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BEFORE THE ARIZONA CORPORATION COMMISSION

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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 PARADISE VALLEY WATER DISTRICT.	Docket No. W-01303A-05-0405
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY FOR APPROVAL OF AN AGREEMENT WITH THE PARADISE VALLEY COUNTRY CLUB.	Docket No. W-01303A-05-0910

NOTICE OF FILING TESTIMONY SUMMARY

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Testimony Summary of Marylee Diaz Cortez, William A. Rigsby, Rodney L. Moore and Timothy J. Coley, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 23rd day of March, 2006.

Daniel W. Pozefsky
Attorney

AN ORIGINAL AND FIFTEEN COPIES
of the foregoing filed this 23rd day
of March, 2006 with:

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Arizona-American Water Company
Paradise Valley District
Docket No. W-01303A-05-0405
Rate Application

SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the issues set forth in the direct and surrebuttal testimonies of Ms. Diaz Cortez. A full discussion of these issues and the underlying theory and rationales for her recommendations are contained in the referenced documents.

The testimony of Ms. Diaz Cortez addresses the following two issues: the Company's request for a Public Safety Surcharge designed to recover the cost of up-sizing its system to increase fire flow, and the Company's request for a High Block Usage Surcharge to penalize high-water-use customers.

RUCO recommends that the request for a Public Safety Surcharge be denied. In support of this recommendation, Ms. Diaz Cortez discusses the lack of a regulatory standard and Commission precedent for fire flow, the discretionary nature of the proposed projects, and the need for a Contribution in Aid of Construction when a third party requests the installation of non-revenue producing plant from a utility.

SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ (Cont.)

RUCO also recommends that the Company's request for a High Block Usage Surcharge be denied. The proposed surcharge is non-cost-of-service based and will generate $1.6 million annually in cost-free capital for the Company.

Arizona-American Water Company
Paradise Valley District
Docket No. W-1303A-05-0405
Rate Application

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness William A. Rigsby, on Arizona-American Water Company's application for a permanent rate increase for the Paradise Valley District ("Paradise Valley" or the "Company"), located in Maricopa County. A full discussion of the cost of capital issues associated with Paradise Valley's request for revenue relief and the underlying theory and rationales for Mr. Rigsby's recommendations are contained in the referenced documents. The significant issues associated with the case are as follows:

Capital Structure – Mr. Rigsby is recommending that the Commission adopt the Company's test year capital structure which is comprised of approximately 37 percent common equity and 63 percent long-term debt.

Weighted Cost of Capital – Mr. Rigsby is recommending a 7.10 percent weighted cost of capital. Mr. Rigsby's 7.10 percent figure is based on the weighted cost of common equity and weighted cost of long-term debt. Mr. Rigsby's weighted cost of capital is the result of his recommended capital structure, his recommended cost of common equity and his decision to accept the Company-proposed cost of debt.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

Cost of Common Equity – Mr. Rigsby is recommending a 10.00 percent cost of common equity. Mr. Rigsby's 10.00 percent figure is based on the results of his cost of equity analysis, which used both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies. Mr. Rigsby's recommended 10.00 percent cost of common equity figure includes an upward adjustment of 50 basis points, which takes the Company's debt-heavy capital structure into consideration.

Arizona-American Water Company
Paradise Valley District
Docket No. W-01303A-05-0405
Rate Application

SUMMARY OF THE TESTIMONY OF RODNEY L. MOORE ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the direct and surrebuttal testimonies given by Rodney L. Moore applicable to RUCO's recommended conditions for a permanent rate increase. A full disclosure of the issues and conditions are contained in the referenced documents.

This summary indicates the testimonies of Mr. Moore that address the outstanding issues.

These outstanding issues are:

Rate Case Expenses - This adjustment is based on RUCO's determination of the fair and reasonable cost to PV Water ratepayers for this rate case.

Pension Expense - RUCO made adjustments to the number of equivalent employees working for PV Water when calculating the pension expense.

Normalized Payroll - RUCO made adjustments to the number of equivalent employees working for PV Water when calculating the normalized labor expense.

Test-Year Depreciation Expense - RUCO made adjustments to the ratepayers' entitlement of the compensation on the gain from the sale of land.

Property Taxes – MRTF Assessment - RUCO made an adjustment to remove property taxes associated with the Miller Road Treatment Facility.

SUMMARY OF THE TESTIMONY OF RODNEY L. MOORE (Cont.)

Property Taxes – ADOR Methodology – RUCO made an adjustment to reflect the Company's property tax based on the use of the Arizona Department of Revenue formula.

Normalized Payroll Taxes - RUCO made adjustments to the number of equivalent employees working for PV Water when calculating the normalized payroll taxes.

Administration and General Allocated Costs – RUCO made adjustments to remove three specific expense items that should not be the financial burden of the ratepayers.

Income Tax Expense - This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

This summary does not address testimonies of Mr. Moore concerning issues that the Company and RUCO discussed and reached an agreement on.

These resolved issues are: 1) the reclassification of an office lease; 2) the normalization of group Insurance; 3) the normalization of OPEB Expenses; 4) the amortization period for rate case expenses; 5) the write-off of the Material and Supplies inventory; 6) the test-year gross plant in service and amortization of the Mummy Mountain acquisition; 7) the reduction of certain expenses, which are not the financial burden of ratepayers; and 8) the capitalization of certain operations and maintenance expenses.

SUMMARY OF THE TESTIMONY OF RODNEY L. MOORE (Cont.)

Arsenic Cost Recovery Mechanism

RUCO is in agreement with the ACRM as proposed by the Company.

Arizona-American Water Company
Paradise Valley District
Docket No. W-1303A-05-0405
Rate Application

SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the issues addressed in both the direct and surrebuttal testimonies of RUCO witness Timothy J. Coley, on Arizona-American Water Company's application for a permanent rate increase for the Paradise Valley District ("Paradise Valley" or the "Company") located in Maricopa County. A full discussion on the rate base and rate design issues associated with Paradise Valley's request for rate relief and the fundamental rationales for Mr. Coley's recommendations are contained in the referenced documents. The remaining issues are:

RATE BASE ISSUES

Property Held For Future Use ("PHFFU") – This adjustment removes plant from Utility Plant In Service ("UPIS") that is not in service, and therefore, not used and useful.

Gain on Sale of Land – This adjustment removes 50% (ratepayer's share of gain) of the gain from the sale of land and reduces rate base accordingly. RUCO recommends the ratepayer's share of gain be treated as a deferred liability and placed in an appropriate account that does not earn a return for the shareholders.

Capitalized Expenses – This adjustment increases rate base by $10,495. See RUCO witness Rodney L. Moore's testimony for a detailed explanation regarding this adjustment.

Allowance for Working Capital – This adjustment recalculates working capital based on RUCO's recommended operating expenses and corrections in the Company's lead/lag days.

RATE DESIGN ISSUES

RUCO is recommending the same rate design that currently exists and approved by the Commission in Decision No. 61307. The rate design consists of two tiers for the commercial customers, and a three-tier rate design for the residential customers.

The rate base and rate design issues that remain in contention are "Plant Held For Future Use," certain non-cash working capital additions made by the Company in its rebuttal testimony not included in the original rate application, and a rate design issue raised by a Company witness.