steps the Company is planning to take in order to reduce the arsenic level in its water to a concentration that will meet the new requirement.

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IT IS FURTHER ORDERED that Ajo Improvement Company shall file with the Director of the Utilities Division, for his review and certification, a curtailment tariff within 45 days of the date of the effective date of this Decision.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER COMMISSIONER

COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 29th day of June, 2004.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT

DISSENT

JR:mj

SERVICE LIST FOR: AJO IMPROVEMENT COMPANY

DOCKET NO.: WS-01025A-03-0350

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DISSENT

Commissioner Mike Gleason

Ajo Improvement Company – Application for a Rate Increase

WS-01025A-03-0350

I respectfully dissent. This Order approves significant rate increases for both the water and wastewater systems. While I find there is sufficient evidence to approve a rate increase, I disagree with the decision to phase-in the rate increase for the wastewater system. The phase-in attempts to ease the rate shock of the new rates by incrementally increasing the customers' bills. However, in the end, the phase-in creates the absurd result of even higher rates. The phase-in ultimately brings a greater monthly burden to the ratepayers than a rate increase without it.

1. **The phase-in results in a 165% rate increase.**

   The proposed Order originally recommended a lesser rate increase and did not include a rate phase-in. Without the phase-in, the wastewater rate would have been $15.65. However, the phase-in raises the wastewater rate to $16.10. A higher permanent rate in exchange for less high rates for the first six months is not in the ratepayers' interest.

2. **The phase-in raises the Applicant's rate of return from 8.8% to 13%.**

   This Order approves an unacceptably high rate of return for the wastewater system. The administrative law judge rejected the company's request for a 10% rate of return and recommended an 8.8% rate of return for both the water and wastewater systems. The 8.8% rate of return was properly calculated using the utility's weighted cost of capital after an examination of the utility's cost of debt, cost of equity and its debt/equity ratio. After the time for testimony was over, after the hearing had concluded and after the time for Exceptions had expired, a proposal to phase-in the rates came from the bench at the Open Meeting. The Commission simply increased the rate of return to correspond to the desired phase-in rate without regard for the rate of return analysis

conducted in the testimony, discussed at the hearing and reviewed by the administrative law judge.

3. **Customers may see higher bills to pay for compliance with new EPA arsenic levels**.

Beginning January 23, 2006, the EPA will require water systems to provide drinking water containing arsenic levels less than 10 ppb. Ajo Improvement Company currently provides drinking water with arsenic levels at 22 ppb and conforms to the current EPA standard of 50 ppb. To comply with the new standards, the Commission found that "*the Company will be required to implement a plan to address this issue, which could mean installing additional treatment facilities or locating better sources of water to achieve 10 ppb or less*." Without predetermining the outcome, it is possible Ajo customers may be faced with higher water bills to pay for these improvements. It is not in the ratepayers' interest to phase-in wastewater rates resulting in an artificially high rate of $16.10 only to be faced with the possibility of another rate hike to pay for arsenic remediation.

4. **This is not the appropriate case for a phase-in**.

In my opinion, there are rate increases where a rate phase-in may be appropriate: 1) when the rate increase is extremely large; 2) when the phase-in period is for a sizeable period of time; and 3) when there is no further expected rate increase for the ratepayer in the near future. This rate case does not meet this three prong analysis.

For the reasons listed above, I dissent.

Mike Gleason

Mike Gleason
Commissioner

AJO IMPROVEMENT CO
CALCULATION OF WATER REVENUES
PROPOSED SETTLEMENT RATES - TREATED WATER

DESCRIPTION	PRESENT REVENUES	PROPOSED REVENUES	INCREASE	PERCENT INCREASE
TREATED WATER:				
5/8" Meters	$306,818	$332,111	$25,293	8.24%
1" Meters	14,219	16,465	2,246	15.80%
1 1/2" Meters	79	83	4	5.06%
2" Meters	54,085	65,413	11,328	20.94%
3" Meters	8,776	9,786	1,010	11.51%
4" Meters	164,957	181,717	16,760	10.16%
Total Treated Water	$548,934	$605,575	$56,641	10.32%

PROPOSED RATES - TREATED:	MONTHLY SERV. CHG.	COMMODITY RATE (000)
5/8" X 3/4"Meters & 3/4" Meters:	$9.45	
First 3,000 Gallons		$2.50
Next 7,000 Gallons		2.90
Over 10,000 Gallons		3.30
1" Meters:	$15.75	
First 25,000 Gallons		$2.90
Over 25,000 Gallons		3.30
1 1/2" Meters:	$26.25	
First 42,000 Gallons		$2.90
Over 42,000 Gallons		3.30
2" Meters:	$52.50	
First 63,000 Gallons		$2.90
Over 63,000 Gallons		3.30
3" Meters:	$105.00	
First 120,000 Gallons		$2.90
Over 120,000 Gallons		3.30
4" Meters :	$210.00	
First 180,000 Gallons		$2.90
Over 180,000 Gallons		3.30
6" Meters	$300.00	
First 290,000 Gallons		$2.90
Over 290,000 Gallons		3.30
Commodity Rates for Public Water Systems (During Off-Peak Hours) - Treated Water (1) Per 1,000 Gallons (In Excess of Minimum)		$2.80

NOTE:
(1) Applicable for Service From Meter Sizes of 4" or Greater

AJO IMPROVEMENT CO
CALCULATION OF WATER REVENUES
PROPOSED SETTLEMENT RATES - UNTREATED WATER

DESCRIPTION	PRESENT REVENUES	PROPOSED REVENUES	INCREASE	PERCENT INCREASE
UNTREATED WATER:				
5/8" Meters	$10,315	$11,665	$1,350	13.09%
2" Meters	28,784	33,172	4,388	15.24%
3" Meters	37,746	41,596	3,850	10.20%
4" Meters	8,789	9,276	487	5.54%
Total Treated Water	$85,634	$95,709	$10,075	11.77%

PROPOSED RATES - UNTREATED:	MONTHLY SERV. CHG.	COMMODITY RATE (000)
5/8" X 3/4"Meters & 3/4" Meters:	$9.45	
First 10,000 Gallons		$1.70
Over 10,000 Gallons		2.04
1" Meters:	$15.75	
First 25,000 Gallons		$1.70
Over 25,000 Gallons		2.04
1 1/2" Meters:	$26.25	
First 42,000 Gallons		$1.70
Over 42,000 Gallons		2.04
2" Meters:	$52.50	
First 63,000 Gallons		$1.70
Over 63,000 Gallons		2.04
3" Meters:	$105.00	
First 120,000 Gallons		$1.70
Over 120,000 Gallons		2.04
4" Meters :	$210.00	
First 180,000 Gallons		$1.70
Over 180,000 Gallons		2.04
6" Meters	$300.00	
First 290,000 Gallons		$1.70
Over 290,000 Gallons		2.04

WATER DEPARTMENT
SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-40-5)

5/8" x ¾" Meter	400.00
¾" Meter	450.00
1" Meter	500.00
1 ½" Meter	750.00
2" Meter	1,300.00
3" Meter	2,000.00
4" Meter	3,000.00
6" Meter	6,035.00

SERVICE CHARGE:

Establishment	25.00
Establishment (After Hours)	40.00
Meter Test (If Correct)	Cost **
Deposit	*
Deposit Interest	*
Reestablishment (Within 12 Months)	***
Re-connection of Service (regular hours)	25.00
Re-connection of Service (after hours)	40.00
NSF Check	20.00
Deferred Payment	1.5%
Meter Reread (If Correct)	10.00
Late Charge	1.5%

* Per Commission rule A.A.C. R-14-2-403(B).

** Cost includes materials, labor and overheads

*** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

Ajo Improvement Company - Wastewater Department
Docket No. WS-01025A-03-0350
Test Year Ended December 31, 2002

Schedule CSB-16

RATE DESIGN

	Present Rates	—Proposed Rates— Company	Staff
Residential Service - Per Month	$ 6.08	$ 16.64	$ 15.65
Commercial and Municipal			
Regular Service	$ 6.08	$ 21.91	$ 19.60
Additional Toilets	$ 1.53	None	None
Restaurants with Dishwashers	$ 18.43	$ 50.44	$ 46.14
Additional Monthly Commercial Charges:			
Laundromats - Per Washing Machine	$ 2.93	$ 8.02	$ 7.33
Wash Racks - Per Rack	$ 2.93	$ 8.02	$ 7.33
Residential Equivalents (REU):			
Industrial and Commerical - Per REU	$ 6.08	$ 16.64	$ 15.65
Schools - Per REU	$ 6.08	$ 16.64	$ 15.65

Service Charges:	Present Rates	—Proposed Rates— Company	Staff
Establishment (Regular Hours)	$ 25.00	$ 25.00	$ 25.00
Establishment (After Hours)	(a)	$ 40.00	$ 40.00
Re-establishement Within 12 Months	(b)	(b)	(b)
Re-connection of Service (Regular Hours)	$ 10.00	$ 50.00	$ 25.00
Re-connection of Service (After Hours)	(a)	$ 65.00	$ 40.00
NSF Check Charge	$ 10.00	$ 20.00	$ 20.00
Late Charge	1.50%	1.50%	1.50%
Deferred Payment Finance Charge	1.50%	1.50%	1.50%
Service Calls - After Hours Only	$25/hr	$40/hr	$40/hr
Deposits	(d)	(d)	(d)
Deposit Interest	(d)	(d)	(d)

(a) No current tariff.
(b) Monthly minimum times months off system (Rule A.A.C. R14-2-603D)
(c) Per A.A.C. R14-2-603D
(d) Per A.A.C. R14-2-603B

Ajo Improvement Company
WS-01025A-03-0350
Wastewater Department

Rate Design

Residential Service – Per Month:	Phase 1 $ 9.42
	Phase 2 12.76
	Phase 3 16.10
Commercial and Municipal	
Regular Service	19.60
Additional Toilets	None
Restaurants with Dishwashers	46.14
Additional Month Commercial Charges:	
Laundromats – Per Washing Machine	7.33
Wash Racks – Per Rack	7.33
Residential Equivalents (REU)	Phase 1 $ 9.42
Industrial and Commercial – Per REU	Phase 2 12.76
Schools – Per REU	Phase 3 16.10

SERVICE CHARGE:

Establishment (Regular Hours)	$25.00
Establishment (After Hours)	40.00
Reestablishment (Within 12 Months)	*
Re-Connection of Service (Regular Hours)	25.00
Re-connection of Service (After Hours)	40.00
NSF Check Charge	20.00
Late Charge	1.50%
Deferred Payment Finance Charge	1.50%
Service Calls – After Hours Only	$40/hour
Deposits	**
Deposit Interest	**

* Monthly minimum times months off system (Commission rule A.A.C. R14-2-603(D).

** Per A.A.C. R14-2-603B

EXHIBIT B

EXHIBIT
S-20
admitted

but acknowledges that the Company's expense annualization is overstated by $25,967 less applicable income taxes and has reflected that adjustment in its final rejoinder position. *See* Hubbard Rebuttal at page 17.

B. Purchased Power Adjustment Mechanism

Q. IS THE COMPANY PERSUADED BY THE STAFF'S ADDITIONAL TESTIMONY REGARDING ELIMINATION OF THE PPAM?

A. No. Why would the Commission reject a mechanism designed to recover costs, like purchased power, that are outside of the Company's control when doing so either threatens the Company's ability to earn its authorized rate of return or causes customers to pay more than the cost of service? Staff's position is especially problematic in times when the electric power market is in a transition from a fully regulated environment to a market-based deregulated environment. I should think it obvious that a mechanism that both shields AWC from unanticipated cost increases and passes through to customers unanticipated decreases in the costs of electric power is fair and equitable. Therefore, the Company's PPAM should be retained.

C. Purchased Water Adjustment Mechanism

Q. STAFF'S SURREBUTTAL TESTIMONY REPEATS ITS RECOMMENDATION TO ELIMINATE THE COMPANY'S PURCHASED WATER ADJUSTOR MECHANISM FOR SAN MANUEL. WHAT IS THE COMPANY'S RESPONSE TO STAFF'S ARGUMENT THAT THE PURCHASED WATER ADJUSTMENT MECHANISM TRANSFERS THE RISK OF PROVIDING WATER TO RATEPAYERS?

A. The risk that a shareholder takes is the risk that earnings will not be sufficient to pay dividends and provide a reasonable return on the shareholder's investment. The cost of purchasing water is not the only cost of providing reliable water

service in the San Manuel system, as Staff implies. The Company has investment in transmission and distribution facilities ($825,000 - adjusted TY 2001) and incurs expenses ($360,000 O&M for 2001) to provide water service to its San Manuel customers. The PWAM allows the Company a reasonable opportunity to earn its authorized return on its investment in the San Manuel system because the changes in the cost of one component of providing water are recovered without the delay and expense of a general rate proceeding, while at the same time, the PWAM assures that customers bear no more than the actual cost of purchased water. With the Company's pro forma expense adjustments, which reflect the latest rate increase to $1.12 per thousand gallons, purchased water constitutes 41% of the San Manuel system's O&M expenses and is highly volatile. The last two increases by BHP increased the cost of purchased water 96% as discussed in the Company's rebuttal testimony. *See* Hubbard Rebuttal at 20.

D. ~~Central Arizona Project Cost Amortization~~ Purchased Water

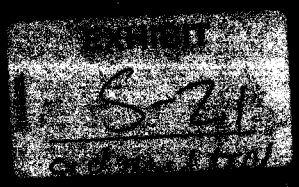
Q. STAFF REJECTS THE COMPANY'S ASSERTION THAT STAFF'S RECOMMENDED PURCHASED WATER EXPENSE FOR APACHE JUNCTION IS UNDERSTATED BY $31,604 AND FURTHER REVISES ITS CAP PURCHASED WATER EXPENSE RECOMMENDATION. WHAT IS THE COMPANY'S RESPONSE TO THESE CHANGES?

A. The table below summarizes the Company's request for purchased water expense for Apache Junction and the Staff's surrebuttal recommendation regarding the same also set forth on Exhibit SLH-RJ10.

The National Regulatory Research Institute

REVENUE EFFECTS OF WATER CONSERVATION AND CONSERVATION PRICING: ISSUES AND PRACTICES

September 1994



NRRI 94-18

REVENUE EFFECTS OF WATER CONSERVATION AND CONSERVATION PRICING: ISSUES AND PRACTICES

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Price Elasticity of Water Demand

Price elasticity measures the sensitivity of the quantity demanded of a good or service to changes in its price, controlling for variations in other significant factors. Mathematically, price elasticity is the ratio of the percentage change in quantity demanded to the percentage change in price. With an elasticity of -.30, for example, a 10 percent increase in price is associated with a 3 percent reduction in the quantity demanded.[49] In this example, all other things being equal, revenues would increase by 6.7 percent (110 percent of prices multiplied by 97 percent of quantity demanded).[50]

Since there is an inverse relationship between price and quantity demanded, price-elasticity coefficients will have negative values. If water usage is relatively responsive to rate changes, water demand is considered relatively price-elastic (the price-elasticity coefficients will have absolute values exceeding 1.0 (for example, -1.3). In contrast, if water usage is relatively unresponsive to rate changes, demand for water service is considered relatively price-inelastic (the price-elasticity coefficients will have absolute values less than 1.0 (for example, -0.3). However, a price-elasticity coefficient with a value less than 1.0 can be very meaningful with respect to both managing demand and meeting revenue requirements. A 10 percent increase in price leading to a 7 percent decrease in usage, for example, can be dramatic for a given water system.

Unfortunately, price elasticity is not always considered in the determination and allocation of utility revenue requirements. In effect, water demand may be treated as perfectly price-inelastic and price-induced usage changes may be ignored. However, as long as price-elasticity coefficients are not zero, water usage will be affected by changes in price. Importantly, a revenue shortfall can occur regardless of whether water usage is highly

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[49] Whether the reverse holds, that a price decrease corresponds to a usage increase, is a matter of ongoing debate for this and other forms of elasticity.

[50] Mathematically, in an unregulated market environment, when demand is price-elastic, a price increase produces a revenue decrease; when demand is price-inelastic, a price increase produces a revenue increase. These results do not apply for the regulated water sector, where revenue effects are evaluated in comparison to revenue requirements.

responsive to price as long as ratemakers do not account for the effect of rate increases on usage and revenue reductions are not matched by cost reductions. Reasonably accurate demand forecasts that account for price-elasticity effects are essential for developing reasonably accurate revenue forecasts.

The relevance of price elasticity of demand to water utility managers and regulators is straightforward. Price elasticity is an essential tool for estimating the effect of a rate change on water demand and revenues.[51] The omission of price elasticity from rate design analysis creates the potential for revenue instability, as well as revenue shortfalls. Revenue shortfalls can be especially problematic if the rate structure is substantially modified (for example, shifting from decreasing-block rates to increasing-block rates), or if a large rate increase is implemented. The exclusion of price elasticity from a rate design analysis is a lesser problem if changes in the rate structure are modest.

The necessary consideration of price elasticity in water costing and rate design analysis is driven by the iterative process in which traditional water rate regulation takes place. That is, the rate setting process is a dynamic process in which the step of setting rates equal to an observed embedded cost can generate a cyclical pattern in which rate changes produce use changes, which further change certain unit costs, eventually leading to further rate changes. In brief, water demand affects cost of provision, in turn cost of provision determines rates, and in turn water rates affect usage. Importantly, these dynamics are at work *regardless* of whether prices are changed for efficiency or conservation reasons. In other words, *any* change in price (such as cost-based increases) can affect the quantity of water demanded.

Numerous studies of water demand have been conducted in the past three decades. The majority of these studies have focused on either aggregate municipal demand or on residential demand. Few studies have examined commercial and industrial demand. In general, the empirical results indicate that municipal and residential demands are price-inelastic. The demand for water tends to be relatively price-inelastic due to the essential

[51] Beecher and Mann, *Cost Allocation and Rate Design.*

nature of water service and the lack of close substitutes.[52] An exception is when residential demand is disaggregated into seasonal (that is, outdoor use) and nonseasonal (that is, domestic or indoor use) components. Seasonal demands tend to be less price-inelastic than nonseasonal demands. Evidence also exists that price elasticity is positively correlated with water rate levels; that is, coefficients with higher absolute values are associated with higher rates, and vice versa.

In statistical studies, price may appear not to be a major determinant of water usage for a variety of reasons. The price effect on usage can be minimal if there is little change in real water prices over the long-term. Also, price impacts can seem to be overwhelmed by the effects of other demand parameters (such as temperature, rainfall, and household income). That is, the response of water usage to price can appear to be relatively small compared to the response of usage to other climatic or demographic factors. Measuring the responsiveness of water usage to changes in rates is further complicated by the timing or lags in consumer responses. Consumers might not immediately react to water rate increases. Finally, the conservation ethic among consumers in a given locality can enhance or impede water conservation responses. The existence of a strong conservation ethic among consumers can produce significant conservation effects even with modest rate increases.

Estimation Issues

Most water demand studies have employed cross-sectional data, thus yielding long-term price-elasticity estimates. Only a few studies have employed time-series data that focus on a specific geographical area experiencing substantial price changes over time. In addition, there are few reliable estimates of the price elasticities of peak and off-peak water demands, as well as the effect of conservation rates on water usage and peak demands. The econometric methods used in water demand studies are becoming increasingly sophisticated, which helps to assure that the statistical estimates are robust.

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[52] Water has no substitutes. Water delivery systems are substitutable to a degree. One example is drinking bottled water instead tap water. Another is using self-supplied well water instead of water supplied by a community system. Also, some uses of water can be substituted (such as sweeping the driveway instead of hosing it clean).

More than one hundred water demand studies were completed in the past three decades. A previous review of more than fifty of these demand studies concluded that the most likely price elasticity range for residential demand is -.20 to -.40 with price-elasticity coefficients for commercial and industrial demand being in the range of -.50 to -.80.[53] This review indicated that commercial and industrial users will tend to reduce usage in response to a rate increase by a larger proportion than residential users. Presumably, a large increase in water rates will induce some commercial and industrial users to seek alternative supplies.

The literature review also indicated that the price elasticity of municipal demand can be difficult to interpret unless the weights of the individual sectors (for example, residential, commercial, industrial, and governmental) can be specified. Each user class responds differently to rate increases. In this context, price-elasticity coefficients are comparable only for well-defined user classes. For example, one cannot justifiably compare residential class data with aggregate municipal data.

A review of the literature can provide standards of reference or benchmarks for establishing reasonable price-elasticity estimates. Obviously, relying on a literature review to estimate the price elasticity of demand is an imperfect approach. Existing studies will not help analysts predict unique responses to price changes in specific service areas. However, given the general nature of municipal water demand, comparing demand studies for similar service areas can be appropriate for benchmarking purposes.

Despite the overall result of relatively price-inelastic water demands, substantial variations in empirical results can be demonstrated. Boland provides several explanations for these different findings.[54] First, average-price and marginal-price variables will tend to generate different price-elasticity coefficients, particularly in the context of decreasing-block rates. Second, given the practice of levying wastewater charges on the basis of water usage,

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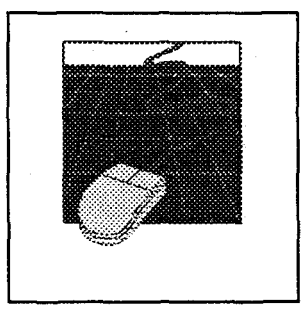
[53] Planning and Management Consultants, *Influence of Price and Rate Structures on Municipal and Industrial Water Use* (Fort Belvoir, VA: Institute for Water Resources, United States Army Corps of Engineers, 1984).

[54] John J. Boland, "Forecasting the Demand for Urban Water," in David Holtz and Scott Sebastian, eds., *Municipal Water Systems* (Bloomington, IN: Indiana University Press, 1978), 91-114.

estimation models incorporating sewage charges, in addition to water rates, produce more valid results than the estimation models that exclude wastewater charges.

Other problems with the calculation of price elasticity and the use of elasticity estimates are noteworthy.[55] Most water demand studies have used cross-sectional data that are presumed to yield long-run price-elasticity estimates. Only a few studies have used pooled time-series data that focus on a specific geographical area experiencing substantial rate changes over time. That is, data constraints have resulted in more estimates of long-run price elasticity than estimates of short-run price elasticity. In this context, specific cross-sectional studies can be flawed by incompatible accounting and operating data from different water utilities and by the lack of credible supporting demographic data. Specific time-series studies can be flawed by small sample sizes, infrequent price changes, and a lack of supporting demographic data.

Selected Water Demand Studies



One of the most important and lasting contributions to the literature on water demand was the compilation of empirical studies prepared for the U.S. Army Corps of Engineers.[56] An adaptation and update of this pathbreaking chronology (which included studies through 1978) appears in table 3-4. Of the many water demand studies that have been conducted in the past several decades, several are worthy of comment because of their substantial contribution to academic and practical knowledge about the price elasticity of water demand. Importantly, it is not uncommon for the results of one study to contradict the results of another in terms of statistical findings. Although the review can be used for benchmarking, the generalizability of specific findings is

[55] Ibid.

[56] Planning and Management Consultants, *Influence of Price.* See also, William O. Maddaus, *Water Conservation* (Denver, CO: American Water Works Association, 1987), 66.

limited. Some of the more recent water demand studies are highlighted below according to key variables, findings, and conclusions.

Research Findings

Rate Design

Researchers have found that water rate design can affect water usage. Stevens, Miller, and Willis conducted a cross-sectional analysis of 1988 water demand for eighty-five communities in Massachusetts.[57] Employing an average price variable, price elasticities were calculated for three rate structures: uniform rates, decreasing-block rates, and increasing-block rates. For uniform rates, price elasticities ranged from -.10 to -.43. For decreasing-block rates, price elasticities ranged from -.40 to -.69. For increasing-block rates, price elasticities ranged from -.42 to -.54. The implications of this analysis were that price elasticities are not substantially affected by type of rate design and that the level of rates is more important than rate structure in affecting water usage. Similarly, Young, Kinsley, and Sharpe, in a study of residential consumers of the Washington Suburban Sanitary Commission for 1974-1979, found that an increasing step rate was a very powerful tool in reducing water usage.[58] In a step rate, the increasing rate applies to all water usage and not simply to the last usage increment, thus producing much higher average rates for high-volume users than for low-volume users. The implication of this particular study was that increases in rate levels substantially reduce water usage, particularly among high-volume consumers.

Another study confirmed the importance of rate levels. That is, changes in higher rates produce greater usage responses than changes in lower rates. Martin and Thomas conducted a cross-sectional analysis of residential water demand, using 1978-1979 data for

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[57] Thomas H. Stevens, Jonathan Miller and Cleve Willis, "Effect of Price Structure on Residential Water Demand," *Water Resources Bulletin* 28 (August 1992): 681-685.

[58] C. E. Young, K. R. Kinsley and W. E. Sharpe, "Impact on Residential Water Consumption of an Increasing Rate Structure," *Water Resources Bulletin* 19 (February 1983): 81-86.

four cities including Tucson and Phoenix, Arizona.[59] A comparison of demand data from the four cities indicates a long-run price elasticity for residential water demand of approximately -.50, over a wide range of prices and also indicates that residential water demand tends to become more price-elastic with higher water prices.

Fixed Charges

Increases in fixed water charges (for example, an increase in service charges or minimum charges) can induce consumer usage responses. Billings and Agthe examined residential water demand in a time-series study of Tucson, Arizona for 1974-1977.[60] Their models incorporated marginal price as well as a rate variable reflecting fixed charges. The latter variable was measured by the total water bill minus the hypothetical bill if all usage were sold at the marginal price. The overall price elasticities ranged from -.39 to -.63. The marginal price elasticities ranged from -.27 to -.49. The conclusion of this study was that the addition of a variable measuring fixed charges increases overall price-elasticity coefficients. A supplemental analysis by the same research team (and colleagues) again incorporated marginal price as well as the fixed charges variable.[61] The conclusion of this analysis was that the addition of a variable reflecting fixed charges in the demand model leads to higher short-run and long-run price-elasticity coefficients.

Average v. Marginal Prices

Analysts have hypothesized that the selection of the price variable can affect price-elasticity results. Jones and Morris conducted a cross-sectional study of residential water

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[59] William E. Martin and John F. Thomas, "Policy Relevance in Studies of Urban Residential Water Demand," *Water Resources Research* 22 (December 1986): 1735-1741.

[60] Bruce R. Billings and Donald E. Agthe, "Price Elasticities for Water: A Case of Increasing Block Rates," *Land Economics* 56 (February 1980): 73-84.

[61] Donald E., Agthe, R. Bruce Billings, John L. Dobra and Kambizz Raffiee, "A Simultaneous Equation Demand Model for Block Rates," *Water Resources Research* 22 (January 1986): 1-4.

demand for Denver, Colorado.[62] Their analysis, based on 1976 data for 326 water consumers, employed models using average price as well as marginal price. Price elasticities ranged from -.18 to -.34 in the average price models and ranged from -.14 to -.44 in the marginal price models. This study indicated that the use of average price rather than marginal price may not yield substantially dissimilar price-elasticity coefficients.

Williams and Suh conducted a cross-sectional analysis, based on 1976 data for eighty-six water systems.[63] They used three rate variables to calculate price elasticities: marginal price, average price, and monthly water bill. For residential demand, price elasticity was -.25 for marginal price and -.48 for average price with bill elasticities ranging from -.18 to -.32. For commercial demand, price elasticity was -.14 for marginal price and -.36 for average price with bill elasticities ranging from -.23 to -.34. For industrial demand, price elasticity was -.44 for marginal price and -.74 for average price with bill elasticities ranging from -.72 to -.98. The conclusion of this analysis was that the use of average water rates shows higher usage responses than when marginal water rates are incorporated in the model, particularly in the context of decreasing-block rates.

In the multiple regression analysis described in the previous chapter, Billings and Day used a pooled time-series/cross-sectional analysis for data on three utilities in the Tucson area.[64] Two residential demand models incorporating increasing-block rate structures were estimated. The analysis focused on the period 1974 through 1980, a period in which Tucson experienced substantial reductions in water usage, due both to conservation pricing and programs. The estimates of long-run price elasticity averaged -.72. For the marginal-price model, elasticity averaged -.52; for the average-price model, elasticity averaged -.70. The investigators found that the average-price model had superior explanatory power when

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[62] C. Vaughn Jones and John R. Morris, "Instrumental Price Estimates and Residential Water Demand," *Water Resources Research* 20 (February 1984): 197-202.

[63] Martin Williams and Byung Suh, "The Demand for Urban Water by Customer Class," *Applied Economics* 18 (December 1986): 1275-1289.

[64] R. Bruce Billings and W. Mark Day, "Demand Management Factors in Residential Water Use: The Southern Arizona Experience," *American Water Works Association Journal* 81, no. 3 (March 1989): 64.

incomes are high and water prices are low; the model incorporating marginal prices and a rate premium (reflecting the difference between the actual bill and what the customer would pay if all water were sold at the marginal price) had superior explanatory power when prices were higher or incomes were lower, and as water bills approached 2 percent or more of household income.

Wastewater Charges

The incorporation of wastewater treatment rates in the demand estimation model can affect price-elasticity estimates. This is a relatively recent discovery. Griffin and Chang conducted a time-series analysis of water demand for thirty Texas communities for 1983-1985.[65] The price variables in the model included water dependent sewer charges. Price elasticity was -.19 for winter and -.37 for summer. Excluding sewer charges, price elasticity was -.10 for winter and -.30 for summer. The implication of this analysis was that the omission of water dependent sewer rates from the model can bias the price-elasticity results by reducing the absolute values of the price-elasticity coefficients. Future demand studies might also include an estimate of stormwater treatment charges, which are now affecting many regions of the country. This type of analysis would help in the assessment of consumer responses to total water sector costs.

Customer Class

Each user class responds differently to water rate changes. Thus, price elasticities are comparable only for well-defined users classes, such as single-family residential, multi-family residential, commercial, industrial, and governmental. For example, the previously noted analysis of Williams and Suh clearly indicated that industrial water demand is substantially more price-responsive than residential water demand.[66] Schneider and Whitlatch conducted a

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[65] Ronald E. Griffin and Chan Chang, "Pretest Analysis of Water Demand in Thirty Communities," *Water Resources Research* 26 (October 1990): 2251-55.

[66] Williams and Suh, *Applied Economics,* 1275-89.

pooled time-series/cross-sectional analysis of water demand for metropolitan Columbus, Ohio.[67] The analysis, employing data for 1959-1976, covered sixteen communities served by the Columbus water system. Price elasticities were calculated for five customer classes (residential, commercial, industrial, government, and schools) as well as for total demand. For residential customers, price elasticity was -.11 for the short-run and -.26 for the long-run. For commercial users, price elasticity was -.24 for the short-run and -.92 for the long-run. For industrial users, price elasticity was -.11 in the short-run and -.44 for the long-run. For government units, price elasticity was -.44 for the short-run and -.78 for the long-run. For schools, price elasticity was -.38 for the short-run and -.96 for the long-run. And for total demand, price elasticity was estimated to be -.12 for the short-run and -.50 for the long-run. The conclusion of this analysis was that both short-run and long-run price elasticities vary substantially over customer classes.

Indoor v. Outdoor Use

Residential demand can be disaggregated into two components, indoor usage or outdoor usage. These two components of residential demand have different sensitivities to rate changes. Howe and Linaweaver performed a cross-sectional analysis of residential water demand incorporating thirty-nine urban areas.[68] The price elasticity of total residential demand was estimated to be -.41 using a weighted average of the domestic and irrigation elasticities. The price elasticity for residential domestic demand was estimated to be -.23. The price elasticity for domestic irrigation demand was estimated to be -.70 in the western United States and -1.57 in the eastern United States. This analysis suggests that domestic demand is highly price-inelastic and that irrigation demand is price-inelastic in the west but is price-elastic in the east.

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[67] Michael L. Schneider and E. Earl Whitlatch, "User-Specific Water Demand Elasticities," *Journal of Water Resources Planning and Management* 117 (January-February 1991): 52-73.

[68] Charles W. Howe and F. Pierce Linaweaver, "The Impact of Price on Residential Water Demand and its Relationship to System Design and Price Structure," *Water Resources Research* 3 (First Quarter 1967): 13-32.

Howe, in a cross-sectional analysis, dissagregated residential water demand into winter and summer (rather than into domestic and irrigation) components.[69] The price elasticity for winter demand was calculated as -.06. Summer price elasticity was estimated to be -.43 for Western U.S. and -.57 for Eastern U.S. The implications of this study is that again seasonal usage is less responsive to rate changes in the West than in the East.

Carver and Boland examined seasonal variations in municipal water demand using pooled time-series/cross-sectional data.[70] Their sample was thirteen water systems primarily serving residential consumers in the Washington D.C. area; the period of analysis was 1969-1974. The pooled analysis generated short-run price elasticities ranging from -.02 for winter demand to -.11 for summer demand, and long-run price elasticities ranging from -.11 for summer demand to -.70 for winter demand. The implication of this analysis was that summer usage is more responsive to rate changes than winter usage, both in the short-run and in the long-run.

A study of the water systems within the South Florida Water Management District found residential price elasticities to vary according to price levels and property values.[71] Elasticities for single-family homes were estimated to range from -0.01 to -0.90. However, no discernible relationship between price and water use could be found for residential apartments (the elasticity coefficient was -0.00). The study confirmed the general belief that indoor water use is less price-elastic. The virtually price-inelastic demand found for apartment dwellers could be attributed to master metering. Although one might expect that apartment owners who are responsible for bill payment would be motivated to reduce water costs by installing more efficient fixtures and appliances, the results of the analysis did not detect this type of response.

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[69] Charles W. Howe, "The Impact of Price on Residential Water Demand; Some New Insights," *Water Resources Research* 18 (August 1982): 713-716.

[70] Philip H. Carver and John J. Boland, "Short-Run and Long-Run Effects of Price on Municipal Water Use," *Water Resources Research* 16 (August 1980): 609-616.

[71] John B. Whitcomb, Jay W. Yingling, and Marvin Winer, "Residential Water Price Elasticities in Southwest Florida," in *Proceedings of Conserv93* (Denver, CO: American Water Works Association, 1993), 695-701.

Peak v. Off-Peak

Based on variations in indoor and outdoor use, it is no wonder that water demand can vary between peak and off-peak water periods. Lyman conducted a time-series analysis of water demand for thirty households in Moscow, Idaho for 1983-1987.[72] Price elasticity was estimated for both short-run and long-run, as well as for peak demand and off-peak demand. For short-run peak demand, price elasticities ranged from -1.38 to -2.02. For long-run peak demand, price elasticities ranged from -2.60 to -3.33. For short-run off-peak demand, price elasticities ranged from -.40 to -.43. For long-run off-peak demand, price elasticities ranged from -.63 to -.71. The implications of this analysis were that both short-run and long-run peak water demand is more price-elastic than off-peak demand. Further, the study found that the price sensitivity of peak demand affects off-peak demand when consumers purchase and use more water-efficient appliances.

Price elasticity during periods of drought also is a significant issue because of implications of peak usage. Moncur analyzed single-family residential demand in Honolulu using a pooled time-series/cross-sectional analysis.[73] Price, income, household size, and rainfall variables were included in the regression as well as a dummy variable representing a water restriction program. Even during periods of serious drought, it was found that a 40 percent increase in the marginal price of water would result only in a 10 percent reduction in water use (an elasticity coefficient of -.25).

Short-Term v. Long-Term

Long-term responsiveness to changes in price is likely to be greater than short-term responsiveness. This finding, which is particularly true for residential consumers, can be attributed partly to the assumption that consumers in the long term have more opportunity to use water efficiently. Agthe, Billings, Dorba, and Raffiee conducted a time-series analysis of

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[72] R. Ashley Lyman, "Peak and Off-Peak Residential Water Demand," *Water Resources Research* 28 (September 1992): 2159-2167.

[73] J. E. Moncur, "Urban Water Pricing and Drought Management," *Water Resources Research* 23, no. 3 (1987): 393-98.

residential water demand for Tucson, Arizona for 1974-1980.[74] Employing marginal price, their estimating models calculated both short-run and long-run price elasticity. Short-run price elasticity was estimated to be -.50; long-run price elasticity was estimated to be -.87. The implication of this study was clearly that long-term residential water demand is more sensitive to price than short-term residential water demand.

Regional and Zonal Variations

As previously indicated, usage responses to rate changes vary across geographical areas. Foster and Beattie conducted a cross-sectional study of 218 water utilities in the United States.[75] The analysis, employing 1960 data, categorized water systems into six regions and calculated the price elasticity of residential demand for each region. The price elasticities ranged from -.30 in the Midwest to -.43 in New England. Other price elasticities were -.36 for the Southwest and -.38 for the South. The price-elasticity estimates for the Rocky Mountain region (-.58) and for the Pacific Northwest (-.69) were adversely affected by very small samples. The implications of this analysis include that it is difficult to formulate a residential water demand model for the entire United States and that usage responses to rate changes are greater in New England than in the more arid Southwest.

Some elasticity studies have segmented demand into areas of water usage within a utility's territory. Weber, in a pooled time-series/cross-sectional analysis of the East Bay Municipal Utility District (EBMUD), in California, generated estimates of long-run price elasticity for summer water demand.[76] His demand model employed marginal water price and focused on the period 1981 through 1987. The analysis used data for twelve pressure zones in the EBMUD service areas; price-elasticity estimates ranged from -.10 to -.25.

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[74] Donald E. Agthe, et al., "A Simultaneous Equation Demand Model for Block Rates," *Water Resources Research* 22 (January 1986): 1-4.

[75] Henry S. Foster and Bruce R. Beattie, "On the Specification of Price in Studies of Consumer Demand under Block Price Scheduling Urban Residential Water Demand for Water in the United States," *Land Economics* 55 (February 1979): 43-58.

[76] Jack A. Weber, "Forecasting Demand and Measuring Price Elasticity," *American Water Works Association Journal* 81, no. 5 (May 1989): 57-65.

The Role of Public Education

Conservation education programs can be as important in reducing water usage as rate increases. Nieswiadomy conducted a cross-sectional analysis of water demand for 430 water utilities in the United States.[77] Using 1984 data, the demand models used several price variables, as well as variables reflecting utility-sponsored conservation and public education programs. For the marginal-price model, price elasticities ranged from -.29 to -.45; for the average-price model, price elasticities ranged from -.22 to -.60. One finding of this study was that conservation programs, by themselves, may not affect water usage. However, in the West, public education has influenced water usage more than changes in rates. Agthe, Billings, and Dworkin, in a study of 644 households in Tucson, Arizona, found that whether or not consumers are knowledgeable about the water rate structure is an important factor in water conservation.[78] For example, consumers who were aware of the increasing-block rate structure believed that it reduced water usage. It should be noted that the majority of the consumers surveyed were not aware of either the existence of an increasing-block rate structure or seasonal rate differentials (both of which had been in place for seven years prior to the survey). The important implications of this analysis were that informed consumers take initiatives to reduce water usage while uninformed consumers are unlikely to engage in conservation, given any restructuring of rates. Another potentially important factor is the long-run effect of education on the very shape and level of the demand curve, not just the movement between points on the existing curve.

If water rates lag behind rates of inflation, this can induce consumers to increase usage. For example, if the actual price of water remains constant for several years after a rate increase, the real price of water can revert to (or possibly decline below) its original level. Martin and Kulakowski examined water policy for Tucson, Arizona over the extended period

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[77] Michael L. Nieswiadomy, "Estimating Urban Residential Demand: Effect of Price Structure, Conservation, and Education," *Water Resources Research* 28 (March 1992): 609-615.

[78] Donald E. Agthe, R. Bruce Billings and Judith M. Dworkin, "Effects of Rate Structure on Household Water Use," *Water Resources Research* 24 (June 1988): 627-630.

of 1965 to 1988.[79] They found that conservation information and education programs were not as effective in reducing water usage as increases in the real price of water. That is, water usage is more affected by increases in real water prices than by increases in actual or nominal water rates. Water rate increases in excess of inflation rates could have more significant conservation effects.

Implications

In a regulatory framework, the key price-elasticity issues center on the validity, relative importance, and proper interpretation of elasticity estimates and implications for both demand and revenues. Price elasticities for different customer classes also must be considered. For example, the water demand patterns for large-volume customers generally are more price-elastic than those for residential and commercial customers. The repeal of volume discounts, combined with a rate increase, will most likely trigger a response by large-volume customers. These users might try to reduce their water consumption through efficiency improvements or consider bypassing the water supplier in favor of self-supply. In extreme cases, they might seek to relocate, although this reaction is rarely justified on purely economic grounds. Regardless of which option is chosen, the result for the utility is revenue instability and shortfalls. These problems are made worse when elasticity estimates are excluded from the rate design analysis prior to setting prices. In other words, assumptions about the interaction between demand elasticities and alternative rates structures must be given careful consideration.[80]

A hypothetical example can illustrate the importance of price elasticity in rate design. The water system in this example has a sizable residential customer base and one very large industrial customer, in this case a brewery. The key assumptions are that the water utility has

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[79] William E. Martin and Susan Kulakowski, "Water Price as a Policy Variable in Managing Urban Water Use," *Water Resources Research* 27 (February 1991): 157-166.

[80] D. Comer and Richard Beilock, "How Rate Structures and Elasticities Affect Water Consumption," *American Water Works Association Journal* 74, no. 6 (June 1982): 285-287.

increased its tail-block rate by 50 percent and that the tail block incorporates 98 percent of the water usage of the brewery. Properly specified water demand analyses for the brewery industry have indicated that the long-run price-elasticity coefficients range from -.40 to -.60. In other words, a 10 percent increase in rates reduces brewery water usage by 4 to 6 percent.[81]

The result of the tail-block increase is a usage reduction in the range of 20 to 30 percent. Given that the brewery formerly paid $300,000 annually for water, the water utility cannot presume that water revenues from the brewery will increase to $450,000 (a 50 percent increase); most likely, brewery revenues will fall short of $400,000. If the price-elasticity effect on usage was not incorporated in the rate design analysis, the long-run result is a revenue shortfall for the utility. A corresponding result is that lost revenues needed to cover fixed costs could be made up through further rate increases.

The implications of omitting price elasticity from the rate design process are becoming more critical. Some emerging evidence suggests that the price sensitivity of water demand may be increasing over time (with increasing real water prices) and that conservation programs can influence the shape or nature of water demand curves. Thus, the price elasticities for all user classes. In this context, it is difficult to provide practical benchmarks for gauging how much effort should be spent on developing elasticity estimates for a given water service territory. However, common wisdom would suggest that for many water systems, the price of ignorance on this issue can be high. While it may not be cost-effective for all systems to conduct their own detailed demand studies, it seems sensible to use the existing research to develop benchmarks for assessing the potential impact of price changes on the quantity of water demanded.

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[81] The price elasticity for beer demand is not included in this analysis, but certainly should be a consideration to the brewery if it plans to pass along the water rate increase to beer consumers. Price-inelastic beer demand would be an advantage to the water utility (and other providers of beer ingredients). However, the demand for beer is not price-inelastic and the beer industry is highly competitive, so that breweries have strong incentives to hold down the cost of production.

In future demand studies, a number of complex issues will become increasingly challenging, such as: the changing magnitude of rate increases and total customer bills (for water, wastewater, and stormwater); the combination effects of the ability and willingness to pay for water service; the presence of realistic opportunities to conserve water and promote efficiency; the sense of urgency associated with water resource conservation; and the compound effect of prices and other variables in shaping the overall demand for water. Analysts must bear in mind that not every change in usage can be attributed to a change in price. However, the impact of price on the quantity of water demanded may become increasingly important, making the price-elasticity estimation more vital than ever.

TABLE 3-4
RESEARCH ON ESTIMATED PRICE ELASTICITY
FOR WATER DEMAND

Investigator	Year	Data (a)	Type of Demand	Elasticity
Gottlieb	1952	68 Kansas cities		-1.02
	1952	19 Kansas cities		-1.24
	1957	84 Kansas cities		-0.69
	1957	24 Kansas cities		-0.68
	1958	24 Kansas cities		-0.66
	1963	Kansas (CS)		-0.95 (mean)
Seidel & Baumann	1957	U.S. cities (CS)	$.45/1,000 gal	-0.12
Renshaw	1958	36 systems (CS)		-0.45
Fourt	1958	34 U.S. cities (CS)		-0.39
Heaver & Winter	1963	Ontario cities		-0.254
Wong, et al.	1963	N.E. Illinois (CS)		-0.31 (mean)
Hedges & Moore	1963	Northern California	Irrigation	-0.19
Howe & Linaweaver	1963-1965	21 cities	Domestic sewers	-0.23
			Seasonal use	-1.16
	1967	39 urban areas (CS)	Total residential	-0.41
			Residential domestic	-0.23
			Sprinkling, west	-0.70
			Sprinkling, east	-1.57
Gardner & Schick	1964	42 Northern Utah systems (CS)		-0.77
Flack	1965	54 western cities (CS)	$.45/1,000 gal	-0.12
		All cities (CS)	$.45/1,000 gal	-0.65
Ware & North	1965	634 Georgia households	Residential	-0.67

TABLE 3-4 (continued)				
Investigator	Year	Data (a)	Type of Demand (b)	Elasticity
Bain, Caves, & Margolis	1966	41 Northern California cities (na)		-1.10
			Irrigation	-0.64
	1966	41 California cities (CS)		-1.099
Conley	1967	24 Southern California cities (CS)		-0.625 (mean)
Bruner	1969	Phoenix, AZ		-0.33
Turnovsky	1969	19 Massachusetts towns (CS)		-0.225 (mean)
		Massachusetts (CS)	Industrial	-0.47 to -0.84
Burns, et al.	1970s	Stratified two-price comparison	Indoor use	-0.20 to -0.38
			Sprinkling	-0.27 to -0.53
Grima	1970	91 observations (CS)		-0.93
	1972	Ontario cities	Winter	-0.75
Wong	1970	Chicago, IL (TS, 1951-1961)		-0.15 (mean)
		Four large groups (CS)		-0.54 (mean)
Ridge, R.	1972	(CS)	Industrial, malt liquor	-0.30
			Industrial, fluid milk	-0.60
Young, R.A.	1973	Tucson, AZ (TS, 1946-1971)	Reanalysis	-0.20
DeRooy	1974	New Jersey (CS)	Chemical, cooling	-0.89
			Chemical, processing	-0.74
			Chemical, steam gen.	-0.74
Grunewald, et al.	1975	150 rural Kentucky cities (CS)		-0.92
Hogarty & McCay	1975	Blacksburg, VA (TS, 2 years)		-0.50 to -1.40
Pepe, et al.	1975	4 S. Carolina cities (TS, 2 and 3 years)		-0.00 to -0.51

TABLE 3-4 (continued)				
Investigator	Year	Data (a)	Type of Demand (b)	Elasticity
Camp. R.C.	1978	228 Mississippi households (CS)		-0.24 to -0.31
Carver, P.H.	1978	13 Washington, D.C., systems (TS/CS, 6 years)	Short-run	-0.00 to -0.10
	1978	Fairfax County, VA (TS, 4 years)	Innovative price structure	-0.02 to -0.17
Lynne, et al.	1978	Miami, FL (CS)	Department stores	-0.33
			Grocery stores	-0.89
			Hotels	-0.14 to -0.30
			Eating and drinking	-0.00 (c)
Foster & Beattie	1979	218 U.S. systems, 6 regions (CS, 1960)	Midwest	-0.30
			New England	-0.43
			Southwest	-0.36
			South	-0.38
			Rocky Mountain	-0.58
			Pacific Northwest	-0.69
Billings & Agthe	1980	Tucson, AZ (TS, 1974-1977)	Residential overall	-0.39 to -0.63
			Residential marginal	-0.27 to -0.49
Carver & Boland	1980	13 Washington, D.C. systems (TS/CS, 1969-1974)	Resid. short-run winter	-0.02
			Resid. short-run summer	-0.11
Carver & Boland (continued)	1980	13 Washington, D.C. systems (TS/CS, 1969-1974)	Resid. long-run winter	-0.70
			Resid. long-run summer	-0.11
Howe	1982	Regional U.S. (CS)	Residential winter	-0.06
			Residential summer, west	-0.43
			Residential summer, east	-0.57

TABLE 3-4 (continued)				
Investigator	Year	Data (a)	Type of Demand (b)	Elasticity
Jones & Morris	1984	326 Denver, CO households (CS, 1976)	Average price models	-0.18 to -0.34
			Marginal price models	-0.14 to -0.44
Agthe, Billings, & Dorba, & Raffice	1986	Tucson, AZ (TS, 1974-1980)	Residential short-run	-0.50
			Residential long-run	-0.87
Martin & Thomas	1986	4 cities (CS, 1978-79)	Residential	-0.50
Williams & Suh	1986	86 systems (CS, 1976)	Residential marginal	-0.25
			Residential average	-0.48
			Resid. bill elasticity	-0.18 to -0.32
			Commercial marginal	-0.14
			Commercial average	-0.36
			Commercial bill elasticity	-0.23 to -0.34
			Industrial marginal	-0.44
			Industrial average	-0.74
			Industrial bill elasticity	-0.72 to -0.98
Moncur	1987	Honolulu, HI, including drought period (TS/CS 1980s)	Resid., marginal price	-0.25
Billings & Day	1989	Tucson, AZ, water department districts (TS/CS 1974-1980)	Res., combined long-run	-0.72
			Resid., marginal price	-0.52
			Resid., average price	-0.70
Weber	1989	East Bay Municipal District (TS/CS, 1981-1987)	Summer, long-run	-0.10 to -0.25
Griffin & Chang	1990	30 Texas communities (TS, 1983-1985)	Winter with sewer	-0.19
			Summer with sewer	-0.37
			Winter, no sewer	-0.10
			Summer, no sewer	-0.30

TABLE 3-4 (continued)				
Investigator	Year	Data (a)	Type of Demand (b)	Elasticity
Schneider & Whitlatch	1991	16 Columbus, OH communities (TS/CS, 1959-1976)	Residential short-run	-0.11
			Residential long-run	-0.26
			Commercial short-run	-0.24
			Commercial long-run	-0.92
			Industrial short-run	-0.11
			Industrial long-run	-0.44
			Government short-run	-0.44
			Government long-run	-0.78
			Schools short-run	-0.38
			Schools long-run	-0.96
			Total short-run	-0.12
			Total long-run	-0.50
Lyman	1992	30 households, Moscow, ID (TS, 1983-1987)	Short-run peak	-1.38 to -2.02
			Long-run peak	-2.60 to -3.33
			Short-run off-peak	-0.40 to -0.43
			Long-run off-peak	-0.63 to -0.71
Nieswiadomy	1992	430 U.S. water utilities (CS, 1984)	Marginal price	-0.29 to -0.45
			Average price	-0.22 to -0.60
Stevens, Miller, & Willis	1992	85 Massachusetts communities (CS, 1988)	Uniform rates	-0.10 to -0.43
			Decreasing-block	-0.40 to -0.69
			Increasing-block	-0.42 to -0.54
Whitcomb, Yingling, & Winer	1993	Southwest Florida Management District (TS/CS 1988-1992)	Single-family homes	-0.01 to -0.90
			Apartments	-0.00 (b)

Source: Authors construct based on Planning and Management Consultants, *Influence of Price and Rate Structures on Municipal and Industrial Water Use* (Fort Belvoir, VA: Institute for Water Resources, United States Army Corps of Engineers, 1984), updated for post-1978 studies.

(a) Type of data used for the statistical analysis: cross-sectional (CS), time-series (TS), or pooled time-series/cross-sectional (TS/CS).
(b) Not significantly different from zero.

Data Request No. REL 9-6
Are Company officials aware of the existence of another "proposed" policy regarding Tiered Rate Designs?

Response To Data Request No. REL 9-6
The Commission approved Staff's recommendation to consider the use of tiered rates in Decision No. 62993. The Commission's policy statement does not require water utilities to propose an inverted three-tiered rate design and it recognizes that such a design may not be appropriate in all cases. The Commission stated:

> "Tiered rates may not be appropriate in all circumstances. Staff will consider the appropriateness of an inverted three-tiered commodity rate structure for all water company rate cases, and **if appropriate**, will recommend such a tiered rate structure to **encourage conservation.**" (emphasis added)

Responder(s): Garfield / Kennedy

Data Request No. REL 9-7
Are Company officials aware that the Commission is actively promoting the use of inverted tiered rate designs?

Response To Data Requests No. REL 9-7
The Commission's policy makes it clear that the Commission is interested in determining whether an inverted three-tier rate design **encourages conservation.** The Company is not aware of a Commission policy that forces an inverted rate design if it does not encourage customers to conserve water. (emphasis added)

Responder(s): Garfield / Kennedy

EXHIBIT
S-22
admitted

Data Request No. REL 9-8
On page 16 of Mr. Kennedy's rebuttal testimony he states "The need for a price elastic adjustment is widely recognized and undisputed by the two most influential organizations that perform research and provide books and classes on rate design. Both the NRRI and the

American Water Works Association emphasize the importance of utilizing price elasticity effects in designing rates."

Please provide the price elasticity studies the Company performed supporting its rate design for the Northern, Eastern and current rate cases and explain how the results of these studies were used to develop their requested rates. Furthermore, please submit the price elasticity study used by the Company to support its 1991 rate case.

Response To Data Request No. REL 9-8

The Company has not conducted any previous price elasticity studies.

Responder(s): Kennedy

Data Request No. REL 9-9

On page 18 of Mr. Kennedy's rebuttal testimony he provides chart entitled "Eastern Group Price Elasticity". Staff wishes to receive a Bill Count, related water usage data and any supporting documents used in preparing the chart. Please present this data in an Excel format.

Response To Data Request No. REL 9-9

The data used by the Company to determine the Eastern Group Price Elasticity was not based on a bill count. The data was derived from a special billing program running on the Company's AS/400 computer. The program accumulated total billed consumption by meter size. An Excel file of the data is enclosed.

System Name	SIZES	Customers 04-05	Customers 03-04	Gallons 04-05	Gallons 03-04	Total $ 04-05	Total $ 03-04
Eastern Group	5/8"X3/4	29398	28854	2485371	2573080	5774956.97	5721210.96
Eastern Group	1"	2165	1875	334178	315003	857074.68	772006.38
Eastern Group	2"	362	359	455098	461169	1443485.16	1190806.12
Eastern Group	3"	76	75	147921	133274	448584.16	347449.78
Eastern Group	4"	31	31	160654	183573	549927.14	476126.63
Eastern Group	6"	28	29	101256	192178	760692.68	494695.93
Eastern Group	8"	2	0	42	0	242.97	0
Eastern Group	10"	0	0	0	0	0	0
Eastern Group		32062	31223	3684521	3858280	9834963.76	9002[illegible]8

Actual Price Elasticity For New Rates
Authorized for Eastern Group In Decision No.66849

Exhibit RJKR-

	MGallons Per Customer				Total Revenue Per Customer			
	12 Months Ending		Change		12 Months Ending		Change	
	3/31/2005	3/31/2004	Amount	Percent	3/31/2005	3/31/2004	Amount	Percent
5/8"X3/4	84.54	89.18	(4.63)	-5.20%	365.70	354.32	11	3.21%
1"	154.35	168.00	(13.65)	-8.12%	795.14	690.69	104	15.12%
2"	1,257.18	1,284.59	(27.42)	-2.13%	5,519.70	4,098.24	1,421	34.68%
3"	1,946.33	1,776.99	169.34	9.53%	8,892.84	5,509.64	3,383	61.41%
4"	5,182.39	5,921.74	(739.35)	-12.49%	23,472.71	18,102.79	5,370	29.66%
6"	3,616.32	6,626.83	(3,010.51)	-45.43%	36,588.71	24,274.26	12,314	50.73%
8"			-					
10"			-					
Total Eastern Group	**114.92**	**123.57**	**(8.65)**	**-7.00%**	**527.23**	**469.79**	**57.44**	**12.23%**

Eastern Group Price Elasticity			
% Change In Quantity	**-7.00%**	**=**	**-0.57**
% Change In Price	**12.23%**		

EG P.E. 3-31-05.xls

This Excel file is enclosed as a separate page.

Responder(s): Kennedy

Data Request No. REL 9-10
Please submit and explain all weather (rain, snow, heat or cold, etc.) information utilized to compile the "Eastern Group Price Elasticity" chart show on page 18 of Mr. Kennedy's rebuttal testimony.

Response To Data Request No. REL 9-10
There was no weather adjustment.

Responder(s): Kennedy

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A. Fjelde. Like a fjord, but a fee-eld.
Q. Thank you.
A. Swedish or Norwegian.
9 through?
Q. 19.
A. 19.
"A. We certainly maintain that data based on those estimates of water loss. We do keep regular records of what our percentage of unsold is, and what our percentage of unaccounted for is, and if that percentage of unaccounted for starts getting above 10 percent, then generally it's time to do something about it, start to expend some resources.
Question: Is there a national standard?"
Through 17?
Q. 19.
A. "Answer: My experience says that that number should be somewhere, the unaccounted for should be somewhere between 10 and 15 percent. The DWR has chosen 10. It really needs..."
Q. Thank you. Would you agree with me that this statement by Mr. Fjelde indicates that back in 1992, Arizona Water viewed 10 percent as maybe something that

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would raise a red flag or cause at least for further investigation?
A. That's what Mr. Fjelde's experience was at the time, yes.
Q. Thank you.
A. According to his testimony.
Q. And does the company currently prepare monthly water loss reports?
A. Yes, we do.
Q. And does this report estimate the cost of lost water and also the savings that would result from reducing the water loss?
A. It reflects a savings. And for each one percent of the lost water to be reduced, the dollar amount that would be saved as a result. Yes.
Q. Couldn't this report serve as at least the starting point for the, as you call it, the plan that Staff is asking the company to submit?
A. If we were required to submit a report and a plan, I suppose that would be used as some component of that, yes.
Q. Thank you. You would agree with me, wouldn't you, that Arizona has a desert climate?
A. For the most part, yes.
Q. And you would agree with me that a

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characteristic of a desert is the scarcity of water?
A. Judging by the lack of rivers, I would agree with that.
Q. And you said for the most part Arizona was a desert. All of the areas in the Eastern Group within your service area, those are desert areas; is that correct?
A. I'm not sure exactly what the definition of a desert is. It's hot. It's dry. They don't get much rain. The differences between Bisbee and, say, Apache Junction, there are significant differences between them as far as the amount of rain and the climate that they have. But they are all for the most part hot, dry, and they don't get much rain.
Q. So to use a layperson's definition of desert, all of those areas are a desert?
A. Based on those three things, I would say they qualify as a desert.
Q. Thank you. And would you agree with me that water conservation is important in a desert?
A. Using water efficiently is important, yes.
Q. Okay. And would you also agree with me that water providers should play an important role in water conservation?
A. I don't know that I would agree with that. And

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I don't want to go through the DWR lawsuit. But to what extent a water provider has on conserving water? Is that your question?
Q. Well, let me flip the question around and make it backwards.
Are you saying that water service providers should play no role in a conservation effort?
A. No. I'm not saying that.
Q. So it should play some role?
A. Yes.
Q. And your dispute with DWR just centers on how big the role should be?
A. To the extent of role. That's correct.
Q. Okay. Now, you would agree with me that Arizona isn't going to run out of water in the next few years; is that correct? As you understand it?
A. I hope not. I agree with it. Yes.
Q. So, therefore, conservation would be more of a long-term problem than a short-term crisis problem. Would you agree with me?
A. I'm not sure. There are some distinctions between short-term needs, such as under curtailment tariff, and long-term needs. There's always a need to use water efficiently no matter how much water you have. Conservation efforts, I believe, are long-term

EXHIBIT
S-23
admitted

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1 and they have to cover all of society.
2 Q. Okay. As I understand it, you're a member of
3 the Arizona Department of Water Resources work groups
4 for the Pinal and Phoenix active management areas; is
5 that correct?
6 A. Actually, only for the Pinal. There is a
7 subcommittee of the Groundwater User Advisory Council,
8 of which I am the chairman.
9 Q. Okay. And you're not a member of any AWR group
10 for the Phoenix AMA?
11 A. No. The Phoenix AMA -- I believe what I was
12 referring to in my testimony was when the department
13 was formulating the third management and conservation
14 plans, I participated with other municipal water
15 providers in providing information to the department
16 and working with other stakeholders on considering what
17 would be reasonable to achieve in conservation efforts,
18 what water demands you might expect from a new
19 residential customer. Water loss, that was discussed
20 as well as part of the group. We didn't agree with the
21 department generally.
22 But I was part of that group, but that group is
23 not an ongoing, active group. It was a group assembled
24 for the purpose of the third management plan.
25 Q. But this group for the third management plan,

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1 you participated both in regards to Pinal and Phoenix;
2 is that correct?
3 A. Yes. That's correct.
4 Q. But it's no longer in existence?
5 A. Well, the third management plan is in place.
6 Q. Right.
7 A. And the current committee that is in place in
8 the Pinal active management area is a subcommittee that
9 is studying the goal of the AMA as it pertains to
10 municipal and industrial uses of water.
11 Q. Okay. Are you familiar with the Phoenix and
12 Pinal AMAs and the service providers located in these
13 AMAs at least on a general level?
14 A. With the other water providers?
15 Q. Yes.
16 A. Yes. It's a small community.
17 Q. Do any of the municipal or private water
18 providers in the Phoenix or Pinal AMAs utilize inverted
19 block rates as part of their conservation plans? If
20 you know.
21 A. I don't know.
22 Q. Ms. Finical is going to come up and pass out
23 Exhibits F -- or I'm sorry -- S-5 through S-9. And
24 we'll give her a minute to do that.
25 While she's doing that, is it your

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1 understanding that Arizona-American is the largest
2 private water company in the state of Arizona at this
3 time?
4 A. I believe they are, yes.
5 Q. Okay. Let's turn to the first document, which
6 should be marked S-5. And that document would appear
7 to be a water tariff for the Sun City Water Company.
8 Do you see that document?
9 MR. SHAPIRO: Excuse me, Your Honor. I'm not
10 sure that the --
11 THE WITNESS: I have no labels on it.
12 MR. SHAPIRO: Yeah. The copies that I have --
13 and basically from Mr. Garfield's comment I'm assuming
14 he has -- are not labeled. So maybe counsel for Staff
15 can more accurately identify these.
16 MR. SABO: Sure. I apologize.
17 ACALJ NODES: Do you want to just go through
18 and describe each of these documents and how you want
19 to mark them?
20 MR. SABO: Sure. That's a good idea, Your
21 Honor. The first one says Sun City Water Company,
22 Water Service, General Water Rate G-1. And we're
23 proposing to mark that as Exhibit S-5.
24 The second document is a printout from a
25 website that says Water Billing And Rates. And then

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1 down at the bottom it shows it's from the City of
2 Phoenix website. And we propose that be S-6 again.
3 ACALJ NODES: That's a three-page document?
4 MR. SABO: That's correct.
5 MR. SHAPIRO: Wait. Okay. It says -- is that
6 the one, Mr. Sabo, that has the glass of water on the
7 front page?
8 MR. SABO: That's correct.
9 MR. SHAPIRO: Thank you.
10 MR. SABO: And then the next document, the one
11 we're proposing to mark as S-7, says City of Mesa, Mesa
12 Arizona, Residential Water Service, Water Schedule W-1.
13 It's a one-page document.
14 And then the document we have marked as S-8 has
15 the seal of the City of Scottsdale there, and it's
16 titled, Metered Water Rate Schedule.
17 And then lastly, S-9, it says City of Tucson.
18 You can see it's a printout from their website. And it
19 says Customer Services, Current Water Rates. And
20 that's S-9.
21 Did everyone get that, or is there any further
22 clarification needed?
23 (No response.)
24 ACALJ NODES: I think you can go ahead,
25 Mr. Sabo.

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as well. They have a lot of their personnel involved as well; correct?
A. Yes, they do.
Q. Would the company like to see a more streamlined, less complicated, and maybe less expensive process?
A. In a perfect world, you bet.
Q. Did the company pick this process?
A. No.
Q. But if you believe rate increases are necessary, this is the process that the company is required to follow; correct?
A. That's correct.
Q. Okay. And would Mr. Geake be able to set aside his duties for 13 months or so every three or four years to handle a rate case?
A. I don't believe so. The world doesn't stop.
Q. Did Mr. Geake handle the company's Northern Group rate case which was cited about two years ago?
A. No. He did not.
Q. Mr. Garfield were you involved in that case?
A. Yes, I was.
Q. Do you recall whether Staff claimed in that case that Mr. James and I were unnecessary expenses in that proceeding?

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A. I'm not aware of any such claim.
Q. I would like to turn now to Staff's proposed rate design, which you were also asked some questions about. And I would like to actually just start for a moment with some questions that Mr. Skiba asked. He asked you whether most of the company's residential customers fit into the middle block.
Isn't it true that under Staff's proposed rate design, all customers fit first into that lower block because the first 3,000 gallons of water is priced the same for all customers; correct?
A That's correct.
Q. Okay. And that's the so-called lifeline rate that Staff came up with; correct?
A. Yes.
Q. And it's your belief, if I'm correct, that that results -- the lifeline rate is set based on the subsidy paid by higher users over 50,000 gallons by the third block?
A. That's correct.
Q. Okay. Now, Mr. Sabo presented you with a number of exhibits, and hopefully those are up there. They should be S-5 through S-9. And these were purported to be maybe not actual tariffs, but sheets indicating the prices and the rate design for some

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other water providers.
A. Yes. I recall that.
Q. And it appears to me, Mr. Garfield that what Mr. Sabo wanted to do was demonstrate that other providers have inverted block rates like Staff's proposed rate design in this case; is that right?
A. I believe that was the point he was trying to make, yes.
Q. Is it Arizona Water Company's position that inverted block rates would be unique to the company's Eastern Group?
A. I believe it would be unique to the Eastern Group.
Q. That's was a poor question. Among Arizona water providers, is it the company's position that this would be the only company providing water with an inverted rate design like this?
A. No. No. We don't deny the fact that there are inverted rates of all different designs out there for different providers throughout Arizona.
Q. And is it the company's position that inverted block rates are always inappropriate?
A. No. We believe there are circumstances where it is appropriate for inverted rates.
Q. What is the company's primary concern with

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Staff's rate design, Mr. Garfield?
A. I think our general point is that the tiered rates should be need-based rather than just a strict policy-based to implement inverted rates. And that consideration such as cost of service, a detailed analysis of the impact of the rate design on our customers should be involved, including analysis between customer classes and meter sizes.
We don't believe that was done in this case, and we believe that it's not a well-thought-out rate design that takes all of those factors into account.
Q. So it's fair to say that some day in the future it might be appropriate to use a rate design like this for Arizona Water Company's Eastern Group?
A. Yes. We don't dispute that it may have a need.
Q. Let me ask you to turn to S-5 through S-9, which I believe you have in front of you. These are price information for Sun City Water, City of Phoenix, City of Mesa, City of Scottsdale and the City of Tucson; correct?
A. Yes.
Q. So four out of five of those are municipal providers?
A. Yes. Four out of five are municipalities. Correct.

EXHIBIT
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admitted

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1 example. Do you know how postage stamp rates are set?
2 Would you agree that they're set by the Postal Rate
3 Commission in Washington, D.C., subject to check or
4 whatever?
5 A. Sure.
6 Q. Would you advocate the adoption of a postage
7 stamp adjustor based on a possibility that that
8 Commission could at some point in the future increase
9 the cost of postage stamps?
10 A. For Arizona Water?
11 Q. Yes.
12 A. Would I agree to the inclusion of a postage
13 stamp adjustor for Arizona Water?
14 Q. Yes. That's my question.
15 A. I suppose if it goes up or down, then the
16 customer benefits from the reduction and the company
17 covers its expenses and has an opportunity to earn its
18 rate of return.
19 Q. Sure. I was just trying to see how far you
20 were going to push the concept, and I guess I know now.
21 A. I don't really know how to respond to a
22 question of that nature.
23 Q. Ms. Hubbard, while you worked at the ACC, did
24 you supervise the production of cost of capital
25 studies?

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1 A. Yes.
2 Q. Ms. Hubbard, should the Commission allow
3 companies a blank check to charge as much rate case
4 expense as they want, or should the Commission review
5 the prudence of their expenses?
6 A. I don't have a problem with reviewing the
7 prudence of the expenses.
8 Q. If you're aware, did Mr. Kennedy perform the
9 cost of capital study in the 1992 rate case?
10 A. That's what I've been told. I'm not familiar
11 with the actual filing.
12 Q. Sure. Would it be possible for Arizona Water
13 to litigate a rate case without using outside legal or
14 cost of capital providers by using its internal
15 resources instead, such as Mr. Geake and
16 Mr. Kennedy and yourself?
17 A. I don't know. I can't imagine not having the
18 assistance that we've had on this proceeding.
19 Q. Did you explore the possibility of doing that,
20 or did you consider that at the time the rate filing
21 was considered by the company?
22 A. That wasn't my decision or responsibility.
23 Q. Ms. Hubbard, would you agree with me that in
24 1992 the level of rate case expense was $90,970?
25 A. I don't have any information about that

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1 proceeding.
2 Q. Do you have a copy of the 1992 decision up
3 there with you? I think we've had you refer to it
4 before.
5 A. Yes.
6 Q. And can you turn to page 17, please. And then
7 review, please, lines 9 through 12.
8 A. Okay.
9 Q. Would you agree with me that that appears to
10 show that the level of rate case expense allowed was
11 $90,970?
12 A. I think line 27 and 28 are a more appropriate
13 basis for determining that's what was authorized.
14 Q. But that is the number, the correct number; is
15 that right?
16 A. Yes.
17 Q. And back to line 11, does the order indicate
18 that of that 90,000-some-odd dollars, 53,000 was for
19 computer programming costs?
20 A. That's what it states.
21 Q. Would such costs likely -- well, let me ask it
22 this way.
23 Arizona Water is not seeking any computer
24 programming costs in this case, is it?
25 A. No. I don't believe so.

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1 Q. And the 1992 rate order was for all 18 systems;
2 is that correct?
3 A. That's my understanding.
4 Q. Would you accept subject to check that $90,970
5 would be approximately 115,600 in 2003 dollars?
6 MR. SHAPIRO: Can you repeat that question,
7 please?
8 MR. SABO: Sure. I took the 90,000 and
9 whatever figure from 1992, and said is the equivalent
10 adjusted for inflation 115,600?
11 MR. SHAPIRO: On what basis did Mr. Sabo make
12 that adjustment? What inflation factor?
13 MR. SABO: I was asking Ms. Hubbard if that
14 sounded correct.
15 THE WITNESS: I don't know what basis you're
16 using to come up with the figures.
17 Q. (BY MR. SABO) Would you agree that an
18 appropriate method of doing that would be to look at
19 the Consumer Prize Index as published by the United
20 States Government?
21 A. You could do it in that fashion.
22 Q. Would you agree with me that the Federal
23 Reserve Bank would be an authoritative source of what
24 the CPI was through those years?
25 A. Yes.

EXHIBIT
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admitted

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A. I've attended a training session on calculations of lead/lags.
Q. Sponsored by whom?
A. The Arizona Corporation Commission.
Q. Who specifically?
A. Carl Dabelstein was the presenter in that training session.
Q. Thank you. Ms. Hubbard, you mentioned the adjustor mechanisms and that you were not recommending approval.
You weren't suggesting that all expenses should have adjustor mechanisms; is that correct?
A. I'm not recommending that all expenses have adjustor mechanisms.
Q. Now, currently, Arizona Water has four adjustors; isn't that right? MAP, arsenic, power and water; is that correct?
A. In the Eastern Group, Arizona Water has three adjustor mechanisms that I'm familiar with.
Q. Plus the arsenic if it's approved in this case?
A. Yes.
Q. So that would be four, hopefully, at the end of the case in your view?
A. If that's approved, yes.
Q. And Ms. Hubbard, while you were employed with

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the Commission, you had the opportunity to review a number of rate filings and be familiar with a number of water companies; is that correct?
A. Yes.
Q. Are you aware of any other water company that has four different adjustor mechanisms?
A. I don't recollect what any particular company might have.
Q. Are you aware of any other water company that has a purchased power adjustor at this time?
A. I don't have any recollection.
Q. Ms. Hubbard, so we're clear, the test year used in this case is a 2001 test year; is that correct?
A. That's correct.
Q. And you're anticipating filing the next rate case using a 2006 test year; is that correct?
A. Yes.
Q. And the difference between 2001 and 2006 is five years; is that correct?
A. If my math is correct today, yes.
Q. Okay. You mentioned some of the reasons rate case expense went up, and you mentioned there were more procedural conferences.
Does that include the preparation for and the hearing on Staff's motion to continue in this case?

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A. Yes, it does.
Q. And ultimately the company's position on that matter was rejected. Isn't that true?
A. I don't really know the -- if it was all rejected or not. Some of it definitely was, yes.
MR. SABO: Thank you. Nothing further.
ACALJ NODES: All right. Thank you.
Mr. Pozefsky.
MR. POZEFSKY: Thank you, Your Honor.

RECROSS-EXAMINATION

Q. (BY MR. POZEFSKY) Ms. Hubbard, would you agree that with all things being equal, it would cost more to the company to file a rate case for the Northern and Eastern Divisions than it would cost just to file a rate case for the Eastern Division?
A. That's dependent upon the magnitude of controversy that arises throughout the course of the hearing, I believe.
Q. So if it's more controversial, it would cost less to file the rate case for the Eastern Division than it would for the Northern and the Eastern Division?
A. Could you repeat your question?

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Q. I'll make it even easier for you.
Why would the cost be different or depend on the amount of the controversy?
A. Well, any time you have services provided that are based upon time, you're going to incur more costs if more time is used. And when you have legal services which involve attending hearings or preparing analysis and there's more controversy, then more time is taken to do that. And the same with cost of capital issues. So the level of controversy affects the amount of analysis and resulting responses.
Q. Let me qualify my question then, and my question was all things being equal. And I think what I was trying to say is if you consider the amount of controversy the same in the Northern Division as the amount of controversy that there would be to bring a case for the Eastern Division, considering both the same, would you agree that it would cost more to file a rate case for both the Northern and the Eastern Division than for the Eastern Division?
A. It could, yes.
Q. Okay. And the 1992 case, that case was contested. Is that fair?
A. I don't know.
Q. There was a trial in that case. Is that true?

EXHIBIT
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admitted

either the month or calendar quarter in which they are billed. The payment lag is measured from the midpoint of the utility service period to which they apply to the date they are ultimately remitted. It is sometimes argued that since these taxes are based on revenue, the measurement period should commence with the date the customer is billed rather than the midpoint of the service period. This is largely based on the specific language contained in the respective statute. The typical response to that argument is that, because the revenue lag is measured from the midpoint of the service period, revenue-based taxes should also be so measured, or an inconsistency will result.

Federal and state income taxes are typically paid in installments, based on estimates of taxable income, in accordance with statutory rules. The payment lags computed for federal and state income taxes currently payable, are generally computed as averages based on such statutory installment dates and percentages. This is illustrated on Exhibit VI-12. Presently, IRS Regulation covering tax payment deposits require the large companies (those with tax liabilities in excess of $1 million during any of the three previous tax years) to deposit an amount equal to 100 percent of its current year tax liability, in four installments (April 15, June 15, September 15, and December 15) by year-end. Similar tax deposit rules are imposed by the states. For example, 95 percent of the current year's Minnesota state corporate income taxes must be paid by the end of the year in four installments, with the remaining 5 percent due when the tax return is filed. In Arizona, the four required installments during the year must total the smaller of 90 percent of the current tax liability or 100 percent of the tax liability for the prior tax year. Any unpaid tax is then due when the return is filed by April 15th of the following year. Tax payment leads and lags are measured from the installment payment date to the midpoint of the tax year.

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Generally, equal installment payments are assumed to be made. If a company does not make equal installments, or pays sooner than required, due to specific facts and circumstances, such factors may be considered in the calculations.

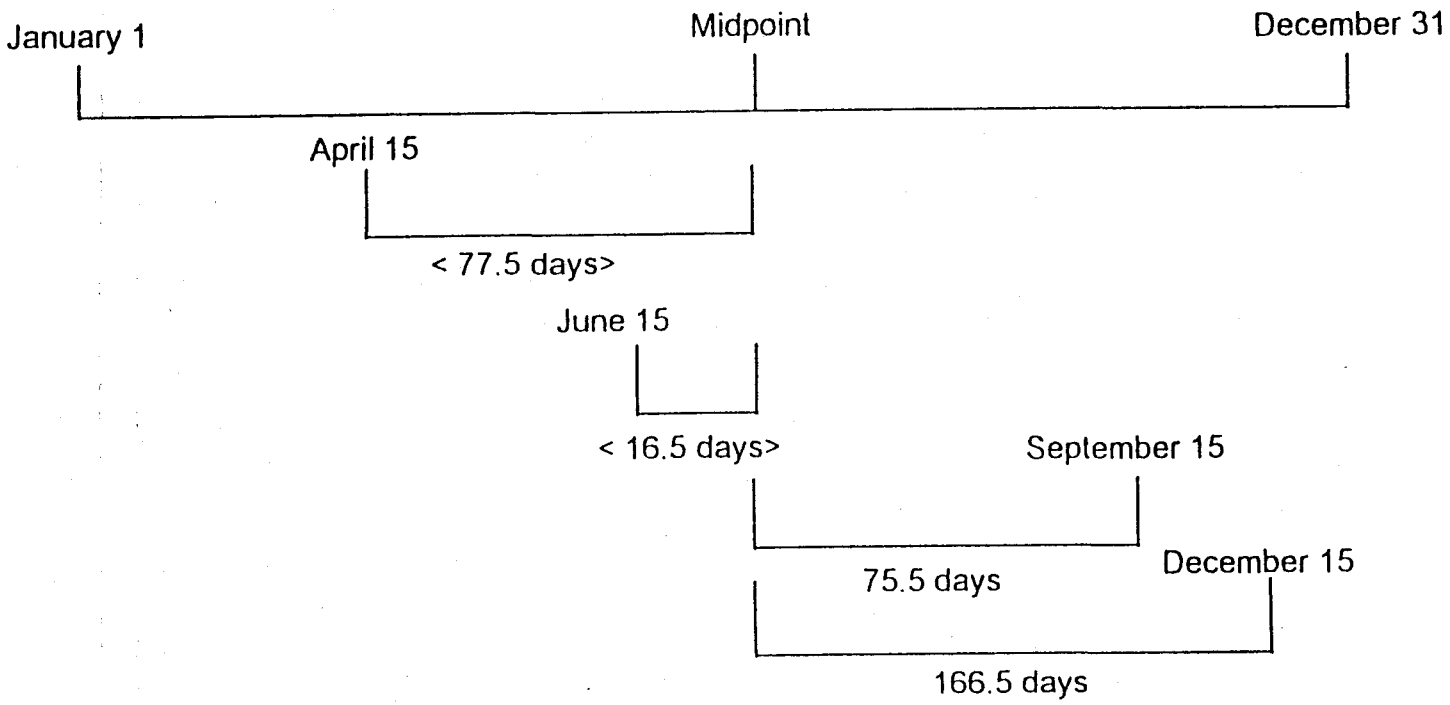
One question that is frequently asked is whether the effect on cash working capital of income taxes associated with requested rate increases should be reflected in the lead/lag study underlying a rate case filing. Additional federal and state income taxes due to a change in revenues certainly have an effect on working capital; however, it seems to be more appropriate that the computed cash working capital component of rate base reflect only the income taxes applicable to adjusted test-year operating results. The incremental effect of additional revenues can be included as a component in the revenue conversion factor, that ratio used to determine the revenue equivalent of a change in net operating income. That way the allowance for cash working capital does not have to be recomputed every time an adjustment to filed data is made or differences reduced through negotiation.

Interest and Dividends

In those jurisdictions where some or all of the components of the return are included in lead/lag studies, the payment lag factors are fairly simple to determine. Interest is usually paid at the end of each of two semi-annual periods. This equates to an average lag of approximately 91 days.

Dividends on preferred stock are typically paid four times a year, with cash disbursed either at the end of the quarterly period, or sometime thereafter (i.e., end of following month), in

ILLUSTRATION OF FEDERAL INCOME TAX LAG



Tax Payment Date	Percent of Annual Liability	<Lead> Lag Days	Weighted Days
April 15th	25.00	<77.5>	<19.38>
June 15th	25.00	<16.5>	< 4.12>
September 15th	25.00	75.5	18.88
December 15th	25.00	166.5	41.62
	100.00		37.00

Exhibit VI-12

ARIZONA WATER COMPANY
FEDERAL INCOME TAXES EXPENSE ANALYSIS
SYSTEM ALLOCATION
TEST YEAR 2003

SCHEDULE B-6

W/P EL-11
Page 2 of 2

Federal Income Tax (Lead) Lag

		A	B	C	D	E	F	G	H
Month	Invoice #	Month Midpoint	Payment Date	Payment Amount	90% of Yearly Tax Liability Paid Quarterly	10% of Yearly Tax Liability Paid 14-Mar-00	Layer Payment Date	(Lead) Lag Days	$ Days (Lead) Lag
					(C quarter/3)	(C March 00/12)		(F-A)	(D or E *G)
Jan-99		16-Jan-99			132,333.34		12-Apr-99	86.00	11,380,667.24
						(20,000.00)	14-Mar-00	423.00	(8,460,000.00)
Feb-99		14-Feb-99			132,333.33		12-Apr-99	57.00	7,542,999.81
						(20,000.00)	14-Mar-00	394.00	(7,880,000.00)
Mar-99		16-Mar-99			132,333.33		12-Apr-99	27.00	3,572,999.91
						(20,000.00)	14-Mar-00	364.00	(7,280,000.00)
Apr-99		15-Apr-99	12-Apr-99	397,000.00	16,666.68		11-Jun-99	57.00	950,000.76
						(20,000.00)	14-Mar-00	334.00	(6,680,000.00)
May-99		16-May-99			16,666.67		11-Jun-99	26.00	433,333.42
						(20,000.00)	14-Mar-00	303.00	(6,060,000.00)
Jun-99		15-Jun-99	11-Jun-99	50,000.00	16,666.67		11-Jun-99	(4.00)	(66,666.68)
						(20,000.00)	14-Mar-00	273.00	(5,460,000.00)
Jul-99		16-Jul-99			162,000.00		14-Sep-99	60.00	9,720,000.00
						(20,000.00)	14-Mar-00	242.00	(4,840,000.00)
Aug-99		16-Aug-99			162,000.00		14-Sep-99	29.00	4,698,000.00
						(20,000.00)	14-Mar-00	211.00	(4,220,000.00)
Sep-99		15-Sep-99	14-Sep-99	486,000.00	162,000.00		14-Sep-99	(1.00)	(162,000.00)
						(20,000.00)	14-Mar-00	181.00	(3,620,000.00)
Oct-99		16-Oct-99			323,333.33		14-Dec-99	59.00	19,076,666.47
						(20,000.00)	14-Mar-00	150.00	(3,000,000.00)
Nov-99		15-Nov-99			323,333.33		14-Dec-99	29.00	9,376,666.57
						(20,000.00)	14-Mar-00	120.00	(2,400,000.00)
Dec-99		16-Dec-99	14-Dec-99	970,000.00	323,333.33		14-Dec-99	(2.00)	(646,666.66)
						(20,000.00)	14-Mar-00	89.00	(1,780,000.00)
Mar-00	Refund per JDB		14-Mar-00	(240,000.00)					
				1,663,000.00	1,903,000.01	(240,000.00)		2.52	4,196,000.84

4,196,000/1,663,000 = 2.52 Lag Days

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ARIZONA WATER COMPANY
STATE INCOME TAXES EXPENSE ANALYSIS
SYSTEM ALLOCATION
TEST YEAR 2003

State Income Tax (Lead) Lag

Month	Invoice #	A Month Midpoint	B Payment Date	C Payment Amount	D 90% of Yearly Tax Liability Paid Quarterly (C quarter/3)	E 10% of Yearly Tax Liability Paid 15-Apr-00 (C March 00/12)	F Layer Payment Date	G (Lead) Lag Days (F-A)	H $ Days (Lead) Lag (D or E *G)
Jan-99		16-Jan-99			16,666.67		15-Apr-99	89.00	1,483,333.63
						(831.92)	15-Apr-00	455.00	(378,523.60)
Feb-99		14-Feb-99			16,666.67		15-Apr-99	60.00	1,000,000.20
						(831.92)	15-Apr-00	426.00	(354,397.92)
Mar-99		16-Mar-99			16,666.67		15-Apr-99	30.00	500,000.10
						(831.92)	15-Apr-00	396.00	(329,440.32)
Apr-99		15-Apr-99	15-Apr-99	50,000.00	4,000.00		15-Jun-99	61.00	244,000.00
						(831.92)	15-Apr-00	366.00	(304,482.72)
May-99		16-May-99			4,000.00		15-Jun-99	30.00	120,000.00
						(831.92)	15-Apr-00	335.00	(278,693.20)
Jun-99		15-Jun-99	15-Jun-99	12,000.00	4,000.00		15-Jun-99	0.00	0.00
						(831.92)	15-Apr-00	305.00	(253,735.60)
Jul-99		16-Jul-99			37,333.33		15-Sep-99	61.00	2,277,333.13
						(831.92)	15-Apr-00	274.00	(227,946.08)
Aug-99		16-Aug-99			37,333.33		15-Sep-99	30.00	1,119,999.90
						(831.92)	15-Apr-00	243.00	(202,156.56)
Sep-99		15-Sep-99	15-Sep-99	112,000.00	37,333.33		15-Sep-99	0.00	0.00
						(831.92)	15-Apr-00	213.00	(177,198.96)
Oct-99		16-Oct-99			73,333.34		15-Dec-99	60.00	4,400,000.40
						(831.92)	15-Apr-00	182.00	(151,409.44)
Nov-99		15-Nov-99			73,333.33		15-Dec-99	30.00	2,199,999.90
						(831.92)	15-Apr-00	152.00	(126,451.84)
Dec-99		16-Dec-99	15-Dec-99	220,000.00	73,333.33		15-Dec-99	(1.00)	(73,333.33)
						(831.88)	15-Apr-00	121.00	(100,657.48)
Apr-00	Overpayment per JDB		15-Apr-00	(9,983.00)					
				384,017.00	394,000.00	(9,983.00)		27.05	10,386,240.21

10,386,240/384,017 = 27.05 Lag Days

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS	)	DOCKET NO. W-01445A-04-0650

DIRECT

TESTIMONY

OF

LYNDON R. HAMMON

UTILITIES ENGINEER

UTILITIES DIVISION

APRIL 18, 2005

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EXHIBIT
S-29
admitted

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EXECUTIVE SUMMARY
ARIZONA WATER COMPANY
DOCKET NO. W-01445A-04-0650

(1) The Arizona Department of Environmental Quality ("ADEQ") reported that all six water systems are in **total** compliance with its rules and regulations. ADEQ determined that all six systems are currently delivering water that meets State and Federal drinking water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

(2) Staff recommends the adoption in this rate case of the previously approved depreciation schedule presented on page 18 of Mr. Ralph Kennedy's direct testimony. *(Staff recommends that this should be addressed by an ordering paragraph in the final Decision and Order.)*

(3) Expense Adjustments:

(a) The Company's water testing expense for the Western Group was at or below Staff's expectation based upon usual and customary water testing methodology and expenses. Staff recommends acceptance of the Company's water testing expense (Adjustment No. 12 in Schedule C-2 of original application).

(b) Staff recommends acceptance of the Company's expense adjustment for tank maintenance (Adjustment No. 13 in Schedule C-2 of original application).

(4) Tariffs:

(a) Staff recommends that the MA-262 tariff, "Monitoring Assistance Program Surcharge", ("MAP") be revised, company-wide, to conform with the new DEQ, MAP fee structure. Staff also recommends that the revised MA-262 tariff be filed with the Director of the Utilities Division for review and certification, and the filing of that revised tariff shall be made within 60 days of a decision in this matter, but no later than the Company's annual surcharge calculation for each water system participating in MAP. *(Staff recommends that this should be addressed by an ordering paragraph in the final Decision and Order.)*

(b) Staff recommends that Arizona Water Company file a new Non-Potable Central Arizona Project Water tariff for Casa Grande, Coolidge, and White Tanks within 60 days of the date of a final decision in this rate case. The new tariff shall conform to the new Apache Junction Non-Potable Central Arizona Project Water tariff, which was approved pursuant to Decision No. 66849. *(Staff recommends that this should be addressed by an ordering paragraph in the final Decision and Order.)*

INTRODUCTION

Q. Please state your name and place of employment.

A. My name is Lyndon R. Hammon. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Please list your duties and responsibilities and provide your title.

A. I am employed as a Utilities Engineer, specializing in water and wastewater engineering. My responsibilities include: the inspection, investigation, and evaluation of water and wastewater systems; obtaining data and preparing original cost studies and investigative reports; providing technical recommendations and suggesting corrective action for water and wastewater systems; and providing written and oral testimony on rate applications and other cases before the Commission.

Q. Briefly describe your pertinent educational background and work experience.

A. I have a Bachelor of Science Degree in Chemical Engineering from the University of Missouri at Rolla. After graduation, I was employed by the Skelly Oil Company as a process and environmental engineer. In 1973, I joined the Arizona Department of Health Services, which later became the Arizona Department of Environmental Quality ("DEQ"). My responsibilities with DEQ included approval and inspection for the construction of water and wastewater facilities, and the issuance of discharge permits. I remained with DEQ until transferring to the Commission in January 1993.

Q. Do you maintain any professional registrations or memberships?

A. I am a licensed professional engineer in the State of Arizona. I am also a member of the Arizona Water and Pollution Control Federation.

Q. Were you assigned to provide an engineering analysis and recommendation for the Arizona Water Company, Western Group ("Arizona Water" or "Company")?

A. Yes. I reviewed the Company's application and responses to data requests. I visited the water systems during January and February 2005. My testimony will present the findings of my engineering evaluation.

DESCRIPTION OF THE WATER SYSTEMS

Q. Please describe the water systems.

A. The Western Group consists of five independent water systems and one consecutive water system. (A consecutive water system is a public water system, which accepts water from another public water system and which has 15 or more service connections.) They are listed below in Table I. "PWS ID No." means public water system identification number, which is a state and federal designation, unique to the water system.

Table I

	PWS ID No.	Services	Approx. service area (sq. miles)
Casa Grande	11-009	14,650	120
Tierra Grande	11-076	350	included in Casa Grande
Stanfield	11-012	220	40
White Tanks	07-128	1,340	10
Coolidge	11-014	3,050	20
Ajo Heights (#)	10-003	700	130

(#) consecutive system to Ajo Improvement Company, PWS ID No. 10-001

Simple process schematics are presented in Exhibits A-1 through A-4, attached to this testimony. The schematics for Ajo are omitted due to their simplicity. Ajo has only two storage tanks which float on the consecutive system. ("Floating" means that the storage tanks are elevated and directly pressurize the water distribution zone.) All water systems have adequate production and storage capacity to meet their respective needs.

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE

Q. Please discuss Arizona Water Company's compliance with the Arizona Department of Environmental Quality ("DEQ") rules.

A. DEQ reported that all six water systems are in **total** compliance with its rules and regulations. DEQ determined that all six systems are currently delivering water that meets State and Federal drinking water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

DEPARTMENT OF WATER RESOURCES COMPLIANCE

Q. Please discuss Department of Water Resources ("DWR") Compliance.

A. Casa Grande, Tierra Grande, Coolidge, and Stanfield are located in the Pinal Active Management Areas ("AMA"). White Tanks is located within the Phoenix AMA. Ajo is not located in any AMA and is not subject to conservation and reporting requirements. At this time, the five systems within AMA's are only required to monitor and report their water usage, and DWR reported that they are in compliance with those reporting requirements.

WATER USE

Q. Please discuss water use.

A. Based on information provided by the Company, water use for 2003 is presented in Exhibit B, for all six water systems. The annual average, the average during the peak month, and the average during the minimum month are denoted as gallons per day per service.

Q. Please discuss non-account water.

A. Based on information provided by the Company, non-account water is tabulated below (for the period January 2003 through December 2003):

System	% non-account
Casa Grande	8.4 %
Tierra Grande	7.5 %
Stanfield	6.8 %
White Tanks	5.0 %
Coolidge	9.5 %
Ajo Heights	6.7 %

The cost to obtain, treat, and pressurize is embedded in lost water. When water escapes before it reaches the consumer, the utility loses revenue and incurs unnecessary expense. Non-account water should be 10 percent or less and never more than 15 percent. All of the water systems are within acceptable limits.

It is worth noting that Arizona Water Company takes water conservation and efficiency seriously and has an extensive company-wide water loss control program. Monthly water sales, non-revenue water, and water production are audited and monitored; there is a program of meter testing and replacement; and the Company just recently purchased state of the art, leak detecting correlators and loggers which will allow them to detect leaks and then locate the source literally within inches.

GROWTH

Q. Please discuss growth.

A. Since the last rate case, 13 years ago, the growth rate has been about 5 to 6 per cent per year for the Casa Grande and White Tanks water systems. Ajo, Stanfield, and Coolidge have experienced static or very slow growth rates. Growth rates are worth discussing because Pinal County and the western Phoenix metropolitan area have recently

experienced explosive residential growth and past history may not be a good predictor of future population changes. Consequently, Casa Grande and the White Tanks water systems could be poised for very rapid growth, depending on the continued strength of the Arizona real estate market. While the Casa Grande and White Tanks systems have adequate water production and storage now, the Company has plans to add an additional well during 2005 in Casa Grande, and for the White Tanks system, the Company is exploring the participation with a block of other investors in the construction of a Central Arizona Project surface water treatment plant.

DEPRECIATION RATES

Q. Please discuss depreciation rates for plant in service.

A. In the previous rate case for the Eastern Group, Mr. Ralph Kennedy developed a company-wide schedule of depreciation rates by National Association of Regulatory Utility Commissioners ("NARUC") account. These rates were developed from Arizona Water Company's internal equipment records, audits, or field experience, and represent actual present service lives. Those Eastern Group depreciation rates were reasonable and closely approximated the customary rates used by Staff. Those depreciation rates have been carried forward and proposed in this rate application. Staff recommends the adoption in this rate case of the previously approved depreciation schedule presented on page 18 of Mr. Ralph Kennedy's direct testimony.

EXPENSE ADJUSTMENTS – WATER TESTING

Q. Please describe the DEQ Monitoring Assistance Program ("MAP").

A. On December 8, 1998, DEQ adopted rules which provide for a monitoring assistance program. The MAP program was fully implemented in 1999. On October 16, 2001, rule amendments were promulgated, which changed the fee structure and some sampling

protocol. Starting January 1, 2002, water companies began paying a fixed $250 per year fee, plus an additional fee of $2.57 per service connection, regardless of meter size. Participation in MAP is mandatory for all the water systems in the Western Group, except Casa Grande. Although MAP fees usually provide a major portion of water monitoring costs, not all testing and testing costs are covered by the program.

Q. How did the Company treat MAP fees in this application?

A. Essentially, in this application the Company backed out the MAP fees from the appropriate expense line item with the understanding that the MAP fees will be recovered later through a surcharge. Specifically, the MAP fees will be recovered by the Company pursuant to existing Tariff MA-262, entitled "Monitoring Assistance Program Surcharge". In October of each year, an annual filing is made with the Commission to establish the surcharge amount.

Q. What is Staff's recommendation for the MA-262 tariff, (MAP surcharge)?

A. The MAP surcharge mechanism has been approved in the previous rate cases and Staff has no objection to the preservation of this surcharge. However, the MA-262 tariff needs to be up-dated to reflect regulatory changes. The present MA-262 tariff provides for the recovery of fees based on a meter multiplier. Since the MAP fees are no longer based upon meter size, the tariff should be revised, company-wide, to reflect the new DEQ fee schedule (a fixed $250 per year fee, plus an additional fee of $2.57 per service connection, regardless of meter size). Staff recommends that the MA-262 tariff, "Monitoring Assistance Program Surcharge", be revised, company-wide, to conform with the new DEQ, MAP fee structure. Staff also recommends that the revised MA-262 tariff be filed with the Director of the Utilities Division for review and certification, and the filing of that revised tariff shall be made within 60 days of a decision in this matter, but

no later than the Company's annual surcharge calculation for each water system participating in MAP.

Q. How did Staff evaluate water testing costs?

A. Water testing costs are embedded in expense line item number 12, in the "C-2" schedules. By using the Company's work paper and schedules, the specific expense amount for water testing was derived. Staff then calculated an estimate of water testing costs for each water system, based upon Staff's best knowledge of lab costs and methodology. The Company's actual expense was then compared with Staff's estimated water testing expense.

Q. What is Staff's recommended accounting adjustment to the Company's water testing expense?

A. The Company's water testing expense for the Western Group was at or below Staff's expectation based upon usual and customary water testing methodology and expenses. Staff recommends acceptance of the Company's water testing expense (Adjustment No. 12 in Schedule C-2 of original application).

EXPENSE ADJUSTMENTS – TANK MAINTENANCE

Q. Please discuss the Company's tank maintenance program.

A. The Company has implemented a scheduled maintenance program for all storage and pressure tanks. The interior of the tanks are abrasively cleaned to a near white and then repainted. The exterior is either power washed or abrasively cleaned and then repainted. The Company expects a 14 year life for the interiors and a 7 year life for the exteriors.

Q. How did Staff evaluate tank maintenance costs?

A. Tank maintenance costs are embedded in the transmission and distribution expense line item number 13, in the "C-2" schedules. By using the Company's work paper and schedules, the specific expense amount for tank maintenance was derived. Based on the interior and exterior areas of the tank inventory, an estimate of the customary cost was made using "Richardson Process Plant Construction Estimating Standards." The Company's predicted expense was then compared with Staff's estimated tank maintenance expense.

Q. What are your conclusions concerning the tank maintenance adjustment?

A. Staff's computed expense was comparable to the Company's and therefore, Staff accepts the Company's proposed expense (Adjustment No. 13 in Schedule C-2 of original application). As a side note, the maintenance account contains a component for "other" maintenance, which includes cleaning and painting of piping, control panels, and other miscellaneous equipment, maintenance of small structures, and grounds keeping. This category represents actual expenses, and the Company is proposing no adjustment to the "other" category, except for inflation.

ARSENIC

Q. Has the drinking water standard for arsenic changed?

A. The U.S. Environmental Protection Agency ("EPA") reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter ("µg/l") to 10 µg/l. The date for compliance with the new MCL is January 23rd, 2006.

Q. Will the Western Group be facing arsenic problems?

A. Based upon analytical data, it appears that Arizona Water Company will have to install arsenic removal equipment at Casa Grande, Stanfield, and White Tanks. The Company anticipates using a granular ferric hydroxide or granular ferric oxide adsorption process. The Company is presently soliciting dual bids, for either purchase or lease, for the equipment. Arsenic concentrations are listed for each well below.

Water System	DWR Well Number	Arsenic Concentration micrograms per liter (µg/l)
Casa Grande	55-616595	9
	55-613443	12
	55-616601	21
	55-522319	22
	55-560803	52
	55-616603	16
	55-622167	pending
	55-503113	17
	55-568553	9
	55-616604	19
	55-540306	17
	55-546719	22
	55-571205	35
	55-595284	12
Tierra Grande	55-616683	8
	55-801030	7
Stanfield	55-616684	10
	55-526586	12
White Tanks	55-616689	11
	55-616691	12
	55-616693	7
	55-584393	45
Coolidge	55-616606	7
	55-616608	5
	55-616609	4
	55-616686	3
	55-616687	14

Q. What is Staff recommending for the arsenic treatment costs in this rate case?

A. No post test year plant or test year capital additions for arsenic are included in this rate application, and there are no arsenic removal plants constructed and operating in the Western Group. However, a company-wide accounting order has been approved by the Commission for the deferral and recovery of operation and maintenance expenses for arsenic treatment (Docket No W-01445A-04-0473). For the deferral and recovery of capital costs, Staff will also be recommending an Arsenic Cost Recovery Mechanism similar to those approved for the Northern and Eastern Groups.

SPECIAL SERVICE TARIFFS

Q. Does Arizona Water Company have a curtailment tariff?

A. Yes. A new Company-wide curtailment tariff was approved and implemented pursuant to Decision No. 66849 from the 2003-2004 rate case for the Eastern Group. No new filing is necessary at this time.

TARIFF FOR NON-POTABLE CENTRAL ARIZONA PROJECT WATER

Q. What is the tariff for "Non-Potable Central Arizona Project Water" ("NP-260").

A. The NP-260 tariff provides the terms and conditions for non-potable Central Arizona Project ("CAP") water service. It was originally approved in March 1994 under Decision No. 61579. Under this tariff, the customer accepts untreated CAP water for subsequent non-potable use, generally landscape or golf course irrigation. Decision No. 65755 ordered the Utilities Division to "...review the NP-260 Tariff of Arizona Water Company during the pending general rate application for its Apache Junction system and recommend changes or revisions as required." Pursuant to that Order, Staff reviewed the NP-260 tariff during the Eastern Group rate case and made recommendations in that proceeding (Docket No. W-01445-02-0619). The portion of Staff's direct testimony,

which pertained to the old NP-260 tariff and Staff's recommendations, has been extracted from the filing in the "...-02-0619" docket, and is attached to this direct testimony as Exhibit C.

Q. What changes did Staff recommend for the NP-260 in the eastern group rate case?

A. Generally, Staff recommended these changes: eliminate the fixed meter charge; eliminate the depreciation charge; indemnify customers from maintenance, repair or replacement charges when the damage to CAP facilities is the result of the Company's error; continue to require the customer to be responsible for repair or replacement of the meter; and include fixed-dollar administrative charges representative of the Company's actual costs.

These recommendations were adopted by the Commission in the Eastern Group rate decision (Decision No. 66849).

Q. Given that the NP-260 changes were adopted in the previous rate case, why is this an issue now?

A. At the time of the Eastern Group rate case, the NP-260 tariff was applicable to the Apache Junction, Casa Grande, Coolidge, and White Tank water systems. Since Casa Grande, Coolidge, and White Tanks were not part of the Eastern Group, procedurally only Apache Junction could be amended within the Eastern Group rate case. Therefore, Arizona Water Company adopted the amended NP-260 tariff for Apache Junction, and left the old NP-260 tariff in place for the Western Group systems (Casa Grande, Coolidge, and White Tanks). A copy of the new Apache Junction Non-Potable CAP Tariff (now re-numbered as NP-274), and a copy of the old NP-260 tariff are attached as Exhibit D.

STAFF RECOMMENDATIONS

Q. What does Staff recommend?

A. This inconsistency and incongruity should be corrected. Therefore, Staff recommends that Arizona Water Company file a new Non-Potable Central Arizona Project Water tariff for Casa Grande, Coolidge, and White Tanks within 60 days of the date of a final decision in this rate case. The new tariff shall conform to the new Apache Junction Non-Potable Central Arizona Project Water tariff (now NP-274), which was approved pursuant to Decision No. 66849.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Arizona Water Company
White Tanks

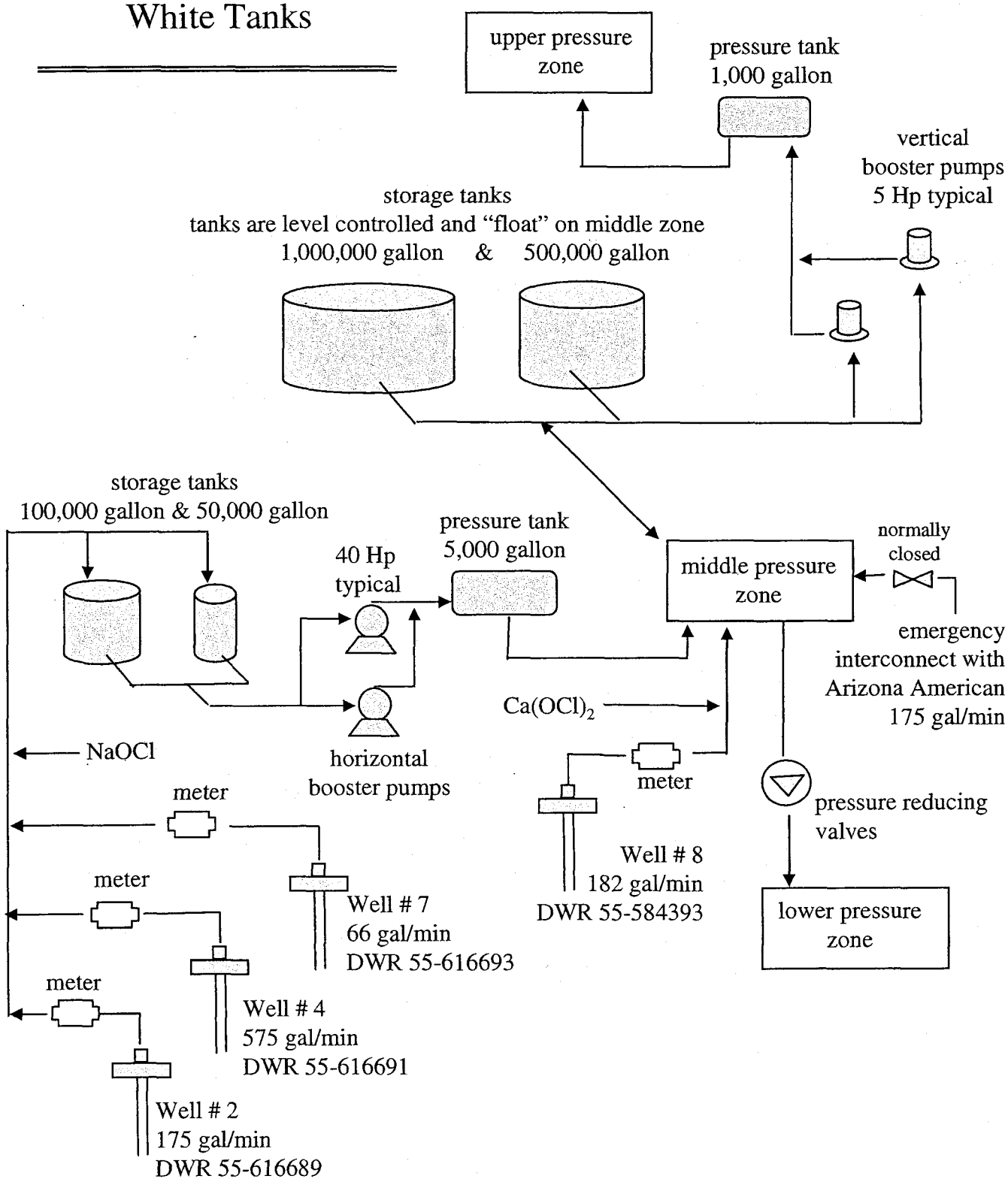
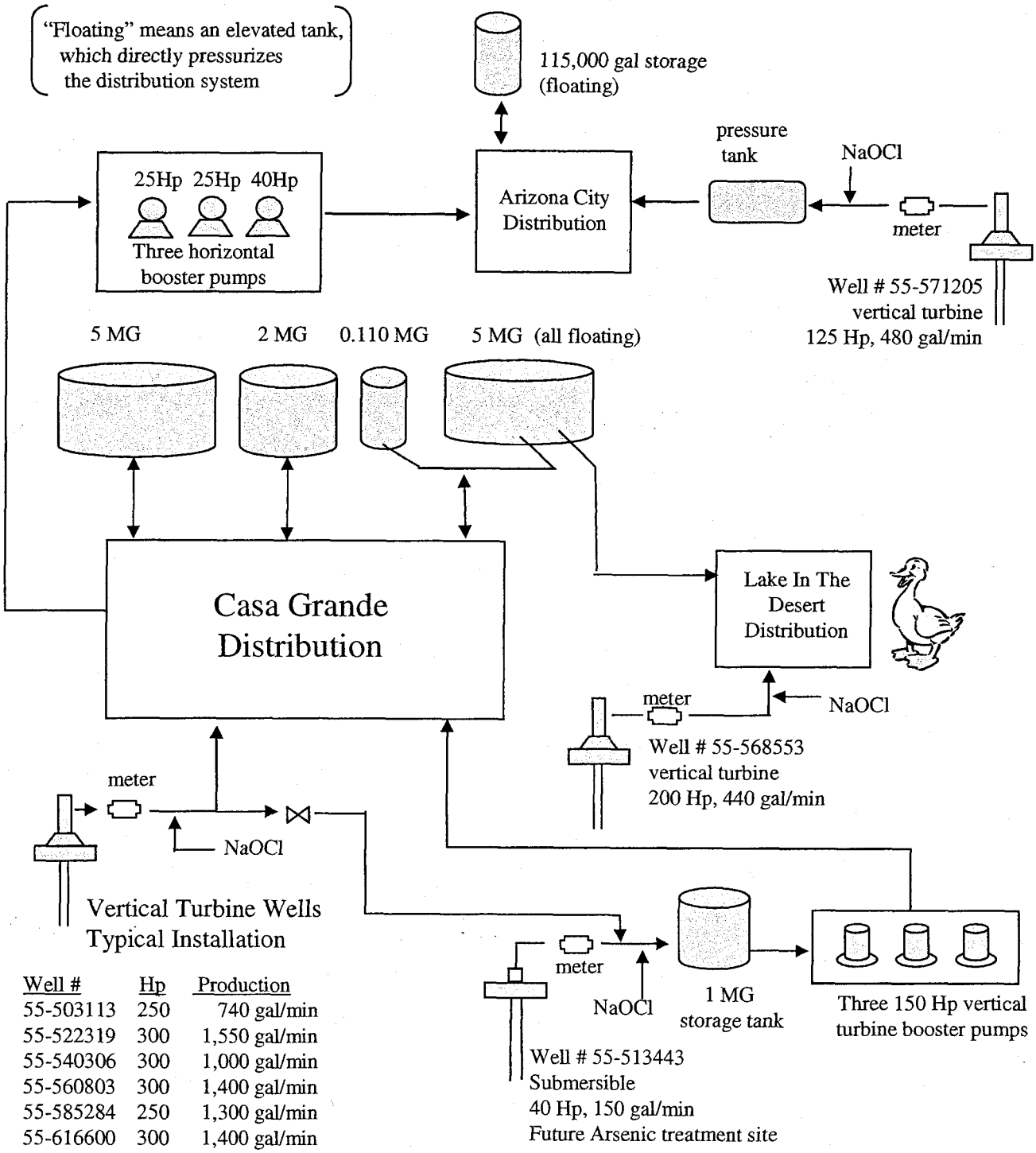


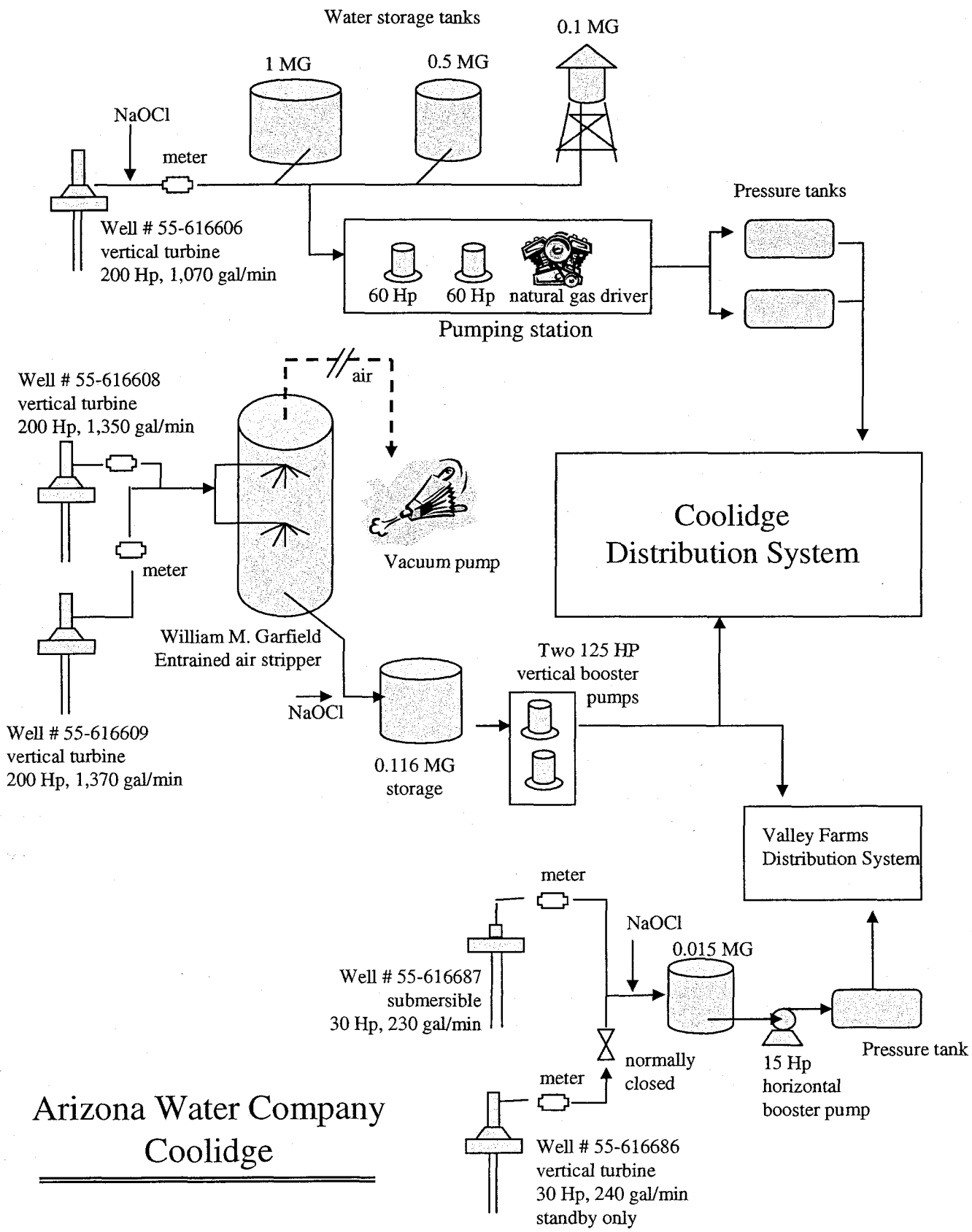
Exhibit A-1



Well #	Hp	Production
55-503113	250	740 gal/min
55-522319	300	1,550 gal/min
55-540306	300	1,000 gal/min
55-560803	300	1,400 gal/min
55-585284	250	1,300 gal/min
55-616600	300	1,400 gal/min
55-616601	200	850 gal/min
55-616603	300	1,560 gal/min---Future Arsenic treatment site
55-616604	300	1,300 gal/min
55-622167	300	1,000 gal/min
Total		12,100 gal/min

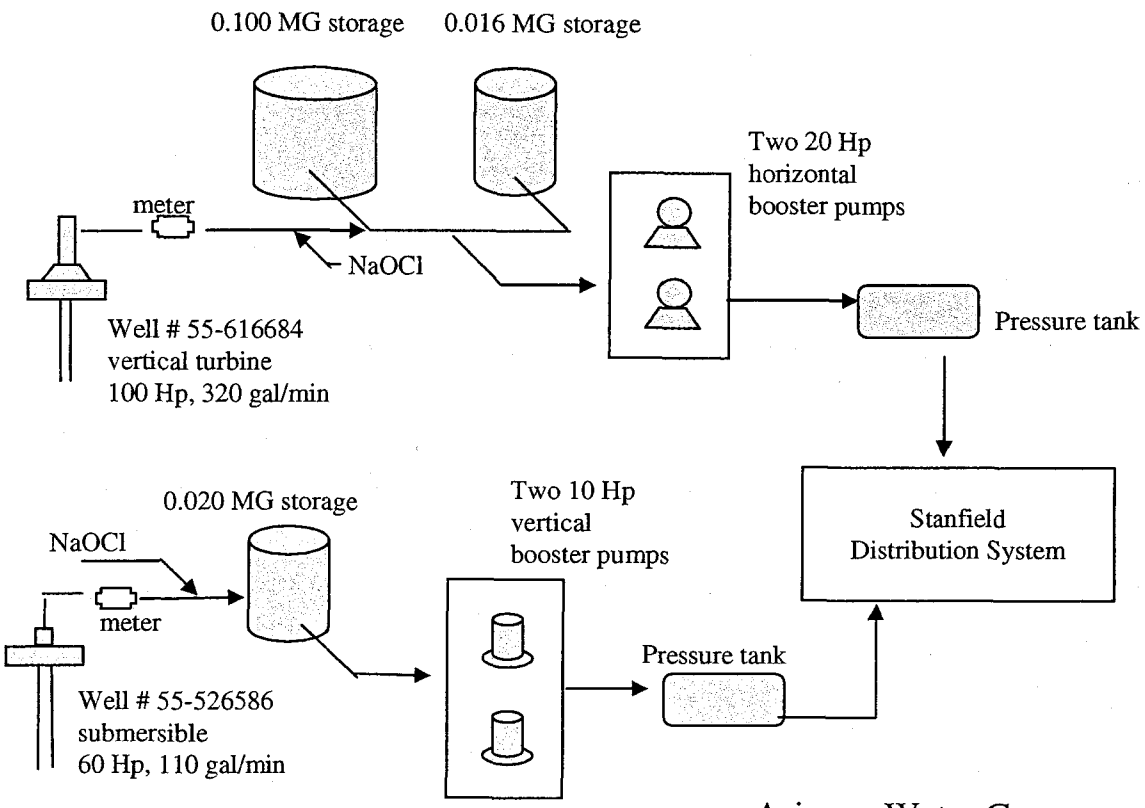
Arizona Water Company
Casa Grande

Exhibit A-2

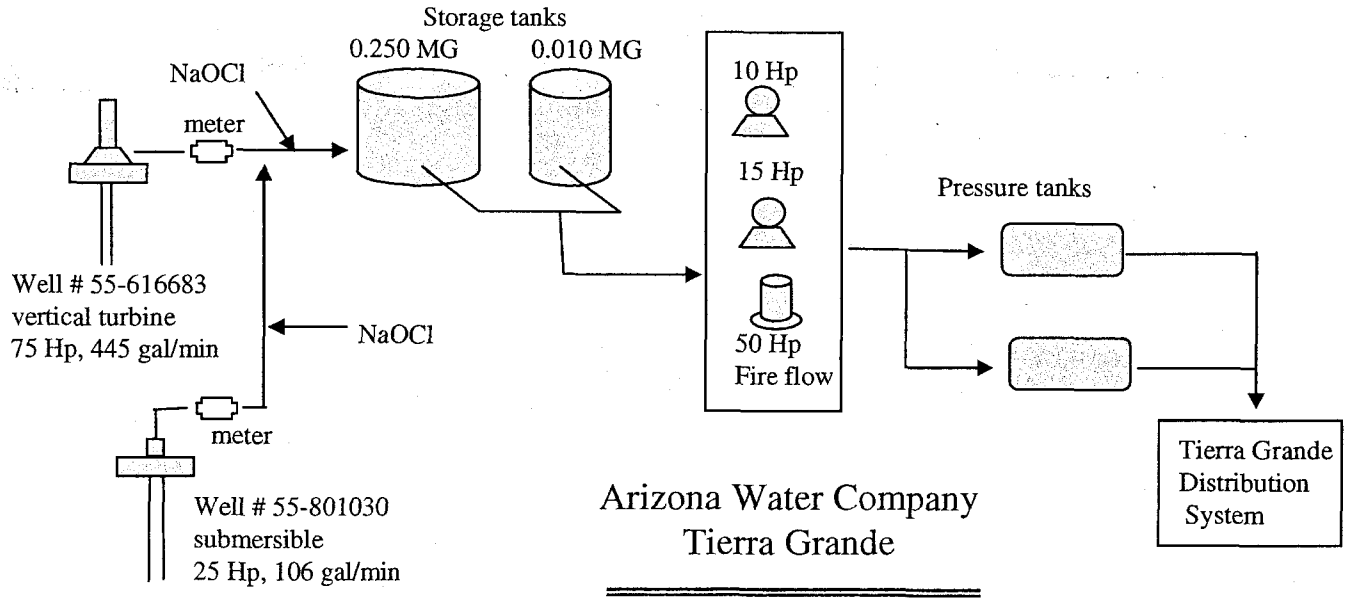


Arizona Water Company
Coolidge

Exhibit A-3



Arizona Water Company
Stanfield



Arizona Water Company
Tierra Grande

Exhibit A-4

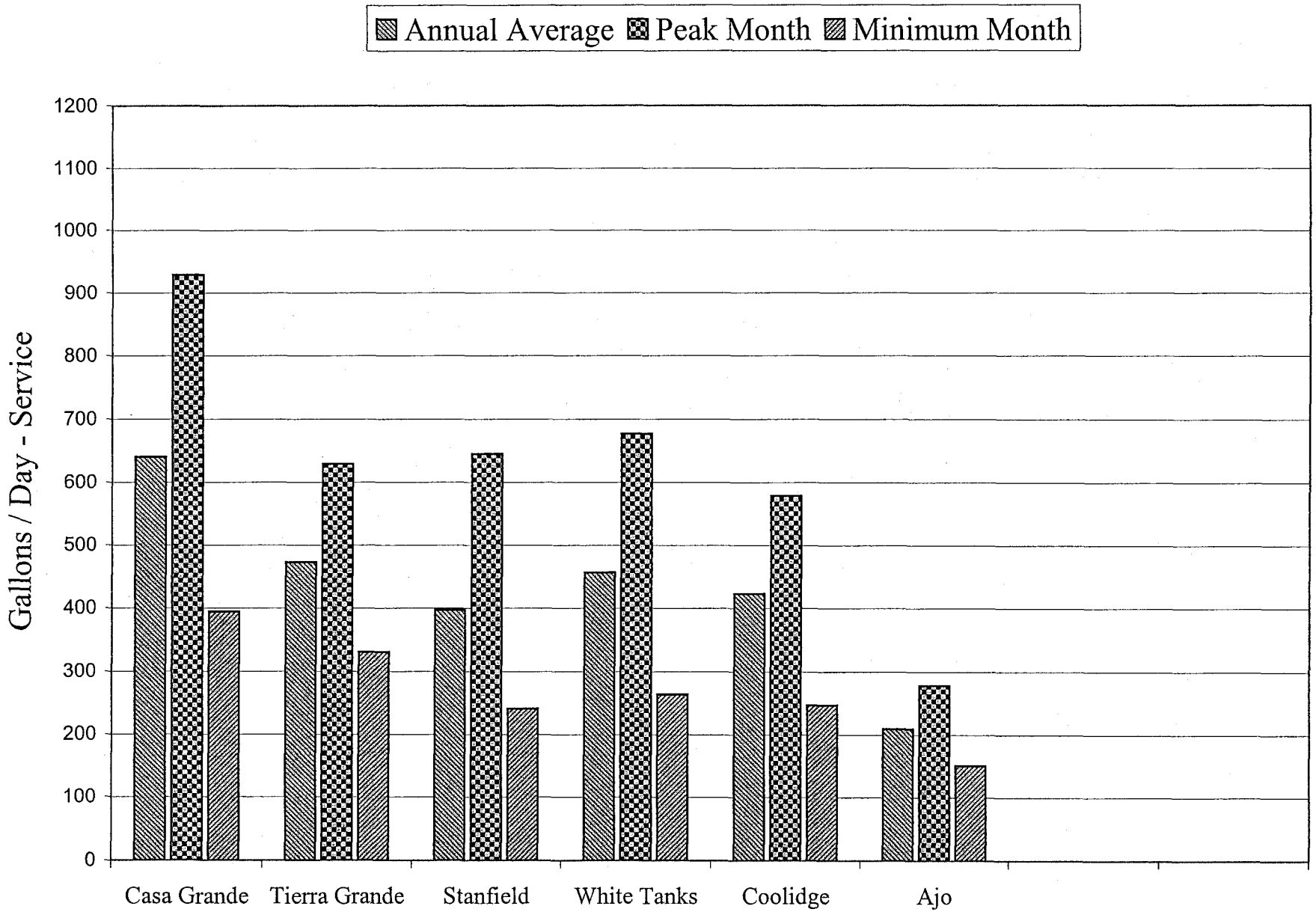


Exhibit B

Western Group Water Use

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...

...

TARIFF FOR NON-POTABLE CENTRAL ARIZONA PROJECT WATER

Q. What is the tariff for "Non-Potable Central Arizona Project Water" (herein "NP-260").

A. The NP-260 tariff provides the terms and conditions for non-potable Central Arizona Project ("CAP") water service. It was originally approved in March 1994 under Decision No. 61579. Under this tariff, the customer accepts untreated CAP water for subsequent non-potable use, generally landscape or golf course irrigation. Decision No. 65755 ordered the Utilities Division to "...review the NP-260 Tariff of Arizona Water Company during the pending general rate application for its Apache Junction system and recommend changes or revisions as required.". Pursuant to that Decision, Staff has reviewed the NP-260 tariff. (A copy of the present tariff is attached as Exhibit H.)

Q. What are Staff's concerns about the NP-260 tariff as it now stands?

A. Staff has many concerns:

- First of all, the Company is collecting a depreciation expense from the customer for the facilities which the customer has contributed. This is equivalent to Staff purchasing a car for an individual, and then that person demanding car payments in addition to the gift. Even worse, under this tariff, Staff are never even able to pay off the car (for the second time), because the payments go on forever. That is why, in this jurisdiction, a depreciation expense for contributed assets has been treated in such a manner to have a zero net effect on the revenue requirement. Exhibit I is attached which shows a copy of a typical bill, itemizing a depreciation charge to the customer.

- Second, the Company is collecting a fixed monthly meter charge of $362.53. In rate design theory, the fixed monthly charge is supposed to reflect, at least partially, the fixed investment necessary to meet the potential demand of a customer. Such fixed investments would include wells, distribution mains, and storage tanks. These fixed costs occur whether the customer takes zero or 10,000 gallons of water. (Since the potential demand is higher for larger meters, the fixed charge is proportionate to meter size.) There is simply no evidence that this $362.53, which was derived for the Apache Junction drinking water system and not the CAP system, is relevant to the fixed costs of the CAP delivery system. Moreover, the CAP fixed costs are already recovered in the Central Arizona Water Conservation District (herein "CAWCD") Capital Charges, which are passed on directly to the customer with a percentage administrative fee collected by Arizona Water Company. In other words, the fixed charges are embedded in the CAP Demand Charge and already collected. Similarly, costs which are directly proportional to the volume of water used, are recovered in the commodity charge and this commodity charge is represented by the CAWCD Commodity Rate, which is passed through with a percentage administrative fee collected by Arizona Water Company.
- Third, Arizona Water Company collects administrative costs, which are directly proportional to the volume of water used, with no upper limits. Staff does not believe that the administrative costs are linear with the volume of use. The cost to read a meter and bill is the same, whether the customer uses 100 gallons or 10,000 gallons. The typical bill in Exhibit I contains approximately $95 in such administrative costs.
- Fourth, the customers' rights are ill defined and unprotected during unusual maintenance episodes. This was illustrated by the complaint filed by SLV properties against Arizona Water Company (Docket No W-01445A-02-0198, Decision No. 65755). The tariff does not define either maintenance or replacement, and in the

complaint it was found that SLV paid more in the sum of two maintenance charges than the original cost of the meter. Moreover, while Arizona Water Company failed to act reasonably and prudently in the operation of the meter facility by failing to install a surge suppression system to prevent electrical damage, SLV properties had to pay the repair costs even though Arizona Water Company owned and had complete control over the meter. As the situation now exists, Arizona Water has no duty or incentive to protect the CAP equipment when the customer bears the consequences of the Company's inactivity. However, it is not necessary to revisit or retry totally the SLV equity issues in this document, and more background information on this topic can be found in the SLV docket.

Q. What is Staff's recommendation concerning the NP-260 tariff?

A. Staff recommends that Arizona Water Company propose and file a new Non-Potable Central Arizona Project Water tariff within 60 days of the date of a final decision in this rate case. The proposed tariff shall generally conform to Exhibit J of this direct testimony. As a summary of the major provisions of the proposed tariff in Exhibit J:

- The new NP-260 tariff will eliminate the fixed meter charge.
- The new NP-260 tariff will eliminate the depreciation charge.
- The new NP-260 tariff will contain a provision which indemnifies the customer from maintenance, repair, or replacement charges, when the damage or injuries to the CAP facilities are a result of the failure of the Company to operate the facilities or install protective devices in accordance with customary or sound construction and engineering practices.
- The customer will continue to be responsible for repair or replacement of the meter.

EXHIBIT C

- The new NP-260 tariff will contain administrative charges, which are representative of the Company's actual costs, but the charges shall be fixed and defined as specific dollar amounts.

Q. Does this conclude your direct testimony?

A. Yes, it does.

EXHIBIT D

ORIGINAL

WATER RATES

ARIZONA WATER COMPANY		A.C.C. No.	440
Phoenix, Arizona		Cancelling A.C.C. No.	(not applicable)
Filed by:	William M. Garfield	Tariff or Schedule No.	NP-260
Title:	President	Filed:	March 31, 2004
Date of Original Filing:	March 7, 1994	Effective:	March 10, 2004
System:	CASA GRANDE, COOLIDGE, WHITE TANK		

NON-POTABLE CENTRAL ARIZONA PROJECT WATER

AVAILABILITY:

In the Company's Casa Grande, Coolidge and White Tank water systems, where and when Central Arizona Project ("CAP") water is available.

SUITABILITY:

It is the customer's responsibility to determine the initial and continuing suitability of the non-potable CAP water furnished under this tariff for any intended uses. The Company does not treat, test or monitor non-potable CAP water and furnishes it to customers strictly on an "as received" basis from the Central Arizona Water Conservation District ("CAWCD"). The customer agrees to accept no n-potable CA P w ater " as received." Compliance with any requirement of the Arizona Department of Environmental Quality, or any other agency having jurisdiction, concerning the use or quality of non-potable CAP water shall be the sole responsibility of the customer. The Company will not be liable for, and the customer will hold harmless, indemnify and defend the Company against, any injuries or damages arising from its service of non-potable CAP water.

FACILITIES AND DEMAND:

When applying for non-potable CAP water service, the customer shall specify the maximum annual quantity of CAP water in acre feet (AF) that it intends to use under this tariff schedule and pursuant to a Non-Potable Water Facilities Contribution Agreement. This quantity of water will be used to determine the facilities required to serve the customer and will be the customer's maximum demand for non-potable CAP water ("CAP Demand") during any calendar year. The customer will be responsible for both the deferred (including holding costs) and the current annual CAWCD M&I Water Service Capital Charges on the CAP Demand and on any water use in excess of the CAP Demand.

The customer will contribute the funds required to install all facilities needed to provide CAP water. Such facilities will be owned by the Company.

The Deferred CAP Demand Charge includes the deferred annual CAWCD M&I Water Service Capital Charges and associated holding costs for the customer's CAP Demand. The Deferred CAP Demand Charge is payable prior to the start of service or within fifteen (15) days of any approved increase in CAP Demand. The Deferred CAP Demand Charge will be payable only on any future increase in CAP Demand for those customers receiving service under this tariff as of the effective date. The Deferred CAP Demand Charge is not refundable if the customer's CAP Demand is later reduced.

APPROVED FOR FILING

DECISION #: 66849

Effective 3/10/04
Effective 4/6/94
Revised 1/18/95
Revised 1/15/99

ORIGINAL

MONTHLY BILL:

The monthly billing will consist of the following components:

1. A monthly CAP Demand charge equal to 1/12th of the customer's CAP Demand in AF times the applicable CAWCD M&I Water Service Capital Charge per AF plus four percent (4%) of such costs to cover the Company's administrative and handling costs. Should the customer's actual water use exceed the customer's CAP Demand, the customer will be billed an additional demand charge, based on the applicable CAWCD M&I Water Service Capital Charge, on the excess water use, plus a four percent (4%) administrative and handling fee.

2. A meter charge based on the applicable monthly minimum charge by meter size as set forth in each system's General Service tariff schedule. This meter charge shall not include any water.

3. A commodity charge designed to pass on all costs of non-potable CAP water, except the monthly CAP Demand charge, as billed to the Company during the previous month by the CAWCD or any other authorized governmental agency, plus one percent (1%) of such costs to cover the Company's administrative and handling costs.

4. A power, maintenance and depreciation charge based on the specific requirements of each customer.

A. The power component will be the direct and separately metered cost of the power billed to the Company during the previous month for CAP water delivered to the customer, plus one percent (1%) of the power cost to cover the Company's administrative and handling costs. If multiple customers are being served by common facilities, the power component will be prorated based on CAP water actually used during the month by each customer.

B. The maintenance component will be the actual costs of maintaining the facilities required to serve the customer, plus a ten percent (10%) charge to provide for overhead and margin. If multiple customers are being served by common facilities, the maintenance component will be prorated based on each customer's CAP Demand.

C. The depreciation component will be 1/12th of the product of the Company's book depreciation rate, as authorized by the Arizona Corporation Commission, times the original cost of the plant facilities serving the customer. If multiple customers are being served by common facilities, the depreciation component will be prorated based on each customer's CAP Demand.

Late Charge: Any payment not received within fifteen (15) days from the postmark date of the bill will be delinquent and subject to a late charge of one and one-half percent (1 1/2%) per month.

Adjustment: An adjustment for state and local taxes, which will be the applicable proportionate part of any taxes or governmental impositions which are, or in the future may be, assessed on the basis of the gross revenues of the Company and/or the price or revenue from the water or service sold and/or the volume of water pumped or purchased for sale and/or sold hereunder. In the event of any increase or decrease in taxes or other governmental impositions, rates shall be adjusted to reflect such tax increase or decrease.

TERMS AND CONDITIONS:

Subject to the Company's Tariff Schedule TC-243.

APPROVED FOR FILING

DECISION #: 66849

Effective 3/10/04
Effective 4/6/94
Revised 1/18/95
Revised 1/15/99

EXHIBIT D

ORIGINAL

WATER RATES

ARIZONA WATER COMPANY		A.C.C. No.	463
Phoenix, Arizona		Cancelling A.C.C. No.	(not applicable)
Filed by:	William M. Garfield	Tariff or Schedule No.	NP-274
Title:	President	Filed:	April 12, 2004
Date of Original Filing:	March 7, 1994	Effective:	March 10, 2004
System:	**APACHE JUNCTION**		

NON-POTABLE CENTRAL ARIZONA PROJECT WATER

AVAILABILITY:

In the Company's Apache Junction water system, where and when Central Arizona Project ("CAP") water is available.

SUITABILITY:

It is the customer's responsibility to determine the initial and continuing suitability of the non-potable CAP water furnished under this tariff for any intended uses. The Company does not treat, test or monitor non-potable CAP water and furnishes it to customers strictly on an "as received" basis from the Central Arizona Water Conservation District ("CAWCD"). The customer agrees to accept no n-potable CA P w ater " as received." Compliance with any requirement of the Arizona Department of Environmental Quality, or any other agency having jurisdiction, concerning the use or quality of non-potable CAP water shall be the sole responsibility of the customer. The Company will not be liable for, and the customer will hold harmless, indemnify and defend the Company against, any injuries or damages arising from its service of non-potable CAP water.

FACILITIES AND DEMAND:

When applying for non-potable CAP water service, the customer shall specify the maximum annual quantity of CAP water in acre feet (AF) that it intends to use under this tariff schedule and pursuant to a Non-Potable Water Facilities Contribution Agreement. This quantity of water will be used to determine the facilities required to serve the customer and will be the customer's maximum demand for non-potable CAP water ("CAP Demand") during any calendar year. The customer will be responsible for both the deferred (including holding costs) and the current annual CAWCD M&I Water Service Capital Charges on the CAP Demand and on any water use in excess of the CAP Demand.

The customer will contribute the funds required to install all facilities needed to provide CAP water. Such facilities will be owned by the Company.

The Deferred CAP Demand Charge includes the deferred annual CAWCD M&I Water Service Capital Charges and associated holding costs for the customer's CAP Demand. The Deferred CAP Demand Charge is payable prior to the start of service or within fifteen (15) days of any approved increase in CAP Demand. The Deferred CAP Demand Charge will be payable only on any future increase in CAP Demand for those customers receiving service under this tariff as of the effective date. The Deferred CAP Demand Charge is not refundable if the customer's CAP Demand is later reduced.

MONTHLY BILL:

The monthly billing will consist of the following components:

1. A monthly CAP Demand charge equal to 1/12th of the customer's CAP Demand in AF times the applicable CAWCD M&I Water Service Capital Charge per AF. Should the customer's actual water use exceed the customer's CAP Demand, the customer will be billed an additional demand charge, based on the applicable CAWCD M&I Water Service Capital Charge, on the excess water use.

APPROVED FOR FILING

DECISION #: 66849

Effective 3/10/04
Effective 3/15/99
Revised 1/18/95
Revised 1/15/99

2. A commodity charge designed to pass on all costs of non-potable CAP water, except the monthly CAP Demand charge, as billed to the Company during the previous month by the CAWCD or any other authorized governmental agency.

3. A power and maintenance charge based on the specific requirements of each customer.

A. The power component will be the direct and separately metered cost of the power billed to the Company during the previous month for CAP water delivered to the customer. If multiple customers are being served by common facilities, the power component will be prorated based on CAP water actually used during the month by each customer.

B. The maintenance component will be the actual costs of maintaining, repairing, and replacing the facilities required to serve the customer, plus a ten percent (10%) charge to provide for overhead and margin; provided however, that the customer shall not be liable for maintenance, repair, or replacement charges, when the damage or injuries to the CAP facilities are a result in the failure of the Company to operate the facilities or install protective devices in accordance with customary or sound construction and engineering practices. If multiple customers are being served by common facilities, the maintenance component will be prorated based on each customer's CAP Demand.

The customer shall be responsible for the repair or replacement of the meter. However, the repair charges, during a single maintenance event, shall not exceed the current replacement cost of the item under repair.

C. A fixed administrative cost of fifty dollars ($50) per month.

Late Charge: Any payment not received within fifteen (15) days from the postmark date of the bill will be delinquent and subject to a late charge of one and one-half percent (1 1/2%) per month.

Adjustment: An adjustment for state and local taxes, which will be the applicable proportionate part of any taxes or governmental impositions which are, or in the future may be, assessed on the basis of the gross revenues of the Company and/or the price or revenue from the water or service sold and/or the volume of water pumped or purchased for sale and/or sold hereunder. In the event of any increase or decrease in taxes or other governmental impositions, rates shall be adjusted to reflect such tax increase or decrease.

TERMS AND CONDITIONS:

Subject to the Company's Tariff Schedule TC-243.

APPROVED FOR FILING

DECISION #: 66849

Effective 3/10/04
Effective 3/15/99
Revised 1/18/95
Revised 1/15/99

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, INC. FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATE CHARGES FOR UTILITY SERVICE BASED THEREON	)	DOCKET NO. W-01445A-04-0650

SUPPLEMENTAL

TESTIMONY

OF

STEVEN M. OLEA

ASSISTANT DIRECTOR

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 16, 2005

ALL-STATE LEGAL®
EXHIBIT
S-30
admitted

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ATTACHMENT

Central Arizona Project Water Use Plan ("CAPWUP") ..... A

I. INTRODUCTION

Q. Please state your name and business address.

A. Steven M. Olea, 1200 West Washington, Phoenix, Arizona, 85007.

Q. By whom and in what capacity are you employed?

A. I am employed by the Arizona Corporation Commission ("Commission") as the Assistant Director for the Utilities Division ("Division").

Q. Please state your educational background.

A. I graduated from Arizona State University ("ASU") in 1976 with a Bachelors Degree in Civil Engineering. From 1976 to 1978, I obtained 47 graduate hours of credit in Environmental Engineering at ASU.

Q. Please state your pertinent work experience.

A. From April 1978 to October 1978, I worked for the Engineering Services Section of the Bureau of Air Quality Control in the Arizona Department of Health Services ("ADHS"). My responsibilities were to inspect air pollution sources to determine compliance with ADHS rules and regulations.

From November 1978 to July 1982, I was with the Technical Review Unit of the Bureau of Water Quality Control ("BWQC") in ADHS (this is now part of the Arizona Department of Environmental Quality ["ADEQ"]). My responsibilities were to review water and wastewater construction plans for compliance with ADHS rules, regulations, and Engineering Bulletins.

From July 1982 to August 1983, I was with the Central Regional Office, BWQC, ADHS. My responsibilities were to conduct construction inspections of water and wastewater facilities to determine compliance with plans approved by the Technical Review Unit. I also performed routine operation and maintenance inspections to determine compliance with ADHS rules and regulations, and compliance with United States Environmental Protection Agency requirements.

From August 1983 to August 1986, I was a Utilities Consultant/Water-Wastewater Engineer with the Division. My responsibilities were to provide engineering analyses of Commission regulated water and wastewater utilities for rate cases, financing cases, and consumer complaint cases. I also provided testimony at hearings for those cases.

From August 1986 to August 1990, I was the Engineering Supervisor for the Division. My primary responsibility was to oversee the activities of the Engineering Section, which included one technician and eight Utilities Consultants. The Utilities Consultants included one Telecommunications Engineer, three Electrical Engineers, and four Water-Wastewater Engineers. I also assisted the Chief Engineer and performed some of the same tasks as I did as a Utilities Consultant.

In August 1990, I was promoted to the position of Chief Engineer. My duties were somewhat the same as when I was the Engineering Supervisor, except that now I was less involved with the day-to-day supervision of the Engineering Staff and more involved with the administrative and policy aspects of the Engineering Section.

In April 2000, I was promoted to my present position as one of two Assistant Directors of the Division. In this position, I assist the Division Director in the policy aspects of the Division. I am primarily responsible for matters dealing with water and energy.

II. PURPOSE

Q. What was your assignment in this case?

A. Since the retirement of Mr. Lyndon R. Hammon, I am assigned to sponsor his direct testimony in the case of Arizona Water Company's ("Company") application for a rate increase. Mr. Hammon was the Division Staff ("Staff") engineering witness. In addition, I will be sponsoring the major portion of Staff's testimony with regard the Central Arizona Project ("CAP") deferred Municipal and Industrial ("M&I") capital charges dealing mostly with the policy aspects. Mr. Darron Carlson will be discussing the accounting issues regarding these charges.

III. CAP HOOK-UP FEE

Q. In its surrebuttal testimony, Staff stated that it would explain its position with regard to Company's CAP rebuttal testimony by the time of the hearing due to settlement discussions on this issue with the Company. Was a settlement agreement achieved?

A. No.

Q. Based on the Company's rebuttal testimony, has Staff revised its position with regard to the treatment of deferred and on-going CAP M&I capital charges?

A. Staff has not changed its overall position, but does have some revisions to some of the details of its position.

Q. Please explain.

A. Staff's overall position was that the Company should not be allowed to include its deferred and/or on-going CAP M&I capital charges in rate base and, therefore, not be able to recover these costs until it could somehow demonstrate that it would actually be using a substantial portion of its CAP allocations to serve customers. It is Staff's opinion that this position was and is in general agreement with the "**Proposed** Policy for Central Arizona Project ("CAP") Cost Recovery" ("Proposed Policy") (emphasis added) posted on the Commission's website. Thus, Staff's overall position remains the same.

With regard to the details, Staff now recommends that without including the CAP M&I capital charges in rate base, the Company be allowed to begin recovering these charges through a CAP Hook-up Fee Tariff with conditions. The CAP Hook-up Fees that Staff is recommending are attached as Schedules SMO-1, SMO-2 and SMO-3. The conditions for approval of these tariffs are attached as Schedules SMO-4. The charges described in these tariffs are based on a 20-year amortization.

Q. Where you involved in developing the Proposed Policy?

A. Yes.

Q. Was the Proposed Policy ever approved by the Commission?

A. As nothing more than a proposed policy.

Q. Before you explain why Staff is modifying its position with regard to the details of CAP cost recovery, please explain why you highlighted the word "Proposed" in your preceding answer.

A. In reading the Company's rebuttal testimony it seems to Staff that the Company believes that the Proposed Policy is either a hard and fast policy of the Commission to which the Staff must adhere or even a rule that would require Commission permission in order to deviate from it. If this is the indeed the Company's position, Staff would strongly disagree. The Proposed Policy is neither a hard and fast policy nor a rule, but at best a reference. It should be noted that the Proposed Policy was originated in 2000 yet to this day, the Commission has not taken any formal action on it; therefore, it remains a proposed policy. That is exactly why Staff referred to the Proposed Policy in its Direct Testimony (and this testimony's) recommendations. Staff believes these recommendations are appropriate for this company in this case.

Q. Now would you please explain why Staff is modifying its position with regard to the details of CAP cost recovery?

A. In its Direct Testimony, Staff stated that the Company could begin recovery of prudently incurred CAP costs after its next rate case if it filed a detailed CAP water use plan by December 31, 2006, demonstrating that the Company would be using a significant portion of its CAP allocations to serve its customers by 2010. This testimony was based on Staff's opinion that the Company's Direct Testimony did not contain enough information to allow CAP cost recovery in this present rate case.

Staff believes that the Company's rebuttal testimony provides additional information that demonstrates a more concrete commitment to actually use its CAP allocations. Based on this information, Staff believes that it is in the public interest to allow the Company to begin

recovery of its prudently incurred CAP M&I capital charges (both deferred and on-going) in this rate case through the attached tariffs, but only with the conditions attached as Schedule SMO-4.

Q. Does this conclude your testimony?

A. Yes, it does.

TARIFF SCHEDULE

UTILITY: Arizona Water Company
DOCKET NO.: W-01445A-04-0650

DECISION NO. _____
EFFECTIVE DATE: _____

CENTRAL ARIZONA PROJECT HOOK-UP FEE
for
CASA GRANDE SYSTEM

I. Purpose and Applicability

The purpose of the Central Arizona Project ("CAP") Water Hook-up Fee ("CAP Fee") payable to **Arizona Water Company** ("the Company") pursuant to this tariff is to equitably apportion the costs of CAP water. These charges are applicable to all new service connections established after the effective date of the tariff. The charges are one-time charges and are payable as a condition to the Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting, this tariff schedule.

"Applicant" means any party entering into an agreement with the Company for the installation of water facilities to serve new service connections.

"CAP costs" means Commission allowed on-going and deferred costs known as Municipal and Industrial capital charges incurred by the Company with regard to its CAP water allocations. These costs shall include allowance for funds used during construction which rate shall be the Company's annual cost of debt.

"Company" means Arizona Water Company, an Arizona corporation.

"Main Extension Agreement" means any agreement whereby an applicant agrees to advance the costs of the installation of water facilities to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission's Utilities Division (same as line extension agreement).

"Service Connection" means and includes all service connections for residential, commercial, industrial, or other uses, regardless of meter size except for temporary services and separate fire protection services.

III. CAP Hook-up Fee Charges

Each new service connection shall pay the CAP Fee derived from the following table:

Meter Size	Fee
5/8" x 3/4"	$220
3/4"	$220
1"	$220
1-1/2"	$733
2"	$1,173
3"	$2,347
4"	$3,667
6" or larger	$7,333

IV. Terms and Conditions

(A) Assessment of One Time CAP Fee: The CAP Fee may be assessed only once per service connection, or lot within a platted subdivision (similar to service line and meter installation charges). However, this provision does not exempt from the CAP Fee, any newly created parcel(s) which are the result of further subdivision of a lot or land parcel and which do not have a service connection.

(B) Use of CAP Fee: CAP Fees may only be used to pay for CAP costs as defined herein. CAP Fees shall not be used for expenses, maintenance, or operational purposes.

(C) Time of Payment:

(1) In the event that the Applicant is required to enter into a main extension agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406(B), payment of the charges required hereunder shall be made by the Applicant within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Commission has approved the main extension agreement in accordance with R-14-2-406(M).

(2) In the event the Applicant is not required to enter into a main extension agreement, the charges hereunder shall be due and payable at the time the service is initially established.

(D) Failure to Pay Charges, Delinquent Payments: Under no circumstances will the Company set a meter or otherwise allow service to be established if the Applicant has not paid in full all charges as provided by this CAP Fee tariff.

(E) CAP Fee Non-refundable: The amounts collected by the Company pursuant to this CAP Fee Tariff shall be non-refundable.

(F) Use of Charges Received: All funds collected by the Company as CAP Fees shall be used solely for the purpose of paying for CAP costs as defined herein.

(G) CAP Fee in Addition to Other Charges: The CAP Fee shall be in addition to any costs associated with a main extension agreement for on-site facilities, and are in addition to the amounts to be advanced pursuant to charges authorized under other sections of this tariff.

(H) Termination of CAP Fee: The CAP fee shall be terminated when all CAP costs (as defined herein) have been collected or when ordered by the Commission, whichever occurs first.

TARIFF SCHEDULE

UTILITY: Arizona Water Company
DOCKET NO.: W-01445A-04-0650

DECISION NO. _____
EFFECTIVE DATE: _____

CENTRAL ARIZONA PROJECT HOOK-UP FEE
for
COOLIDGE SYSTEM

I. Purpose and Applicability

The purpose of the Central Arizona Project ("CAP") Water Hook-up Fee ("CAP Fee") payable to **Arizona Water Company** ("the Company") pursuant to this tariff is to equitably apportion the costs of CAP water. These charges are applicable to all new service connections established after the effective date of the tariff. The charges are one-time charges and are payable as a condition to the Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting, this tariff schedule.

"Applicant" means any party entering into an agreement with the Company for the installation of water facilities to serve new service connections.

"CAP costs" means Commission allowed on-going and deferred costs known as Municipal and Industrial capital charges incurred by the Company with regard to its CAP water allocations. These costs shall include allowance for funds used during construction which rate shall be the Company's annual cost of debt.

"Company" means Arizona Water Company, an Arizona corporation.

"Main Extension Agreement" means any agreement whereby an applicant agrees to advance the costs of the installation of water facilities to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission's Utilities Division (same as line extension agreement).

"Service Connection" means and includes all service connections for residential, commercial, industrial, or other uses, regardless of meter size except for temporary services and separate fire protection services.

III. CAP Hook-up Fee Charges

Each new service connection shall pay the CAP Fee derived from the following table:

Meter Size	Fee
5/8" x 3/4"	$150
3/4"	$150
1"	$150
1-1/2"	$500
2"	$800
3"	$1,600
4"	$2,500
6" or larger	$5,000

IV. Terms and Conditions

(A) Assessment of One Time CAP Fee: The CAP Fee may be assessed only once per service connection, or lot within a platted subdivision (similar to service line and meter installation charges). However, this provision does not exempt from the CAP Fee, any newly created parcel(s) which are the result of further subdivision of a lot or land parcel and which do not have a service connection.

(B) Use of CAP Fee: CAP Fees may only be used to pay for CAP costs as defined herein. CAP Fees shall not be used for expenses, maintenance, or operational purposes.

(C) Time of Payment:

(1) In the event that the Applicant is required to enter into a main extension agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406(B), payment of the charges required hereunder shall be made by the Applicant within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Commission has approved the main extension agreement in accordance with R-14-2-406(M).

(2) In the event the Applicant is not required to enter into a main extension agreement, the charges hereunder shall be due and payable at the time the service is initially established.

(D) Failure to Pay Charges, Delinquent Payments: Under no circumstances will the Company set a meter or otherwise allow service to be established if the Applicant has not paid in full all charges as provided by this CAP Fee tariff.

(E) CAP Fee Non-refundable: The amounts collected by the Company pursuant to this CAP Fee Tariff shall be non-refundable.

(F) Use of Charges Received: All funds collected by the Company as CAP Fees shall be used solely for the purpose of paying for CAP costs as defined herein.

(G) CAP Fee in Addition to Other Charges: The CAP Fee shall be in addition to any costs associated with a main extension agreement for on-site facilities, and are in addition to the amounts to be advanced pursuant to charges authorized under other sections of this tariff.

(H) Termination of CAP Fee: The CAP fee shall be terminated when all CAP costs (as defined herein) have been collected or when ordered by the Commission, whichever occurs first.

TARIFF SCHEDULE

UTILITY: Arizona Water Company
DOCKET NO.: W-01445A-04-0650

DECISION NO. _____
EFFECTIVE DATE: _____

CENTRAL ARIZONA PROJECT HOOK-UP FEE for WHITE TANKS SYSTEM

I. Purpose and Applicability

The purpose of the Central Arizona Project ("CAP") Water Hook-up Fee ("CAP Fee") payable to **Arizona Water Company** ("the Company") pursuant to this tariff is to equitably apportion the costs of CAP water. These charges are applicable to all new service connections established after the effective date of the tariff. The charges are one-time charges and are payable as a condition to the Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting, this tariff schedule.

"Applicant" means any party entering into an agreement with the Company for the installation of water facilities to serve new service connections.

"CAP costs" means Commission allowed on-going and deferred costs known as Municipal and Industrial capital charges incurred by the Company with regard to its CAP water allocations. These costs shall include allowance for funds used during construction which rate shall be the Company's annual cost of debt.

"Company" means Arizona Water Company, an Arizona corporation.

"Main Extension Agreement" means any agreement whereby an applicant agrees to advance the costs of the installation of water facilities to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission's Utilities Division (same as line extension agreement).

"Service Connection" means and includes all service connections for residential, commercial, industrial, or other uses, regardless of meter size except for temporary services and separate fire protection services.

III. CAP Hook-up Fee Charges

Each new service connection shall pay the CAP Fee derived from the following table:

Meter Size	Fee
5/8" x 3/4"	$500
3/4"	$500
1"	$500
1-1/2"	$1,667
2"	$2,667
3"	$5,333
4"	$8,333
6" or larger	$16,667

IV. Terms and Conditions

(A) Assessment of One Time CAP Fee: The CAP Fee may be assessed only once per service connection, or lot within a platted subdivision (similar to service line and meter installation charges). However, this provision does not exempt from the CAP Fee, any newly created parcel(s) which are the result of further subdivision of a lot or land parcel and which do not have a service connection.

(B) Use of CAP Fee: CAP Fees may only be used to pay for CAP costs as defined herein. CAP Fees shall not be used for expenses, maintenance, or operational purposes.

(C) Time of Payment:

(1) In the event that the Applicant is required to enter into a main extension agreement, whereby the Applicant agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406(B), payment of the charges required hereunder shall be made by the Applicant within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Commission has approved the main extension agreement in accordance with R-14-2-406(M).

(2) In the event the Applicant is not required to enter into a main extension agreement, the charges hereunder shall be due and payable at the time the service is initially established.

(D) Failure to Pay Charges, Delinquent Payments: Under no circumstances will the Company set a meter or otherwise allow service to be established if the Applicant has not paid in full all charges as provided by this CAP Fee tariff.

(E) CAP Fee Non-refundable: The amounts collected by the Company pursuant to this CAP Fee Tariff shall be non-refundable.

(F) Use of Charges Received: All funds collected by the Company as CAP Fees shall be used solely for the purpose of paying for CAP costs as defined herein.

(G) CAP Fee in Addition to Other Charges: The CAP Fee shall be in addition to any costs associated with a main extension agreement for on-site facilities, and are in addition to the amounts to be advanced pursuant to charges authorized under other sections of this tariff.

(H) Termination of CAP Fee: The CAP fee shall be terminated when all CAP costs (as defined herein) have been collected or when ordered by the Commission, whichever occurs first.

CONDITIONS FOR APPROVAL OF CAP HOOK-UP FEE

1. Arizona Water Company ("AWC) must submit by December 31, 2006, or six months prior to submission if its next rate case application, whichever comes first, a detailed Central Arizona Project Water Use Plan ("CAPWUP") for its Western Group water systems.

2. AWC must make best faith efforts to include the cities of Casa Grande and Coolidge in the development of the CAPWUP.

3. The CAPWUP must address all the issues outlined in Attachment A.

4. The CAPWUP must be approved by Staff prior to AWC's next rate case application being declared sufficient under A.A.C. R14-2-103.

5. The CAPWUP shall be approved, disapproved, or modified in AWC's next rate case by the Commission. If the CAPWUP is disapproved, the CAP Hook-up Fee shall be terminated and AWC shall refund all CAP Hook-up Fee monies collected to that point along with six percent (6%) interest. The refund method shall be determined by the Commission.

6. The approval by Staff or the Commission of the CAPWUP shall mean only that the CAPWUP has adequately addressed all the issues outlined in Attachment A. CAPWUP approval by Staff or the Commission shall **not** be interpreted as a used and useful determination nor as pre-approval of reimbursement of any future expenditures in completing the plan.

7. In AWC's next rate case the Commission shall revaluate this CAP Hook-up Fee to determine if it should be continued, eliminated or modified based on the CAPWUP and any other evidence that may be introduced by parties to that case.

8. If in AWC's next rate case the Commission orders continuation of the CAP hook-up fee or any other recovery mechanism designed to recover CAP deferrals, the Commission Staff shall audit the CAP deferral accounts of AWC's systems holding CAP allocations and shall make any necessary adjustments, true-ups, and re-calculations to determine the proper values to carry forward.

9. Staff will utilize AWC's annual cost of debt to determine the rate for allowance of funds used during construction ("AFUDC") included in the CAP deferrals.

Attachment A

CENTRAL ARIZONA PROJECT WATER USE PLAN ("CAPWUP")

The plan should address the following:

1. Existing water supplies and demand patterns for the last two years (such information as required on the Water Use Data Sheet).

2. Future water supplies and demand patterns demonstrating how and when CAP water will be used through the year 2025. All future water sources other than CAP should be discussed. All assumptions used to make projections should be clearly explained.

3. All major infrastructure components required to use CAP water through the year 2025 should be listed and described in as much detail as possible. These would include such items as, but not be limited to, treatment plants, transmission mains, storage tanks, pumping stations, etc.

4. Projected capital and Operation and Maintenance costs for all future water supplies (including CAP water) through the year 2025 should be listed in as much detail as possible. All assumptions used to make these projections should be clearly explained.

5. How CAP water will be used to address the arsenic issue (if it will be).

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-04-0650

Professional Qualifications of Staff Witness

Darron W. Carlson

Mr. Carlson is currently a Public Utilities Analyst Manager in the employ of the Arizona Corporation Commission ("Commission") in its Utilities Division. He is responsible for supervising analysts whose duties include (but are not limited to) analyzing, auditing, and preparation of reports, schedules, and testimonies regarding applications filed with the Commission on issues of rate base, operating income, cost of capital, rate design, and other financial issues. Mr. Carlson has participated in, or had been lead Staff in over 125 prior cases before this Commission over the past fourteen years, prior to his promotion to a management position. Mr. Carlson has prior experience as an accountant, auditor, and controller in various private and public service entities and also runs his own accounting business. Mr. Carlson has bachelor degrees in both Accounting and Business Management and has attended numerous seminars and training programs covering many aspects of ratemaking.

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ARIZONA WATER COMPANY
DOCKET NO. W-01445A-04-0650
CASA GRANDE SYSTEM

STAFF RECOMMENDED CAP M&I CHARGES RECOVERY (8,884 ACRE FEET)

Description:	Cost/AF	Customer Growth	$ Amount
M&I Balance as of 12/31/2003			3,525,803
2004 M&I charges on 8,884 AF	$30 (avg)		266,520
NP-260 Tariff M&I charges			-98,370
AFUDC estimate based on 2004 rate (5.211%)			192,492
Balance as of 12/31/2004			3,886,445
2005 M&I charges on 8,884 AF	$28/AF		248,752
NP-260 Tariff M&I charges			-63,812
AFUDC estimate based on 2004 rate			212,160
Balance as of 12/31/2005			4,283,545
2006 M&I charges on 8,884 AF	$24/AF		213,216
NP-260 Tariff M&I charges			-54,696
Hook-up fees collected ($220)		1,986	-436,920
AFUDC estimate based on 2004 rate			208,708
Balance as of 12/31/2006			4,213,853
2007 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			201,568
Balance as of 12/31/2007			4,069,686
2008 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			194,055
Balance as of 12/31/2008			3,918,006
2009 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			186,151
Balance as of 12/31/2009			3,758,422
2010 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			177,835
Balance as of 12/31/2010			3,590,522

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ARIZONA WATER COMPANY
DOCKET NO. W-01445A-04-0650
CASA GRANDE SYSTEM

STAFF RECOMMENDED CAP M&I CHARGES RECOVERY (8,884 ACRE FEET)

Description:	Cost/AF	Customer Growth	$ Amount
2011 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			169,086
Balance as of 12/31/2011			3,413,873
2012 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			159,881
Balance as of 12/31/2012			3,228,018
2013 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			150,196
Balance as of 12/31/2013			3,032,479
2014 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			140,006
Balance as of 12/31/2014			2,826,751
2015 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			129,286
Balance as of 12/31/2015			2,610,301
2016 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			118,007
Balance as of 12/31/2016			2,382,573
2017 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			106,140
Balance as of 12/31/2017			2,142,977

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-04-0650
CASA GRANDE SYSTEM

STAFF RECOMMENDED CAP M&I CHARGES RECOVERY (8,884 ACRE FEET)

Description:	Cost/AF	Customer Growth	$ Amount
2018 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			93,654
Balance as of 12/31/2018			1,890,897
2019 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			80,518
Balance as of 12/31/2019			1,625,680
2020 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			66,698
Balance as of 12/31/2020			1,346,643
2021 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			52,157
Balance as of 12/31/2021			1,053,065
2022 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			36,859
Balance as of 12/31/2022			744,189
2023 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			20,763
Balance as of 12/31/2023			419,218
2024 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			3,829
Balance as of 12/31/2024			77,312
2025 M&I charges on 8,884 AF	$21/AF		186,564
NP-260 Tariff M&I charges			-47,859
Hook-up fees collected ($220)		2,202	-484,440
AFUDC estimate based on 2004 rate			-13,988
Balance as of 12/31/2025			-282,411

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-04-0650
COOLIDGE SYSTEM

STAFF RECOMMENDED CAP M&I CHARGES RECOVERY (2,000 ACRE FEET)

Description:	Cost/AF	Customer Growth	$ Amount
M&I Balance as of 12/31/2003			1,046,011
2004 M&I charges on 2,000 AF	$30 (avg)		60,000
NP-260 Tariff M&I charges			0
AFUDC estimate based on 2004 rate (5.211%)			57,634
Balance as of 12/31/2004			1,163,645
2005 M&I charges on 2,000 AF	$28/AF		56,000
NP-260 Tariff M&I charges			0
AFUDC estimate based on 2004 rate			63,556
Balance as of 12/31/2005			1,283,201
2006 M&I charges on 2,000 AF	$24/AF		48,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			61,552
Balance as of 12/31/2006			1,242,753
2007 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			59,132
Balance as of 12/31/2007			1,193,885
2008 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			56,585
Balance as of 12/31/2008			1,142,471
2009 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			53,906
Balance as of 12/31/2009			1,088,377
2010 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			51,087
Balance as of 12/31/2010			1,031,465

ARIZONA WATER COMPANY
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COOLIDGE SYSTEM

STAFF RECOMMENDED CAP M&I CHARGES RECOVERY (2,000 ACRE FEET)

Description:	Cost/AF	Customer Growth	$ Amount
2011 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			48,122
Balance as of 12/31/2011			971,586
2012 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			45,001
Balance as of 12/31/2012			908,588
2013 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			41,719
Balance as of 12/31/2013			842,306
2014 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			38,265
Balance as of 12/31/2014			772,571
2015 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			34,631
Balance as of 12/31/2015			699,202
2016 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			30,808
Balance as of 12/31/2016			622,010
2017 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			26,785
Balance as of 12/31/2017			540,795

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-04-0650
COOLIDGE SYSTEM

STAFF RECOMMENDED CAP M&I CHARGES RECOVERY (2,000 ACRE FEET)

Description:	Cost/AF	Customer Growth	$ Amount
2018 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			22,553
Balance as of 12/31/2018			455,347
2019 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			18,100
Balance as of 12/31/2019			365,448
2020 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			13,416
Balance as of 12/31/2020			270,863
2021 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			8,487
Balance as of 12/31/2021			171,350
2022 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			3,301
Balance as of 12/31/2022			66,651
2023 M&I charges on 2,000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			-2,155
Balance as of 12/31/2023			-43,503
2024 M&I charges on 2000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			-7,895
Balance as of 12/31/2024			-159,398
2025 M&I charges on 2000 AF	$21/AF		42,000
NP-260 Tariff M&I charges			0
Hook-up fees collected ($150)		1,000	-150,000
AFUDC estimate based on 2004 rate			-13,934
Balance as of 12/31/2025			-281,332

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-04-0650
WHITE TANK SYSTEM

STAFF RECOMMENDED CAP M&I CHARGES RECOVERY (968 ACRE FEET)

Description:	Cost/AF	Customer Growth	$ Amount
M&I Balance as of 12/31/2003			506,268
2004 M&I charges on 968 AF	$30 (avg)		29,040
NP-260 Tariff M&I charges			0
AFUDC estimate based on 2004 rate (5.211%)			29,408
Balance as of 12/31/2004			564,716
2005 M&I charges on 968 AF	$28/AF		27,104
NP-260 Tariff M&I charges			0
AFUDC estimate based on 2004 rate			30,840
Balance as of 12/31/2005			622,660
2006 M&I charges on 968 AF	$24/AF		23,232
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		141	-70,500
AFUDC estimate based on 2004 rate			29,984
Balance as of 12/31/2006			605,376
2007 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			28,619
Balance as of 12/31/2007			577,823
2008 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			27,183
Balance as of 12/31/2008			548,834
2009 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			25,673
Balance as of 12/31/2009			518,335
2010 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			24,083
Balance as of 12/31/2010			486,246

ARIZONA WATER COMPANY
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WHITE TANK SYSTEM

STAFF RECOMMENDED CAP M&I CHARGES RECOVERY (968 ACRE FEET)

Description:	Cost/AF	Customer Growth	$ Amount
2011 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			22,411
Balance as of 12/31/2011			452,485
2012 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			20,652
Balance as of 12/31/2012			416,965
2013 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			18,801
Balance as of 12/31/2013			379,594
2014 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			16,854
Balance as of 12/31/2014			340,275
2015 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			14,805
Balance as of 12/31/2015			298,908
2016 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			12,649
Balance as of 12/31/2016			255,385
2017 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			10,381
Balance as of 12/31/2017			209,594

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-04-0650
WHITE TANK SYSTEM

STAFF RECOMMENDED CAP M&I CHARGES RECOVERY (968 ACRE FEET)

Description:	Cost/AF	Customer Growth	$ Amount
2018 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			7,995
Balance as of 12/31/2018			161,417
2019 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			5,484
Balance as of 12/31/2019			110,729
2020 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			2,843
Balance as of 12/31/2020			57,400
2021 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			64
Balance as of 12/31/2021			1,292
2022 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			-2,860
Balance as of 12/31/2022			-57,740
2023 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			-5,936
Balance as of 12/31/2023			-119,848
2024 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			-9,172
Balance as of 12/31/2024			-185,192
2025 M&I charges on 968 AF	$21/AF		20,328
NP-260 Tariff M&I charges			0
Hook-up fees collected ($500)		153	-76,500
AFUDC estimate based on 2004 rate			-12,577
Balance as of 12/31/2025			-253,942

Issued: January 25, 2005

CLIMAS
Southwest Climate Outlook

January 2005 Climate Summary

Hydrological Drought – Hydrological drought continues in Arizona and much of New Mexico.

- Drought impacts have eased in northern and central Arizona and central New Mexico.
- Many reservoirs have held steady or increased slightly.

Precipitation – Wetter-than-average conditions dominated the Southwest over the past 30 days due to recent storm systems. Snowpack is also above average in many river basins in the region.

Temperature – Water year temperatures are near average in Arizona and New Mexico, while the past 30 days have generally been near- to above-average.

Climate Forecasts – Long-lead forecasts call for increased chances of warmer-than-average conditions in Arizona and western New Mexico through July. Increased chances of above-average precipitation are predicted through May.

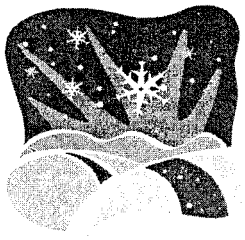
El Niño – El Niño conditions in the tropical Pacific Ocean are forecasted to continue through May, although changes in its strength are difficult to forecast.

The Bottom Line – Limited improvement in drought conditions are expected in the coming months, although reservoir levels are forecasted to remain low.

The climate products in this packet are available on the web:
http://www.ispe.arizona.edu/climas/forecasts/swoutlook.html

Southwest Snowpack

The Southwest snowpack page has undergone several changes since the December packet. We have expanded the figure to include all of the river basins in Colorado and Utah, as well as, a few in southern Wyoming and Idaho. Snowfall in these states contributes to runoff and streamflow in the headwaters of the Colorado River. This in turn influences the water supply of Arizona and New Mexico, so we feel that it is important to show the conditions here.



The color scheme of the legend has been modified as well. The rainbow legend has been replaced with a blue and brown gradient to more clearly illustrate snowpack levels.

See page 11 for details

Disclaimer - This packet contains official and non-official forecasts, as well as other information. While we make every effort to verify this information, please understand that we do not warrant the accuracy of any of these materials. The user assumes the entire risk related to the use of this data. CLIMAS disclaims any and all warranties, whether expressed or implied, including (without limitation) any implied warranties of merchantability or fitness for a particular purpose. In no event will CLIMAS or the University of Arizona be liable to you or to any third party for any direct, indirect, incidental, consequential, special or exemplary damages or lost profit resulting from any use or misuse of this data.

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Biologists bring water to species hurt by drought

Forage enhancement may aid endangered Sonoran Pronghorn

BY SUSAN SIMPSON

Sonoran pronghorn, had they been grazing as our caravan of pickup trucks raised a land-locked contrail of desert dust, would not have guessed that the disturbance was entirely for their benefit. We—a group of about 15 wildlife biologists and University of Arizona students—had packed ourselves and dozens of coils of plastic water tubing into truck beds and headed into the Cabeza Prieta Wildlife Refuge, about 30 miles north of the U.S.-Mexico border near Ajo, Arizona. By stretching this plastic tubing from an already-laid, mile-long PVC pipe connected to a well, we hoped to pump water far into the Wildlife Refuge along known pronghorn migration routes.

There was no trail to follow, but the pickup trucks in which we rode made their own, bouncing and lurching across dry washes and zigzagging to spare chain-fruit cholla in our path. At every joint in the main pipe, the drivers stopped to let the dust settle, and the students released white-knuckle grips on the truck and joined in a dash to unroll eight more lines of tubing. Like snakes crouching in the scant shade of creosote, the tubes stretched uncooperatively where we had pulled them from one plant to another. After securing the base of each water tube, the wildlife biologists drilled holes in the tubes to let water trickle toward the plants.

As we hopped back into the truck beds, the lines of tubing we left laying in the desert seemed almost too simple to help an endangered species flourish in a harsh desert environment. Yet the wildlife biologists hoped that the forage enhancement plots, established in small areas experimentally now for a couple of years, will provide adult pronghorn with the extra resources they need in severe droughts, and fawns with the critical nutrients they often lack in the long, dry, desert summers.

Declining Populations

Sonoran pronghorn (*Antilocapra americana sonoriensis*) have been on the Fish and Wildlife Service's list of species in danger of extinction since 1967, even before the federal Endangered Species Act was passed in 1973. A subspecies of the American pronghorn (*Antilocapra americana*) that lives throughout the Rocky Mountain region, the Sonoran pronghorn lived throughout southern Arizona and northern Mexico (Sonora) prior to extensive human development of the area. Since pronghorn will not cross most barriers, including roads, railroad tracks, or fences, many small populations have been isolated from one another. Isolation reduces the genetic diversity in each of these groups, prohibits movement into new habitat, eliminates forage and water supplies that pronghorn used to visit, and makes them more vulnerable to extinction during severe droughts.

"The basic cause of population loss is lack of rain," John Hervert, wildlife biologist for the Arizona Game and Fish Department explained in an early January interview. "Much of what we're trying to do [in conservation projects] is focused on climate, change in rainfall, seasonal rainfall, and availability of forage."

When monitoring of the Sonoran pronghorn began in the 1970s, Hervert said that it was easy to take what they found as the "normal" condition of the animals, and assume that this population and this habitat were representative of long-term conditions.

"Yet in the past," he explained, "the pronghorn had access to unaltered riparian zones, and they had a much larger habitat."

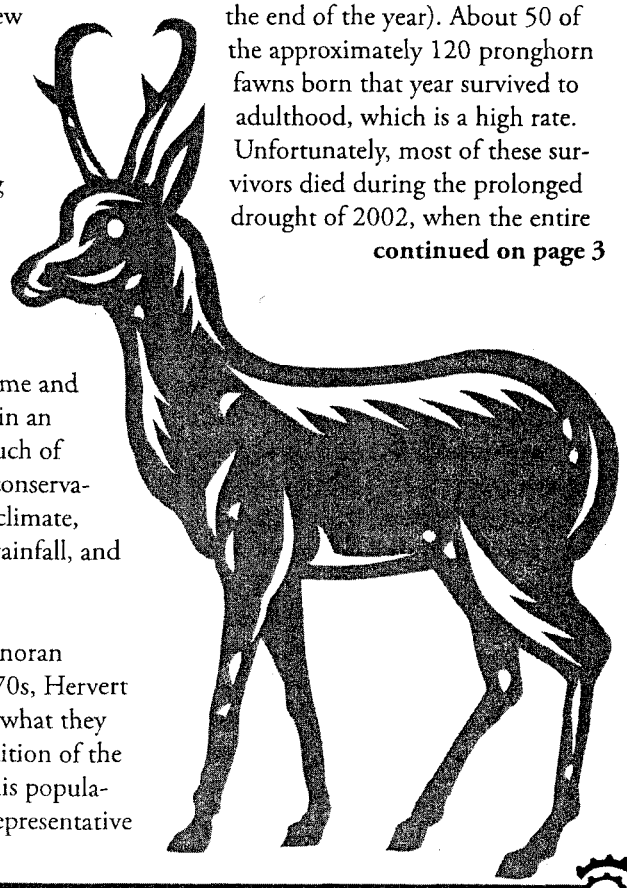
Even now, Hervert said, the 1.5 million acre wildlife refuge can create a false sense of security, because in reality the timing and availability of rain are so important.

"It's easy to become complacent, saying there always have been pronghorn here, and there always will be," Hervert said.

Sonoran Pronghorn and Drought

The vegetation enhancement project is part of the Arizona Game and Fish Department's efforts to ensure that, in fact, the pronghorn will be here for the foreseeable future. The population has fluctuated, often in relation to the amount and timing of seasonal precipitation. When winter precipitation rose in 2001, so did fawn recruitment (survival to the end of the year). About 50 of the approximately 120 pronghorn fawns born that year survived to adulthood, which is a high rate. Unfortunately, most of these survivors died during the prolonged drought of 2002, when the entire

continued on page 3



Will the drought continue?

Rains bring relief to Southwest, but experts caution the wet spell may be short-lived

By Melanie Lenart

A series of fortunate events has pulled drought-busting precipitation into the Southwest since about fall. Still, climatologists warned this doesn't mean the region has moved out of the danger zone for long-term drought.

Tropical rainfall, short-term pressure systems that favored the Southwest, and El Niño conditions conspired to make the six-month September through February period the second wettest in Arizona and third-wettest in New Mexico in the 111-year instrumental record, as indicated by a National Climatic Data Center (NCDC) online comparison.

Meanwhile, New Mexico set a record high for November through February precipitation, while the same period was the third wettest for Arizona, NCDC records show (Figure 1).

The September through February period was also record-breaking when considering the Four Corner states together, NCDC reports show. This bodes well for spring snowmelt into rivers that supply residents and farmers in the Southwest, including the Colorado River.

"We're definitely in recovery mode. We had to kick over that first domino," said Mark Svoboda, a climatologist with the National Drought Mitigation Center. "Mother Nature has a way of giving things back a lot quicker than she takes it away."

A really wet October saturated western soils roughly everywhere south of Oregon, Idaho, and Wyoming, Svoboda said. With soils sated, additional moisture could flow into streams and reservoirs.

Short-term surplus

The boon of precipitation is greening the Southwest and bringing forth a colorful cast of wildflowers. Waterways are also responding to the bounty, with many reservoirs filling surprisingly fast from streams sometimes bursting at their banks. Floods included a late December overflow of Oak Creek in Sedona, Arizona.

"It's really wet out there, that's for sure," agreed Tom Pagano, water supply forecaster at the National Water and Climate Center in Oregon. As of mid-March, all three main reservoirs in Phoenix were rebounding dramatically from years of overdrafts.

"The Verde system, for all intents and purposes, is completely full right now. Lake Pleasant on the Agua Fria is 99 percent full. And the Salt system has gone where the Salt has never gone before," Pagano said, alluding to a recent expansion that allows the Salt system to trap more water than it could previously.

Even the San Carlos Reservoir in Gila County is nearly half full, after hovering at about 4 percent capacity for much of the past year.

"We've been in disbelief," Pagano said. But he and others cautioned against hailing the end of the drought. "It sounds really paradoxical, but I think a lot of people are concerned that this is really just a blip in a long-term drought situation."

"Yes, we see the drought improving," agreed Charlie Liles, the meteorologist in charge of the National Weather Service's Albuquerque office. "The surface looks great because of the recent wet weather and the snowpack. But I have to believe that the groundwater has been short-changed over the past 48 months. We can't say that the drought is gone."

Unfortunately, it seems unlikely that many of the conditions that led to the recent stellar improvement will re-align next year.

A spell of relief

The improvement arguably began when a tropical storm—the remnants of Hurricane Javier—drizzled days of rain on the Southwest as it cut a northeasterly diagonal across Arizona. Most of the Southwest received at least some moisture during the storm's three-day sojourn that started September 19, with a regional high of 5.2 inches of precipitation falling on Promontory, Arizona.

The drizzle served as a gentle way to soak parched soils without pummeling them into an erosive state. But rainfall events linked to hurricanes only affect Arizona every 4.5 years on average, according to calculations by Erik Pytlak of the National Weather Service's Tucson office.

On the heels of the tropical storm came a series of frontal events. Since about October, the Southwest has been receiving a good share of the storms that normally would keep clouds over the Pacific Northwest, especially Oregon and Washington.

continued on page 3

Drought, continued

"It's going to look like an El Niño year when you look at the overall pattern of dryness in the Northwest and wetness in the Southwest," Svoboda said. "But looks can be deceiving."

In fact, the "smoking gun" from late December through January can be traced to short-term atmospheric pressure systems, mainly a Madden Julian Oscillation (MJO), said Ed O'Lenic, chief of the operations branch for NOAA's Climate Prediction Center.

"The MJO lives and dies on the time scale of about a month. And an El Niño lasts a year or more. They are two very different kinds of things," O'Lenic explained. "Both of them can have impacts on the weather where we live."

The MJO is a relatively new discovery, and references to it are easier to find on the internet than in climatology textbooks. "Pineapple express" events that carry moisture over from Hawaii often are succumbing to MJO pressure.

This particular Madden-Julian Oscillation dissipated by the end of January. MJO activity tends to be stronger during neutral or weak El Niño years, as a Climate Prediction Center website reports. The ongoing El Niño is considered weak.

Still, it apparently had enough punch to make February the wettest for New Mexico and the second-wettest for Arizona in the instrumental record, according to the NCDC online comparison.

"The February rains appear to have been related to kind of a late bloom of El Niño," O'Lenic said. "We pretty much waited all winter for this to happen."

And now the bad news. The El Niño bloom may already be fading. Forecasts predict a 65 percent chance of neutral conditions pervailing over El Niño for the March to May period. At any rate, El Niño impacts in the Southwest tend to center around winter precipitation.

The long and short of it

Regardless of which way the winds blow, the drought that established over more than a decade won't disappear overnight. Nor will its impacts.

"It takes a while to dig yourself into a hole. And it takes a while to get yourself out of it," as Pagano put it. At the moment, Arizona's Lake Powell is still "bottoming out," filled to only about 35 percent of capacity with roughly one year's supply stored. Pagano anticipated that it, too, still would be half empty by the end of July. Or half full—this would be a gain of about 4 million acre-feet after distributing its portion of the Lower Basin's annual share of the Colorado River flow. Still it could take decades to fill entirely.

Liles used a budget analogy to make a similar point, noting New Mexico had a 25-inch precipitation deficit accrued over five years when the current water year began on October 1. The state has garnered about 5 inches of precipitation toward that negative balance.

"Now we're trying to put some money back in the bank, but the account's pretty low," he added. For instance, Elephant Butte Reservoir had dropped to only 9 percent of its average storage by the end of last summer. Now it's approaching 30 percent of average, but it's a long way from its 2 million acre-feet capacity. Groundwater, too, continues to be "short-changed," he noted.

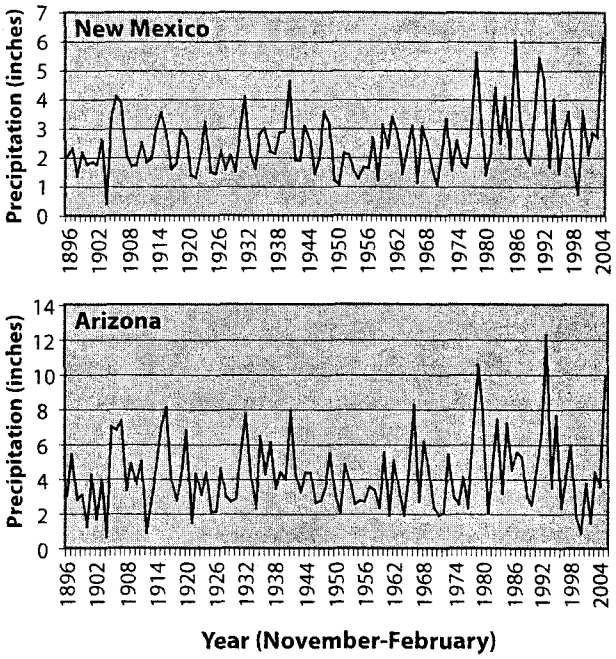


Figure 1. Precipitation from November 2004 through February 2005 was the highest on record for New Mexico (top figure) and the third-wettest on record for Arizona (bottom figure) compared to previous November-February periods. The data also seem to show a visual increase in variability, or extreme events, since about the mid-1970s. Source: Western Regional Climate Center.

Liles and others worry that reservoirs and aquifers could falter for decades, if long-term ocean patterns are aligning to maintain a multidecadal western drought. While the MJO might affect regional climate for a month and El Niño fluctuations might hold sway for a year or so, other patterns appear to keep the Southwest in overall drought mode for decades despite these short-term swings.

In particular, the Pacific Decadal Oscillation (PDO) and the Atlantic Multidecadal Oscillation (AMO) are suspected of having holding patterns that can last some 20 years or so based on observations in the instrumental record and inferences in the longer-term record reconstructed from natural archives such as tree rings. These oscillations appear to be associated with western drought.

Julio Betancourt of the U.S. Geological Survey in Tucson is among the research-

continued on page 4

Drought, continued

ers arguing that these decades-long fluctuations contributed to the southwestern drought that spanned from about the 1940s through the 1970s (Figure 2). Betancourt indicated he fears drought could continue to haunt the Southwest for decades to come.

"I haven't seen any evidence indicating that what we've seen lately will persist," he said of the recent wet spell.

Liles agreed, noting that an El Niño-inspired wet period spanning about 1956 through early 1958 helped alleviate the drought impacts, but didn't really end the drought.

"People thought drought was over. Looking back, you could see that drought actually lasted until about the 1980s," Liles said (see Figure 2). "I think that Julio and I are pretty similar on our concerns that we were headed into a long-term drought. I think right now it's going to take a couple of years to really know."

Another wild card

There's an even longer term potential influence on modern drought regimes in the Southwest: global warming. The input of additional greenhouse gases into the atmosphere is expected to yield a temperature increase on the scale of about 1 degree Fahrenheit per decade in the Southwest through this century and beyond, as last month's *Southwest Climate Outlook* article explained.

That warming trend appears to have started in earnest in the mid-1970s, in the U.S. Southwest as well as the rest of the world. Although it remains unclear exactly how the warming will affect southwestern hydrologic regimes, consensus is emerging on several fronts. Climbing temperatures will certainly increase evaporation rates and will likely continue to shorten winters, resulting in an earlier seasonal snowmelt.

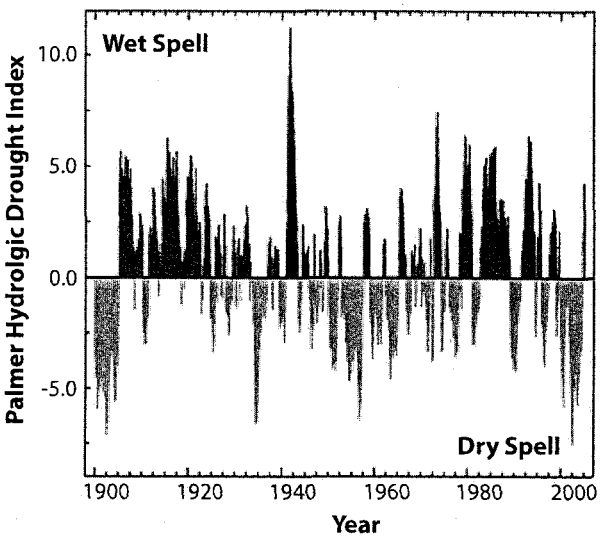


Figure 2. The Palmer Hydrological Drought Index above indicates that drought is a common occurrence in the Southwest, which for this analysis includes the Four Corner states of Arizona, New Mexico, Utah, and Colorado. Hydrologic drought tends to be more entrenched than other types of droughts, as it takes reservoirs and aquifers longer to rebound. Source: National Climatic Data Center.

Warmer temperatures may also yield more extreme precipitation events, such as droughts and floods. Interestingly, the instrumental records for November-February precipitation in Arizona and New Mexico (Figure 1) seem to show an increase in extreme events—i.e., greater variability around the norm—since about the mid-1970s. This is a moment in time that many climatologists identify as launching a critical jump in global temperatures.

Since then, temperatures have continued an upward trend in the Southwest. Some of the concern over water supplies stems from these rising temperatures. For instance, warm temperatures during March of last year—which soared to record highs for Arizona and placed second for New Mexico in the instrumental record—consumed much of the existing southwestern snowpack without leaving moisture behind.

Beyond global warming and the other short and long-term influences on climate, extreme precipitation events are part and parcel of life in the semi-arid desert.

If drought is seen as including any year when precipitation falls below 75 percent of the average, the Southwest is in drought about 43 percent of the time, as New Mexico State University Professor Jerry Holechek and colleagues note in their 1998 textbook "Range Management." By comparison, the Pacific Northwest is in drought only 13 percent of the time, given this approach.

So odds are that relatively wet periods like the current one won't last long in the Southwest.

"You're still living in the desert. Average annual precipitation is a foot a year," Pagano reminded, referring to Tucson. "That hasn't changed."

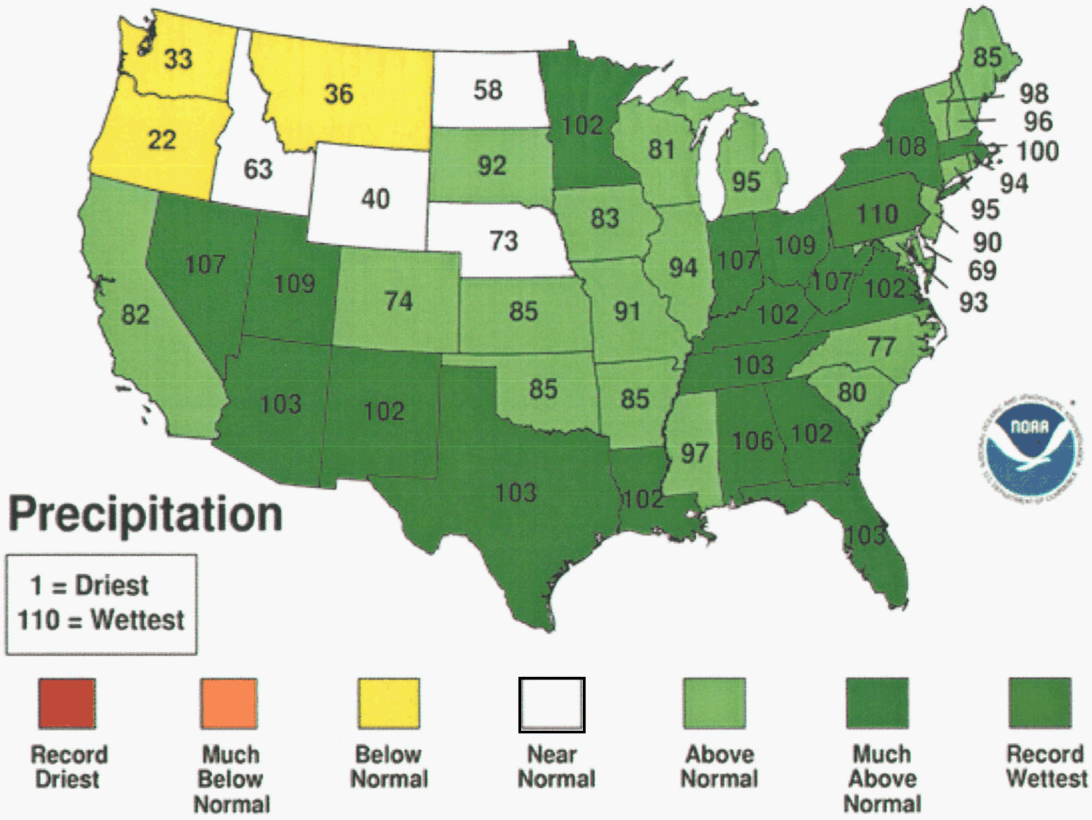
Melanie Lenart is a postdoctoral research associate with the Climate Assessment for the Southwest (CLIMAS).

Resources on the Web

- To compare moisture status for different states using the NCDC online tool, visit: http://lwf.ncdc.noaa.gov/oa/climate/research/prelim/drought/state-reg-moisture-status.html
- To compare moisture status for different time frames using the Western Regional Climate Center online tool: http://www.wrcc.dri.edu/cgi-bin/divplot1_form.pl?0204
- For more details on the Madden-Julian Oscillation: http://www.cpc.ncep.noaa.gov/products/intraseasonal/intraseasonal_faq.html
- For more on how the PDO influences Southwest climate, see: http://www.ispe.arizona.edu/climas/learn/pdo/index.html http://www.srh.noaa.gov/abq/research/feature.htm

May 2004-Apr 2005 Statewide Ranks

National Climatic Data Center/NESDIS/NOAA



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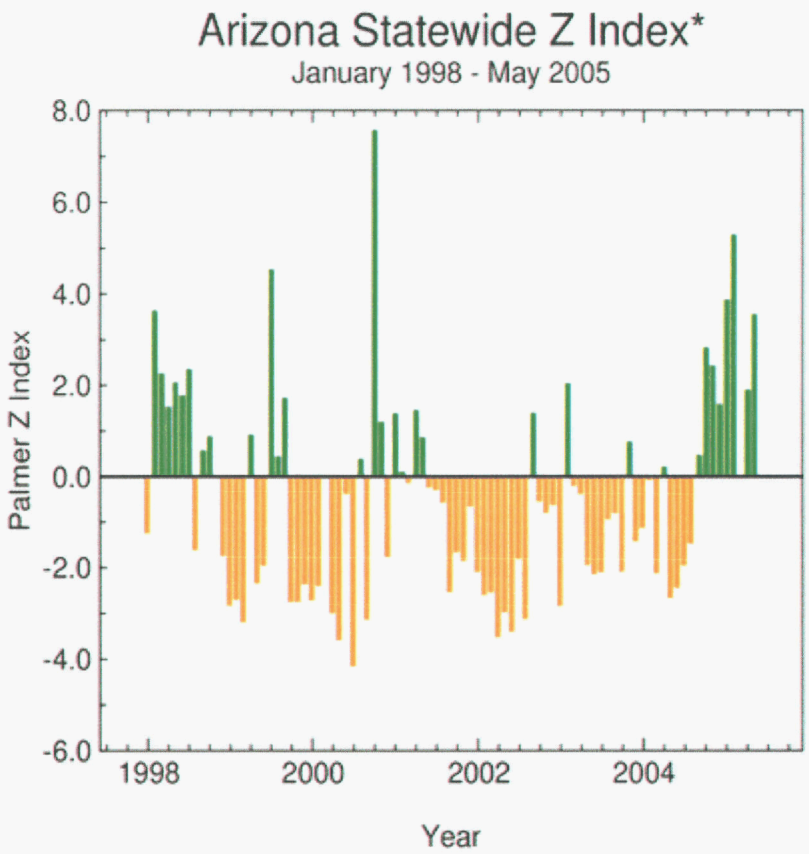

National Climatic Data Center / NESDIS / NOAA

*Palmer Z Index
Short-Term Drought

Dry Spell
Wet Spell

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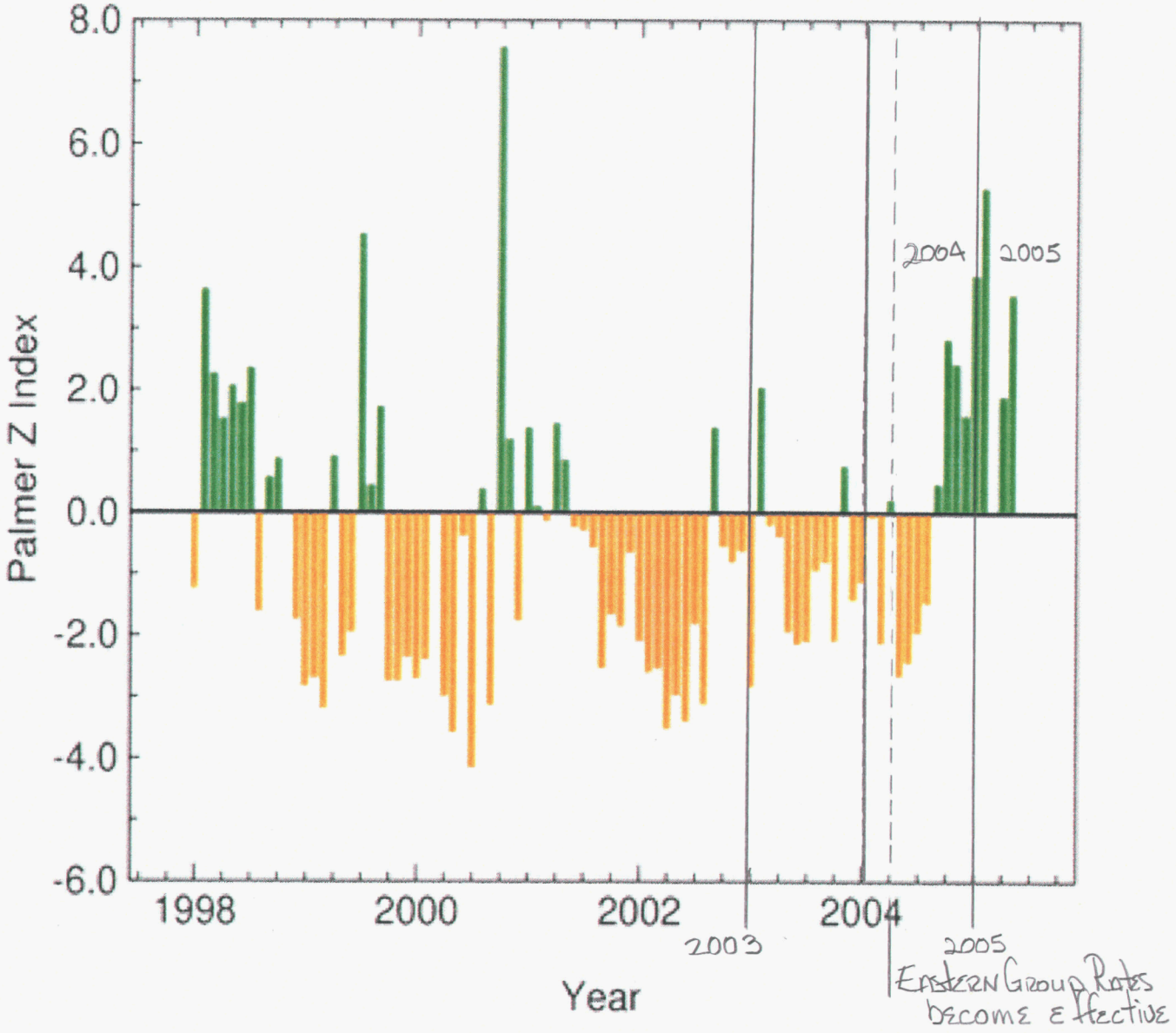
Arizona Statewide Z Index*

January 1998 - May 2005



National Climatic Data Center / NESDIS / NOAA

B. If a franchise or certificate is acquired by assignment, the charge to this account in respect thereof shall not exceed the amount paid therefor by the utility to the assignor, nor shall it exceed the amount paid by the original grantee, plus the expense of acquisition to such grantee. Any excess of the amount actually paid by the utility over the amount above specified shall be charged to account 426 - Miscellaneous Nonutility Expenses.

C. When any franchise has expired, the book cost thereof shall be credited hereto and charged to account 426 - Miscellaneous Nonutility Expenses, or to account 110.1 - Accumulated Amortization of Utility Plant in Service, as appropriate.

D. Records supporting this account shall be kept so as to show separately the book cost of each franchise.

Note:--Annual or other periodic payments under franchises shall not be included herein but in the appropriate expense account.

303. Land and Land Rights

This account shall include the cost of land and land rights used in connection with source of supply, pumping, water treatment plant, transmission and distribution, and general plant operations (See Accounting Instruction 24). A sample of items to be included in this account are listed below:

1. Bulkheads buried, not requiring maintenance or replacement.
2. Cost, first, of acquisition including mortgages and other liens assumed (but not subsequent interest thereon).
3. Condemnation proceedings, including court and counsel costs.
4. Consents and abutting damages, payment for.
5. Conveyancers' and notaries' fees.
6. Fees, commissions, and salaries to brokers, agents, and others in connection with the acquisition of the land or land rights.
7. Leases, cost of voiding upon purchase to secure possession of land.
8. Removing, relocating, or reconstructing property of others, such as buildings, highways, railroads, bridges, cemeteries, churches, telephone and power lines, etc., in order to acquire quiet possession.
9. Retaining walls unless identified with structures.

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10. Special assessments levied by public authorities for public improvements on the basis of benefits for new roads, new bridges, new sewers, new curbing, new pavements, and other public improvements, but not taxes levied to provide for the maintenance of such improvements.
11. Surveys in connection with the acquisition, but not amounts paid for topographical surveys and maps where such costs are attributable to structures or plant equipment erected or to be erected or installed on such land.
12. Taxes assumed, accrued to date of transfer of title.
13. Title, examining, clearing, insuring and registering in connection with the acquisition and defending against claims relating to the period prior to the acquisition.
14. Appraisals prior to closing title.
15. Cost of dealing with distributees or legatees residing outside of the state or county, such as recording power of attorney, recording will or exemplification of will, recording satisfaction of state tax.
16. Filing satisfaction of mortgage.
17. Documentary stamps.
18. Photographs of property at acquisition.
19. Fees and expenses incurred in the acquisition of water rights, and grants.
20. Cost of fill to extend bulkhead line over land under water, where riparian rights are held, which is not occasioned by the erection of a structure.
21. Sidewalks and curbs constructed by the utility on public property.
22. Labor and expenses in connection with securing rights of way, where performed by company employees and company agents.

304. Structures and Improvements

This account shall include cost in place of structures and improvements used in connection with source of supply, pumping, water treatment, transmission and distribution and general plant (See Accounting Instruction 25). A sample of items to be included in this account are listed below:

1. Architects' plans and specifications including supervision.

24. Utility Plant - Land and Land Rights

A. The accounts for land and land rights include the cost of land owned in fee by the utility and rights, interests, and privileges held by the utility in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights of way, and other like interests in land. Do not include in the accounts for land, land rights, and rights of way costs incurred in connection with first clearing and grading of land and rights of way and the damage costs associated with the construction and installation of plant. Such costs shall be included in the appropriate plant accounts directly benefited.

B. Where special assessments for public improvements provide for deferred payments, the full amount of the assessments shall be charged to the appropriate land account and the unpaid balance shall be carried in an appropriate liability account. Interest on unpaid balances shall be charged to the appropriate interest expense account. If any part of the cost of public improvements is included in the general tax levy, the amount thereof shall be charged to the appropriate tax account.

C. Separate entries shall be made for the acquisition, transfer or retirement of each parcel of land, and each land right (except rights of way for distribution lines), or water rights, having a life of more than one year. A record shall be maintained showing the nature of ownership; full legal description; area; map reference; purpose for which used; city; county; and tax district in which situated; from whom purchased or to whom sold; payment given or received; other costs; contract date and number; date of recording of deed; and book and page of record. Entries transferring or retiring land or land rights shall refer to the original entry recording its acquisition.

D. Any difference between the amount received from the sale of land or land rights, less agents' commissions and other costs incident to the sale, and the book cost of such land or rights, shall be included in account 414 - Gains (Losses) from Disposition of Utility Property, unless a reserve therefore has been authorized and provided or, less otherwise authorized or required by the Commission. Appropriate adjustments of the accounts shall be made with respect to any structures or improvements located on land sold.

E. The cost of buildings and other improvements (other than public improvements) shall not be included in the land accounts. If at the time of acquisition of any interest in land, such interest extends to buildings or other improvements (other than public improvements), which are then devoted to water operations,

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the land and improvements shall be separately appraised and the cost allocated to land and buildings or improvements on the basis of the appraisals. If the improvements are removed or wrecked without being used in operations, the cost of removing or wrecking shall be charged and the salvage credited to the account in which the cost of the land is recorded.

F. When the purchase of land for utility operations requires the purchase of more land than needed for such purposes, the charge to the specific land account shall be based upon the cost of the land purchased, less the fair market value of that portion of the land which is not to be used in utility operations. The portion of the cost measured by the fair market value of the land not to be used shall be included in account 103 - Property Held for Future Use, or account 121 - Nonutility Property, as appropriate.

G. Provision shall be made for amortizing amounts carried in the accounts for limited term interests in land so as to apportion equitably the cost of each interest over the life thereof (See account 110.1 - Accumulated Amortization of Utility Plant in Service, and account 407.1 - Amortization of Limited Term Plant).

25. Utility Plant - Structures and Improvements

A. The accounts for structures and improvements include the cost of all buildings and facilities to house, support, or safeguard property or persons, including all fixtures permanently attached to and made a part of buildings and which cannot be removed therefrom without cutting into the walls, ceilings, or floors, or without in some way impairing the buildings, and improvements of a permanent character on or to land. Also include those costs incurred in connection with the first clearing and grading of land and rights of way, and the damage costs associated with construction and installation of plant.

B. The cost of specially provided foundation, not intended to outlast the machinery for apparatus for which provided, and the cost of angle irons, castings, etc., installed at the base of any item of equipment, shall be charged to the same account as the cost of the machinery, apparatus, or equipment.

C. Minor buildings and structures, such as valve towers, patrolmen's towers, telephone stations, etc., which are used directly in connection with or form a part of a reservoir, dam, waterway, etc., shall be considered a part of that facility constructed or operated and the cost thereof accounted for accordingly.

40-370. Water utility surcharges to recover operating costs; notice; definition

A. Subject to the limitations provided in subsection D, the commission shall authorize water utilities to recover increases in specific operating costs by means of a surcharge on water sales and to reduce rates when those specific operating costs decrease. The operating costs that may be considered in this procedure are limited to specific, readily identifiable costs that are subject to the control of another person, including the cost of purchasing electricity or gas, the cost of purchasing water from another utility, municipality or district and the payment of ad valorem taxes or any similar tax or assessment levied on the water utility. The surcharge shall not exceed ten per cent of current rates.

B. The water utility shall file written notice of a surcharge or rate decrease pursuant to this section with the commission, clearly advising the commission of:

1. The specific operating cost being considered for the rate decrease or recovery by the surcharge.
2. The amount of the operating cost being considered for the rate decrease or recovery by the surcharge.
3. The timing and method of cost recovery or rate reduction.

C. The water utility shall also deliver to each customer with the customer's next bill for service a notice of the proposed surcharge or rate reduction. This notice to customers shall include the following information:

1. The information prescribed by subsection B.
2. The customer's right to comment on the proposed surcharge or rate reduction.
3. The address and telephone number of the commission.

D. A surcharge imposed by this section is effective thirty days after the date on which the water utility files the written notice with the commission, unless within that time the commission in its discretion adjusts or denies the surcharge or determines that further investigation of the surcharge is required. The commission shall notify the water utility in writing of a decision to adjust or deny the surcharge or to further investigate the appropriateness of the surcharge. If the commission determines that further investigation of the surcharge is required, the commission may conduct a hearing regarding the appropriateness of the surcharge. If the commission does not issue a decision within one hundred twenty days after the date the water utility files the written notice, the surcharge is effective without further action.

E. For purposes of this section, "water utility" means a public service corporation that is subject to the commission's jurisdiction and that engages in supplying water utility service in this state.

Last legislative year: 1997

JUDICIAL DECISIONS

Applicability.

In the absence of an emergency or automatic adjustment clause, the Arizona corporation commission cannot impose a rate surcharge based on a specific cost increase without first determining a utility's fair value rate base; thus, the commission exceeded its authority by approving utility company's request for a surcharge. Residential Util. Consumer Office v. State Corp. Comm'n, 199 Ariz. 588, 20 P.3d 1169, 2001 Ariz. App. LEXIS 57 (Ct. App. 2001).

ARIZONA WATER COMPANY
Western Group
Docket No. W-1445A-04-0650
Witness (es) Garfield, Kennedy

Data Request No. RUCO 4.1
Casa Grande Intangible Plant: ***Please provide a detailed explanation for all legal proceedings associated with the legal fees that were incurred and booked into Account Number 303.0, Miscellaneous Intangibles, since January 1, 2000.***

Response To Data Request No. RUCO 4.1

These legal proceedings involved the defense of an eminent domain action filed by the City of Casa Grande against Arizona Water Company; the defense of a formal complaint filed with the Commission against the Company that concerned the City's provision of reclaimed water service to the Reliant Energy power plant in Casa Grande; and state and federal civil actions filed by the Company against the City concerning the City's provision of reclaimed water service to the Reliant Energy plant. Specific details concerning these matters are available in the documents being provided in Response to Data Request No. RUCO 4.3 below.

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Data Request No. RUCO 4.2

***Casa Grande Intangible Plant*: Please provide a detailed schedule of all legal proceedings that were associated with the legal fees that were incurred and booked into Account Number 303.0, Miscellaneous Intangibles. Include in the schedule the following:**

a) the nature or purpose of the proceedings,
b) the docket numbers or decision numbers for the proceedings,
c) the judicial entity that heard the cases (i.e. federal or state court, ACC etc.),
d) the current status of the proceedings; and
e) the final outcome of the legal proceedings.

Response To Data Request No. RUCO 4.2

a) See Response to Data Request No. RUCO 4.1.

b) W-01445A-00-0391 (ACC Formal Complaint)

CIV00-0354-PHX-PGR (U.S. District Court of Arizona Civil Action re City's provision of reclaimed water service to Reliant Energy plant)
No. 01-15179 (Ninth Circuit U.S. Court of Appeals, Appeal of Judgment in CIV00-0354-PHX-PGR; judgment dismissing Company's case affirmed)

CV 2000-022448 (Maricopa County Superior Court (reclaimed water action)
No. 1 CA-CV-02-0671 (Arizona Court of Appeals, consolidated with No. 1 CA-CV-02-0724, the City's appeal of the denial of its motion for attorney's fees)- Company's appeal of the grant of City's motion for summary judgment; judgment affirmed, neither party petitioned for review.

Case No. CV 99046814 (Arizona Superior Court Eminent Domain Action)
Case No. 2CA-SA-99-0101 (Arizona Court of Appeals, Special Action that vacated preliminary ruling of Superior Court that City did not have to hold an election before filing eminent domain action-remanded case for further proceedings in Superior Court; Judge Campbell then ruled that City did have to hold an election before filing eminent domain action)

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Response To Data Request No. RUCO 4.2 (continued)

Case No. 2CA-CV-00-0028 (Arizona Court of Appeals (consolidated with Case No. 2CA-CV-00-0128, the Company's appeal of the denial of its motion for attorney's fees); City's appeal of Judge Campbell's decision that dismissed City's eminent domain action; Court of Appeals affirmed, ending the case when neither party petitioned Supreme Court for review)

c) The cases were considered or heard by the courts or the ACC as indicated in the description of the cases in b), above.

d) Each of these cases has ended.

e) The condemnation action was ended when the Arizona Court of Appeals upheld a Maricopa County Superior Court action that dismissed the City's Complaint; the federal court reclaimed water action ended when the Ninth Circuit Court of Appeals upheld the U.S. District Court judgment that dismissed the Company's complaint for lack of jurisdiction; the State Court Superior Court action ended when the Arizona Court of Appeals affirmed the Superior Court action that granted the City's Motion for Summary Judgment. The Formal Complaint before the ACC was terminated by the ACC with an order of administrative closure.

ARIZONA WATER COMPANY
Western Group
Docket No. W-1445A-04-0650
Witness (es) Hubbard

Data Request No. REL 6-7
Please provide a full and complete copy of all legal bills associated with the Casa Grande condemnation proceedings (which equal the amount posted to Account Number 303.0.)

Response To Data Request No. REL 6-7

This information is being provided pursuant to a confidentiality agreement.

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