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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

JEFF HATCH-MILLER - Chairman
WILLIAM A. MUNDELL
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KRISTIN K. MAYES
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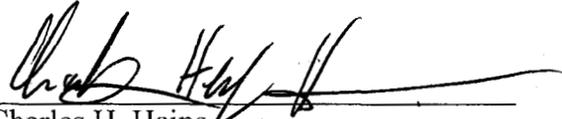
IN THE MATTER OF THE APPLICATION OF
ARIZONA - AMERICAN WATER COMPANY FOR
A DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS RATES
AND CHARGES BASED THEREON FOR UTILITY
SERVICE BY ITS MOHAVE WATER AND
WASTEWATER DISTRICTS.

DOCKET NO. WS-01303A-06-0014

**STAFF'S NOTICE OF FILING
SUMMARY OF TESTIMONY**

Staff of the Arizona Corporation Commission hereby files the Summary of Testimony of
Pedro M. Chaves, Darron W. Carlson of the Utilities, and Marlin Scott, Jr., of the Utilities Engineer
Division in the above-referenced matter.

RESPECTFULLY SUBMITTED this 13th day of November 2006.


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The original and thirteen (13) copies
of the foregoing were filed this
13th day of November 2006 with:

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

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this 13th day of November 2006:

Copies of the foregoing were mailed this
14th day of November 2006 to:

Arizona Corporation Commission
DOCKETED
NOV 13 2006

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**SUMMARY OF TESTIMONY
OF PEDRO M. CHAVES
ARIZONA AMERICAN WATER COMPANY
MOHAVE WATER AND WASTEWATER DISTRICTS
DOCKET NO. WS-1303A-06-0014
NOVEMBER 13, 2006**

The pre-filed testimony of Staff witness Pedro M. Chaves addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure consisting of 65.8 percent long-term debt and 34.2 percent equity for this rate proceeding.

Cost of Debt – Staff recommends that the Commission adopt a 5.1 percent average cost of long-term debt.

Cost of Equity – Staff recommends that the Commission adopt a 10.7 percent return on equity (“ROE”). Staff bases its ROE recommendation on its discounted cash flow (“DCF”) and capital asset pricing model (“CAPM”) and an upward adjustment of 100 basis points for financial risk.

Overall Rate of Return - Staff recommends that the Commission adopt an overall rate of return (“ROR”) of 7.1 percent.

Response to the rebuttal testimony of Applicant’s witnesses

Staff responds to the rebuttal testimony of Mr. Joel Reiker:

Staff updated the cost of debt component to include the effect of the Applicant’s recent financing application.

Mr. Reiker’s proposal to adopt a hypothetical capital structure in this rate proceeding would compensate shareholders for a non-existing equity investment. Staff’s recommendation for a financial risk adjustment due to the higher financial risk reflected in the Applicant’s capital structure in relation to that of the sample companies provides additional earnings potential to support improvement to the Applicant’s financial position.

Staff responds to the rebuttal testimony of Dr. Bente Villadsen:

Dr. Villadsen’s use of market-value capital structures to determine rates of return is inconsistent with the practice known to investors that regulators authorize returns on the book value of property devoted to public service.

The after-tax weighted average cost of capital (“ATWACC”) methodology has not been extensively used or reviewed in the regulatory environment. Furthermore, the ATWACC methodology has been recently rejected by the Arizona Corporation Commission.

**SUMMARY OF TESTIMONY
FOR JAMIE R. MOE AND ADOPTED BY DARRON W. CARLSON
ARIZONA-AMERICAN WATER COMPANY, INC.
MOHAVE WATER AND WASTEWATER DISTRICTS
DOCKET NO. WS-01303A-06-0014
NOVEMBER 13, 2006**

Staff witness, Mr. Jamie R. Moe, is no longer employed by the Arizona Corporation Commission ("Commission"). I am Darron W. Carlson, a Financial & Regulatory Analyst Manager with the Utilities Division of the Commission. I was Mr. Moe's supervisor and his testimonies and schedules were prepared by him but under my supervision. I adopt Mr. Moe's direct and surrebuttal testimonies and the accompanying direct and surrebuttal schedules as my own.

Staff recommends denial of the Company's proposal to accelerate its amortization of imputed advances-in-aid-of-construction and imputed contributions-in-aid-of-construction. Staff further recommends denial of the Company's proposal to adjust deferred income tax credits based upon an impairment of its non-authorized Goodwill.

WATER

In its direct testimony, Staff recommended rates that would produce annual operating revenue of \$4,531,896 resulting in operating income of \$639,361 for a 6.90 percent rate of return on a fair value rate base ("FVRB") of \$9,266,102. Staff's recommended revenue represents an increase of \$433,439, or 10.58 percent, over adjusted test year revenue of \$4,098,457.

In its surrebuttal testimony, Staff recommends rates that would produce annual operating revenue of \$4,494,949 resulting in operating income of \$647,384 for a 7.10 percent rate of return on a FVRB of \$9,118,080. Staff's recommended revenue represents an increase of \$405,310, or 9.91 percent, over adjusted test year revenue of \$4,089,639. Under Staff's revised recommended rates, the average residential customer using 8,054 gallons per month would experience a \$0.73, or a 4.64 percent increase in his/her monthly bill from \$15.82 to \$16.56.

WASTEWATER

In its direct testimony, Staff recommended rates that would produce annual operating revenue of \$578,016 resulting in operating income of \$30,609 for a 6.90 percent rate of return on a FVRB of \$443,606. Staff's recommended revenue represents an increase of \$106,006, or 22.46 percent, over adjusted test year revenue of \$472,010.

In its surrebuttal testimony, Staff recommends rates that would produce annual operating revenue of \$586,357 resulting in operating income of \$30,851 for a 7.10 percent rate of return on a FVRB of \$434,527. Staff's recommended revenue represents an increase of \$114,346, or 24.23 percent, over adjusted test year revenue of \$472,010. Under Staff's revised recommended rates, the average residential customer would experience a \$10.15, or a 25.53 percent increase in his/her monthly bill from \$39.75 to \$49.90.

**SUMMARY OF TESTIMONY
FOR MARLIN SCOTT, JR.
ARIZONA-AMERICAN WATER COMPANY –
MOHAVE WATER AND WASTEWATER DISTRICTS
DOCKET NO. WS-01303A-06-0014
NOVEMBER 13, 2006**

MOHAVE WATER DISTRICT

The Arizona-American Water Company – Mohave Water District consists of five water systems; 1) Camp Mohave System, 2) Lake Mohave Highlands System, 3) Desert Foothills System, 4) Rio Vista Ranches System, and 5) Mohave Water – Main System.

Conclusions

- A. Three of the five Mohave Water District's water systems have water loss of 10% or less; Camp Mohave at 4.1%, Lake Mohave at 4.2% and Mohave Main at 10%. The Rio Vista System is a consecutive system to Bermuda Water Company with no master-meter; therefore the water loss cannot be determined. For the Desert Foothills System, see Recommendation No. 1 below.
- B. Four of the five water systems had adequate well and storage capacities to serve the customer base and reasonable growth. One system, Rio Vista, is a consecutive system and has no well, storages or pumping facilities.
- C. The Arizona Department of Environmental Quality ("ADEQ") has determined that all five Mohave Water District's water systems are currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
- D. All five water systems have arsenic concentrations of less than 10 parts per billion and are currently meeting the new arsenic standard.
- E. The Mohave Water District is not located in any Active Management Area.
- F. The Mohave Water District has no outstanding Arizona Corporation Commission compliance issues.
- G. Mohave Water District has an approved curtailment plan tariff for "All Service Areas" that became effective on December 7, 2004, per Decision No. 67093.

Recommendations

- I. The Desert Foothills System has a water loss of 22.1%. Staff recommends that Desert Foothills continue to monitor its system and file with Docket Control, as a compliance item, reports in January 2007, July 2007, and January 2008 indicating the quantity of

water pumped, gallons sold and water loss percentage for each month during the preceding 6-month period.

If the reduction of water loss to less than 10% is not achieved by December 31, 2007, Desert Foothills shall submit to Docket Control, as a compliance item, a plan which outlines the procedures, steps, and time frames to achieve acceptable water losses. This plan shall be submitted by March 31, 2008.

2. Staff recommends that Mohave Water District's reported annual water testing cost of \$11,157 be accepted for purposes of setting rates in this proceeding.
3. The Mohave Water District submitted \$77,570 for post-test year plant items. Staff has inspected and verified these post-test year plant items and finds these plant items, adjusted to \$70,527, to be used and useful from an engineering perspective.
4. Staff recommends that Mohave Water District's depreciation rates be used for this proceeding.
5. Staff recommends continuation of Mohave Water District's service line and meter installation charges as approved by Decision No. 68183.

In Decision No. 68183 (dated September 30, 2005), the ACC approved tariff revisions that separated service line and meter installation charges for Mohave as shown in Table MM-B below. Mohave is not requesting any changes to these service line and meter installation charges. Staff recommends continued use of the charges delineated in Table MM-B.

TABLE MM-B. SERVICE LINE AND METER INSTALLATION CHARGES

Meter Size	Service Line Installation Charges	Meter Installation Charges	Totals
5/8 x3/4-inch	\$370	\$130	\$500
3/4-inch	\$370	\$205	\$575
1-inch	\$420	\$240	\$660
1-1/2-inch	\$450	\$450	\$900
2-inch Turbine	\$580	\$945	\$1,525
2-inch Compound	\$580	\$1,640	\$2,220
3-inch Turbine	\$745	\$1,420	\$2,165
3-inch Compound	\$765	\$2,195	\$2,960
4-inch Turbine	\$1,090	\$2,270	\$3,360
4-inch Compound	\$1,120	\$3,145	\$4,265
6-inch Turbine	\$1,610	\$4,425	\$6,035

6-inch Compound	\$1,630	\$6,120	\$7,750

MOHAVE WASTEWATER DISTRICT

The Arizona-American Water Company – Mohave Wastewater District (“Company”) consists of two wastewater systems; the Arizona Gateway System and Wishing Well System.

Conclusions

- A. Staff concludes that the Company’s two wastewater treatment plants, Arizona Gateway’s capacity of 112,000 gallons per day (“GPD”) and Wishing Well’s capacity of 250,000 GPD, are adequate to serve its present customer base. According to the Company, the Wishing Well wastewater treatment plant will be increased by an additional 250,000 GPD capacity in 2007. Currently, this expansion is in the design stage, with the bidding process to proceed by the end of 2006, and followed by construction for a period of nine months
- B. The Arizona Department of Environmental Quality reported that both the Company’s Arizona Gateway and Wishing Well Systems are in compliance with its regulations.
- C. A check with the Utilities Division Compliance Section indicated no outstanding compliance issues for the Company.

Recommendation

- 1. Staff recommends that the Company use Staff’s wastewater depreciation rates as shown in Table G-1 of the Engineering Report on a going-forward basis.