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BEFORE THE ARIZONA CORPORATION COMMISSION

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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 Corporation Commission
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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.

Attached to Mr. Coley's summary is the updated property tax study, as referenced in Mr. Coley's surrebuttal testimony.

RESPECTFULLY SUBMITTED this 9th day of November 2006.

Daniel W. Pozefsky
Attorney

AN ORIGINAL AND THIRTEEN COPIES of the foregoing filed this 9th day of November 2006 with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

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By Ernestine Gamble
Ernestine Gamble

Arizona-American Water Company
Mohave Water and Wastewater Districts
Docket No. WS-01303A-06-0014
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 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.

The testimony of Marylee Diaz Cortez addresses two issues that arise out of the settlement agreement that was adopted in Decision No. 63584 regarding the sale and transfer of Citizen's water and wastewater assets to Arizona-American Water Company. These issues are: 1) the requirement for the imputation of Advances in Aid of Construction (AIAC), and Contributions in Aid of Construction (CIAC) balances; and 2) the ratemaking treatment of the acquisition premium. Ms. Diaz Cortez testifies that the Company's proposed treatment of these two items in the instant case does not comport with the settlement agreement, and recommends rejection of the Company-proposed treatment of these items.

Arizona-American Water Company
Mohave Water and Wastewater Districts
Docket No. WS-01303A-06-0014
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 Mohave Water and Wastewater Districts ("Mohave" or the "Company"), located in Mohave County. A full discussion of the cost of capital issues associated with Mohave'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:

Weighted Cost of Capital – Mr. Rigsby is recommending a 7.07 percent weighted cost of capital. Mr. Rigsby's 7.07 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 decision to accept the Company-proposed cost of debt, and his recommended cost of common equity.

Capital Structure – Mr. Rigsby is recommending that the Commission adopt the Company-proposed hypothetical capital structure which is comprised of approximately 40 percent common equity and 60 percent long-term debt.

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

Cost of Debt – Mr. Rigsby is recommending a 5.72 percent cost of debt, which is the Company-proposed weighted cost of debt. Mr. Rigsby's 5.72 percent weighted cost of debt includes the 6.08 percent yield on a long-term promissory note, used to refinance existing debt, which will mature in November 2026. The 6.08 percent yield falls within the current yields of 5.81 percent to 6.21 percent on 25 to 30-year A-rated and Baa/BBB-rated bonds respectively.

Cost of Common Equity – Mr. Rigsby is recommending a 9.10 percent cost of common equity. Mr. Rigsby's 9.10 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 9.10 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
Mohave Water and Wastewater Districts
Docket No. WS-01303A-06-0014
Rate Application

SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO")

The following is a summary of the issues set forth in both the direct and the surrebuttal testimony of RUCO witness Timothy J. Coley, for Arizona-American Water Company's application for a permanent rate increase for the Mohave Water and Wastewater Districts ("Mohave" or the "Company"), located in Mohave County. A complete discussion of the rate base, operating income, and rate design issues are contained in the referenced documents. The adjustments are common to both Mohave Water and Wastewater unless otherwise noted. The issues associated with the case are as follows:

Rate Base Adjustments:

Adj. #1 - Plant and Accumulated Depreciation – This adjustment reflects RUCO's recommended Mohave Water and Mohave Wastewater's Utility Plant in Service ("UPIS") and Accumulated Depreciation balances since the Districts' last rate cases. I started with the last Commission approved balance and reconstructed all plant additions, retirements, adjustments, and transfers at the approved depreciation rates.

Adj. #2 – Amortization of Post Test Year Advances & Construction-In-Aid-of-Construction ("AIAC" and "CIAC") – This adjustment reverses the Company's

adjustment to amortize AIAC & CIAC through year 2006. This adjustment is fully addressed in Ms. Diaz Cortez's testimony.

Adj. #3 – 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.

Adj. #4 – Imputed AIAC & CIAC Balances – This adjustment corrects the amortization of the imputed levels of AIAC & CIAC since the Citizen's Acquisition Agreement.

Adj. #5 – Post Test Year Plant – This adjustment is specific only to Mohave Water District. It removes one post-test-year plant item that was recorded in Mohave Water District but was actually in the Aqua Fria District.

Operating Adjustments:

Adj. #1 – Mohave Labor Expense – This adjustment has two elements. The first component adjusts the hourly pay rate. The second element reduces the number of overtime hours allowed. The overall adjustment reduces Mohave Water and Wastewater District's direct labor expense accordingly.

Adj. #2 – Corporate Labor Expense – This adjustment also is made up of two parts. The first part adjusts the hourly pay rate found in the payroll ledger. The

second part directly allots total overtime hours charged to Mohave Water and Wastewater Districts rather than allocating total AZ-AM overtime, which overstates the amount of overtime directly attributable to the two Districts.

Adj. #3 – Revenue and Expense Annualization – This adjustment annualizes revenues and expenses with the number of customers at the end of the TY. Thus, revenues increased, as did the level of expenses to serve the additional customer growth on a going forward basis.

Adj. #4 – Unbilled Revenues – This adjustment recalculates the unbilled revenues proposed by the Company and is exclusive only to Mohave Water District.

Adj. #5 – Property Tax Expense – This adjustment reduces property tax expense by adjusting three factors: 1) the three years of revenue, 2) the assessment ratio, and 3) the tax rate.

Adj. #6 – General Office Expense – This adjustment reverses the Company's pro forma adjustment and is unique only to Mohave Water District.

Adj. #7 – Contractual Services Expense - This adjustment also reverses the Company's pro forma adjustment and is also unique only to Mohave Water District.

Adj. #8 – Rate Case Expense – This adjustment reduces the Company's level of rate case expense requested and reallocates the expense between the Water and Wastewater Districts.

Adj. #9 – Depreciation & Amortization Expense – This adjustment determines the level of depreciation and amortization expense that should be allowed on a going forward basis. RUCO agrees with the Company's Mohave Wastewater District TY adjusted result. However, Mohave Water District did require an adjustment that reduced the level of depreciation and amortization expense by $13,808.

Adj. #10 – Income Tax Expense – This adjustment is necessitated by RUCO's recommended level of operating income.

Rate Design:

RUCO's recommended rate design encourages conservation and sends an appropriate price signal to consumers through a 40/60 percent ratio for monthly minimum and commodity charges respectively.

Other Issues:

Pursuant to Timothy J. Coley surrebuttal testimony, page 24, lines 10-17, an updated property tax study has been done and is attached to this document.

UPDATED

PROPERTY TAX STUDY

EMPIRICAL EVIDENCE OF OVER-RECOVERIES RESULTING FROM THE USE OF ACC PROPERTY TAX METHODOLOGY

EMPIRICAL EVIDENCE OF OVER-RECOVERIES RESULTING FROM THE USE OF RUCO RECOMMENDED PROPERTY TAX METHODOLOGY

Rio Rico Water	Amount Authorized Using ACC Method	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**	Amount Using ADOR Formula RUCO Recommended	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**
2003	$ 85,376	$ 65,309	$ 20,067	31%		$ 68,465	$ 65,309	$ 3,156	5%	
2004	85,376	67,873	17,503	26%		68,465	67,873	592	1%	
2005	85,376	70,694	14,682	21%		68,465	70,694	(2,229)	-3%	
2006	85,376	76,243	9,133	12%		68,465	76,243	(7,778)	-10%	
Total Amount Over-Collected			$ 61,385		**22%**			$ (6,259)		**-2%**

Rio Rico Wastewater	Amount Authorized Using ACC Method	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**	Amount Using *ADOR Formula* RUCO Recommended	Amount *Actually* Paid To ADOR	Amount *Over-Collected* From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual *over-collection*, by system**
2003	$ 59,337	$ 40,629	$ 18,709	46%		$ 40,557	$ 40,629	$ (72)	0%	
2004	59,337	39,732	19,606	49%		40,557	39,732	825	2%	
2005	59,337	41,486	17,851	43%		40,557	41,486	(929)	-2%	
2006	59,337	41,022	18,315	45%		40,557	41,022	(465)	-1%	
Total Amount Over-Collected			$ 74,481		**46%**			$ (641)		**0%**

EMPIRICAL EVIDENCE OF OVER-RECOVERIES RESULTING FROM THE USE OF ACC PROPERTY TAX METHODOLOGY

EMPIRICAL EVIDENCE OF OVER-RECOVERIES RESULTING FROM THE USE OF RUCO RECOMMENDED PROPERTY TAX METHODOLOGY

Havasu	Amount Authorized Using ACC Method	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**	Amount Using ADOR Formula RUCO Recommended	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**
2002	$ 26,167	$ 17,519	$ 8,649	49%		$ 21,040	$ 17,519	$ 3,521	20%	
2003	26,167	22,862	3,305	14%		21,040	22,862	(1,822)	-8%	
2004	26,167	21,328	4,839	23%		21,040	21,328	(288)	-1%	
2005	26,167	23,880	2,287	10%		21,040	23,880	(2,840)	-12%	
2006	26,167	23,128	3,039	13%		21,040	23,128	(2,088)	-9%	
Total Amount Over-Collected			$ 22,119		**22%**			$ (3,517)		**-2%**

Chaparral City	Amount Authorized Using ACC Method	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers		Amount Using ADOR Formula RUCO Recommended	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**
2004	$ 299,495	$ 278,828	$ 20,667	7%		$ 280,835	$ 278,828	$ 2,007	1%	
2005	299,495	280,033	19,462	7%		280,835	280,033	802	0%	
2006	299,495	242,105	57,390	24%		280,835	242,105	38,730	16%	
Total Amount Over-Collected			$ 97,518		**13%**			$ 41,539		**6%**

EMPIRICAL EVIDENCE OF OVER-RECOVERIES RESULTING FROM THE USE OF ACC PROPERTY TAX METHODOLOGY

EMPIRICAL EVIDENCE OF OVER-RECOVERIES RESULTING FROM THE USE OF RUCO RECOMMENDED PROPERTY TAX METHODOLOGY

Tubac	Amount Authorized Using ACC Method	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**	Amount Using ADOR Formula RUCO Recommended	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**
2002	$ 20,483	$ 19,871	$ 612	3%		$ 20,054	$ 19,871	$ 183	1%	
2003	20,483	19,060	1,423	7%		20,054	19,060	994	5%	
2004	20,483	17,606	2,877	16%		20,054	17,606	2,448	14%	
2005	20,483	17,363	3,120	18%		20,054	17,363	2,691	15%	
2006	20,483	18,703	1,780	10%		20,054	18,703	1,351	7%	
Total Amount Over-Collected			$ 9,810		**11%**			$ 7,667		**9%**

Agua Fria	Amount Authorized Using ACC Method	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**	Amount Using ADOR Formula RUCO Recommended	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**
2002	$ 305,921	$ 215,546	$ 90,375	42%		$ 284,836	$ 215,546	$ 69,290	32%	
2003	305,921	279,595	26,326	9%		284,836	279,595	5,241	2%	
2004	305,921	321,054	(15,133)	-5%		284,836	321,054	(36,218)	-11%	
2005	305,921	422,543	(116,622)	-28%		284,836	422,543	(137,707)	-33%	
2006	305,921	483,740	(177,819)	-37%		284,836	483,740	(198,904)	-41%	
Total Amount Over-Collected			$ (192,872)		**-4%**			$ (298,298)		**-10%**

EMPIRICAL EVIDENCE OF OVER-RECOVERIES RESULTING FROM THE USE OF ACC PROPERTY TAX METHODOLOGY

EMPIRICAL EVIDENCE OF OVER-RECOVERIES RESULTING FROM THE USE OF RUCO RECOMMENDED PROPERTY TAX METHODOLOGY

Casa Grande	Amount Authorized Using ACC Method	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**	Amount Using ADOR Formula RUCO Recommended	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**
2004	$ 583,331	$ 524,795	$ 58,536	11%		$ 560,835	$ 524,795	$ 36,040	7%	
2005	583,331	555,425	27,906	5%		560,835	555,425	5,410	1%	
2006	583,331	547,311	36,020	7%		560,835	547,311	13,524	2%	
Total Amount Over-Collected			$ 122,462		**8%**			$ 54,974		**3%**

Sierra Vista	Amount Authorized Using ACC Method	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**	Amount Using ADOR Formula RUCO Recommended	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**
2002	$ 58,365	$ 51,981	$ 6,383	12%		$ 53,453	$ 51,981	$ 1,472	3%	
2003	58,365	51,632	6,733	13%		53,453	51,632	1,821	4%	
2004	58,365	56,617	1,747	3%		53,453	56,617	(3,164)	-6%	
2005	58,365	52,678	5,687	11%		53,453	52,678	775	1%	
2006	58,365	49,997	8,368	17%		53,453	49,997	3,456	7%	
Total Amount Over-Collected			$ 28,918		**11%**			$ 4,360		**2%**

EMPIRICAL EVIDENCE OF OVER-RECOVERIES RESULTING FROM THE USE OF ACC PROPERTY TAX METHODOLOGY

Bisbee	Amount Authorized Using ACC Method	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**
2002	$ 91,855	$ 87,419	$ 4,436	5%	
2003	91,855	91,791	64	0%	
2004	91,855	89,540	2,315	3%	
2005	91,855	87,460	4,394	5%	
2006	91,855	88,141	3,713	4%	
Total Amount Over-Collected			14,922		**3%**

EMPIRICAL EVIDENCE OF OVER-RECOVERIES RESULTING FROM THE USE OF RUCO RECOMMENDED PROPERTY TAX METHODOLOGY

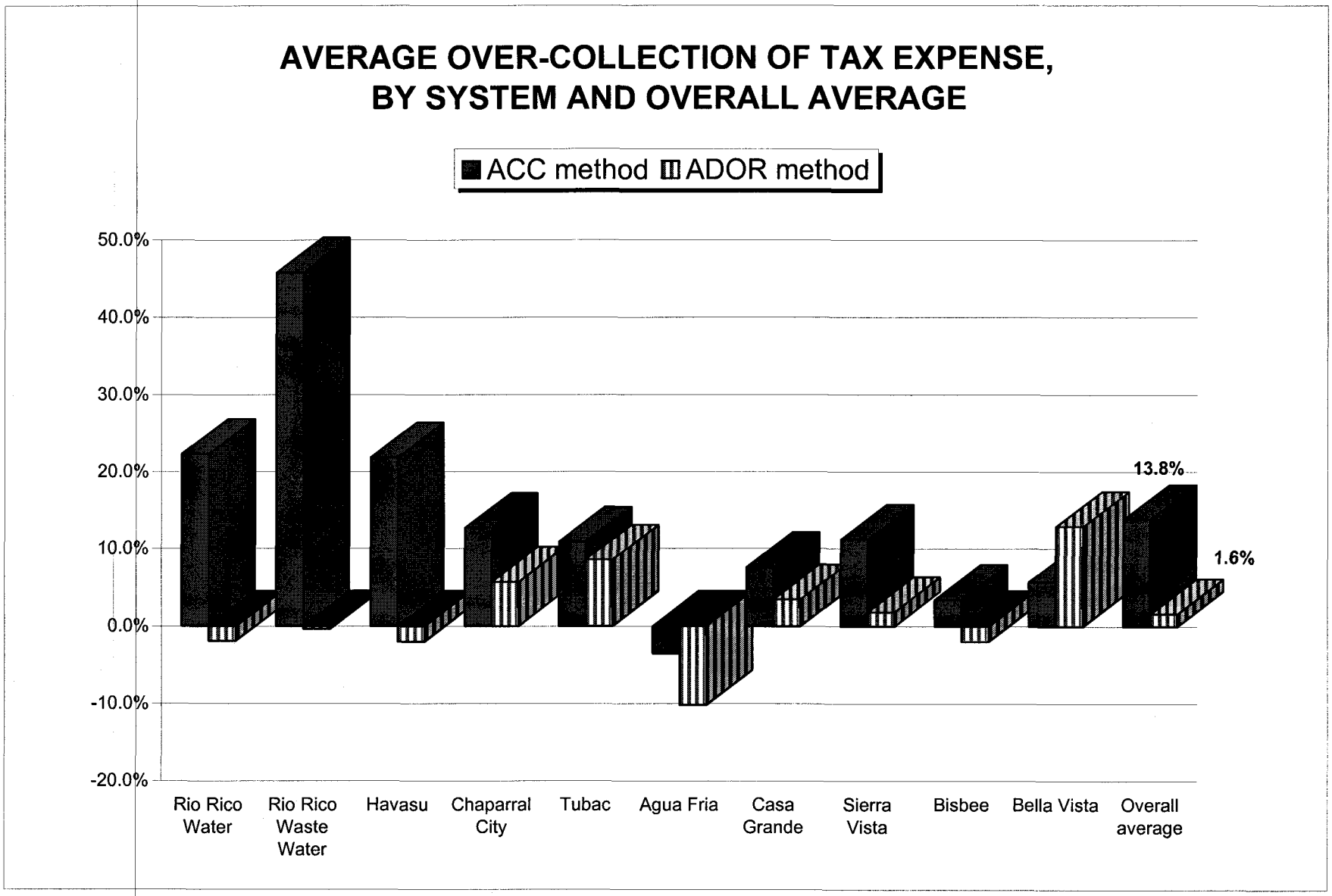
Bisbee	Amount Using ADOR Formula RUCO Recommended	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**
2002	$ 87,085	$ 87,419	$ (334)	0%	
2003	87,085	91,791	(4,706)	-5%	
2004	87,085	89,540	(2,455)	-3%	
2005	87,085	87,460	(375)	0%	
2006	87,085	88,141	(1,056)	-1%	
Total Amount Over-Collected			$ (8,926)		**-2%**

Bella Vista	Amount Authorized Using ACC Method	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**
2002	$ 187,619	$ 185,129	$ 2,490	1%	
2003	187,619	176,936	10,683	6%	
2004	187,619	187,518	101	0%	
2005	187,619	192,730	(5,112)	-3%	
2006	187,619	151,742	35,877	24%	
Total Amount Over-Collected			$ 44,039		**6%**

Bella Vista	Amount Using ADOR Formula RUCO Recommended	Amount Actually Paid To ADOR	Amount Over-Collected From Ratepayers	Percentage Of Over-Collections From Ratepayers	**Average annual over-collection, by system**
2002	$ 200,400	$ 185,129	$ 15,271	8%	
2003	200,400	176,936	23,464	13%	
2004	200,400	187,518	12,882	7%	
2005	200,400	192,730	7,670	4%	
2006	200,400	151,742	48,658	32%	
Total Amount Over-Collected			$ 107,946		**13%**

Overall average annual over-collection, all systems	**13.8%**

Overall average annual over-collection, all systems	**1.6%**


AVERAGE OVER-COLLECTION OF TAX EXPENSE,
BY SYSTEM AND OVERALL AVERAGE
ACC method
ADOR method
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
-10.0%
-20.0%
13.8%
1.6%
Rio Rico Water
Rio Rico Waste Water
Havasu
Chaparral City
Tubac
Agua Fria
Casa Grande
Sierra Vista
Bisbee
Bella Vista
Overall average