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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

MIKE GLEASON, Chairman
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JEFF HATCH-MILLER
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AZ CORP COMMISSION
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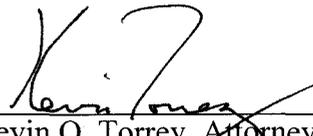
IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY
FOR APPROVALS ASSOCIATED WITH A
TRANSACTION WITH THE MARICOPA
COUNTY MUNICIPAL WATER
CONSERVATION DISTRICT NUMBER ONE

DOCKET NO. W-01303A-05-0718

STAFF'S NOTICE OF FILING
SUMMARY TESTIMONY

Staff of the Arizona Corporation Commission hereby files the Summary of Testimony of Gerald W. Becker of the Utilities and Jian Liu of the Utilities Engineer Division in the above-referenced matter.

RESPECTFULLY SUBMITTED this 15th day of March, 2007.


Kevin O. Torrey, Attorney
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Arizona Corporation Commission
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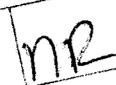
The original and thirteen (13) copies of the foregoing filed this 15th day of March, 2007, with:

Docket Control
Arizona Corporation Commission
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Phoenix, AZ 85007

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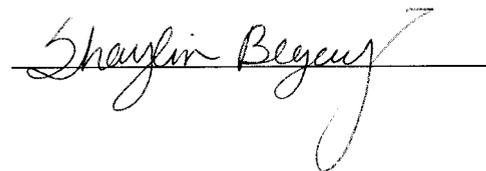
Arizona Corporation Commission
DOCKETED

MAR 16 2007

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**SUMMARY OF TESTIMONY
OF JIAN LIU
ARIZONA AMERICAN WATER COMPANY
DOCKET NO. W-01303A-05-0718
MARCH 16, 2007**

Staff has reviewed the list of plant items and costs and concludes that the plant additions are appropriate and their estimated construction costs reasonable. However, no "used and useful" determination of the proposed plant was made, and no particular future treatment should be inferred for rate making or rate base purposes.

**SUMMARY OF TESTIMONY
OF GERALD W. BECKER
ARIZONA AMERICAN WATER COMPANY
DOCKET NO. W-01303A-05-0718
MARCH 16, 2007**

The Company's initial application requested approval to collaborate with the Maricopa Water District ("MWD") to finance, construct and operate a surface water treatment plant, but negotiations have ceased. Each party now states that resuming negotiations is unlikely. Thus, the Company intends to independently proceed with construction of the surface water treatment plant "White Tanks Project". However, the Company asserts that its financial situation will not allow it to attract the funds needed for this project. Accordingly, the Company proposes to increase its hook-up fee to a level sufficient to entirely finance the White Tanks Project.

Staff's review of the intervenors' testimonies revealed that there are valid concerns about the Company's financial condition. Staff normally considers a combination of advances-in-aid-of-construction ("AIAC") and contributions-in-aid-of-contribution ("CIAC") exceeding 30 percent of total capital as excessive. At December 31, 2005, combined AIAC and CIAC represented 35.47 percent of the Company's capital structure inclusive of AIAC and CIAC. The total estimated cost for the White Tanks Project is \$132.9 million which compares to Arizona-Arizonan's total debt and equity of \$329.2 million at December 31, 2005. Implementing the Company's request to fund the White Tanks Project entirely through increased hook-up fees would exacerbate the Company's already excessive use of AIAC and CIAC. Equity represented approximately \$104.5 million, or 30.8 percent of the Company's capital structure at December 31, 2005 (adjusted for a \$35.0 million equity infusion and a \$24.4 million goodwill write-off). Staff normally considers equity below 40 percent of total capital insufficient. Although Staff recommends approval of a hook-up fee sufficient to finance the entire surface water treatment plant in this proceeding, Staff also recommends re-examination of the hook-up fee in the Company's Agua Fria District 2008 rate case to consider a proper balance of long-term capital structure components.

The application also requests an accounting order to authorize two variances from established rate-making principles. First, the Company requests authorization to accrue post-in-service allowance for funds used during construction ("AFUDC") on any unfunded balance of the White Tank Project. Staff recommends approval of a variance to record post-in-service allowance for funds used during construction on the excess of the construction cost of the White Tanks Project over directly related hook-up fees collected through December 31, 2012, or the date that rates become effective subsequent to a rate case that includes 80 percent (based on estimated cost) of the White Tanks Project in rate base, whichever comes first. Second, the Company requests that to the extent that cumulative collected hook-up fees exceed cumulative related construction expenditures, the excess hook-up fees should not be considered to be contributions until some corresponding eligible plant enters service. Staff recommends granting of a variance that excludes the excess of hook-up fees directly related to the White Tanks Project collected subsequent to the effect date of a decision in this case over the aggregate of (1) construction expenditures for the same period that are included in rate base and (2) any costs deemed imprudently incurred from contributions use to calculate rate base until December 31, 2012.

Staff recommends that approvals of the Company's requests for an increase in its hook-up fee and variances from established rate-making treatment be subject to the condition that Arizona-American agree that the Commission has complete authority to prescribe the entitlement and rate-making treatment of sales proceeds or other compensation from the sale or commitment, in whole or in part, of the White Tanks Project capacity to third parties.

The treatment of sales of capacity to a third party, whether existing main line extension agreements will be honored at existing rates, and the relevance of the estimated date of completion of the project are additional issues.