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BEFORE THE ARIZONA CORPORATION COMMISSION

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JEFF HATCH-MILLER, Chairman
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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY FOR APPROVALS ASSOCIATED WITH A TRANSACTION WITH THE MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE

DOCKET NO. W-01303A-05-0718

ARIZONA-AMERICAN'S NOTICE OF FILING REBUTTAL TESTIMONY

Arizona-American Water Company hereby files in the above-referenced matter its Rebuttal Testimony for each of the following witnesses:

- Paul G. Townsley;
- Joel M. Reiker; and
- James M. Kalinovich.

Please note that each testimony includes an executive summary.

RESPECTFULLY SUBMITTED on February 27, 2006.

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By: Courtney Appelhans

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 APPROVALS ASSOCIATED WITH A TRANSACTION WITH THE MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE	DOCKET NO. W-01303A-05-0718

REBUTTAL TESTIMONY
OF
PAUL G. TOWNSLEY
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 27, 2006

REBUTTAL TESTIMONY
OF
PAUL G. TOWNSLEY
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 27, 2006

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Paul G. Townsley testifies that:

Because of several factors—including the magnitude of the proposed investment, Arizona-American's large five-year capital budget, and its difficult financial situation—Arizona-American cannot participate in the MWD White Tanks Treatment Plant without:

1. Pre-approval of proposed transaction;
2. Determination that the proposed transaction will be treated as a capital lease for ratemaking purposes; and
3. Establishment of a procedure similar to the ACRM process for the Company to recover its investment and costs associated with the MWD transaction.

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Paul G. Townsley, and my business address is 303 H Street, Suite 205, Chula Vista, California 91910. My telephone number is (619) 409-7700.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS DOCKET?

A. No.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I have been employed since 2002 by American Water Works Service Company ("American Water") as President of its entire Western Region. As part of my responsibilities, I have overall management responsibility for Arizona-American Water Company ("Arizona-American: or the "Company"). I also have overall management responsibility for the four other regulated American Water subsidiaries in the Western Region: California-American Water, Hawaii-American Water, New Mexico-American Water, and Texas-American Water.

Q. WHAT ARE YOUR RESPONSIBILITIES AS PRESIDENT OF AMERICAN WATER'S WESTERN REGION?

A. As President, I am responsible, among other things, for maintaining the five-state water and wastewater utilities' financial health; enhancing the operating efficiency and reliability of the business; and for assuring that all functions (e.g. planning, engineering, construction, production, distribution, customer service, accounting, regulatory and human resources) are carried out in compliance with all local, state, and federal laws and regulations, and standards of good business practice. I am also ultimately responsible for assuring that we meet our customers' needs. I am also responsible for American Water's unregulated operations in the Western Region.

Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I received a Bachelor of Science degree in Mechanical Engineering from the United States Merchant Marine Academy in 1980. I am a registered Professional Engineer in the states of Arizona and Hawaii. Before serving as American Water's President, Western Region, I was employed by Citizens Utilities Company in a variety of positions spanning twenty years. My more recent roles with Citizens Utilities included Vice President, Citizens Water Resources; Vice President, Arizona Energy; Vice President, Arizona Electric; and Vice President, Mohave Sector.

Q. HAVE YOU TESTIFIED BEFORE ANY STATE UTILITY REGULATORY AGENCIES?

A. Yes, however, it is not typical for me now in my current position. The outcome of this case rests on the Commission's recognition that, because of the Company's current capital constraints, innovative rate-making techniques are necessary to allow completion of a regional water treatment facility. I also submitted testimony in Arizona-American's Paradise Valley Water District rate case in order to highlight the importance of an adequate return on equity, and to once again support innovative rate-making techniques—in that case to allow prompt recovery of the community's requested fire-flow investments.

Q. WHAT IS THE SUBJECT OF YOUR TESTIMONY?

A. I discuss why Arizona-American requires:

1. Pre-approval of the proposed transactions with MWD;
2. Assurance that the Commission will recognize the proposed MWD lease as a capital lease; and
3. Establishment of a procedure similar to the ACRM process for the Company to recover its investment and costs associated with the MWD transaction.

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. I have included an Executive Summary at the beginning of my rebuttal testimony.

II. PREAPPROVAL OF TRANSACTION

Q. HAVE YOU REVIEWED THE STAFF REPORT SUBMITTED IN THIS DOCKET?

A. Yes.

Q. DO YOU HAVE ANY GENERAL COMMENTS?

A. Yes. Arizona-American appreciates the thorough review conducted by Staff and agrees with most of Staff's overall conclusions. I do take issue with three of Staff's recommendations. Also, Mr. Reiker and Mr. Kalinovich will address a few other issues the Company has with the Staff Report.

Q. WHAT IS THE FIRST CONCERN YOU HAVE WITH THE STAFF REPORT?

A. Staff recognizes the many benefits of the proposed transaction with MWD. Despite this recognition, Staff states that it "does not typically recommend approval of agreements to which it is not a party and will not do so in this case." However, without pre-approval of the proposed transactions, Arizona-American cannot go through with the MWD transaction.

Q. WHY CANNOT ARIZONA-AMERICAN GO THROUGH WITH THE MWD TRANSACTION WITHOUT COMMISSION PRE-APPROVAL?

A. Because of the magnitude of the required investment, Arizona-American cannot accept the risk that the Commission could later deem the Company to have been imprudent when it committed to the MWD transactions. As shown on Exhibit D to the Company's White Tanks Report, the present estimated capital-lease investment is approximately $37 million. As also shown on Exhibit D, we expect to have just over 36,000 customers in our Agua Fria Water District at the time the White Tanks plant enters into service. This equates to an investment of just over $1000 per customer.

Q. ARE THERE ANY OTHER REASONS THAT ARIZONA-AMERICAN CANNOT COMMIT TO AN INVESTMENT OF THIS MAGNITUDE WITHOUT COMMISSION PRE-APPROVAL?

A. Yes. There are several reasons. First, the Company is already straining to keep up with its enormous capital requirements over the next five years. The following table shows our capital budget for the years 2006-2010.

Year	Budget
2006	$51 million
2007	$65 million
2008	$40 million
2009	$44 million
2010	$29 million
Total (2006-2010)	**$228 million**

Overall, American Water's capital budget for 2006 is $647 million. Arizona-American represents just 4.6% of American Water's total 3.1 million customers. However, Arizona-American's share of American Water's capital budget is 7.9%. Yet Company earnings are nowhere near large enough to support this capital budget.

Q. YOU MENTIONED THAT EARNINGS ARE NOT ENOUGH TO FUND CAPITAL EXPENDITURES; CAN YOU EXPAND ON THIS POINT?

Arizona-American's earnings have been quite disappointing in recent years for a number of reasons: the three-year rate-case moratorium, normal regulatory lag, low customer water rates, continuing large capital requirements, required write-offs, and legacy issues related to the Citizens' acquisition. As a result, Arizona-American has been unable to pay dividends to its parent.

Q. ARE THERE ANY OTHER CHALLENGES THAT WILL MAKE IT DIFFICULT FOR THE COMPANY TO FUND NEW CAPITAL PROJECTS?

A. Yes. Company management is seeking approvals from the Arizona-American and American Water Works Boards of Directors for an equity infusion of up to $35 million in 2006. Since approval of both Boards is necessary, the Company does not fully control the outcome of this request. It is important to note that Arizona-American competes for capital against its regulated affiliates in other jurisdictions, whose rate-setting methodologies are presently more favorable. Arizona-American's allowed return on equity is the lowest among the 23 states in which American Water and its regulated affiliates operate, which makes competing for capital by Arizona-American very difficult, with uncertain outcomes. If approved, the Company expects to use this equity infusion to retire short-term debt.

In addition, Arizona-American must obtain new debt to support its significant capital plan and borrowed $25 million in late 2004 to fund its new arsenic facilities. The

Company has approximately $159 million in outstanding debt maturing November 2006 that it must refinance. The Company also expects to borrow $15 million in new debt associated with new capital expenses. It will soon be filing a financing application with the Commission for approval of these new financings.

Q. WHAT ELSE IS ARIZONA-AMERICAN DOING TO COPE WITH THESE ENORMOUS FINANCIAL CHALLENGES?

A. On November 30, 2005, Arizona-American filed with the Commission an Equity Plan. This plan discusses in greater detail the challenges faced by the Company in Arizona, and our plan to improve and maintain our equity ratio. I have attached a copy of this plan to my rebuttal testimony as Exhibit A.

Q. PLEASE SUMMARIZE WHY ARIZONA-AMERICAN REQUIRES PRE-APPROVAL OF THE PROPOSED MWD TRANSACTION.

Arizona-American requires assurance that it will have the opportunity to recover its anticipated investment in the White Tanks Plant. To that end, it has pre-filed extensive information concerning the proposed transaction and responded to all formal and informal data requests. Staff has reviewed the filing and our data responses. Staff concludes (Staff Report, p. 4) that:

> Staff recognizes the benefits derived from a regional solution which helps to preserve groundwater resources, reduces the potential from ground subsidence, and encourages the use of CAP surface water. Cost effective development of the region's water resources is in the public interest. Additionally, the economies of scale achieved by a regional approach are clearly in the public interest. Other benefits include acceleration of the Company's CAP water usage and connection to three mgd MWD well capacity to bridge potential gap in the Company's production capacity which will eliminate the need to drill new wells.

Staff describes the numerous benefits of the White Tanks treatment and states that the project is clearly in the public interest. Therefore, it is appropriate for the Commission to provide pre-approval so that the project can proceed.

III. CAPITAL LEASE DETERMINATION

Q. WHY DID ARIZONA-AMERICAN ASK THAT THE COMMISSION PRE-DETERMINE THAT THE PROPOSED MWD TRANSACTION WILL BE TREATED AS A CAPITAL LEASE FOR RATE-MAKING PURPOSES?

A. The Company has asked the Commission to pre-determine that the proposed transaction will be a capital lease. Our accountants have concluded that the transaction will be treated as a capital lease under generally accepted accounting principles ("GAAP"). This means that the Company will have to record an asset equal to the lease amount, together with a corresponding liability, and incur depreciation expense over the life of the lease asset.

If the Commission were to later determine that the lease should be treated some other way for regulatory purposes, such as an operating lease, then the resulting rates would be inadequate to compensate the Company for the lease's GAAP-mandated impacts on its balance sheet and income statement. Inconsistent regulatory treatment of the lease would further drag down earnings and make it even more difficult for Arizona American to improve its equity ratio. The Company cannot take this risk.

Q. DOES STAFF BELIEVE THAT THE PROPOSED MWD TRANSACTION IS NOT A CAPITAL LEASE?

A. To the contrary, Staff did not challenge the Company's proposed regulatory treatment of the transaction as a capital-lease, concluded that, given the lease terms, the Company is free to propose capital-lease treatment for the MWD transaction. However, Staff is not yet willing to recommend that the transaction will be eligible for capital-lease treatment.

Q. IS ARIZONA-AMERICAN PREPARED TO PROCEED WITH THE PROPOSED MWD TRANSACTION WITHOUT A PREDERMINATION THAT THE TRANSACTION, AS SPECIFIED IN THE APPLICATION, WILL BE A CAPITAL LEASE, ELIGIBLE FOR CAPITAL-LEASE RATEMAKING?

A. No.

IV. RATEMAKING PROCEDURE

Q. DID STAFF RECOMMEND APPROVAL OF ARIZONA-AMERICAN'S PROPOSED RATEMAKING PROCEDURE?

A. No, not exactly. Staff proposes an ACRM-type of procedure, similar to what was proposed by the Company. Staff's proposal is generally acceptable to the Company. However, ultimately Staff does not recommend that the Commission pre-approve its recommended procedure.

Q. DOES ARIZONA-AMERICAN REQUIRE A PREDETERINED PROCEDURE TO RECOVER ITS COSTS ASSOCIATED WITH THE MWD TRANSACTION?

A. Yes. With a certain modifications, as discussed by Mr. Reiker in his testimony, Staff's suggested procedure is acceptable to the Company. However, like the ACRM procedure, the actual procedure to recover the MWD transaction costs must be predetermined. Because the ACRM process provided a clear roadmap to recover arsenic-remediation investments, Arizona-American could timely commit $49.5 million in new investment for arsenic-remediation facilities. Without a similarly clear roadmap, Arizona-American cannot commit funds to invest in a regional water-treatment facility.

V. AMERICAN WATER SALE

Q. AMERICAN WATER'S PARENT, RWE, HAS ANNOUNCED THAT IT INTENDS TO SELL AMERICAN WATER. HOW COULD A SALE AFFECT THE PROPOSED MWD TRANSACTION?

A. The sale, which is likely to be an initial public offering of American Water securities, should not affect the proposed White Tanks treatment project. RWE has approved the project, subject to receiving the requested regulatory assurances. If the Commission provides those assurances, Arizona-American will execute the contract documents, and the project will proceed.

VI. RESPONSE TO RUCO

Q. HOW DO YOU RESPOND TO MS. DIAZ CORTEZ'S TESTIMONY ON BEHALF OF RUCO?

A. RUCO's testimony was brief, but generally positive. However, RUCO did not recommend pre-approval of the proposed transaction, capital-lease ratemaking, or an ACRM-like rate procedure. Therefore, I incorporate my above response to Staff as my response to RUCO.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

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, INC., AN ARIZONA CORPORATION, FOR AUTHORITY TO IMPLEMENT ARSENIC COST RECOVERY MECHANISMS FOR ITS AGUA FRIA WATER, SUN CITY WEST WATER, HAVASU WATER, AND TUBAC WATER DISTRICTS

DOCKET NO. W-1303A-05-0280

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 MOHAVE WATER DISTRICT AND ITS HAVASU WATER DISTRICT.

DOCKET NO. W-1303A-02-0869

ARIZONA-AMERICAN WATER COMPANY'S COMPLIANCE FILING OF EQUITY PLAN

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

ARIZONA-AMERICAN WATER COMPANY'S
COMPLIANCE FILING OF
EQUITY PLAN

Commission Decision No. 68310 in the above-captioned dockets ordered Arizona-American Water Company ("Arizona-American" or the "Company") to "file a plan with Docket Control by December 31, 2005, that describes how Arizona-American expects to attain and maintain a capital structure (equity, long-term debt and short-term debt) with equity representing between 40 and 60 percent of total capital." This filing is submitted in compliance with that Decision.

The Company shares the Commission's goal of attaining and maintaining at least a 40% equity ratio and, hence the Commission's and Arizona-American's interests are largely aligned on this issue.

The Company's specific target is to reach and maintain an equity ratio of 40% (or somewhat higher) before the end of Arizona-American's current business planning period, December 31, 2010. The Company will likely temporarily reach 40% prior to 2010, but it will have difficulty maintaining that ratio until 2009, given known upcoming capital expenses, customer refunds, and regulatory lag associated with timing of capital expenses and rate cases.

The Company will be unable to reach an equity ratio of 50% or higher during this period and is unlikely to exceed 45%.

As of November 30, 2005, the Company's capital structure was 34.1% equity ($115.3 million), 57.5% long-term debt ($194.3 million) and 8.4% short-term debt ($28.3 million).

Financial Variables. Four financial variables directly influence Arizona-American's equity ratio:

1. Debt Financings. (Issuing debt decreases the equity ratio.) Arizona-American must obtain new debt to support its significant capital plan and borrowed $25 million in late 2004 to fund its new arsenic facilities. The Company has approximately $159 million in outstanding debt maturing November 2006 that it must refinance. The Company may also have other refinancing in 2006 as well as $15 million in new debt associated with new capital expenses.
2. Earnings. (Greater earnings support an increased equity ratio.) However, as discussed below, there are a number of constraints on Arizona-American's ability to generate earnings – resolution of which is at the core of the Company's plan.
3. Dividends versus Retaining Earnings. (Paying dividends decreases retained earnings and reduces the equity ratio.) Arizona-American has not paid a dividend since 2003 and does not expect to pay a dividend until it reaches / maintains a 40% equity ratio. Commission conditions earlier placed upon the Company require cessation of dividends upon a 35% equity ratio and an equity infusion upon a 30% equity ratio.
4. Equity Infusions. (Infusing equity raises the equity ratio). Company management is seeking approval in December 2005 from the Arizona American Water and American Water Works Boards of Directors for an equity infusion of up to $35 million in 2006.

Since approval of both Boards is necessary, the Company does not fully control the outcome of this request. Please note that Arizona-American faces significant competition with regulated affiliates in other jurisdictions whose rate-setting methodologies are presently more favorable. Arizona-American's allowed return on equity is currently the lowest among the 23 states in which American Water and its regulated affiliates operate. If approved, the Company expects to use this equity infusion to retire short-term debt. The Company does not believe that Commission approval for an equity infusion is required. Therefore, unless the Company learns otherwise, it will not be seeking Commission approval for the 2006 equity infusion.

Earnings Constraints. There are several constraints on Arizona-American's ability to increase earnings and improve its equity ratio:

- Enormous capital expenses required to serve our customers over the five-year planning horizon relative to existing rate base;
- Regulatory lag, which often delays Arizona-American's ability to earn on sunk capital;
- Legacy issues resulting from Arizona-American's acquisition of Citizens Utilities' water districts;
- Present rates set too low for Arizona-American to earn its authorized return during the period rates were / are in effect; and
- An existing three-year rate filing moratorium (expires January 2006), which constrained Arizona-American's ability to rectify under-earnings during the moratorium period.

For these and other reasons, Arizona-American can only make slow and uneven progress towards reaching and maintaining at least a 40% equity ratio. The first step is for Arizona-American to halt the immediate decline in its equity ratio.

EQUITY PLAN.

Given these factors, Arizona-American's proposed equity plan follows:

1. **ACRM and Fire Flow Implementation**. To prevent equity erosion, Arizona American must timely implement ACRM surcharges, hook-up fees, and fire-flow surcharges, and their subsequent Step rate increases in Sun City West, Agua Fria, Havasu, and Paradise Valley water districts.

2. **New Rate Cases**. To improve earnings and increase the equity ratio Arizona-American plans to file a series of new rate cases starting on or after January 12, 2006 (as the existing 3-year rate moratorium expires on January 11, 2006). Arizona-American has tentatively scheduled filing the following rates cases:

District	Filing Date:
Mohave - Water and Wastewater	January 2006
Anthem - Water	April 2006
Sun City - Wastewater	April 2006
Sun City West - Wastewater	April 2006
Agua Fria - Water	April 2007
Sun City - Water	April 2007
Sun City West - Water	April 2007
Tubac - Water	April 2007
Havasu - Water	April 2007
Anthem / Agua Fria - Wastewater	April 2007

With the exception of Paradise Valley, for which pending requests include both ACRM and public safety surcharges, virtually all these districts should repeat this filing cycle two years later (April 2008 and April 2009) due to planned capital expenses. This schedule is dynamic and will be updated periodically as events emerge and conditions dictate.

Arizona American will continue to hire qualified Rate Department personnel when it can to both support this currently-planned magnitude of rate case filings, and manage regulatory expenses. We will periodically present to Commission Staff Arizona-American's five-year capital-expenditure plan for informational and planning purposes.

3. **Hypothetical Capital Structures**. To help improve equity ratios, each of these upcoming rate cases will be based on a hypothetical capital structure, which assumes a 40% or greater equity ratio, even though the actual equity ratio will be less. The Commission has previously approved hypothetical capital structures for Southwest Gas and Tucson Electric Power, for the explicit purpose of improving actual equity ratios over time.

4. **Improved Returns on Equity**. As mentioned above, a significant challenge to attracting equity investment for Arizona-American is that the Commission's allowed returns on equity are the lowest allowed by any Commission in the 23 states where Arizona-American and its regulated affiliates operate. Arizona-American intends to continue to press the case for higher equity returns in every available forum.

5. **Rate Base for Citizens Plant**. Consistent with Decision No. 63584, in future rate cases for all former Citizens districts, rate base will be increased based on earlier approved rate treatment of advances in aid of construction and contributions in aid of construction retained by Citizens. Any acceleration of the amortization of these advances and contributions would contribute to the Company's equity plan. In the upcoming Mohave rate cases, consistent with Decision No. 63584, the Company will request amortization through the period January 2007, the date new rates are proposed to be in effect.

6. **Recovery of Citizens Acquisition Premium**. Arizona-American will request recovery in future rate cases of portions of the Citizens acquisition premium in those districts where it can demonstrate it meets the Commission's threshold net benefits standard.

7. **Reduced Capital Investment and Improved Operating Efficiency**. Arizona-American will continue its increased emphasis on reducing future capital expenses and on improving efficiency. As an initial step, any project categorized as "discretionary" has been removed from the capital plan unless accompanied by an explicit and viable regulatory-recovery plan. For example, the Paradise Valley fire flow-improvements remain in the plan as Arizona-American believes its pending request for a Public Safety surcharge is viable as evidenced by express community support and the Commission's recent approval (Decision No. 68303) of a deferral of depreciation and post in-service AFUDC on nearly $3 million of fire-flow investment now in service in Paradise Valley. By contrast, the Sun City fire flow project has been removed from the Company's capital plan because of the lack of community support for recovery of the costs of this project.

Arizona-American's total net capital expense plan, approved November 2005, for the period 2006 through 2010 is still substantial - $206 million. The Company will continue to examine the criteria for each project in the plan with an eye towards further reductions.

8. **Approval of White Tanks Water Capital Lease**. As part of capital expense reviews, Arizona-American learned it could not obtain corporate financing for the proposed White Tanks Regional Treatment Plant to be located in its Agua Fria district. As a result, Arizona-American has filed a request at the Commission for a series of approvals supporting a capital lease with Maricopa Water District for a regional facility that MWD will build and own. Commission approval of this request will support improvement in the Company's equity ratio by reducing regulatory lag.

9. **Reducing Advanced Plant and Associated Depreciation Expense**. Large portions of utility plant are funded by developer advances. Initially, this plant is considered to be

an advance in aid of construction, with no return on the advanced investment, but subject to depreciation. Over time, a portion of the cost of this plant is refunded to developers, at which time the plant is added to rate base. Any portion of a plant not refunded is transferred to a contribution account. At that time, the depreciation expense ceases on transferred balances and the previous cumulative depreciation is reversed.

In a rapidly growing area like Arizona-American's Agua Fria District, the annual depreciation expense on plant that will ultimately be classified as contributed plant significantly depresses reported earnings under GAAP. The Company estimates that between 50% to 75% of all advanced plant eventually becomes contributed plant. We propose to jointly evaluate this issue with Staff and determine whether an accounting order could help reduce depreciation expense (and the rates needed to recover this expense) and boost earnings.

10. **Treatment of Anthem Refunds**. Arizona-American forecasts refunding over $30 million in advances to Del Webb in its Anthem water and waste water districts in July 2007. The rate case the Company will file for the water district in April 2006 will provide the Commission creative and well supported proposals to proactively address this issue. Given the large magnitude of these future refunds, the Company's equity ratio will likely decline temporarily upon making them.

11. **Tubac Arsenic Remediation**. Arizona-American will endeavor to timely resolve the Tubac arsenic issue in a manner acceptable to the community and consistent with the revised compliance deadline of December 2007. However, to date the Company has invested $300,000 for vessels to support a central arsenic treatment facility. This prudent investment must be recovered to prevent further equity erosion. Arizona-American is open to creative solutions to minimize rate shock in Tubac in upcoming filings.

Conclusion

Arizona-American's plan is to reach and maintain, and perhaps somewhat exceed a 40% equity ratio by December 31, 2010. Arizona-American believes that it can ultimately achieve and maintain this 40% equity ratio. This will require Commission support, although we will not be asking for anything inconsistent with Commission precedent. To that end, the Company will be asking the Commission for a number of specific approvals that are needed to reach our shared goal of at least a 40% equity ratio.

As the above discussion illustrates, Arizona-American's first priority is to halt the existing erosion of equity caused by poor earnings by successfully implementing the ACRM and Paradise Valley rate increases and by filing new rate cases.

Progress towards maintaining a 40% equity ratio in 2006 through 2008 will be difficult because of known upcoming events, such as the $30 million advance refund in Anthem. Hence, while Arizona-American may temporarily reach a 40% equity ratio in 2006, it will be challenging to maintain that ratio in 2007 and 2008.

RESPECTFULLY SUBMITTED on November 30, 2005.

Craig A. Marks

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By: Courtney Appelhans
Courtney Appelhans

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY FOR APPROVALS ASSOCIATED WITH A TRANSACTION WITH THE MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE	DOCKET NO. W-01303A-05-0718

REBUTTAL TESTIMONY
OF
JOEL M. REIKER
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 27, 2006

REBUTTAL TESTIMONY
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TABLE OF CONTENTS

EXECUTIVE SUMMARY

Mr. Reiker testifies that Arizona-American can accept Arizona Corporation Commission Staff's conditions that require an equity infusion equal to 40% of the lease asset and that it maintain a 30% equity ratio. A minimum Debt Service Coverage ("DSC") ratio of 1.25 is also acceptable, as specified by Mr. Reiker. However, Staff's recommended 1.25 Times Interest Earned Ratio ("TIER") is not acceptable. Because of several factors in the near-term, Arizona-American cannot maintain that ratio and would be unable to finance new debt or the proposed capital lease if a TIER of 1.25 were required.

Staff's revised hook-up fee proposal is acceptable. However, as presently approved by the Commission, hook-up fees will have no affect on cash flow, DSC, or TIER. Arizona-American is willing to work with Staff to include a proposal as part of its next Agua Fria rate case such that hook-up fees could improve cash flow and earnings, which would improve DSC and TIER.

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Joel M. Reiker. I am a Regulatory Analyst employed by American Water Works Service Company ("American Water") in its Western Region. My business address is 19820 North 7th Street, Suite 201, Phoenix, Arizona 85024-1694. My telephone number is (623) 445-2490.

Q. BRIEFLY DESCRIBE YOUR RESPONSIBILITIES WITH AMERICAN WATER.

A. In my capacity as a Regulatory Analyst with American Water, I am responsible for the preparation of regulatory filings for our Western Region subsidiaries. Our Western Region subsidiaries include Arizona-American Water Company ("Arizona-American" or "Company"), California-American Water Company, Hawaii-American Water Company, New Mexico-American Water Company, and Texas-American Water Company.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. In 1998, I graduated cum laude from the Arizona State University School of Management, receiving a Bachelor of Science degree in global business with a specialization in financial management. My course of studies included classes in corporate and international finance, investments, accounting, statistics, and economics. From 1999 to 2005, I was employed by the Arizona Corporation Commission ("Commission") as a Staff Rate Analyst in the Utilities Division. While at the Commission, I provided recommendations regarding rate of return, mergers and acquisitions, divestitures, and financings, and I occasionally acted as an arbitrator in disputes brought before the Utilities Division. I have attended various educational programs and classes on regulatory and business issues, including the National Association of Regulatory Utility Commissioners and the Institute of Public Utilities' Regulatory Studies Program at Michigan State University. I have participated in over fifty regulatory proceedings.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS CASE?

A. I respond to portions of the Arizona Corporation Commission ("ACC") Staff Report filed in this docket on February 10, 2006.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. I have included an Executive Summary at the beginning of my Rebuttal Testimony.

II. STAFF CONDITIONS FOR FINANCING APPROVAL

A. Equity Infusion and Minimum Equity Ratio

Q. DOES THE COMPANY ACCEPT STAFF'S PROPOSED CONDITIONS FOR FINANCING APPROVAL RECOMMENDED ON PAGE 6 OF THE STAFF REPORT?

A. The Company will accept conditions 1 and 2 requiring an equity infusion equal to 40 percent of its White Tanks capital lease obligation and a minimum equity ratio of 30 percent. However, we do have concerns about Staff's third condition regarding minimum financial coverage ratios. We believe that we can comply with Staff's recommended minimum Debt Service Coverage ratio, but cannot accept the Times Interest Earned Ratio recommendation.

B. Debt Service Conditions

Q. WHAT IS STAFF'S THIRD CONDITION?

A. Condition 3, as recommended on page 6 of the Staff report, states:

> The Company's Step 1 Water Treatment Plant filing (as discussed later) must demonstrate that after including the effects of the capital lease, the Company' times interest earned ratio will be at least 1.25 and the Company's debt service coverage ratio shall be at least 1.25.

At the very least, the Company seeks clarification regarding the exact formulaic calculation of these ratios and whether Staff intends those calculations to include the pro-forma (cash flow) effect of Step-1 of the Company's proposed White Tanks surcharge mechanism ("WTSM").

Q. WHAT ARE THE COMPANY'S CONCERNS ABOUT CONDITION 3?

A. As I understand the condition, Staff recommends denial of the Company's financing request if, at the time the Company enters into the White Tanks capital lease, either its debt service coverage ("DSC") ratio or times interest earned ratio ("TIER") are below 1.25. Staff recommends that the Commission deny both the Company's request to execute the capital lease *and its request for a White Tank surcharge mechanism ("WTSM") designed to recover the costs associated with that lease*, if operating earnings are not sufficient to cover those costs. In other words, Staff's condition places the

Company in a catch-22.[1] Without the surcharge mechanism, Arizona-American would be unable to recover its costs associated with the capital lease, so DSC and TIER would certainly deteriorate - the only question is how much.

Q. DOES THE COMPANY CURRENTLY SATISFY BOTH OF THESE FINANCIAL COVERAGE REQUIREMENTS?

A. No. As of December 31, 2005, Arizona-American had a DSC ratio of 2.67 but a TIER of only 1.14 (see Exhibit JMR-1). Certain legacy issues specific to Arizona-American make the times interest earned ratio not a particularly useful indicator of the Company's ability to service debt going forward.

Q. WHAT FACTS SPECIFIC TO ARIZONA-AMERICAN WATER MAKE THE TIMES INTEREST EARNED RATIO NOT PARTICULARLY USEFUL IN THIS CASE?

A. Per a prior settlement with Commission Staff[2], Arizona-American currently has over $125 million of its investment excluded from rate base and is currently incurring over $2.0 million in annual depreciation and amortization without regulatory recovery. Both of these items contribute to a drag on the earnings figure used in the numerator of the TIER calculation. As the Company files new rate cases in the coming years, that investment will be included in rate base and a portion of the depreciation expense will be recovered. The timing of the White Tanks project is such that the effect of these additional earnings will be known, but not yet fully-realized. For this reason, a simple

[1] Similar to the college graduate who cannot find work because she lacks experience.
[2] Per Decision No. 63584, dated April 24, 2001

interest coverage ratio that ignores positive operating cash flow is not particularly useful. The DSC ratio measures operating cash flow and is more representative of the Company's ability to service debt going forward.

I am also aware that Staff has recommended approval of financings for utilities whose DSC ratios or TIERs were below 1.25, and when a TIER analysis was excluded altogether. For example, in Decision No. 66941, the Commission authorized, based on Staff's recommendation, Arizona-American to issue up to $25 million in new long-term debt, although the Company's TIER was only 0.66. The minimum TIER recommended by Staff in this case would make it impossible at this time for Arizona-American to refinance $158.4 million in existing debt scheduled to mature in 2006, to issue new debt to finance additional capital projects, and to enter into the White Tanks transaction with MWD.

Q. ARE YOU TESTIFYING THAT ARIZONA-AMERICAN WATER'S FINANCIAL CONDIDTION IS SOMETHING DIFFERENT THAN WHAT THESE LOW FINANCIAL COVERAGE RATIOS INDICATE?

A. No. I am only testifying that Arizona-American Water expects to be able to meet its obligations. According to Standard & Poor's ("S&P") 2005 Corporate Ratings Criteria, the median interest coverage ratio (the equivalent of a TIER) and book return on equity for an A-rated public utility in 2003 was 3.2 and 9.5 percent, respectively. As shown on Exhibit JMR-1, Arizona-American Water had a TIER of 1.37 and a book return on equity of 0.7 percent in that year. Based on the S&P medians, Arizona-American Water's TIER falls into the category of 'junk". The fact that our primary lending affiliate, American

Water Capital Corporation, is an investment grade enterprise speaks to the implicit subsidy provided by other American Water subsidiaries in other states to Arizona-American Water, and ultimately its customers.

Q. WOULD INCREASED HOOK-UP FEES INCREASE CASH FLOW AND IMPROVE DSC AND TIER?

A. As I discuss below, I don't believe that an increase in hook-up fees would have any effect on cash flow, DSC, or TIER.

Q. WILL ARIZONA-AMERICAN ACCEPT THE STAFF'S MINIMUM DSC RATIO RECOMMENDATION?

A. The Company will reluctantly accept a minimum DSC ratio of 1.25 assuming our understanding of Staff's calculation, as set forth below[3], is correct:

$$\text{Debt Service Coverage} = \frac{\text{Income before Interest \& Taxes} + \text{Depreciation \& Amortization}}{\text{Interest Charges} + \text{Principal repayments}}$$

III. HOOK-UP FEES

A. Staff Revisions

Q. DOES STAFF ACCEPT THE COMPANY'S PROPOSED REVISION TO ITS EXISTING HOOK-UP FEES?

A. Staff partially accepts the Company's proposal. As explained on page 22 of the White Tanks Report, the Company proposes to discontinue its existing Water Facilities Hook-up Fee ("WFHF") and extend the CAP Hook-up Fee, increasing it from $150 to $1,800 for a

[3] The Company understands Staff's DSC ratio calculation to exclude non-recurring items.

5/8-inch meter. Staff recommends that the CAP hook-up fee be allowed to expire, and the WFHF be increased from $1,150 to $1,400 for a 5/8-inch meter. The difference between the Company's proposed hook-up fee and Staff's recommended hook-up fee is $400. If approved, the Company would begin charging the revised hook-up fee immediately upon issuance of a final order in this case.

Q. DOES THE COMPANY ACCEPT STAFF'S RECOMMENDED REVISED HOOK-UP FEE?

A. Yes.

Q. HOW DOES THE COMPANY PROPOSE TO ACCOUNT FOR THOSE HOOK-UP FEES?

A. Arizona-American proposes to continue treating funds received pursuant to the revised hook-up fee as a contribution in aid of construction ("CIAC"). Funds collected through the revised hook-up fee will continue to be held in a separate interest-bearing account.

B. <u>Cash Flow Benefit?</u>

Q. PAGE 7 OF THE STAFF REPORT STATES THAT THE HOOK-UP FEES MAY CREATE "POSITIVE CASH FLOW RELATED TO THE CAPITAL LEASE THAT MAY EXTEND FOR SEVERAL YEARS. THIS COULD RELIEVE SOME PRESSURE ON THE COMPANY'S TIER AND DSC..." IS THIS CORRECT?

A. Not unless the hook-up fees are treated as revenue. Currently, as required by Decision No. 64307, hook-up fees are received, deposited into a separate interest-bearing account, and treated as CIAC. When eligible capital projects are completed, funds from that account are used to fund the new capital project. Similarly, funds received from the revised hook-up fees will be available to fund the White Tanks Plant, and, as CIAC, will be accounted for as *offseting* Arizona-American's rate base, including the White Tanks plant, thus satisfying the provision of the hook-up fee tariff requiring that these fees be used to fund, among other things, "treatment" facilities. In his rebuttal testimony, Mr. Kalinovich illustrates the proper accounting.

C. <u>Use of Hook-Up Fees to Fund Lease Payments</u>

Q. THE ABOVE EXPLANATION SEEMS TO CONFLICT WITH PAGE 10 OF THE STAFF REPORT WHICH SAYS THAT "FUNDS COLLECTED ARE ONLY TO BE USED TO MAKE CAPITAL LEASE PAYMENTS..." HOW DO YOU RESPOND?

A. At present, as we understand Decision No. 64307, the hook-up fee funds cannot be used to make lease payments. As discussed, the funds are deposited in an interest-bearing account and treated as CIAC. For the funds to be available to make specific payments, the Company believes that the Commission would have to authorize the Company to instead book the funds as revenue, include the funds with the Company's general funds, and then, for rate-making purposes, consider the funds as offsetting the capital-lease's associated revenue requirement. The Company would not object to this use for the hook-up fees, which *would* improve our DSC ratio and TIER, but believes that a change of this nature would have to be made as part of a general rate case. We would be willing to discuss this issue further with Staff before our next Agua Fria rate filing, currently scheduled for Spring 2007, and include a proposal to this effect for the Commission's consideration.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

Arizona American Water Company
Docket No. W-01303A-05-0718

Exhibit JMR-1
Schedule

Witness:

	2005	2004	2003	2002	2001
Debt Ratio					
	63.1%	63.3%	60.1%	60.1%	58.3%
Debt Service Coverage					
	2.67	2.78	2.76	1.14	-0.58
Times Interest Earned					
	1.14	1.24	1.37	0.98	2.28
Return on Common Equity					
	0.7%	0.1%	0.7%	-2.2%	-0.8%

$$\text{Debt Ratio} = \frac{\text{Total debt}}{\text{Total Capital}}$$

$$\text{Debt Service Coverage} = \frac{\text{Income before Interest \& Taxes} + \text{Depreciation \& Amortization}}{\text{Interest Charges} + \text{Principal repayments}}$$

$$\text{Times Interest Earned} = \frac{\text{Income before Interest \& Taxes}}{\text{Interest Charges}}$$

$$\text{Return on Common Equity} = \frac{\text{Income available for Common Dividends}}{\text{Average Common Equity}}$$

Arizona-American Water Co.

Line No.	Description	12/9/2005 12 Month Actual	12/10/2004 12 Month Actual	12/12/2003 12 Month Actual	12/31/2002 12 Month Actual	12/31/2001 12 Month Actual	12/31/2000 12 Month Actual
1							
2	OPERATING REVENUES	55,694,121	55,515,605	52,625,540	45,969,615	5,405,606	5,250,777
3							
4	Total Maintenance & Operations Expense	33,627,509	33,063,436	31,648,780	27,915,110	3,068,104	2,631,310
5							
6	Depreciation	14,394,948	12,909,349	11,137,917	10,156,962	625,797	585,188
7	Amortization	300,354	292,153	315,450	315,693	65,394	65,235
8	General Taxes	2,363,298	2,290,074	2,125,459	1,982,132	316,388	301,882
9	State Income Taxes	(377,412)	(43,622)	88,721	(146,190)	70,027	95,763
10	Federal Income Taxes	(1,520,906)	(251,477)	10,734	(649,777)	263,393	372,765
11							
12	TOTAL OPERATING EXPENSES	48,787,791	48,259,913	45,327,061	39,573,930	4,409,103	4,052,143
13							
14	UTILITY OPERATING INCOME	6,906,330	7,255,692	7,298,479	6,395,685	996,503	1,198,634
15							
16	Other Income	3,509,991	1,394,677	1,719,220	284,750	(579,125)	(174,854)
17							
18	Income Before Interest Charges	10,416,321	8,650,369	9,017,699	6,680,435	417,378	1,023,780
19							
20	Total Interest Charges	9,576,937	8,555,689	8,196,154	8,043,959	467,563	466,740
21							
22	NET INCOME	839,384	94,680	821,545	(1,363,524)	(50,185)	557,040
23							

Arizona American Water Company
Docket No. W-01303A-05-0718

Exhibit JMR-1
Schedule
Page 3 of 3
Witness:

Line No.	Description	12/9/2005 Year	12/10/2004 Year	12/12/2003 Year	12/31/2002 Year	12/31/2001 Year	12/31/2000 Year
1							
2	ASSETS						
3	Utility Plant	499,074,509	424,401,244	379,678,111	313,377,661	23,625,921	23,181,812
4							
5	Non-Utility property	111,151	111,151	124,643	90,844	90,844	90,844
6	Other investments	37,286,237	37,086,285	37,111,707	37,364,643	-	-
7							
8	Current Assets	19,507,626	21,775,476	13,772,158	10,133,337	1,110,336	747,366
9							
10	Deferred Debits	13,242,236	8,189,916	8,246,996	8,574,692	1,507,198	1,631,710
11							
12	Total Assets	569,221,759	491,564,072	438,933,615	369,541,177	26,334,299	25,651,732
13							
14	Common Equity	116,249,739	115,410,356	115,315,673	115,437,405	5,912,774	6,181,525
15							
16	Long-Term Debt	198,757,395	198,772,252	173,792,930	173,824,405	8,272,433	4,747,567
17							
18	Total Capital	315,007,134	314,182,608	289,108,603	289,261,810	14,185,207	10,929,092
19							
20	Current Liabilities	58,869,647	21,960,440	33,188,883	21,592,919	1,935,307	4,016,884
21							
22	Deferred Credits	174,885,102	138,947,418	106,258,530	51,104,694	2,161,192	2,223,787
23							
24	Contributions in Aid of Construction	20,459,874	16,473,607	10,377,600	7,581,753	8,052,594	8,481,969
25							
26	Total capital and liabilities	569,221,757	491,564,073	438,933,616	369,541,176	26,334,300	25,651,732

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 APPROVALS ASSOCIATED WITH A TRANSACTION WITH THE MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE	DOCKET NO. W-01303A-05-0718

REBUTTAL TESTIMONY
OF
JAMES M. KALINOVICH
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 27, 2006

**REBUTTAL TESTIMONY
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TABLE OF CONTENTS

EXECUTIVE SUMMARY

James M. Kalinovich testifies that once service commences from the White Tanks Facility, Arizona-American will record an asset presently estimated to be worth $37.4 million and a matching liability also equal to $37.4 million. American Water will inject approximately $15 million in new equity, which will be used to retire old Arizona-American debt. The net effect on the balance sheet will be a net asset of $37.4 million, matched by net additional debt of $22.4 million and net new equity of $15 million.

The accumulated net balance in the hook-up fee account will offset the amount of the capital lease asset included in rate base. Using Staff's assumption, $22.7 million in collected hook-up fees would offset the $37.4 million lease asset, for a net increase in rate base of $14.7 million.

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is James M. Kalinovich. I am the Treasurer of American Water Works Company, Inc. ("American Water"). My business address is 1025 Laurel Oak Drive, Voorhees, NJ 08043. My telephone number is (856) 309-4572.

Q. ARE YOU THE SAME JAMES M. KALINOVICH WHO IS SPONSORING SECTION II OF ARIZONA-AMERICAN'S REPORT ON THE PROPOSED WHITE TANKS WATER TREATMENT FACILITY?

A. Yes. A copy of my résumé is attached to that report.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS DOCKET?

A. I would like to clarify how the capital lease will be booked by Arizona-American, including how the hook-up-fee contribution and equity infusion will be reflected.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. I have included an Executive Summary at the beginning of my testimony.

II. CAPITAL LEASE ACCOUNTING

Q. PLEASE ILLUSTRATE THE ACCOUNTING FOR THE CAPITAL LEASE, HOOK-UP-FEE CONTRIBUTION, AND EQUITY INFUSION.

A. Arizona-American Water proposes to treat funds generated by the revised hook-up fee as a contribution in aid of construction ("CIAC") and booked to a separate CIAC account. To the extent these funds have not already been applied toward some other eligible capital project, funds received from the revised hook-up fee and booked to the separate CIAC account will be treated as an *offset* to the rate base associated with the White Tanks plant, thus satisfying the provision of the hook-up fee tariff requiring that these fees be used to fund, among other things, "treatment" facilities. As shown on Schedule JJD-5 attached to the Staff Report, the Company expects to collect (and book into a separate CIAC account) approximately $22.7 million in hook-up fees, net of existing capital expenditures related to the hook-up fee tariff, by June 2008.

Q. WHAT HAPPENS ONCE SERVICE COMMENCES UNDER THE CAPITAL LEASE?

A. In mid 2008, Phase 1A of the White Tanks treatment facility should be completed and Arizona-American will begin leasing capacity in the facility at a total estimated cost of approximately $37.4 million. At this time, Arizona-American will record an asset of $37.4 million, as well as a long-term debt obligation of $37.4 million (at the lease interest rate). In accordance with Staff's proposed conditions, American Water will also make a equity infusion to Arizona-American equal to 40% of the lease asset (approximately $15 million) and retire (pay-off) $15 million in old debt. The net effect on the balance sheet would be an increase on the asset side of $37.4 million, matched with net additional debt of $22.4 million and additional equity of $15 million.

Q. WHAT HAPPENS WHEN THE HOOK-UP FEES ARE TAKEN INTO CONSIDERATION?

A. Consistent with normal rate-setting procedure, and as shown in the following table, an amount equal to the accumulated balance of CIAC (approximately $22.7 million) will offset the lease asset in rate base:

Table 1: Rate Base

Plant in Service	$37.4 million
Accumulated Depreciation	--
Net Utility Plant in Service	$37.4 million
Deductions:	
Contributions in Aid of Construction	$22.7 million
Net Rate Base	$14.7 million

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.