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BEFORE THE ARIZONA CORPORATION COMMISSION

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WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

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

Docket No. W-01445A-00-0962

NOTICE OF FILING

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

RESPECTFULLY SUBMITTED this 31st day of August, 2001.

Daniel W. Pozefsky
Attorney

Arizona Corporation Commission

DOCKETED

AUG 31 2001

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1 AN ORIGINAL AND TEN COPIES
2 of the foregoing filed this 31st day
3 of August, 2001 with:

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4 Arizona Corporation Commission
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6 mailed this 31st day of August, 2001 to:

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ARIZONA WATER COMPANY
DOCKET NO. W-01445A-00-0962
SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ

The following is a summary of the significant issues set forth in the direct and surrebuttal testimony 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.

Ms. Diaz Cortez recommends that the Commission adhere to ratemaking rules and principles. Specifically, she recommends the following adjustments which are necessary to comply with the historical test year rule, known and measurable standard, matching principle, as well as other established ratemaking concepts:

Post-test-year Plant Additions – This adjustment reduces rate base by removing plant items that were not in service during the test year.

Post-test-year Accumulated Depreciation – This adjustment removes the proforma accumulated depreciation associated with the post-test-year plant additions.

Construction Work in Progress – In accordance with Arizona ratemaking principles, this adjustment removes the test year CWIP balances from rate base.

Working Capital - This adjustment recalculates working capital based on RUCO's recommended operating expenses and lead/lag days.

Revenue & Expense Annualization – This adjustment annualizes revenues and associated expenses to test year-end levels.

Construction Water Revenue – This adjustment reflects the recognition of the average level of construction water revenues.

Payroll Expense – This adjustment restates payroll expense to reflect the actual test-year level.

Payroll Tax Expense – This adjustment restates payroll tax expense to reflect the actual test-year level.

Pension Expense – This adjustment restates pension expense to reflect the test-year level.

Purchased Power – This adjustment restates purchased power expense to reflect the actual test-year level.

Insurance Expense – This adjustment restates insurance expense to reflect the actual test-year level.

Office Rent & Cleaning Expense – This adjustment restates office rent and cleaning expense to the actual test-year level.

Field Data Communications Expense – This adjustment restates field data communications expense to reflect the actual test-year level.

Property Tax Expense - This adjustment calculates property tax expense on the currently effective Arizona Department of Revenue formula.

Depreciation & Amortization Expense – This adjustment calculates depreciation and amortization expense based on RUCO's recommended plant levels.

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

Ms. Diaz Cortez also recommends that if the Commission were to decide it wanted entertain the use of a projected test year, it would be necessary to reflect all ratemaking elements on a projected basis. Such matching is necessary in order to ensure that fair and reasonable rates are determined. The Company's proposed approach is to utilize a partial historical test year and a partial projected test year, which does not achieve the requisite matching.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE
IN DOCKET NO. W-01445A-00-0962 – ARIZONA WATER COMPANY

The following is a summary of the significant issues set forth in the direct and surrebuttal testimony of RUCO witness William A. Rigsby, on Arizona Water Company's ("Arizona Water" or the "Company") application for a permanent rate increase for the Company's Northern Group. A full discussion of these issues and the underlying theory and rationales for Mr. Rigsby's recommendations are contained in the referenced documents.

COST OF CAPITAL:

Cost of Equity Capital – Mr. Rigsby is recommending a 10.02% cost of equity capital. The 10.02% figure is based on the results of his cost of equity analysis, which used both the DCF and CAPM methodologies.

Cost of Long-Term Debt – Mr. Rigsby is recommending an 8.57% cost of long-term debt. This 8.57% figure is based on his review of Arizona Water's calculation of the costs associated with each of the Company's three outstanding bond issues and an FHA loan.

Weighted Cost of Capital – Based on the results of his capital structure, cost of equity, and debt analyses, Mr. Rigsby is recommending a 9.56% cost of capital for Arizona Water. This figure represents the weighted cost of both the Company's long-term debt and common equity.

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-00-0962
SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY

This summary sets forth the substantive issues raised in Mr. Coley's direct and surrebuttal testimonies filed in this docketed case. Full disclosures of the issues are included in the aforementioned documents on file. The premises on which his recommendations are based adhere to principles and rules that are generally recognized and practiced in the ratemaking process.

Mr. Coley recommends that the Commission cohere to precedential principles and concepts and follow in such consistent form. If the Commission were to decide to include certain post-test-year plant additions, Mr. Coley has provided a secondary provision to accommodate and account for that preference. The used and useful test along with known and measurable results has stood the test of time. Those concepts are both reliable and consistent with this Commission as well as others in determining fair and just rates. Mr. Coley addresses the following matters, which are summarized below:

1. Post-test-year proforma plant additions (RUCO's "Secondary" Position)
2. Post-test-year plant disallowances
3. Property taxes based on gross revenues utilizing the new computational methodology agreed upon by the Arizona Department of Revenue (ADOR) and the Water Utilities Association of Arizona

4. Depreciation and Amortization
5. Stand-Alone Income Tax Rates

Mr. Coley proposes that the Commission maintain a historical test year approach in this case. The historical test year undoubtedly produces a more accurate level of known and measurable results. Whereas, a projected test year requires that some level of estimation be utilized instead of the more known and measurable results generated by the historical approach. However, his secondary position would reconcile the mismatches discussed in Ms. Diaz Cortez's testimonies as filed in this docket. He believes that matching could be achieved, but only with the necessary adjustments pointed out in both Ms. Diaz Cortez's and his testimonies.