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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 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 DISTRICTS.	DOCKET NO. W-01303A-02-0869

Arizona Corporation Commission
DOCKETED
DEC 10 2003
DOCKETED BY

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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 ANTHEM WATER DISTRICT, ITS AGUA FRIA WATER DISTRICT, AND ITS ANTHEM/AGUA FRIA WASTEWATER DISTRICT.	)	DOCKET NO. WS-01303A-02-0870
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

TOWN OF YOUNGTOWN'S NOTICE OF FILING PREFILED TESTIMONY SUMMARIES

The Town of Youngtown, by and through its attorneys, hereby files the Prefiled Testimony Summaries of Mr. Michael E. Burton, Mr. Andrew J. Burnham, and Mr. Jesse Mendez.

RESPECTFULLY SUBMITTED, this 10th day of December, 2003.

MARTINEZ & CURTIS, P.C.

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Original and twenty-one (21) copies of the foregoing filed this 10th day of December, 2003 with:

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PRE-FILED DIRECT AND SURREBUTTAL SUMMARY OF MICHAEL E. BURTON

The purpose of Mr. Burton's testimony in this proceeding is to present certain recommendations on behalf of the Town of Youngtown as they apply to certain components of the rate increase proposal put forth by Arizona-American for the Sun City Water and Wastewater Districts. An explanation of the recommendations Mr. Burton is sponsoring follows:

1. Use Original Cost Rate Base ("OCRB"), excluding an acquisition adjustment, as Fair Value Rate Base ("FVRB").

    a. Mr. Burton's position is entirely consistent with prior fair value determinations. In fact, most water utilities in Arizona do not even submit anything other than OCRB for consideration as FVRB. Moreover, the use of OCRB as FVRB is particularly compelling in this case, since Commission Decision No. 63584, authorizing Arizona-American's acquisition of the water and wastewater assets of Citizens, conditioned the recovery of an acquisition premium (the difference between the price actually paid by Arizona-American to Citizens and the current book value of the assets) upon a demonstration of clear, quantifiable public benefit that otherwise would not have resulted if the sale had not occurred. The Company has admitted it is not making such a demonstration of public benefit in this proceeding. Based upon the position that RCND rate base and the purchase price are both representative of current value, RCND implicitly includes all or some level of an acquisition premium. Therefore, the use of RCND rate base (or anything greater than OCRB excluding an acquisition adjustment) in the determination of FVRB would in effect recover all or a portion of the acquisition adjustment to cover the premium paid by the Company. This would be in direct violation of the prior Commission decision that authorized the acquisition of assets by the Company and would allow the Company to side-step a condition of a Commission order at the cost of ratepayers.

2. Defer decision regarding request for accounting treatment of acquisition adjustment.
    a. Company rebuttal clarified this issue, and subsequently the recommendation to defer the decision regarding the accounting treatment proposal of the Company is withdrawn.

3. Revision to Company's water irrigation tariff to include service to Youngtown.
    a. This request is intended to have service available to Youngtown (specifically Maricopa Lake) under this tariff that is currently available to similar recreation lakes located elsewhere within the Sun City Water District. The Company previously invited Youngtown to make such a

request in this forum and stated that it would not oppose such a request. It is important to note that this request has been made under the assumption that the Company's existing rate structure would be maintained.

4. Request that the Company work with Youngtown and other appropriate stakeholders to develop a five-year plan to remedy any and all existing water service adequacy problems to Youngtown's fire hydrants within the Sun City Water District.
    a. Mr. Burton's testimony puts forth a basic, conceptual description of Youngtown's request that the Company work with Youngtown in order to develop a five-year plan to address water service adequacy to fire hydrants within Youngtown. This request was subsequently expounded upon substantially by Youngtown Public Works Director Jesse Mendez in his surrebuttal testimony.

PRE-FILED DIRECT AND SURREBUTTAL TESTIMONY SUMMARY OF MR. ANDREW L. BURNHAM

The purpose of Mr. Burnham's Pre-filed Direct and Surrebuttal Testimony in this proceeding is to:

1) Present the calculations of Burton & Associates' recommendations on behalf of the Town of Youngtown as they apply to certain components of the rate increase proposal put forth by Arizona-American for the Sun City Water and Wastewater Districts and
2) Present certain alternative proposals on behalf of Youngtown.

An explanation of the fundamental calculations and recommendations Mr. Burnham sponsors follows:

Calculations:

1. Required operating income and revenue requirement for the Sun City Districts based upon Original Cost Rate Base ("OCRB"), excluding an acquisition adjustment, as Fair Value Rate Base ("FVRB").
2. Various test-year income statement expense items based upon the use of OCRB as FVRB.
    a. These calculations include interest expense, property tax expense, corporate office and insurance expense allocations, income tax expense, and depreciation expense.

Recommendations:

3. Accounting treatment of an acquisition adjustment.
    a. Relative to the requested accounting treatment, Mr. Burnham recommends an alternative allocation method and expresses concern over future rate implications of adopting the Company's proposed method. In regards to the method, Mr. Burnham recommends that an allocation based upon net plant in service is more appropriate than the Company's proposal to allocate the acquisition adjustment based upon gross plant because it is more representative of current value. Mr. Burnham's concern with the proposal is that the Company's proposed method of allocation for accounting purposes may set precedent for allocation of an acquisition premium for recovery purposes in a future rate proceeding.
4. Extending the period used as the basis for annualizing corporate insurance expense and Service Company Charges.
    a. This issue has been nullified to the extent the Commission adopts the Company's amended proposal to utilize actual 2002 corporate expense amounts in the test-year.
5. Amortizing rate case expenses over 5 years.
    a. Considering the historical timing of rate proceedings for these districts and past Commission order in Decision No. 60172 for these districts, Mr. Burnham recommends an amortization period of five years for the

approved rate case expense as opposed to the three-year period proposed by the Company.

6. Modifying the phase-in proposal of rate increases, depending upon the level of rate increase, which may be authorized by the Commission
    a. Mr. Burnham proposes that if the final rate increase authorized for any of the Sun City Districts is greater than or equal to 20% and less than or equal to 40%, it be equally divided over a two-year period immediately following a Commission order. If the final rate increase is greater than 40%, it should be equally divided over a three-year period. This differs from the Company's proposal where customers would see no more than a 40% rate increase in rates in the first year following a Commission order in this proceeding and the balance would be implemented in the following year.

7. Recommended rate increases for the Sun City Water and Wastewater Districts contained in Mr. Burnham's revised surrebuttal schedules are 33.14% and (14.14%) respectively.
    a. To the extent the Commission adopts certain test-year income statement adjustments made by the Company in its rejoinder, Mr. Burnham's rate increases would need to be amended slightly. Based upon a preliminary review, such adjustment would be relatively minor, resulting in a small reduction to the rate increase recommendation for the Water District and a small increase in the rate decrease recommended for the Wastewater District.

PRE-FILED SURREBUTTAL TESTIMONY SUMMARY OF
MR. JESSE MENDEZ

Mr. Jesse Mendez is employed by the Town of Youngtown ("Youngtown" or "Town") as the Town's Public Works Director. He has been Youngtown's Public Works Director for twenty-three years. He directs all activities of the Youngtown Public Works Department including planning, organizing, and coordinating the activities of several sub-departments, which comprise the Public Works Department. He managed the Youngtown water system for 23 years until it was sold to Citizens Utilities Company in 1996, which subsequently sold the system to Arizona-American.

The purpose of Mr. Mendez' Surrebuttal Testimony is to respond to certain inaccurate or misleading statements made by Arizona-American's witness Mr. Fredrick K. Schneider in his Prefiled Rebuttal Testimony regarding the Town of Youngtown's request for a "Fire Hydrant Water Service Improvement Plan". As indicated in Youngtown's Prefiled Direct Testimony presented my Mr. Michael Burton, the Town proposes that Arizona-American, the Town, and the local fire department work together to develop a "Fire Hydrant Water Service Improvement Plan" to expedite Arizona-American's efforts to upgrade sub-standard size main and branch lines feeding hydrants located in certain older areas of the Youngtown water system. Mr. Mendez provides a map attached to his Pre-filed Rebuttal Testimony showing the specific street areas in Arizona-American's Sun City District where sub-standard size main and branch lines feeding hydrants are located.

Mr. Mendez testifies that he does not agree with Mr. Schneider's Rebuttal Testimony that the Town of Youngtown never contacted Arizona-American to discuss the Town's concerns regarding the adequacy and safety of water service to the Town's fire hydrants. Mr. Mendez explains that in July of 2002, he and Youngtown Town Manager Mr. Mark Fooks met with the Arizona-American Manager Mr. Robert J. Kuta to discuss the Town's concerns regarding the adequacy and safety of Arizona-American's water service to the Town's hydrants in certain older portions of the water system. Mr. Mendez indicates that at this meeting, Mr. Kuta indicated that the Company would develop, with input from the Town, a long-term plan to remedy any sub-standard main and standpipes feeding the Town's hydrants. Mr. Mendez explains that Youngtown, however, did not hear back from the Company until after the Town filed its Prefiled Direct Testimony over a year after the meeting.

Mr. Mendez testifies that Mr. Schneider is incorrect in his Pre-filed Rebuttal Testimony when he characterizes Youngtown's request for a "Fire Hydrant Water Service Improvement Plan" as an upgrade to fire flow service. Mr. Mendez explains that Youngtown has made no claim that Arizona-American has failed to comply with the Commission rule requiring delivery pressure equal to the minimum of 20 pounds per square to each of its metered customers. Mr. Mendez indicates that Youngtown's position and safety concern is that there are certain older areas of the Company's Sun City Water District water system within Youngtown (as identified roughly on the map attached to this testimony) that currently have sub-standard size main and branch lines to support the required size and type of fire hydrants being utilized by the local fire department. The water system in these areas dates back to the 1960's, have never been upgraded, and currently have only 4 inch mains and only 3 inch standpipes that are far too small to provide

adequate water service to the hydrants used by the fire department and are far smaller than current standard size main lines and standpipes used by utilities in new housing developments.

Mr. Mendez testifies that he agrees with Mr. Schneider that the water system in Youngtown is generally in good condition for its age and provides adequate and reliable service. Mr. Mendez explains that overall, the water system in Youngtown is in good condition considering that parts of the system are over forty years old. Mr. Mendez disagrees, however, that the older parts of the system provide adequate and safe service to the Town's hydrants. Mr. Mendez explains that even Mr. Schneider seems to indicate that relative to modern water systems, the older parts the Youngtown system are simply not capable of providing adequate water flow service to hydrants and would not pass muster if constructed today. Mr. Mendez explains that as indicated in Youngtown's Prefiled Direct Testimony, fire flow is of great concern to the local fire department because modern fire trucks cannot use the hydrants receiving this inadequate water service. Mr. Mendez explains that it is his understanding that these hydrants have a special color tag so that the fire department can identify them. Mr. Mendez explains that to overcome the problem of inadequate water service to these hydrants, the fire department has resorted to attending to fire calls in the older section of Youngtown with tanker trucks filled with water rather than rely exclusively on the fire hydrants.

Mr. Mendez testifies that he does not agree with Mr. Schneider's assertion that improvements to the water system in the Company's Sun City Water District have increased the flow capacity of the water system in Youngtown. Mr. Mendez explains that since 1996, upgrades and interconnections to the Sun City and Youngtown water systems have been made largely to provide water supply to new developments. These improvements did not (and cannot) increase flow capacity to the older parts of the Youngtown system. This is because adequate increases in water flow cannot be achieved unless and until the diameter size of the older existing mains and standpipes are also increased to modern standard sizes.

Mr. Mendez testifies that Mr. Schneider is incorrect in his pre-filed Rebuttal Testimony when he asserts that Arizona-American's rate filing is not the correct forum for Youngtown to properly address the Town's concerns regarding water service and safety to its hydrants. Mr. Mendez explains that Youngtown is a customer of Arizona-American and has a legitimate concern regarding the adequacy and safety of the Company's water service to certain of the Town's hydrants.

Mr. Mendez testifies that he agrees with the opinions expressed by Mr. Schneider in his Pre-filed Rebuttal Testimony regarding how Arizona-American should address Youngtown's water adequacy and safety concerns. Mr. Mendez explains that as already communicated to Arizona-American in Youngtown's responses to the Company's data requests, Youngtown agrees that: (1) Arizona-American should meet with the Town and the Sun City Fire Department to better understand the Town and fire department's concerns and time frame for improvements to the Youngtown water system; (2) these concerns should be evaluated in the context of the Company's Sun City/Youngtown water system (Sun City Water District); (3) an engineering analysis and cost estimate will need to be prepared; (4) costs and benefits of the potential upgrades must be weighted and the rate impacts considered; and (5) any fire hydrant water

service improvement plan should be incorporated into the capital improvement plans of the Company.

Mr. Mendez testifies that Youngtown strongly disagrees with Arizona-American on one important issue regarding implementation of a plan to improve water service to the Town's fire hydrants. The issue is priority! Although, Mr. Schneider indicates that Arizona-American may be willing to work with the Town and the local fire department to possibly address the Company's fire hydrant water service adequacy problems at some unknown time in the future, Mr. Schneider completely rejects Youngtown's recommendation that the Company commit to a formal Fire Hydrant Service Improvement Plan. Youngtown is appalled with Mr. Schneider's Rebuttal Testimony that improving sub-standard water service to the Town's fire hydrants (that could possibly save lives and structures in the event of fire) should not be given any special priority outside of the Company's "routine planning efforts." Mr. Mendez explains that he does not believe that is not indicative of a good corporate citizen. The Company's apparent cavalier attitude on this important water service problem completely ignores the Company's duty as a certificated utility to provide safe and reliable water service to all of its customers, not just its new customers. Accordingly, Youngtown, remains firm on its original recommendation that Arizona-American commence a "Fire Hydrant Water Service Improvement Plan," which would be a five-year plan to remedy any identified deficiencies in the Company's water service to Youngtown's fire hydrants, including those deficiencies specifically identified above by the Sun City Fire Department in Youngtown's Direct Testimony MEB Exhibit 5. This proposal includes the requirement that Arizona-American include the participation of Youngtown, as well as the Sun City Fire Department, in the Company's development of the five-year Fire Hydrant Water Service Improvement Plan. Youngtown further recommends that the Commission include in its Decision and Order the requirement that Arizona-American complete the Plan at a "date certain" to insure that the Company follows-though with the Plan. Youngtown would be amenable to the Company proposing the date certain for completing of the Plan.

Finally, Mr. Mendez testifies that Youngtown does not agree with Arizona-American that the Town must fund the study and improvements under a plan for the Company to upgrade water service to the Town's fire hydrants. Mr. Mendez explains that as a regulated utility, Arizona-American and its Sun City Water District should do what is necessary to provide safe and reliable water service to its customers within the District, and the Company should seek rate recovery accordingly in a future rate case before the Arizona Corporation Commission.