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# ORIGINAL

## BEFORE THE ARIZONA CORPORATION COMMISSION

### COMMISSIONERS

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

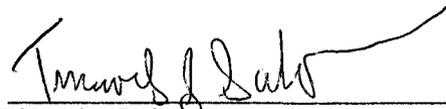
IN THE MATTER OF THE APPLICATION OF  
 ARIZONA-AMERICAN WATER COMPANY  
 FOR AN AFFILIATE AGREEMENT WITH  
 AMERICAN WATER RESOURCES, INC.

Docket No. WS-01303A-05-0170

### NOTICE OF FILING

Utilities Division ("Staff") of the Arizona Corporation Commission hereby files the  
 Rebuttal Testimony of Linda A. Jaress.

RESPECTFULLY SUBMITTED this 5<sup>th</sup> day of August 2005.

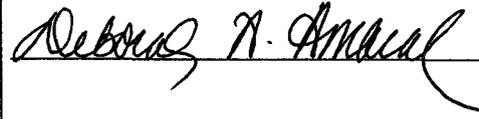
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The original and thirteen (13) copies of the  
 foregoing were filed this 5<sup>th</sup> day of  
 August 2005 with:

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

Copies of the foregoing were mailed  
 this 5<sup>th</sup> day of August 2005 to:

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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 )  
ARIZONA AMERICAN WATER COMPANY )  
FOR APPROVAL OF AN AFFILIATE )  
AGREEMENT WITH AMERICAN WATER )  
RESOURCES, INC. )

DOCKET NO. WS-01303A-05-0170

REBUTTAL TESTIMONY OF

LINDA A. JARESS

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 5, 2005

**EXECUTIVE SUMMARY**  
**ARIZONA AMERICAN WATER COMPANY**  
**DOCKET NO. W-01303A-05-0170**

This testimony lists the ten recommendations and requirements that Staff recommended in its direct testimony and discusses the response to them by Arizona American Water Company ("Arizona American") and American Water Resources ("AWR"). In general, the two companies agreed to several of Staff's recommendations regarding the Agreement between them for Arizona American to provide certain services to AWR related to water and sewer line insurance programs to be offered by AWR to Arizona American's customers.

Unresolved issues include the method by which Arizona American will determine its costs of providing services to AWR, the length of the initial life of the water and sewer line protection programs, and the requirement that Arizona American and its parent, RWE AR, file for appropriate waivers of the Affiliated Interests and Holding Company Rules.

Although the two companies' proposed modifications to the Agreement greatly reduce Staff's concerns about Arizona American's participation in the provision of the programs, the Company has not established a need for the programs or shown that Arizona American's participation is necessary or that the Agreement is in the public interest. Thus, Staff continues to recommend denial of the Agreement.

1 **Introduction**

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

3 A. My name is Linda A. Jaress. I am an Executive Consultant III in the Utilities Division of  
4 the Arizona Corporation Commission (“ACC” or “Commission”). My business address is  
5 1200 West Washington Street, Phoenix, Arizona 85007.

6  
7 **Q. Did you file direct testimony in this case on June 24, 2005?**

8 A. Yes, I did.

9  
10 **Q. Please summarize Staff’s direct testimony.**

11 A. Staff’s direct testimony reviewed and analyzed the Agreement between Arizona American  
12 Water Company (“Arizona American”) and its affiliate American Water Resources  
13 (“AWR”) (jointly “the Companies”) for Arizona American to provide certain services to  
14 AWR related to its water and sewer line protection programs (“the Programs”). Staff  
15 recommended that the Arizona Corporation Commission (“Commission”) not approve the  
16 Agreement as proposed because the Companies did not show the Programs were in the  
17 public interest, did not establish a need for the service nor show that Arizona American’s  
18 participation in the Programs is necessary. However, Staff recommended the Commission  
19 adopt ten conditions should the Commission find the Agreement is in the public interest.

20  
21 **Q. How did the Company respond to Staff’s direct testimony?**

22 A. In its Joint Direct Testimony, the Companies significantly reduced Arizona American’s  
23 participation in the provision of the Programs. The Companies proposed limiting Arizona  
24 American’s participation to the inclusion of a line item on the bills of customers who  
25 participate in the programs, the referral of customers to AWR’s service representatives for

1 enrollment in the Programs and the referral of claims to AWR. The Companies also  
2 indicated a willingness to alter the Agreement to omit Arizona American's provision of  
3 customer information to AWR.

4  
5 **Q. Please quote Staff's recommended ten conditions and requirements along with the**  
6 **Companies' responses to them. Also, where needed, please comment on the**  
7 **Company's modifications.**

8 A. The following are the conditions and requirements recommended by Staff for adoption by  
9 the Commission if the Commission finds the Agreement is in the public interest;

10  
11 *1. "A requirement that the Agreement be modified to indicate that Arizona American should*  
12 *be compensated for its services at 115% of fully allocated costs or prevailing market*  
13 *prices, whichever is higher, and that at its next rate case, Arizona American should*  
14 *provide information and workpapers showing the calculation of the market price and fully*  
15 *allocated costs. This method would apply to all costs including billing and collecting and*  
16 *replaces the \$0.10 per bill amount."*

17  
18 The Companies disagree with this recommendation not because they believe it is  
19 theoretically unsound but because they believe it is impractical. They point out that they  
20 have reduced the scope of services originally proposed to be provided by Arizona  
21 American to AWR. The Companies now state that no marketing will be performed by  
22 Arizona American. This will have the effect of limiting costs incurred by Arizona  
23 American to those costs related to providing line items on the customer's bill, forwarding  
24 calls for enrollment in the Programs and contacting AWR for claims.

25

1           Because the costs incurred by Arizona American will be less than originally contemplated,  
2           the revenues received by Arizona American for the services it would provide to AWR  
3           would be proportionately reduced. The Companies now believe that the cost of  
4           performing a study to calculate the fully allocated costs and market prices could exceed the  
5           annual revenue received by the Company for providing the reduced services.

6  
7           The Companies attempt to support the reasonableness of their proposed \$0.10 per customer  
8           per month charge by Arizona American to AWR for placing the line item on the utility bill  
9           not by comparing it to costs or market prices, but by comparing it solely to the \$0.08 that  
10          Arizona American pays another affiliate to provide for billing service. No analytical  
11          support of the reasonableness of the \$0.08 per customer per month amount was provided.

12  
13          Staff agrees that by eliminating marketing services from the Agreement, Arizona  
14          American's participation in the provision of the Programs will be significantly reduced  
15          along with associated costs and revenues. However, without a study of costs and market  
16          prices, Staff and the Commission would be unable to determine the fairness of the charges  
17          during Arizona American's rate cases, Staff continues to believe the recommendation is  
18          appropriate.

- 19  
20          2.       *"The Commission should require Arizona American, before disseminating customer-*  
21          *specific information to an affiliate or non-affiliate, to inform the customer regarding what*  
22          *information would be released and for what purpose. The customer must affirmatively*  
23          *respond before such information is disseminated. Non-response by the customer should*  
24          *not be considered consent. This requirement should not apply to requests from police*  
25          *agencies or subpoenas."*

1           The Companies agreed that Arizona American will not provide any customer information  
2           to AWR and will not provide any marketing services whatsoever.

3

4           3.       *“A requirement that the Agreement be modified to omit Section 6.1.4 and any other section*  
5           *that might allow Arizona American and AWR to contract for additional services other than*  
6           *those specifically related to the water and sewer line Programs.”*

7

8           Section 6.1.4 of the Agreement contains language that allows for additional services  
9           unrelated to the Programs to be supplied by Arizona American to AWR by merely  
10          amending the Agreement. Staff was concerned that the utility would provide other  
11          services to AWR without the Commissions knowledge or approval. The Companies  
12          responded that they would accept this recommendation and remove the questionable  
13          language from the Agreement.

14

15          4.       *“A requirement that any net income derived by Arizona American from the services it*  
16          *provides AWR for the Programs be considered above-the-line for ratemaking purposes.”*

17

18          The Companies accepted this condition and noted that the net income would equal \$0.10  
19          per month per enrolled customer.

20

21          5.       *“A requirement that Arizona American not endorse or promote the Programs and that the*  
22          *Agreement be modified to so reflect.”*

23

24          The Companies accepted this recommendation and stated that Arizona American will not  
25          provide any marketing services to AWR for the Programs.

1 6. *“The initial life of the Agreement should be limited to three years. Extensions of the*  
2 *Agreement should be approved by the Commission.”*

3  
4 The Companies agree with the concept of limiting the term of the Agreement but requested  
5 that the term of the Agreement be five years rather than three. The Companies requested  
6 five years because they feel at least three years are required to “set up, market and roll out  
7 the Protection Programs before it [AWR] achieves significant market shares” and that five  
8 years would allow the evaluation of results from years three through five when there would  
9 be enough participants to provide meaningful data.

10  
11 Staff believes that the manner in which Arizona American carries out its functions under  
12 the Agreement during the initial years of the Programs is equally important as the manner  
13 in which it carries out its functions after three years. Compliance with adopted  
14 recommendations regarding cost allocations are equally important over the initial three  
15 years as in year three through five. Thus, Staff maintains its recommendation for a three-  
16 year term of the agreement is reasonable.

17  
18 7. *“The Commission reserves the right to examine the books and records of AWR in*  
19 *connection with the Programs.”*

20  
21 The Companies agrees that the Commission already has this right under the Public Utility  
22 Holding Companies and Affiliated Interests Rules (“the Rules”).

23  
24 8. *“The Agreement should be modified to include a definition of fully allocated or fully*  
25 *distributed costs as including direct costs, a contribution to common costs, and overhead.”*

1           The Companies accepts this condition for “unexpected service not covered by the customer  
2 charge to AWR of \$0.10 per month per enrolled customer at 115% of fully distributed  
3 costs.”

4

5       9.       *“Arizona American and RWE should be ordered to file for appropriate waivers of the  
6 Rules.”*

7

8           The Companies object to this recommendation because they “do not understand the need  
9 for this recommendation and Staff has not suggested any waiver filings that might be  
10 required in connection with this case.”

11

12           While Staff was reviewing the relationship of the affiliates involved in this case and  
13 determining whether this application required a waiver of the Rules, Staff could only find  
14 one Commission decision regarding a waiver of the Affiliated Interests and Holding  
15 Company Rules for Arizona American. The waiver which was granted in 2002 was a  
16 transaction-specific waiver for the merger of Arizona-American’s parent with a subsidiary  
17 of RWE AG. Staff also learned through a RWE AG publication that RWE AG has  
18 transacted many major acquisitions and divestitures since then. Rather than delay this case  
19 for a closer examination of the affiliate relationships and any transactions which may have  
20 required or will require Commission approval, Staff determined that an additional filing  
21 was necessary to determine RWE’s obligations under the Rules. Staff continues to offer  
22 the same recommendation.

23

24       10.       Within the body of Staff’s direct testimony, a 10<sup>th</sup> recommendation was made that was  
25 inadvertently excluded from the summary of nine recommendations at the end of the

1 testimony. Staff recommended that the Agreement be modified to include payment by  
2 AWR to Arizona American for use of its customer list. However, as previously  
3 mentioned, Arizona American has decided to not provide customer lists to AWR, making  
4 this recommendation moot.

5

6 **Q. Is Staff revising the recommendations made in its direct testimony?**

7 **A.** No. Staff believes its recommendations remain reasonable. Although the Company's  
8 proposed modifications to the Agreement greatly reduce Staff's concerns about Arizona  
9 American's participation in the provision of the programs, in Staff's opinion, the Company  
10 has still not established a need for the service or shown that Arizona American's  
11 participation is necessary or in the public interest. Thus, Staff continues to recommend  
12 denial of the Agreement.

13

14 **Q. Does this conclude your rebuttal testimony?**

15 **A.** Yes, it does.