ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, 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 AND WASTEWATER DISTRICTS

DOCKET NO. WS-01303A-06-0014

ARIZONA-AMERICAN WATER COMPANY

NOTICE OF FILING TESTIMONY SUMMARIES

Arizona-American Water Company hereby files in the above-referenced matter testimony summaries for the following witnesses:

- Joel M. Reiker;
- Thomas M. Broderick;
- Bente Villadsen;
- Bradley J. Cole; and
- Charles E. Loy.

RESPECTFULLY SUBMITTED on November ~~10~~ 9, 2006.

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Summary – Testimony of Joel M Reiker

In his direct testimony, Mr. Reiker testifies as follows:

Mr. Reiker discusses the standard rate schedules that support the application, as required by A.A.C. R14-2-103. He begins with the rate-base schedules and then discusses all adjustments, including one for the net benefits of American Water's acquisition of the Citizens Utilities water properties. He next addresses the income statement schedules, including adjustments. He provides a table of each common income statement adjustment for Mohave Water and Mohave Wastewater, including the sponsoring witness. He concludes this part of his testimony by discussing income statement adjustments specific to Mohave Water and Mohave Wastewater.

Mr. Reiker next discusses Arizona-American's cost of capital, including its capital structure, cost of debt, and rate of return on equity. He concludes his testimony by demonstrating that the Company's requested 7.93% overall rate of return is lower than the average overall rate of return awarded by the Commission since 2002.

In his rebuttal testimony, Mr. Reiker testifies as follows:

Mr. Reiker responds to the direct testimony of Arizona Corporation Commission ("ACC") witnesses Moe, Scott, Jr., and Chaves, and Residential Utility Consumer Office ("RUCO") witnesses Coley and Rigsby.

Mr. Reiker presents Arizona-American Water's updated proposed revenue requirement for Mohave Water and Mohave Wastewater of $4,8,96,831 and $623,893, respectively. This represents an $803,825 increase over adjusted test year revenues, or 19.64% in Mohave Water and a $151,883 increase over adjusted test year revenues, or 32.18% in Mohave Wastewater.

Mr. Reiker accepts, on behalf of Arizona-American, many of Staff's and RUCO's rate base and income statement adjustments, including the following: Staff's and RUCO's adjustments to correct post-test year plant; RUCO's proposed adjustments to the calculation of working cash; and Staff's and RUCO's adjustments to general office expense and miscellaneous expense.

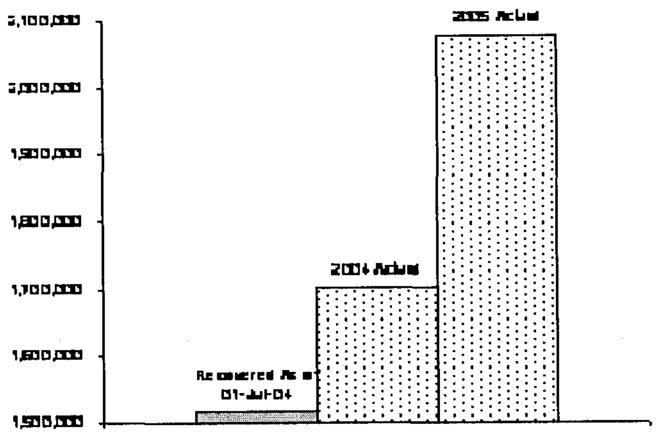
As Mr. Reiker explains, RUCO's proposed adjustment to Mohave Water plant and accumulated depreciation erroneously wipes-out all corporate plant and accumulated depreciation allocations. The Company will accept RUCO's adjustment – corrected to include corporate allocations, and to reflect the half-month depreciation convention, which the Company actually uses, rather than the simplified half-year convention employed by RUCO.

Mr. Reiker explains that the Company cannot accept RUCO's proposed adjustment to direct labor expense because increases to-date in hourly rates have already rendered the Company's originally-requested direct labor expense for Mohave Water and Mohave Wastewater too low. Mr. Reiker provides data from the Bureau of Labor Statistics indicating that, contrary to RUCO's assumption, wages generally increase. The Company will accept RUCO's approach to calculating and allocating corporate labor expense and payroll taxes, but only at currently known and measurable hourly rates.

Mr. Reiker explains that the Company will not accept RUCO's proposal to count unbilled revenues as actual revenues received because RUCO erred in formulating its adjustment. Unbilled revenues are removed for ratemaking purposes. Mr. Reiker offer's three different approaches to calculating the amount of unbilled revenues to be removed for ratemaking purposes – one of which involves no math whatsoever. Had RUCO employed any one of these methods, they would have arrived at the same unbilled revenue adjustment as the Company.

Mr. Reiker explains that the Company will not accept RUCO's method of calculating property taxes because the Commission has repeatedly found RUCO's methodology, which uses only historical unadjusted revenues, to be unreasonable and inappropriate for ratemaking purposes. The data RUCO provides for a single company to support its position, and characterizes as "ample empirical evidence" is hardly that. For ten of Arizona-American's former Citizens districts which currently have rates based on a 2001 test year and Staff's (and the Company's) property tax calculation, the Company is under-collecting property taxes:

Chart 1:
Arizona American Water
Recovered vs. Actual Property Tax Expense
(Ten Former Citizens Districts)



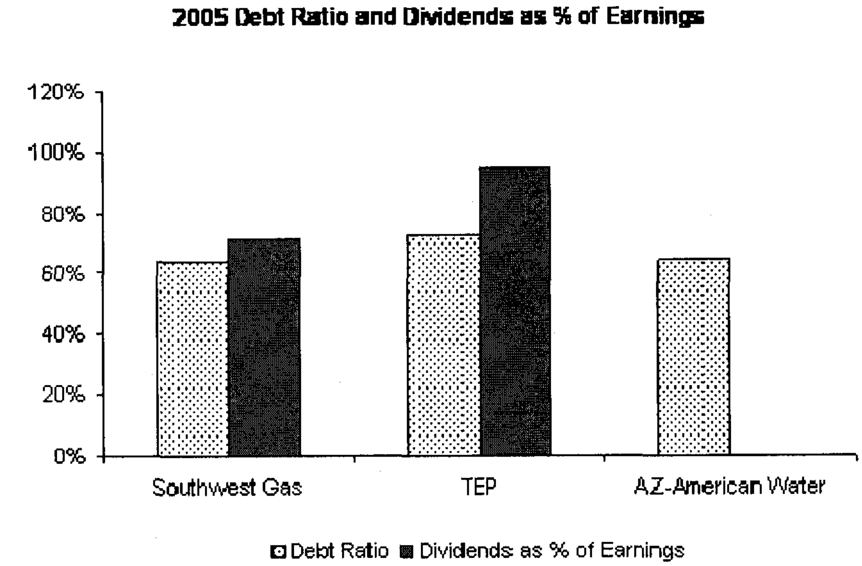
Contrary to what RUCO claims, RUCO's own estimate of property taxes for Mohave Water, and not the Company's, is over-stated. While recommending new revenues that are more than a half-million dollars less than what the Company proposes, RUCO recommends approximately the same level of property taxes.

Mr. Reiker responds to Staff's testimony regarding the cost of debt and capital structure. Staff is unwilling to recognize the new cost of approximately $158 million in debt which becomes due and payable in November 2006, and must be refinanced. However, less than three months ago Staff, RUCO, and ultimately the Commission, accepted Arizona-American's request to recognize this new cost in the Company's Paradise Valley rate case.

Mr. Reiker responds to Staff's warning that it will ignore the financial principle regarding the effect of debt on the cost of equity in future rate cases for Arizona-American if the Company is unable to improve its equity ratio. The Staff is effectively putting the

Company on notice not to expect rates sufficient to recover its cost of service in the future if it hasn't improved its financial condition. Staff's position is unreasonable and is tantamount to punishing the Company for having poor earnings, by cutting its earnings. Despite having over $175 million of investment currently excluded from rate base, the Company is working to build equity. In early 2006, Arizona-American requested, and received from its equity shareholder, a $35 million cash contribution representing approximately 40 percent of existing equity capital – despite the fact that the Company's shareholder is currently experiencing an economic loss on its Arizona investment, and will continue to do so for at least another five years. Shareholders of a privately-held utility cannot be expected to invest this kind of capital at their own willingness any more than a publicly-traded utility should be expected to successfully float an equity issuance in the face of a financial situation similar to the Company's.

The Company's request for a hypothetical capital structure is reasonable and should be adopted. Staff does not support the Company's request in this case, stating that customers should not be required to "subsidize" the Company. However, Staff takes the opposite position when Southwest Gas and Tucson Electric Power ("TEP") make the same request. As recently as 2004, Staff recommended the use of a hypothetical capital structure for Southwest Gas and TEP for the purposes of providing additional earnings to help build equity, and to provide a "cushion" above the actual equity ratio. Unfortunately, those utilities have not used 100 percent of the additional earnings they are afforded by Staff and the Commission to build equity. Instead, Southwest Gas and TEP paid 71 percent and 95 percent of earnings, respectively, as dividends to shareholders in 2005:



Arizona-American has not paid a dividend since 2003, and will not pay a dividend in 2006. The Company is doing everything it can to build equity as quickly as possible. The Company requests that the Commission act consistently, fairly, and in an even-handed manner.

In his rejoinder testimony, Mr. Reiker testifies as follows:

Mr. Reiker responds to the surrebuttal testimony of RUCO witness Coley. Mr. Reiker accepts RUCO's proposed balance of net utility plant, given RUCO will support adjustments to certain plant accounts. Mr. Reiker proposes these additional adjustments to provide a clean starting point to reconcile plant in the Company's next rate case.

The Company will accept RUCO's proposed adjustments to labor expense.

Mr. Reiker responds to the surrebuttal testimony of Staff witness Chaves. Staff's recommended capital structure erroneously double-counts approximately $30 million as both short-term debt and equity. This $30 million is currently equity and should be treated as such in the capital structure. The Company's Tolleson obligation should not be included in its regulatory capital structure because the debt service is recovered above the line in Sun City Wastewater's cost of service. It should not be double-counted by also recognizing it in the regulatory capital structure. Staff's surrebuttal testimony fails to fully explain why the Company should not be afforded the same regulatory treatment as Southwest Gas and Tucson Electric Power. Such treatment includes the use of a hypothetical capital structure consisting of 60 percent debt and 40 percent equity. A hypothetical capital structure consisting of a higher-than-actual equity ratio affords a utility additional earnings to help improve its financial condition. A financial risk adjustment merely brings the estimated ROE for the sample group up/down to the subject utility's cost.

Summary – Testimony of Thomas M. Broderick

In his direct testimony, Mr. Broderick testifies as follows:

The Company's existing three-year moratorium on filing new rate cases expired on January 11, 2006, thereby permitting this overdue filing.

The Company is requesting an increase in annual permanent water rates of 21.49% and 30.82% in wastewater rates to become effective on or before January 1, 2007, based on a test year ending June 24, 2005. The primary reason for the water rate increase is that the 15.38% rate decrease which was effective July 2004, set water rates well below our cost of service. The increase is also due to reductions in imputed regulatory advances and contributions as per an earlier Settlement approved by the Commission. Proposed rates also request an increase in the authorized cost of capital. Proposed rates also reflect increases in operating costs including medical insurance, employee pensions, labor, chemicals and waste disposal.

In addition to the required notices, the Company will explain the proposed rate increases to Mohave customers in the local media, at community meetings, in bill text messages, and through both local employees and employees based in our national call center.

The Company's rate proposal herein is more than fair and reasonable, in part, because proposed water rates for 7,500 gallons per month will be $17.87 which is well under a peer group of nearby water utilities presently charging between $20 and $25 per month for 7,500 gallons.

The Company proposes to recover rate case expense of $360,955 over 3 years or $120,318 per year for Mohave Water and $40,971 over 3 years or $13,657 for Mohave Wastewater.

The Commission has noticed that the Company is unable to maintain an equity ratio of 40%. This is, in part, because a significant portion of its capital invested is largely temporarily excluded from rate base. In the Company's 2005 Equity Plan, eleven realistic steps were presented and those steps relevant to the Mohave District are proposed in this case. My testimony includes proposals for a surcharge to recover future amortizations to rate base as per a prior Settlement, amortizations in base rates of amortizations of imputed advances and contributions to their January 2007 levels, rejecting the reduction to depreciation expense of $286,506 in Mohave Water and $32,497 in Mohave Wastewater for self funding imputed contributions. Mr. Reiker's testimony supports recovery of a small portion of the Citizens acquisition premium based on realized savings, supports an imputed capital structure of 40% equity and debt costs based on a new financing in 2006. The Brattle Group supports a cost of equity 250 basis points above our current authorized rate. The Company is also willing to file an updated Equity Plan by December 31, 2006 for purposes of monitoring progress and further refining plans as this situation is dynamic and more rate cases will follow.

In his rebuttal testimony, Mr. Broderick testifies as follows:

Commission Staff and RUCO recommend honoring the terms of a Settlement contained in Decision No. 63584 without modification and conservatively for ratemaking purposes. The Company is very appreciative of the intention expressed to honor this Settlement.

The Company, however, continues to request amortizations in rates through December 2006, plus a surcharge for several more subsequent annual amortizations. Commission Staff's, RUCO's and the Company's ratemaking recommendations, although different, each comply with the Settlement. Therefore, the Company continues to support adjustments TMB-2 and TMB-3 and requests the Commission to reject Staff adjustments No. 1 (Schedule JRM-5), Staff adjustment No. 2 (Schedule JRM-6), Staff adjustment No. 1 (Schedule JRM-23), Staff adjustment No. 2 (Schedule JRM-24) and RUCO adjustments No. 2 and No. 4 contained in Schedule TJC-3 for both water and wastewater. A benefit of granting the Company's request is to delay the filing of the next Mohave rate case until May 2008 as well as to help the Company regain some financial strength.

The Company accepts Commission Staff's proposed regulatory expense, but rejects RUCO's recommendation which would burden Mohave Wastewater customers.

The Company accepts Commission Staff's and RUCO's recommendation to deny recovery of the portion of the acquisition premium associated with the Company's purchase of the former Citizens assets for which the Company sought recovery. Although only $353,635 was requested in Mohave's rate base, the total premium is over $67 million. The Company is pessimistic it will ever recover any of this premium and the Company apparently does not understand the Commission's criteria for recovery.

In its original application, the Company had proposed to pass the benefit of the accumulated deferred income tax liability credit balances related to Goodwill on to its customers. But, as a result of a $23.7 million after tax Goodwill write-off, that benefit no longer exits and, therefore, should be removed from rate base. Exhibit TMB-2 provides Company proposed rate base adjustment TMB-RB5 which increases rate base for Mohave Water by $918,738 and Mohave Wastewater by $56,765.

The Company proposes a property tax assessment rate of 24% based on 2007. This is 0.25% lower than Commission Staff's proposal. The rebuttal testimony of Mr. Joel Reiker incorporates this lower tax rate. The Company hopes that by passing future property tax savings to customers it will support additional property tax reduction legislation.

The Company has received a request from the City of Bullhead to improve fire flows. The Company asked the City to pay 50% of the cost of an evaluation study and for the City to form a task force to help prioritize and build community support. This rate case does not contain a request for a fire flow improvement project and the City knows it will take some time to address this issue.

In his rejoinder testimony, Mr. Broderick testifies as follows:

The Company now accepts Staff and RUCO's recommendations to permit amortizations of imputed Citizens advances and contributions only through the end of the test year - December 2005.

The Company recommends that the accumulated deferred income tax balance be recalculated to exclude any impact of the Citizens acquisition premium. This is appropriate because the Goodwill portion of that premium gives rise to deferred income taxes and Staff and RUCO recommend denial in rates of any portion of the Citizens acquisition premium. The Company will present its recalculation at the November 13, 2006, hearing, since our audited financial for 2004 and 2005 have not yet been released.

Summary – Testimony of Bente Villadsen

In her direct testimony, Dr. Villadsen testifies as follows:

Dr. Villadsen, a senior associate at The Brattle Group, testifies concerning the cost of capital for Arizona-American's Mohave Water District and Mohave Wastewater District.

Dr. Villadsen selects two benchmark samples, water utilities and gas LDC companies. She estimates the sample companies' cost of equity, associated after-tax weighted-average cost of capital, and the corresponding cost of equity at 40 percent equity. She also reviews recent Arizona water and wastewater decisions.

Based on the evidence from the samples and recent Arizona water and wastewater decisions, Dr. Villadsen estimates a cost of equity for Mohave in the range of 11¼ to 11¾ percent at 40 percent equity; with a midpoint of 11½.. She therefore finds that Mohave's request for 11.5 percent return on equity at 40 percent equity is reasonable.

In her rebuttal testimony, Dr. Villadsen testifies as follows:

Dr. Villadsen reviewed the Direct Testimony of Mr. Pedro M. Chaves ("Chaves Direct") on behalf of Arizona Corporation Commission Staff ("Staff") and the Direct Testimony of Mr. William A. Rigsby ("Rigsby Direct") on behalf of the Residential Utility Consumer Office ("RUCO"). While cost of capital experts may rely on different models or implement the relied upon models differently, the methods used in the Chaves Direct and in the Rigsby Direct are similar to those relied upon in the Villadsen Direct. Both testimonies recognize the importance of financial risk as well as business risk and adjust the cost of equity estimates obtained for proxy groups in recognition of Mohave's more leveraged capital structure. The largest source of difference between the Villadsen Direct and the Chaves Direct is that while the Villadsen Direct relies on market value capital structures, the Chaves Direct relies on book value capital structures when comparing the sample companies' capital structure to that of Mohave. There are two key differences between the Rigsby Direct and the Villadsen Direct. First, while the Villadsen Direct explicitly calculates the impact of the difference between the proxy groups' market value capital structure and the regulatory capital structure of Mohave, the Rigsby Direct simply adds 50 basis points to the cost of equity obtained by the testimony's preferred method. Second, the Rigsby Direct relies exclusively on the Discounted Cash Flow ("DCF") model applied to a proxy group of four water utilities while the Villadsen Direct, as well as the Chaves Direct, weights the risk positioning method. As a result of the differences, the Villadsen Direct estimated Mohave's cost of equity (at 40 percent equity) to be in the range of 11¼ to 11¾ while the Chaves Direct recommends a cost of equity of 10.8 percent and the Rigsby Direct recommends a cost of equity of 9.10 percent.

Dr. Villadsen next discusses the cost-of-capital recommendations and calculations in the Chaves Direct and in the Rigsby Direct. She also discusses the Chaves Direct and the Rigsby Direct's comments on and discussion of her Direct Testimony filed in January 2006. Specifically, she covers the following topics.

- In Section I, she summarizes the impact on the cost of equity of key decisions made in the Chaves Direct and the Rigsby Direct.
- In Section II, she discusses the impact of financial leverage and the after-tax weighted-average cost of capital ("ATWACC").

- In Section III, she discusses the selection of sample companies and the implementation of relied upon methods: the discounted cash flow method ("DCF") and the risk positioning methods (including the capital asset pricing model ("CAPM")). This section also discusses the implications and dangers of relying on only one method or sample.
- In Section IV, she discusses topics in the Chaves Direct or the Rigsby Direct not covered anywhere else.

While Table R-1 of her rebuttal testimony shows a rather large variation in recommendation, it is noteworthy that the Chaves Direct obtains raw (before leverage consideration) cost of equity estimates in the range of 9.2 to 10.5 percent, which when adding the Chaves Direct's recommended leverage adjustment of 90 basis points overlaps her recommended range. Similarly, the Rigsby Direct obtains estimates ranging from 8.60 percent to 11.04 percent, which also overlaps her recommended range when the 50 basis points leverage adjustment in the Rigsby Direct is considered. Further, the allowed cost of equity recommendation in the Rigsby Direct appears to be based solely on the application of a Discounted Cash Flow ("DCF") model to a sample of four water utilities. A simple average of Mr. Rigsby's estimates without the geometric CAPM, which I exclude for reasons discussed below, results in a raw cost of capital estimate of about 9.8 percent which with a 50 basis points addition for financial leverage results in 10.3 percent.

Furthermore, the Rigsby Direct relies on a non-standard adjustment to the sustainable growth model. Specifically, the Rigsby Direct adjusts the observed market-to-book ratio downward in his sustainable growth model resulting in a downward adjustment to the cost-of-equity estimates. Had the Rigsby Direct not used this downward adjustment in the DCF method, the cost of equity estimates would have been approximately 150 basis points higher for the water utility sample and about 50 basis points higher for the natural gas LDC sample. Thus, the DCF model applied to the water sample without this non-standard adjustment would indicate a cost of equity in the order of 11 percent after the recommended 50 basis points upward adjustment is made. A simple average of Mr. Rigsby's results for the arithmetic CAPM model and the standard sustainable growth DCF using the Rigsby Direct's figures applied to the Rigsby Direct's two samples results in an average cost of equity of about 10.75 percent.

As noted above, the Chaves Direct's raw cost of equity estimates are in the range of 9.2 to 10.5 percent, so adding the 90 basis points adjustment for financial leverage, the Chaves Direct recommends, results in a range of about 10.1 to 11.4 percent. However, the Chaves Direct relies on book values when estimating the adjustment for leverage. Had Chaves Direct instead relied on the market value capital structure, as does the Hamada article, the Chaves Direct references as the basis for its adjustment, the adjustment would increase by about 90 basis points, and the lower bound would be around 11 percent. Henceforth, the ranges obtained by the Chaves Direct, the Rigsby Direct, and the Villadsen Direct overlap and once non-standard adjustments are eliminated all estimates point to a cost of equity in excess of 10.8 percent.

In her rejoinder testimony, Dr. Villadsen testifies as follows:

Dr. Villadsen first discusses Staff's revised return-on-equity estimate, contained in the Chaves Surrebuttal. Presumably, the estimate was based on his models' inputs as of September 20, 2006. The cost of equity estimate depends on the input to the models and any change in the date used will change the inputs, which will change the cost of capital estimate. However, there are several reasons why the estimates relying on data as of September 20, 2006 might underestimate the cost of equity slightly. First, Dr. Villadsen address issues pertaining to the Discounted Cash Flow ("DCF") model and second, she address issues pertaining to the Capital Asset Pricing Model ("CAPM").

Most of the drop in the estimated DCF-based cost of equity from the Chaves Direct to the Chaves Surrebuttal is caused by a drop in the dividend yield from 3.2% to 2.9%. The drop appears to be caused primarily by increases in stock prices relied upon. However, this is primarily due to a one-time run-up in the price of one stock in sample over the time-period between the two testimonies. Therefore, the drop in the estimated constant growth DCF cost of equity estimate is driven primarily by the increase in one company's stock price.

The CAPM cost of equity estimate increases with the relied upon risk-free rate, beta, and market risk premium. Therefore any increase (decrease) in these parameters will result in an increase (decrease) in the estimated cost of equity. During the past year, Value Line's beta estimates for water utilities have increased significantly. From October 2005 to October 2006, the average Value Line beta for the 19 companies in the Chaves Surrebuttal sample increased from .71 to .82 indicating a significant increase in the risk of water utilities. October 2006 Value Line betas are up by about .04 compared to July 2006. This indicates that the risk of the water industry is increasing. Everything being else equal, an increase in risk leads to investors requiring higher rates of return. Although interest rates have decreased slightly over the summer, interest rates appear to have stabilized, so it is unlikely that the CAPM cost of equity estimate has dropped measurably.

Dr. Villadsen next addresses Mr. Chaves' perception that the use of a market value capital structure "serves to maintain stock prices." This is incorrect, as demonstrated by a mathematical example.

Turning to Mr. Rigsby's surrebuttal testimony, Dr. Villadsen demonstrates that a simple 50-basis-point adjuster, based on Mr. Rigsby's perception of past practice, has nothing to do with investor expectations of the needed leverage adjustment to attract capital.

Dr. Villadsen then turns to Mr. Rigsby's discussion of market-to-book ratios and demonstrates that the market-to-book ratio does not tell us whether or not a company's return on common equity is above the amount investors expect. In addition, if a regulator were to target a specific market-to-book ratio, investors would presumably discover this policy and take it into account in the pricing of the stock. That would change the market-to-book ratio and thereby contaminate the information the regulator need to implement the policy. Thus, regulation that tries to set an allowed rate of return that makes the market-to-book ratio equal to one is circular.

Dr. Villadsen concludes her discussion of Mr. Rigsby's rebuttal testimony by rebutting his reliance on a geometric market risk premium methodology. She points out that there is virtually no academic support for the approach and almost no empirical evidence for Mr. Rigsby's justification for the method, the so-called "survivorship bias."

<u>Summary – Testimony of Bradley J. Cole</u>

In his direct testimony, Mr. Cole testifies as follows:

Mohave Water is comprised of four separate areas. Three areas are in Bullhead City and the fourth Camp Mohave is outside the city and is entirely mobile homes. Desert Foothills is entirely non-mobile homes and Lake Mohave Highlands and Mohave-Main have significant mobile homes as those are older areas of the city. All water is provided from wells and we have a single operations center. The terrain of this service territory is varied, rocky and desert and thus maintaining the proper pressure in the many pressure zones is the primary operational challenge.

Arizona-American Water Company has been filing reports on Unaccounted-for Water in accordance with Commission Decision No. 67093. The reports show the Company's success in reducing unaccounted-for water in the overall Mohave District. With continued and increased focus in the Desert Foothills sub-district, the Company is optimistic it will be able to reduce the unaccounted for water by concentrating on replacing or rebuilding hydrant meters for construction use in addition to scheduled meter replacement.

The Company has accelerated the meter-replacement program by replacing meters after 10 years instead of 15 years or once metered over 1 million gallons.

The Company has also hired an outside contractor to perform comprehensive and detailed leak detection surveys in the older portions of the district.
The Company has added one additional position, a Plant Operator, as a result of test year growth.

The Company will be discussing Fire Flow issues with Bullhead City this year as the City has adopted the National Fire Code.

In his rebuttal testimony, Mr. Cole testifies as follows:

Mr. Cole first discusses his qualifications

Mr. Cole then testifies that he is adopting the pre-filed direct testimony of Brian K. Biesemeyer.

Mr. Cole then responds to the September 5, 2006, direct testimony and Engineering Reports of Commission Staff witness Marlon Scott, Jr. Concerning the high water-loss percentage reported for the Desert Foothills area, Mr. Cole states that Arizona-American has identified some leaks and is acting to reduce leaks in the area. Mr. Cole also testifies that the reported leak percentage is somewhat overstated, because Desert Foothills construction-water usage has been credited to the Bullhead City system. Mr. Cole accepts Mr. Scott's recommendation that the Company file compliance reports and then file a plan to reduce water losses if the problem is not corrected.

Mr. ~~Cole accepts Mr. Scott~~'s post-test-year plant balance for Mohave Water.

Mr. Cole accepts the remainder of Mr. Scott's recommendations for Mohave Water and Mohave Wastewater.

Mr. Cole did not submit rejoinder testimony.

Summary – Testimony of Charles E. Loy

In his direct testimony, Mr. Loy testifies as follows:

Mr. Loy proposes adjustments to the Company's revenues and provides rate design recommendations that equitably spread the Company's proposed revenue increase to the various customer classes.

Mr. Loy's adjustments to water revenue reflect a reduction to annualize the last rate change ordered by this Commission which was a reduction in rates. Further, Mr. Loy suggests increasing revenues to recognize a full year of customer growth for both water and wastewater revenues. Mr. Loy's water and wastewater revenue adjustments reflect normalized levels appropriate for ratemaking purposes.

Mr. Loy's proposed rate design meets the following criteria:

1. Maintain conservation based rates as established by Decision No. 67093.
2. Complete the move to a simpler, more conventional rate design for the Multi Unit class as directed in Decision No. 67093.
3. Consolidate the Rio Verde monthly fixed rates with the rest of the Residential class.
4. Steadily move toward cost based rates while treating customers equitably.

Further, Mr. Loy developed a cost of service study by customer class to use as a guideline when designing the proposed rates. A comparison of the proposed rate design and the cost of service study results are presented in Exhibit CEL-1 of Mr. Loy's, Pre-filed Direct Testimony. This Exhibit shows that the proposed revenue increases by class are not strictly guided by the cost of service study results but do rest within a reasonable range indicating progress toward cost based rates.

In his rebuttal testimony, Mr. Loy testifies as follows:

The Company recommends the Commission reject Staff's adjustment No. 1 and RUCO's adjustment No.3 to customer growth because of errors which I point out.

The Company accepts the Staffs rate design but encourages Staff to recommend more revenue be collected in the fixed component of the rate design.

The Company rejects RUCO's rate design because it shifts too much of the revenue collection to the commodity component which overly penalizes higher-than-average-usage customers, and increases revenue-collection uncertainty. Further, RUCO's billing determinants are in error and do not agree with the Staff's or the Company's billing determinants.

In his rejoinder testimony, Mr. Loy testifies as follows:

The Company concludes that RUCO's proposed billing determinants are wrong. This should not be an issue and both the Company and RUCO should stipulate to the Staff billing determinants used to develop rates.

The Company recommends the Commission reject RUCO's rate design, because it shifts too much of the revenue collection to the commodity component which overly penalizes higher-than-average-usage customers, and increases revenue-collection uncertainty.