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AZ CORP COMMISSION
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Transcript Exhibit(s)

Docket#(s): W-01303A-05-0718

Arizona Corporation Commission
DOCKETED
MAR 28 2007

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Exhibit # D1-D47, D49-D51, D54, A1-A19, A21, T1, Ruco1-Ruco3, SLR Westcor1, SLR Westcor2, P1-P3, Fulton1-Fulton2, Courtland1, Courtland2, S1-S3, TW1, TW2, CHI1, CHI2.

EXHIBIT
D-1

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

Response provided by: **Troy Day**

Title: **Production Director**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-68**

Q. Please describe the status of any discussions with other water providers regarding such other providers purchasing service from the White Tanks Plant.

A. There are no current discussions.

EXHIBIT
D-1
admitted

EXHIBIT
D-2

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-2
admitted

Response provided by: **Troy Day**

Title: **Production Director**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-83**

Q. What are the projected operation and maintenance costs associated with the White Tanks Water Treatment Plan?

A. Please see the following table for the first five years of operation:

Item		1	2	3	4	5
Electrical Exp		**221,617**	**226,049**	**230,570**	**235,182**	**239,885**
Staffing		**755,416**	**770,525**	**785,935**	**801,654**	**817,687**
Maintenance		**129,000**	**132,000**	**134,000**	**137,000**	**143,000**
Chemicals		**299,712**	**305,707**	**311,812**	**318,057**	**324,418**
Waste Displ. incl. Chemicals and Hauling		**79,516**	**81,106**	**82,728**	**84,383**	**86,070**
Total Mil. $		**1.485**	**1.515**	**1.545**	**1.576**	**1.611**

EXHIBIT
D-3

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-3
admitted

Response provided by: **Troy Day**

Title: **Production Director**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-89**

Q. What is the unit cost of electrical power for the AAW facility?

A. Our understanding is that the proposed White Tanks plant is in the MWD electric service area. MWD is the best source of this information.

Client : Arizona-American Water Company
Project : Agua Fria Surface Water Trunk Pipeline
Job Number : 131378.
B&C Office : Phoenix

Estimate Summary

Cactus Road
100 % Submittal

EXHIBIT
D-4
admitted

Revision : 0
Estimate By : jbr
Date : 14-Feb-07

TOTAL SUMMARY	QTY	U/M		HRS/ UNIT	TOTAL HOURS	$/Mhr.	TOTAL MATERIAL	TOTAL LABOR	SUB - CONTRACTS	TOTAL COST
CITRUS										
General Conditions	12%						$241,800	$119,000		$360,800
Cactus Road Alignment to Citrus Rd.	6,130	lin ft			10,472		$2,015,000	$992,000		$3,010,000
Testing / Commissioning	1	Lot			320		$1,500	$14,400		$15,900
					SubTotal		$2,258,300	$1,125,400		$3,383,700
Sales / Gross Receipts Tax	5.27%						$118,900	$59,300		$178,200
TOTAL DIRECT COST					10,792		$2,377,200	$1,184,700		$3,562,000
Escalation - to mid-point of constr.	6%									$214,000
Construction Management										
Contingency	5%						$118,900	$59,200		$178,000
TOTAL CONSTRUCTION COST							$2,496,100	$1,243,900		**$3,950,000**

Client : Arizona-American Water Company
Project : Agua Fria Surface Water Trunk Pipeline
Job Number : 131378.
B&C Office : Phoenix

ESTIMATE DETAIL

Cactus Road
100 % Submittal

Revision : 0
Estimate By : jbr
Date : 14-Feb-07

DESCRIPTION	QUANTITY	UNIT	MAT or S/C $/UNIT	HRS/UNIT	TOTAL HOURS	$/HR	TOTAL MATERIAL	TOTAL LABOR	SUB - CONTRACTS	TOTAL COST
CACTUS Road										
48" Ø - Steel, cem.lined, poly wrap										
Excavate trench - 5' cover	19,525	cu yd		0.03	586	$95.00		$55,670		$55,670
Subgrade compaction	795	cu yd		0.04	32	$35.00		$1,120		$1,120
Bedding	7,770	cu yd	$21.00	0.16	1,243	$35.00	$163,170	$43,510		$206,680
Bedding compaction	6,682	cu yd		0.04	267	$35.00		$9,350		$9,350
Backfill	11,100	cu yd		0.01	111	$75.00		$8,330		$8,330
Backfill compaction	9,990	cu yd		0.04	401	$35.00		$14,040		$14,040
Load for haul-off	13,307	cu yd		0.01	133	$85.00		$11,310		$11,310
Haul-off	13,307	cu yd		0.10	1,331	$75.00		$99,830		$99,830
Dump charge	14,372	ton	$33.00				$474,260			$474,260
* Does not include shoring or dewatering										
48" Steel, 40' jts., cem.lined, poly coat	6,130	lin ft	$151.00	0.88	5,364	$95.00	$925,630	$509,580		$1,435,210
48" Steel, 90 ell " " " "	1	each	$675.00	4.75	5	$45.00	$680	$230		$910
48" welds at restrained joints	11	each	$150.00	24.00	264	$45.00	$1,650	$11,880		$13,530
48" joint grouting	155	each	$35.00	1.00	155	$35.00	$5,430	$5,430		$10,860
SubTotal - CACTUS Road	6,130	lin ft			9,892		$1,570,800	$770,300		$2,341,100

Client : Arizona-American Water Company
Project : Agua Fria Surface Water Trunk Pipeline
Job Number : 131378.
B&C Office : Phoenix

ESTIMATE DETAIL

Cactus Road
100 % Submittal

Revision : 0
Estimate By : jbr
Date : 14-Feb-07

DESCRIPTION	QUANTITY	UNIT	MAT or S/C $/UNIT	HRS/UNIT	TOTAL HOURS	$/HR	TOTAL MATERIAL	TOTAL LABOR	SUB - CONTRACTS	TOTAL COST
CACTUS Road										
TOTAL FROM PREVIOUS PAGE	6,130	lin ft			9,892		$1,570,800	$770,300		$2,341,100
Det.A C8 (MAG Std.)										
48" x 6" reducing tee	1	each	$1,700.00	10.00	10	$45.00	$1,700	$450		$2,150
6" Combination Air Release Valve	1	each	$2,275.00	8.00	8	$45.00	$2,280	$360		$2,640
6" Butterfly Valve	1	each	$150.00	6.90	7	$45.00	$150	$320		$470
Exc. / Backfill / compact	2	cu yd	$75.00	5.00	10	$35.00	$150	$350		$500
48" manhole x 4' depth	1	each	$1,200.00	12.00	12	$45.00	$1,200	$540		$1,740
48" manhole lid / concrete collar	1	each	$850.00	6.00	6	$45.00	$850	$270		$1,120
* 2" galv.elbow	4	each	$16.00	0.32	1	$45.00	$60	$50		$110
2" galv. Sch.80 pipe	15	lin ft	$15.00	0.25	4	$45.00	$230	$180		$410
Thrust block	1	cu yd	$90.00	4.00	4	$35.00	$90	$140		$230
Pipe bollard	1	each	$250.00	5.00	5	$35.00	$250	$180		$430
6" boltup kit	2	each	$14.66	2.00	4	$60.00	$30	$240		$270
Reducer, 48" x 36"	1	each	$3,500.00	6.00	6	$45.00	$3,500	$270		$3,770
Blind Flange, 36"	1	each	$1,500.00	4.00	4	$45.00	$1,500	$180		$1,680
Valve, Butterfly, 36"	1	each	$11,500.00	19.00	19	$45.00	$11,500	$860		$12,360
Boltup, 36"	3	each	$350.00	7.90	24	$45.00	$1,050	$1,080		$2,130
Exc. / Backfill / compact	250	cu yd	$1.00	0.15	38	$35.00	$250	$1,330		$1,580
48" manhole x 10' depth	1	each	$3,500.00	18.00	18	$45.00	$3,500	$810		$4,310
48" manhole lid / concrete collar	1	each	$850.00	6.00	6	$45.00	$850	$270		$1,120
Thrust block	1	cu yd	$90.00	4.00	4	$35.00	$90	$140		$230
Pipe bollard	2	each	$250.00	5.00	10	$35.00	$500	$350		$850
SubTotal - CACTUS Road	6,130	lin ft			10,092		$1,600,500	$778,700		$2,379,200

Client : Arizona-American Water Company
Project : Agua Fria Surface Water Trunk Pipeline
Job Number : 131378.
B&C Office : Phoenix

ESTIMATE DETAIL

Cactus Road
100 % Submittal

Revision : 0
Estimate By : jbr
Date : 14-Feb-07

DESCRIPTION	QUANTITY	UNIT	MAT or S/C $/UNIT	HRS/UNIT	TOTAL HOURS	$/HR	TOTAL MATERIAL	TOTAL LABOR	SUB - CONTRACTS	TOTAL COST
CITRUS Route										
TOTAL FROM PREVIOUS PAGE	6,130	lin ft			10,092		$1,600,500	$778,700		$2,379,200
Blowoff Detail C C8										
Exc., backfill, compact	60	cu yd	$25.00	3.00	180	$35.00	$1,500	$6,300		$7,800
48" x 12" reducing tee	1	each	$1,800.00	10.00	10	$45.00	$1,800	$450		$2,250
Thrust block	2	cu yd	$90.00	4.00	8	$35.00	$180	$280		$460
Pipe bollard	2	each	$250.00	5.00	10	$35.00	$500	$350		$850
12" 90 ell	2	each	$440.00	1.60	3	$45.00	$880	$140		$1,020
12" Flanges	12	each	$130.00	5.00	60	$45.00	$1,560	$2,700		$4,260
12" Gate valve w/ box and cover	1	each	$2,500.00	4.50	5	$45.00	$2,500	$230		$2,730
12" flex coupling	1	each	$1,800.00	4.00	4	$45.00	$1,800	$180		$1,980
12" pipe spools	20	lin ft	$45.00	1.00	20	$45.00	$900	$900		$1,800
12" tee	1	each	$810.00	4.50	5	$45.00	$810	$230		$1,040
12" blind flange	2	each	$550.00	4.50	9	$45.00	$1,100	$410		$1,510
12" boltup kit	11	each	$47.68	6.00	66	$60.00	$520	$3,960		$4,480
Contractor OH&P	20%						$322,900	$159,000		$481,900
Bonds / Insurance	4%						$77,500	$38,200		$115,700
Construction Contingency - see Summary page										
Escalation - see Summary page										
Note: Labor rate includes field overhead plus constr. eqpmnt.										
*** TOTAL - Cactus Road**	6,130	lin ft			10,472		$2,015,000	$992,000		$3,010,000

EXHIBIT
D-5

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-5
admitted

Response provided by: **Alex Lovisetto**

Title: **Senior Planning Engineer**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-84**

Q. What is the expected delivery demand at start-up and schedule for demand growth through the first phase capacity?

A. In line with the regional strategy to move away from non-renewable sources of water, it is intended that all available White Tanks Plant capacity would be fully utilized as soon as it is available for production, with groundwater from existing sources to be used for peaking as required, and to ensure un-interrupted supply during periods of canal shut-down for maintenance. The caveat to the above statement is that it should be noted that full utilization refers here, to 90% of the plant's maximum capacity, which is in line with current Operational practice.

EXHIBIT
D-6

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER - CHAIRMAN
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

EXHIBIT
D-6
admitted

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT.	DOCKET NO. W-01303A-05-0718

Direct Testimony of

William C. Davis

on Behalf of

Maricopa County Municipal
Water Conservation District

January 24, 2007

Q. Please state your name and business address.

A. My name is William C. Davis. My business address is 2525 E. Camelback Rd, Ste.925, Phoenix, AZ 85016.

Q. By whom are you employed and what is your position?

A. I am employed by Piper Jaffray, & Co. as Managing Director.

Q. Please provide us with an overview of your education, experience, and professional qualifications.

A. I have over 25 years of Public Finance experience in Arizona serving counties, cities, universities, hospitals, Industrial Development Authorities, 501 (c) (3) corporations and special districts. I have provided investment-banking and consulting services to many municipal governments throughout Arizona including the State of Arizona, Maricopa County, the Water Infrastructure Finance Authority of Arizona, the Cities of Chandler, Scottsdale and Tucson and numerous school districts and special districts.

I received a Business Administration/Finance degree from Northern Arizona University and I received the designation of Chartered Financial Analyst (CFA) from the Association for Investment Management and Research. I am also registered with the New York Stock Exchange and National Association of Securities Dealers as a General Securities and General Municipal Principal.

Q. Mr. Davis, what is the purpose of your direct testimony in this proceeding?

A. I discuss the proposed financing of the plant.

Q. Please describe how MWD will finance its plant.

A. As a municipal corporation, MWD will be able to finance the White Tanks Water Treatment Plant at extremely competitive tax-exempt rates with one or a combination of the following: (1) a loan from the Water Infrastructure Finance Authority of Arizona; (2) project revenue bonds; (3) a private bank loan or (4) cash. MWD will be able to finance this project on a fixed or variable rate basis over a term of 20 to 30 years.

Q. Please estimate the costs of these different types of financing.

A. The interest rates range for these financings is from 3.5% to 5.0%

Q. Have you reviewed MWD's financial statements?

A. Yes.

Q. Is MWD in a strong financial position and creditworthy?

A. Yes.

Q. Is MWD capable of attracting financing for the plant?

A. Yes, assuming that MWD has a contract (s) for the delivery of treated water, MWD has the capability to finance the plant.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER – Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

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** **JOINT NOTICE OF FILING DIRECT TESTIMONY**

CHI Construction Company, Courtland Homes, Inc., Taylor Woodrow/Arizona, Inc., through undersigned counsel, hereby respectively file their Direct Testimony for the following witnesses in the above-captioned matter:

Brett Hopper
John Wittrock
Justin Iannacone

DATED this 24th day of January, 2007.

SNELL & WILMER L.L.P.

By _____
Jeffrey W. Crockett
Bradley S. Carroll
Snell & Wilmer LLP
400 East Van Buren
Phoenix AZ 85004-2202

Snell & Wilmer L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

ORIGINAL and thirteen (13) copies filed with Docket Control January 24, 2007.

COPY of the foregoing hand-delivered January 24, 2007, to:

Teena Wolfe
Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix AZ 85007

Christopher Kempley, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix AZ 85007

Ernest G. Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix AZ 85007

COPY of the foregoing sent via first class mail January 24, 2007, to:

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Phoenix, AZ 85028

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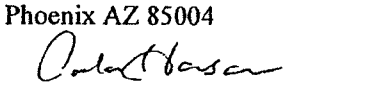
Phoenix AZ 85004



Snell & Wilmer
LLP
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

EXHIBIT
D-7

ARIZONA-AMERICAN WATER COMPANY
WHITE TANKS WATER TREATMENT PLANT
DOCKET NO. WS-01303A-05-0718
RESPONSE TO DATA REQUEST NO. STAFF 1-2

Response provided by: Keith R. Larson

Title: Director, Water Resources, Western Region

Company Name: Arizona American Water
Address: 19820 N. Seventh Street, Suite 201,
Phoenix, Arizona 85022

EXHIBIT
D-7
admitted

Company Response Number: JJD 1-2

Q. With respect to page 7, line 4 of the Application; please provide the book value and sales price of the subject land where the Water Treatment Plant ("WTP") will be sited.

A. The book value of the 45-acre parcel where the land will be sited is currently $555,902.50. This is the total price that Arizona American Water paid in 2002 for the three parcels of land, which now comprise the WTP site. The sales price to the Maricopa Water District outlined in the Memorandum of Understanding is the lesser of the Appraised Value or $30,000 per acre. Arizona American Water anticipates that the land will appraise for at least $30,000 per acre. In that event, the price Maricopa Water District will pay to Arizona American Water will be $1,350,000.

EXHIBIT
D-8

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

EXHIBIT
D-8
admitted

Company Response Number: **MWD 1-47**

Q. Would wholesale customers of Arizona-American's White Tanks Plant pay Arizona-American's tariffed rate for potable water? If not, please explain the rate that would be charged.

A. No, that tariff would not apply. Arizona-American would sell treatment service, not potable water, to customers who would be responsible for providing their own water supplies.

EXHIBIT
D-9

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-9
admitted

Response provided by: **Counsel**

Company Response Number: **MWD 1-49**

Q. Admit that the rate for wholesale sales from Arizona-American's White Tanks Plant is subject to the Commission's rate-making authority. If you deny, please provide a complete explanation of the denial. Include in your explanation a discussion of Southwest Transmission Cooperative, Inc. v. Arizona Corporation Commission, 213 Ariz. 427, 142 P.3d1240 (Ariz. App. 2006)(ACC authority extends to wholesale matters).

A. Deny. Arizona-American would not be selling water. Please see the response to MWD 1-47.

EXHIBIT
D-10

ORIGINAL NEW APPLICATION

BEFORE THE ARIZONA CORPORATION COMMISSION

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EXHIBIT
D-10
judicial notice

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT	DOCKET NO. **W-01303A-05-0718** **APPLICATION OF ARIZONA-AMERICAN WATER COMPANY**

I. INTRODUCTION

As more fully set forth below, Arizona-American Water Company ("Arizona-American" or the "Company") hereby files for certain approvals associated with a proposed transaction with the Maricopa County Municipal Water Conservation District Number One ("MWD"). Arizona-American and MWD have executed a Memorandum of Understanding ("MOU"). The MOU outlines the basic framework under which MWD will finance, build, and own the White Tanks Plant, Arizona-American will obtain treatment services through a long-term capital lease with MWD, and an Arizona-American affiliate will operate the plant through a Operation and Maintenance Agreement with MWD.

The requested approvals are in the public interest because the MOU and associated agreements, including the capital lease, will make possible:

- Construction of a regional surface-water treatment facility known as the White Tanks Plant, to be owned and operated by MWD;

Attached to this application is the *Report of Arizona-American Water Company: White Tanks Plant - Capital Lease with Maricopa Water District* ("White Tanks Report"). The White Tanks Report was written on behalf of the Company by Keith R. Larson, James M. Kalinovich, Ray L. Jones, and Thomas M. Broderick. As more fully discussed below, in order to expedite the approval process, the Company proposes to make these individuals available as a witness panel in the hearing on this application. They will jointly sponsor the White Tanks Report and answer questions. The Company also expects to call one or more witnesses on behalf of MWD to answer any questions concerning MWD and its participation in the White Tanks Plant.

II. BACKGROUND

Arizona-American is a public service corporation engaged in providing water and wastewater utility services in portions of Maricopa, Mohave, and Santa Cruz Counties, Arizona, pursuant to various certificates of public convenience and necessity granted by the Arizona Corporation Commission (the "Commission") to Arizona-American and its predecessors in interest. The Company presently provides utility service to approximately 97,000 water customers and 47,000 sewer customers in Arizona and is Arizona's largest investor-owned water and wastewater utility. Arizona-American's Agua Fria District is located in the rapidly developing western Phoenix suburbs (generally north of I-10, between the White Tank Mountains and the 101 Expressway), where the Company currently has about 25,000 water customers and is adding approximately 4,000 new water customers per year.

The Company's central business office is located at 19820 North Seventh Street, Suite 201, Phoenix, Arizona 85024, and its telephone number is (623) 445-2400. The person responsible for overseeing and directing the conduct of this application is Thomas M. Broderick. Mr. Broderick is American Water's Manager, Rates and Regulations, Western Region. Mr. Broderick works at the above address. His telephone number is (623) 445-2420 and his telecopier number is (623) 445-2454. All discovery, data requests and other requests for information concerning this Application should be directed to Mr. Broderick, with a copy to undersigned counsel for the Company.

Arizona-American currently is capitalized with 36.7 % equity and 63.3% long-term debt. Attached as Schedule A is a copy of Arizona-American's September 2005 Balance Sheet.

As discussed in Section C of the White Tanks Report, Arizona-American proposes to borrow funds, in the form of a capital lease, from MWD. Arizona-American forecasts the amount of the lease obligation associated with Phase 1A to be $37,413,874. The actual amount will not be known until after MWD's financing closes and construction of the White Tanks Plant is complete.

III. THE WHITE TANKS PLANT

In Section A of the White Tanks Report, Arizona-American discusses the need for the plant, provides background on the plant, and discusses the MOU between Arizona-American and MWD that will serve as the framework for the transaction where MWD will finance, build, and own the White Tanks Plant, and Arizona-American will lease treatment capacity.

Over the last 50 years, the West Valley has developed largely based on groundwater resources. As a result, groundwater overdraft and depletion in the area has been severe. Arizona-American and other entities serving the West Valley have access to Colorado River water delivered through canals and other facilities owned by the Central Arizona Project ("CAP"). However, treatment is required for this water to meet drinking-water standards.

In 1997, a number of western Maricopa County municipalities and private water companies holding CAP water contracts formed WESTCAPS to develop cooperative regional solutions for use of the region's CAP water allocations and other renewable water supplies. WESTCAPS determined that regional planning was needed to develop the best strategy to supply the water needed to support the expected growth in the West Valley.

In April 2001, WESTCAPS released its Regional Water Supply Plan. Groundwater modeling studies conducted by ADWR and by the Bureau of Reclamation as part of the WESTCAPS study warned that continued reliance on groundwater to support new development would cause unacceptable groundwater level declines and accelerate land-subsidence problems.

The Regional Water Supply Plan concluded that the area's water suppliers should maximize their use of CAP and other surface water resources.

To treat CAP water, WESTCAPS recommended the construction of two regional treatment facilities, including one at Cactus and Perryville Road, on the Beardsley canal. This is the proposed site of MWD's regional treatment facility, the White Tanks Plant.[1]

Arizona-American holds a CAP-water subcontract for 11,093 acre-feet per year, which will require treatment before it can be delivered to its Agua Fria customers. In addition, Arizona-American and MWD have an agreement whereby MWD will provide Agua Fria surface water to Arizona-American. This water will be available for treatment and delivery to Arizona-American's Agua Fria customers residing within the MWD area. Arizona-American estimates that this agreement will result in up to 21,000 acre-feet of additional surface water being available annually for direct treatment and delivery at buildout of the Agua Fria District.

In 2002, Arizona-American began moving forward with the regional treatment plant concept by purchasing a 45-acre parcel of land at the site identified in the WESTCAPS Regional Water Supply Plan. At that time, Arizona-American believed that it could obtain financing to design, build, and operate a large regional treatment facility.

In 2003, Arizona-American signed a contract for plant design and construction with the Joint Venture of Black and Veatch (design and engineering), and Western Summit Constructors, Inc. (construction). As designed, the White Tanks Plant will be constructed in phases. The capacity of the Phase Ia plant is 13.5 mgd and is expandable to 20 mgd (Phase Ib) with the addition of one treatment unit train. Three additional phases (20 mgd each) will eventually be added, depending on the rate of development in the region, for a total treatment capacity of 80 mgd. As of October 2005, the design and permitting (through Maricopa County and other agencies), of the Phase I plant is 95 percent complete.

[1] The City of Peoria will likely build the second regional treatment facility.

In 2004, MWD approached Arizona-American and inquired about obtaining an ownership interest in the White Tanks Plant. Sometime after MWD approached Arizona-American, the Company learned that it would not be able to obtain financing to build the White Tanks Plant as originally configured. Negotiations then shifted toward a new scenario, where MWD would take responsibility for financing, building, and owning the White Tanks Plant, with Arizona-American entitled to lease the majority of the treatment capacity.

The negotiations between MWD and Arizona-American ultimately led to the execution of the MOU. A copy of the MOU is Attachment A to the White Tanks Report. The MOU outlines the basic framework under which MWD will finance, build, and own the White Tanks Plant, Arizona-American will obtain treatment services through a long-term capital lease with MWD, and an Arizona-American affiliate will operate the plant through an Operation and Maintenance Agreement with MWD.

To offset the delay caused by the extended negotiations, the need for regulatory approval, and MWD's public-bidding requirement—MWD will supply water from existing MWD irrigation wells to Arizona-American's Agua Fria system until the plant is on-line in mid 2008. Arizona-American will evaluate a number of existing MWD wells to select wells that produce water that is acceptable, both in quantity and quality. Arizona-American will be responsible for chlorinating the water and paying for the associated operating costs. This is a much lower cost option than if Arizona-American had to construct additional wells during this period—wells of unknown quality and yield.

Highlights of the MOU follow:

- Implementing the MOU requires Commission approval, which will be needed by the end of the first quarter of 2006 if the mid-2008 completion date is to be met.
- MWD will purchase the plant site and plant design documents from Arizona-American following Commission approval.
- MWD will then competitively bid the construction of the plant in the first quarter of 2006.

- MWD will award the construction in the second quarter of 2006, contingent on Commission approval.
- MWD's financing will close shortly after Commission approval.
- MWD will purchase from Arizona-American the land where the White Tanks Plant will be sited.
- MWD will purchase a recently constructed trunk pipeline from Arizona-American, which will be used to deliver treated water from the plant to the Arizona-American, City of Goodyear, and Arizona Water Company water distribution systems.
- Construction will commence shortly after financing closes.
- Arizona-American will execute a 40-year capital lease for 7.5 mgd treatment capacity with MWD.
- The City of Goodyear and Arizona Water Company are expected to contract for the remaining 6 mgd of treatment capacity.
- The costs of retrofitting and connecting the interim well supplies to the Arizona-American system will be included in the 40-year capital lease.
- MWD will purchase the design documents for a yet to be constructed segment of the trunk pipeline. MWD will competitively bid the construction of this pipeline segment in conjunction with the plant construction.
- A proportionate share of the capital cost of treated water conveyance capacity in these pipelines will be part of the capital lease between Arizona-American and MWD.
- Approximately 80 percent of Arizona-American Agua Fria customers will reside within the Maricopa Water District. MWD will provide landowners within the MWD District with the economic benefits of the District's ownership of the White Tanks Regional Water Treatment Plant. Annual credits on Arizona-American water bills as well as other mechanisms may be used to convey benefits to landowners within MWD.

- The capital lease interest rate is set at 275 basis points over the long-term treasury-bond rate. Assuming a 30-year treasury-bond rate of 4.25%, this would result in a 7% interest rate.

As mentioned above, Arizona-American intends to lease 7.5 mgd of the initial 13.5 mgd capacity of the plant. Discussions are underway between MWD, the City of the Goodyear, and the Arizona Water Company (White Tanks Division) regarding these entities contracting with MWD for the other six mgd of plant capacity. Each of these entities is a WESTCAPS member. It is expected that these and other entities will contract for more capacity as MWD adds additional phases to the Plant. Multiple participation allows construction of a large regional plant on one site, so that the per-gallon cost of treatment is less than if each entity built and owned its own treatment facility.

IV. THE CAPITAL LEASE

Section II of the White Tanks Report discusses the proposed capital lease and its terms. Also discussed are why the transaction must be structured as a capital lease and the required accounting for a capital lease. Finally, the White Tanks Report explains how the capital lease will affect Arizona-American's capital structure.

Under Financial Accounting Standard ("FAS") 13, a lease is classified as a capital lease if it meets one or more of the following criteria:[2]

a. The lease transfers ownership at the end of the lease term.

b. The lease contains a bargain purchase option.

c. The lease term is equal to 75% or more of the estimated useful life of the leased property.

d. The present value of the minimum lease payments (excluding executory costs such as taxes, maintenance, insurance, etc.) is equal to or greater than 90% of the fair value of the leased property.

[2] FAS 13, par. 7.

The MWD transaction will satisfy both subparagraphs c) and d). The expected term of 40 years will slightly exceed the estimated useful life of the leased property. Also, the present value of the minimum lease payments is expected to equal the fair value of Arizona-American's share of the leased property. Therefore, the transaction will be treated as a capital lease.

NARUC Accounting Instruction 22 basically states that regulatory accounting for a capital lease follows financial accounting. Capital leases are recorded as an obligation and an asset equal to the present value of minimum lease payments during the term of the lease (excluding executory costs), not to exceed the fair value of the leased property. The asset is depreciated according to the lessee's normal depreciation policy, except the period of depreciation is the lesser of the lease term (lease term shall include the period covered by a bargain renewal option) or the assets useful life. Operation and maintenance expense is a normal expense item.

This accounting treatment contrasts to that for an operating lease, where the entire lease payment is an expense.

As discussed in Section II of the White Tanks Report, Arizona-American will finance the leased asset with a combination of 40% equity and 60% debt. American Water Works will inject the required equity and the capital lease debt rate will be set at 275 basis points over the 30-year Treasury bond rate (according to terms of lease). At present rates (4.25%) this would be approximately 7.0%. The actual rate will be set when MWD's financing closes, which will be shortly after the Commission's approval of this application. Because this debt will refinance a certain amount of short-term borrowings from American Water Capital Corp, we anticipate a slight increase in Arizona-American's overall cost of capital, which will be addressed in the Company's 2008 filing discussed below. This slight increase in debt costs reflects higher interest rates on long-term, fixed-rate third party debt versus short-term variable rate American Water Capital Corp debt.

V. COMPARISON TO ALTERNATIVES

Section III of the White Tanks Report discusses two alternatives to the proposed transactions with MWD. One is a business-as-usual case, where the Company would continue to drill wells to meet the needs of new customers. The second alternative case assumes that the Company were to build a treatment facility to meet just its own needs. This would be a 13.5 mgd facility at the same location, constructed in two 6.25 mgd phases.

The well-drilling option would cost customers slightly more than the MWD capital lease. However, the well-drilling option would be significantly riskier, because it is becoming more difficult to drill wells that yield good quantities of high quality water, particularly in the southern area of the Company's Agua Fria District. Further, the well-drilling option would further lower the water table and exacerbate subsidence problems. Finally, no potential credits would be available from MWD to Arizona-American customers who reside in the MWD territory. For these reasons, the Company does not believe the well-drilling option should be pursued.

The standalone treatment facility option would be consistent with public policy, but would be more expensive than leasing treatment capacity at MWD's White Tanks Plant because of lost economies of scale. Also, no potential credits would be available from MWD to Arizona-American customers who reside in the MWD territory. For these reasons, the Company does not believe the standalone option should be pursued.

VI. PROPOSED PROCEDURE

Arizona-American requests that the Commission approve the following rate-making procedure for the Company to recover the costs associated with entering into the MWD capital lease. This procedure is largely modeled on the Commission's ACRM process to recover the extraordinary costs associated with arsenic remediation.

A. Initial Approvals

1. Transaction Approval

MWD's construction of the White Tanks Plant and its provision interim water supplies to Arizona-American are both contingent upon Arizona-American's receipt of the requested

approvals from the Commission. To satisfy demands in each of Arizona-American's rapidly growing Agua Fria District, the Town of Goodyear, and Arizona Water's White Tanks service territory, MWD is striving to put the White Tanks Plant in service by summer 2008. Construction of the White Tanks Plant will take approximately two year. To meet this goal, a construction contract must be awarded (through competitive bidding) by the second quarter of 2006. This will require Commission approval of the transaction by the end of the March 2006.

The Company proposes, in lieu of direct testimony, to make the authors of the White Tanks Report available as a witness panel in the hearing on this application to sponsor the White Tanks Report and answer any questions about it. The Company also expects to call one or more witnesses on behalf of MWD to answer any questions concerning MWD and its participation in the White Tanks Plant.

2. Revised Hook-up Fees Set

As discussed below, Arizona-American is asking to revise its existing water hook-up fees for the Agua Fria Water District to raise additional funds to reduce the rate impact of the White Tanks Capital Lease. Having developers fund the cost of water treatment needed to serve future development is consistent with cost-causation principles, with Commission precedent, and with the fees charged by municipal water providers to fund new infrastructure. Arizona-American is asking that the revised hook-up fees be approved as soon as possible in this case, and no later than the second quarter of 2006. Arizona-American's analysis of the required amount of the revised hook-up fee is provided in Section IV(C) of the White Tanks Report.

B. 2007 Agua Fria Rate Case

Early in the second quarter of 2007, Arizona-American will file a rate case using a 2006 test year for its Agua Fria Water District. Based on this filing, the Commission will determine the cost of service for the Agua Fria District, including rate base and authorized return on equity. The Company projects the Order will be issued sometime in the second quarter of 2008.

C. 2008 White Tanks Filing (Step One)

To recover its extraordinary costs associated with the White Tanks Plant, Arizona-American proposes a procedure similar to that approved by the Commission to deal with the extraordinary capital expenditures required to comply with the revised federal arsenic standards for drinking water. Like a Step One ACRM filing, once the White Tanks Plant is complete and providing service, the Company will make a filing to determine the monthly rates necessary to recover the revenue requirement associated with the associated MWD Capital Lease, including return on rate base, depreciation, and fixed O&M. This revenue requirement would be based on the revenue requirement components that were determined, roughly contemporaneously, in the 2007 general rate filing for the Agua Fria District. An adjustment would need to be made for the slightly increased cost of capital associated with carrying the debt cost associated with the White Tanks Plant lease.

The White Tanks Plant rate base will be offset by the cumulative contributions received from the revised hook-up fees, discussed below. As discussed below, because of the funds generated by the hook-up fees, Arizona-American expects that the amount of the surcharge will be relatively small.[3]

The final component of this filing will be to reset the hook-up fee. In support of this component, Arizona-American will file schedules of projected customer additions by meter size along with anticipated capital projects needed to satisfy this new demand. These projects will include Arizona-American's share of Phase 1B of the White Tanks Plant and will likely also include future phases of the White Tanks Plant.

D. Step Three Filing

Like an ACRM Step Three filing, approximately one year after the White Tanks Plant begins operation, Arizona-American will make a filing to begin recovery through a surcharge of the variable O&M costs associated with its share of the White Tanks Plant capacity. Examples

[3] See Attachment E to the White Tanks Report.

of these type of costs are chemicals, electric power, residuals, and maintenance. These costs are projected to be approximately $70,000 per mgd/year. First-year variable costs would be deferred and recovered along with second-year variable costs.

E. Additional Filings

Arizona-American plans to lease capacity in additional phases of the White Tanks Plant. The Company would make additional filings associated with a general rate case to adjust for the rate impacts of these capacity additions.

VII. PROPOSED RATEMAKING

Capital leases are recorded as an obligation and an asset equal to the present value of minimum lease payments during the term of the lease (excluding executory costs), not to exceed the fair value of the leased property. Mr. Broderick discusses the details of the proposed ratemaking in Section IV of the attached White Tanks Report.

Attachment D to the White Tanks Report is a schedule showing the projected rate impact of the MWD capital lease when the White Tanks plant becomes operational (assumes July 2008). Attachment D shows that the full-year revenue requirement associated with Phase 1A of the MWD capital lease would be approximately $5 million. This revenue requirement would require a rate increase of approximately $ 10.00/customer/month.

VIII. REVISED HOOK-UP FEES

As further discussed in Section IV of the White Tanks Report, Arizona-American currently collects two water-related hook-up fees in the Agua Fria District. The first is the Central Arizona Project Hook-up Fee ("CAP Hook-up Fee"), which was intended to recover the cost of acquiring and holding CAP water for the Company's Agua Fria customers. Developers pay a one-time charge of $ 257.00 per residential building, and $150 per equivalent residential unit ("ERU"), based on meter size, for commercial buildings. Funds generated by this fee are treated as revenue and reduce the company's unrecovered costs of acquiring CAP water to serve the Agua Fria District. The Company estimates that CAP Hook-up Fee will have fully funded its

intended purpose by the end of the second quarter, 2006, when, as required by the Order, it would end.

Arizona-American also charges a Water Facilities Hook-up Fee in its Agua Fria District. This fee is intended to offset the costs of new water facilities needed to serve new customers, including new treatment facilities. The fee is based on based on meter size and starts at $1,150 for a 5/8 x 3/4-inch meter. This is a one-time fee per service connection or residential lot within a platted subdivision. Funds generated by this fee are treated as contributions in aid of construction ("CIAC"). CIAC funds are revenue neutral and directly offset rate base. To date the funds raised by this hook-up fee have funded construction of a number of water infrastructure projects.

To reduce the rate impact of the MWD Capital Lease, Arizona-American proposes to discontinue the Water Facilities Hook-up Fee, and extend the CAP Hook-up Fee, with modifications. Developer currently paying approximately $1,950 for a ¾ inch meter connection would pay $2,700. This proposal would largely offset the rate increase needed to recover the revenue requirement and other costs associated with the MWD Capital Lease.

Arizona-American proposes that funds from the revised CAP Hook-up Fee be treated as CIAC, but booked separately to be accumulated and used to offset the ratebase increase attributable to the MWD Capital Lease. As shown on Attachment E to the White Tanks Report, this would decrease the revenue requirement associated with the MWD capital lease to approximately $3 million , and the associated rate increase would be reduced to approximately $6.00/per customer/month.

The proposed adjusted CAP hook-up fees are reasonable. Existing customers will benefit from receiving treated CAP water and reduced groundwater usage, so they should bear a portion of the White Tanks Plant's cost. However, because much of the capacity will be used to satisfy future growth, using hook-up fees to pay for a large part of the White Tanks Plant is also appropriate. Finally, the Company's hook-up fees have long lagged those charged by municipal

water suppliers. For example, in the City of Peoria, the water hook-up fee for ¾ and one-inch meters is $3,497.

IX. CUSTOMER BENEFITS

There are a number of important benefits to the proposed transaction with MWD and the associated approvals:

- The transaction will make possible the construction of a regional surface-water treatment facility known as the White Tanks Plant, to be owned and operated by MWD;
- Arizona-American will be able to use its share of the treatment capacity at the White Tanks Plant to treat its entitlement to Colorado River water delivered through facilities of the Central Arizona Project;
- Consistent with state, local, and Commission policy, the transaction will preserve groundwater resources throughout the Company's Agua Fria District by significantly reducing anticipated groundwater usage;
- MWD will connect three mgd of well capacity to the Arizona-American system by the summer of 2007 to bridge the gap in production capacity until the plant becomes operational in 2008;
- The transaction is the low-cost option to meet future water needs for the Company's Agua Fria customers; and
- With the hook-up fee adjustments, there will be only a moderate rate increase associated with entering into the proposed transaction with MWD.

X. REQUESTED APPROVALS

Arizona-American is asking for the following specific regulatory approvals from the Commission as part of its order in this proceeding:

- Authorize Arizona-American Water Company under A.R.S. § 40-301 *et. seq* to issue an evidence of indebtedness in an amount equal to the capital lease asset and determined consistent with the methodology set forth in Attachment B;

- Authorize Arizona-American Water Company under A.R.S. § 40-285 to transfer the Pipeline Main and other assets to Maricopa County Municipal Water Conservation District Number One;
- Find that it is prudent for Arizona-American Water Company to enter into the agreements contemplated in the MOU, including the proposed capital lease with Maricopa County Municipal Water Conservation District Number One;
- Approve the regulatory process set forth in Section IVA of the White Tanks Report;
- Authorize the ratemaking treatment set in Section IVB of the White Tanks Report for the proposed capital lease and associated documents between Arizona-American Water Company and The Maricopa County Municipal Water Conservation District Number One; and
- Authorize, as set forth in Section IVB of the White Tanks Report, Arizona-American Water Company to implement revised CAP hook-up fees to reduce the rate impact of the proposed capital lease.

CONCLUSION

For all the reasons set forth above and in the attached White Tanks Report, Arizona-American Water Company asks the Commission to provide the requested authorizations.

RESPECTFULLY SUBMITTED on October 11, 2005.

Craig A. Marks
Corporate Counsel
Arizona-American Water
19820 N. 7th Street
Suite 201
Phoenix, Arizona 85024

Original and 13 copies filed
on October 11, 2005, with:

Docket Control

EXHIBIT
D-11

ARIZONA-AMERICAN WATER COMPANY
WHITE TANKS WATER TREATMENT PLANT
DOCKET NO. WS-01303A-05-0718
RESPONSE TO DATA REQUEST NO. STAFF 1-6

EXHIBIT
D-11
admitted

Response provided by: Keith R. Larson

Title: Director, Water Resources, Western Region

Company Name: Arizona American Water
Address: 19820 N. Seventh Street, Suite 201,
Phoenix, Arizona 85022

Company Response Number: JJD 1-6

Q. With respect to page 7, line 21 of the Application; is it the Company's position that although the MWD treated water will be delivered to all of the Company's customers, only those customers living within MWD are entitled to any annual credits?

A. It is our understanding that the Maricopa Water District only has legal authority to provide financial benefits derived through its ownership of the White Tanks Water Treatment Plant to landowners residing within the boundaries of the MWD. Arizona American Water does not have a position on this issue.

EXHIBIT
D-12

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-12
admitted

Response provided by: **Counsel**

Company Response Number: **MWD 1-52**

Q. Is Arizona-American aware of any other cases or decisions where the Arizona Corporation Commission approved the treatment of AFUDC in a manner similar to the accounting order for AFUDC requested by Arizona-American in this case?

A. Counsel is not aware of any such request previously made to the Commission.

EXHIBIT
D-13

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-13
admitted

Response provided by: **Counsel**

Company Response Number: **MWD 1-53**

Q. Is Arizona-American aware of any other cases or decisions where the Arizona Corporation Commission approved delayed recognition of CIAC in a manner similar to the accounting order for CIAC requested by Arizona-American in this case?

A. Counsel is not aware of any such request previously made to the Commission.

Original

SHEET NO. 9
SHEET NO. _____

Arizona American Water Company
(Name of Company)

Agua Fria Water District
(Name of Service Area)

Water Facilities Hook-Up Fee WHU – 1

Applicability

Applicable to all new potable water Service Connections within the Company's CC&N, except those potable water Service Connections constructed pursuant to a Line Extension Agreement executed prior to November 10, 2003 that required the developer to fun or install the Off-Site Facilities necessary for Company to provide potable water service to the potable water Service Connection, provided, however, that the necessary Off-Site Facilities have actually been funded or instatlled.

Purpose

The purpose of the hook-up fee pursuant to this tariff is to equitably apportion the costs of constructing additional facilities to provide water production, treatment, transmission, storage, pressure and flow among all new Service Connections.

Definitions

Unless the context otherwise requires, the definitions set forth in Rule No. 1 shall apply in interpreting this tariff schedule. The following additional definitions apply to this tariff schedule only.

"Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of on-site water facilities (including distribution mains, valves, fittings, hydrants and other improvements in accordance with Rule No. 5) to the Company to serve new service connections, or install on-site water facilities to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Arizona Corporation Commission (same as line extension agreement).

"Off-Site Facilities" means treatment facilities, wells, transmission lines, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Off-site facilities may also include booster pumps, pressure tanks, distribution mains and related appurtenances necessary for proper operation, if these facilities are not for the exclusive use of the applicant but rather those facilities will provide regional or system wide benefits.

"Service Connection" means and includes all service connections for residential, commercial, industrial, or other uses, regardless of meter size.

EXHIBIT
D-14
Judicial notice

ISSUED: July 1, 2004 (Month Day Year) EFFECTIVE: July 1, 2004 (Month Day Year)

ISSUED BY: David Stephenson, Rate Regulation Manager
19820 N. 7th St., Suite 201, Phoenix, Arizona 85024

Decision No. 67093

Water Facilities Hook-Up Fee WHU – 1 (continued)

Rates

Each new service connection shall pay the Water Facilities Hook-up Fee indicated below based on the meter size to be installed:

Water Facilities Hook-Up Fee		
Meter Size	Factor	Total Hook-Up Fee
⅝" x ¾"	1.0	$1,150.00
¾"	1.5	$1,725.00
1"	2.5	$2,875.00
1½"	5.0	$5,750.00
2"	8.0	$9,200.00
3"	16.0	$18,400.00
4"	25.0	$28,750.00
6"	50.0	$57,500.00
8"	100.0	$115,000.00

Special Conditions

Assessment of One Time Hook-Up Charge: The hook-up fee may be assessed only once per Service Connection, or residential lot within a platted subdivision (similar to meter and service line installation charges). However, this provision does not exempt from the hook-up fee, any newly created parcel(s) resulting from further subdivision of a lot or land parcel and which do not have a Service Connection.

2. Time of Payment:

   a. In the event that the Applicant is required to enter into a Main Extension Agreement payment of the charges required hereunder shall be made by the Applicant when operational acceptance is issued for the on-site water facilities constructed to serve the improvement.

   b. In the event that the Applicant is not required to enter into a main extension agreement, the charges hereunder shall be due and payable at the time a meter is requested to be set for service to the property.

3. Failure to Pay Charges; Delinquent Payments: Under no circumstances will the Company set a meter or otherwise allow service to be established if the Applicant has not paid in full all charges as provided by this Water Facilities Hook-Up Fee tariff.

4. Off-Site Hook-Up Fees In Addition to Other Charges: The off-site hook-up fees shall be in addition to any costs associated with a main extension agreement for on-site facilities, and are in addition to the amounts to be paid pursuant to charges authorized under other tariffs.

Water Facilities Hook-Up Fee WHU – 1 (continued)

5. Use of and accounting for Water Facilities Hook-up Fee: Proceeds from the hook-up fee shall be accounted for as a contribution in aid of construction. As such, they will be treated as an offset to the cost of Off-Site Facilities included in rate base in any future ratemaking proceeding. The Company shall maintain on its books an accounting of the Water Facilities Hook-up Fees collected pursuant to this tariff and an accounting of the Off-Site Facilities constructed subsequent to adoption of this tariff.

6. Disposition of Excess Funds: After all necessary and desirable Off-Site Facilities are constructed or the Water Facilities Hook-Up Fee has been terminated by order of the Arizona Corporation Commission (Commission), any Water Facilities Hook-Up Fees collected in excess of the total amount expended by the Company for construction of Off-Site Facilities shall be refunded. The Commission shall determine the manner of the refund at the time a refund becomes necessary.

Sizing of Water Meters: Residential water meters through 1" in size shall be sized in accordance with Company requirements as detailed in the most recent version of the Company's Development Guide. Large residential and all commercial water meters shall be sized in accordance with the Uniform Plumbing Code, latest edition.

EXHIBIT
D-15

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-15
admitted

Response provided by: **Counsel**

Company Response Number: **MWD 1-29**

Q. Please provide Arizona-American's proposed tariff language for its proposed hook-up fee or fees.

A. Arizona-American already has an approved hook-up fee tariff for its Agua Fria Water District, WHU-1. The only thing that is expected to change would be the rates.

EXHIBIT
D-16
judicial notice

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
DOCKETED
NOV 10 2003
DOCKETED BY nr

COMMISSIONERS

MARC SPITZER, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF ARIZONA-AMERICAN WATER COMPANY – AGUA FRIA DIVISION SEWER HOOK-UP FEE TARIFF REVISIONS.

DOCKET NO. SW-01303A-02-0628

IN THE MATTER OF ARIZONA-AMERICAN WATER COMPANY – AGUA FRIA DISTRICT – WATER FACILITIES HOOK-UP FEE TARIFF REVISIONS.

DOCKET NO. W-01303A-02-0629

DECISION NO. 66512

ORDER AMENDING DECISION NO. 65800

Open Meeting
November 4 and 5, 2003
Phoenix, Arizona

BY THE COMMISSION:

On August 16, 2002, Arizona-American Water Company, Agua Fria District ("Arizona-American" or "Company"), filed proposed tariff revisions with the Arizona Corporation Commission ("Commission"). The Company proposed to expand the applicability of its water (Docket No. W-01303A-02-0629) and wastewater (Docket No. W-01303A-02-0628) hook-up fee tariffs to the entirety of its Agua Fria District. Currently, the hook-up fee tariffs are applicable only to new service connections within the portion of the Company's Agua Fria Certificate of Convenience and Necessity ("CC&N") area known as "Verrado" (formerly known as "Whitestone").

In Decision No. 65201 (September 20, 2002), the Commission suspended the Company's tariff filing for 120 days. In Decision No. 65536 (January 24, 2003), the Commission granted an additional 90-day suspension, through and including April 12, 2003, to allow the Hearing Division to review this matter.

On April 9, 2003, the Commission issued Decision No. 65800, which granted the Commission's Utilities Division Staff's ("Staff's") Motion to Dismiss. Decision No. 65800 also

directed Staff to review and make a recommendation regarding the water and wastewater hook-up fee tariffs in the Company's pending rate case (Docket No. WS-01303A-02-0870).

On June 25, 2003, the Commission conducted a Special Open Meeting to discuss whether Decision No. 65800 should be reconsidered or amended pursuant to A.R.S. §40-252. Following a discussion of the issue, the Commission ordered the Hearing Division to develop a record on the hook-up fee tariff issue prior to making a further recommendation to the Commission.

On July 3, 2003, a Procedural Order was issued directing Staff to file a Staff Report by August 8, 2003 on the hook-up fee tariff issues raised by Arizona-American. Responses to the Staff Report were ordered to be filed by no later than August 22, 2003.

On July 23, 2003, the Residential Utility Consumer Office ("RUCO") filed a Motion to Intervene. RUCO was granted intervention by Procedural Order issued August 14, 2003.

Staff filed its Staff Report on August 8, 2003. Arizona-American filed a Response to the Staff Report on August 15, 2003. RUCO did not file a response.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. By its applications in these consolidated cases, Arizona-American seeks to establish water and wastewater facilities hook-up fees so that the Company can "equitably apportion the costs of constructing additional facilities" to provide water production, water and wastewater treatment, transmission, storage, pressure, flow, effluent disposal, and sludge disposal among all new service connections in the Company's Agua Fria Division.

2. In Decision No. 64307 (December 28, 2001), the Commission approved a CC&N extension application for Citizens Communications Company's (now Arizona-American's) Agua Fria District to include an 8,800 acre area in the town of Buckeye, Arizona now known as Verrado. As part of that Decision, the Commission approved tariffs, in accordance with Staff's recommendation, for water and wastewater hook-up fees for the Verrado area of the Agua Fria District.

3. Arizona-American's applications in these consolidated proceedings seek to impose

hook-up fees across the remaining portion of the Agua Fria District consistent with those now in effect for Verrado. The Company intends to treat the amounts collected under these tariffs as contributions in aid of construction ("CIAC"), consistent with the requirement in Decision No. 64307 that the Verrado hook-up fees be treated as CIAC.

4. Article XV, Section 3, of the Arizona Constitution states that the Commission "shall have full power to, and shall, prescribe just and reasonable classifications to be used and just and reasonable rates and charges to be made and collected, by public service corporations within the State for service rendered therein." Section 14 of Article XV requires that the Commission "shall, to aid it in the proper discharge of its duties, ascertain the fair value of the property within the State of every public service corporation doing business therein."

5. In Decision No. 65800, we agreed with Staff that a proposed rate, as that term is used in Article XV of the Arizona Constitution, should be given a broad interpretation. Because Arizona-American's proposed hook-up fees require an amount to be paid for a service, we concluded that the hook-up fees constitute a "rate" under Article XV and therefore, there must be a "fair value" determination prior to approval. Accordingly, we granted Staff's Motion to Dismiss the Company's application and ordered Staff to review the proposed hook-up fees in the Company's pending rate case.

6. Although Staff originally argued that the hook-up fee issue must be considered in the context of a rate case, after further review Staff now believes that setting rates for hook-up fee tariffs does not require a new fair value finding. Staff states that the Company's proposed hook-up fee tariffs are appropriate and may be approved by an amendment to Decision No. 65800.

7. In support of its position, Staff contends that hook-up fee tariffs should be considered an exception to the fair value finding requirement set forth in the Arizona Constitution. Staff asserts that this is an issue of first impression for the Commission because the court opinions in *U.S. West Communications, Inc. v. Arizona Corporation Comm'n*, 201 Ariz. 242, 34 P.3d 351 (2001) ("*US West II*") and *Residential Utility Consumers Office v. Arizona Corporation Comm'n*, 199 Ariz. 588, 20 P.3d 1169 (App. 2001) ("*Rio Verde*") do not address hook-up fees or similar tariff charges.

8. In *US West II*, the Arizona Supreme Court held that "[u]nambiguous constitutional

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language" must be given its "plain meaning and effect" and a "determination of fair value is necessary with respect to a public service corporation." *US West II*, 201 Ariz. At 245. The Court held, therefore, that the Commission must set rates after making a fair value finding, even in a competitive market situation. However, the Court also recognized that a fair value determination need not be plugged into a "rigid formula" for purposes of setting rates. The Court indicated that the Commission has "broad discretion" in determining the weight to be given to a fair value finding. *Id.* at 246.

9. The Arizona Court of Appeals decision in the *Rio Verde* case also addressed the Commission's Constitutional rate-making authority. In that case, the Court of Appeals held that the Commission may, in limited circumstances, set rates without first ascertaining a utility's fair value rate base. The Court stated that the fair value exception exists when the Commission sets rates on an interim basis, or pursuant to an automatic adjustment clause. *Rio Verde*, 199 Ariz. At 591. However, in deciding whether a proposed surcharge constituted an "interim rate" or an "automatic adjustment," the Court cautioned that interim rates are subject to compliance with specific criteria[1] and imposition of an automatic adjustment usually requires consideration in the context of a full rate case hearing. *Id.* at 591-593.

10. Against the backdrop of these court decisions, we must decide whether Arizona-American's proposed hook-up fee tariff requires a fair value determination in a full rate case. Upon reconsideration of Decision No. 65800, we conclude that the proposed hook-up fee may be approved outside of the Company's rate case application. There are several reasons for reaching this conclusion. First, no prior court decision has found that hook-up fees require a fair value determination and it is well settled that the Commission has broad discretion under its rate-making authority. *See, Simms v. Round Valley Light and Power Co.*, 80 Ariz. 145, 294 P.2d 378 (1956). More importantly, the funds received from the proposed hook-up fees will be separately recorded as CIAC and, therefore, Arizona-American will not be entitled to earn a return on the hook-up fees. As such, the hook-up fee funds are revenue requirement neutral and will not increase or decrease the

[1] Approval of interim rates requires the existence of an emergency situation, the posting of a bond by the utility, and filing of a subsequent full rate case. *Rio Verde*, 199 Ariz. at 592; *See also, Scates v. Arizona Corp. Comm'n*, 118 Ariz. 531, 578 P.2d 612 (App. 1978).

Company's revenues or expenses. As Staff points out, hook-up fees accounted for as CIAC are analogous to funds received from main extension agreements with developers that are treated as advances in aid of construction ("AIAC"). Since no fair value determination is made with respect to AIAC funds, a fair value finding is not required for hook-up fees booked as CIAC. Finally, we believe that administrative consistency will be advanced by approving the proposed hook-up fee tariff in this docket. As noted above, hook-up fees have already been approved for a portion of Arizona-American's Agua Fria District in the Verrado development. Hook-up fees and other revenue neutral CIAC have also been approved without a fair value finding in other cases. *See, e.g., In re H2O, Inc.*, Decision No. 63259 (December 14, 2000).

11. Given the fact that Staff has found Arizona-American's proposed hook-up fees to be reasonable and in the public interest, we will approve the Company's tariff in this docket.

CONCLUSIONS OF LAW

1. Arizona-American Water Company, Agua Fria District, is a public service corporation within the meaning of the Arizona Constitution and A.R.S. §§ 40-201, -250, -361,-365 and -367.

2. The Commission has jurisdiction over Arizona-American and the subject matter of the application.

3. Pursuant to A.R.S. §40-252, the Commission has authority to amend a prior Decision.

4. Pursuant to Article XV, §§ 3 and 14 of the Arizona Constitution, setting hook-up fee charges by approving tariffs is rate setting.

5. Under the circumstances of this case, and pursuant to Article XV, §§3 and 14 of the Arizona Constitution, Arizona-American's proposed hook-up fee tariffs, which will be booked as contributions in aid of construction, do not constitute rates that require a fair value determination prior to approval.

ORDER

IT IS THEREFORE ORDERED that the proposed water and wastewater hook-up fee tariffs for Arizona-American Water Company, Agua Fria Division, are approved.

IT IS FURTHER ORDERED that Arizona-American Water Company, Agua Fria Division, shall treat all water and wastewater hook-up fees as non-refundable contributions in aid of

construction.

IT IS FURTHER ORDERED that, consistent with Decision No. 64307, Arizona-American Water Company, Agua Fria Division, shall comply with Staff's recommendation to maintain all water and wastewater hook-up fees in a separate interest bearing account, and to file annual reports in accordance with Staff's recommendation.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER COMMISSIONER

COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 10th day of November, 2003.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____

DISSENT _____

DDN:mlj

SERVICE LIST FOR: ARIZONA-AMERICAN WATER COMPANY

DOCKET NOS. SW-01303A-02-0628 and W-01303A-02-0629

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EXHIBIT
D-17

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-17
admitted

Response provided by: **Counsel**

Company Response Number: **MWD 1-31**

Q. Admit that setting hook-up fees constitutes rate-making pursuant to Articles XV §§ 3 and 14 of the Arizona Constitution. If you deny, please provide a complete explanation of the denial, including a discussion of Decision No. 66512 (Nov. 10, 2003).

A. Decision No. 66512 concludes that setting hook-up fees is rate-making, but does not require a new fair value determination and may be approved outside of a rate application.

EXHIBIT
D-18

EXHIBIT
D-18
admitted

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

Response provided by: **Counsel**

Company Response Number: **MWD 1-33**

Q. Arizona Corporation Commission Decision No. 66512 (Nov. 10, 2003) involved Arizona-American's Agua Fria Division. (A) Did Arizona-American appeal Decision No. 66512? (B) Have any relevant circumstances changed since Decision No. 66512? If yes, please describe each and every relevant changed circumstances. (C) Does Arizona-American dispute any aspects of Decision No. 66512? If yes, please describe the nature and basis for such dispute.

A.

A. No.
B. Counsel is not aware of changed circumstances at this time.
C. Counsel is not aware of disputes at this time.

EXHIBIT
D-19

COMPANY: ARIZONA AMERICAN WATER COMPANY
DISTRICT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-0718

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **19820 N. 7th St., Suite 201**
Phoenix, AZ 85024

EXHIBIT
D-19
admitted

Company Response Number: STF 3-5

Q: Impact on Rates – Please quantify and predict economies of scale that will be provided by the anticipated expansion along with AAW's plans to file a rate case to adjust rates to current ratepayers in this district.

A: The economies of scale associated with the initial size of the plant are provided in the application. Economies of scale are normally expressed as the average cost of the facility. In this instance, economies of scale can be expressed by dividing the mgd capacity into the total capital cost. The larger the capacity, the lower the average cost. The Company wants to build as large a facility to capture economies of scale, but not so large as to burden customers with capacity well in advance of its utilization. The Company feels its proposal strikes a balance in that regard.

As regards the next rate case, the Commission's decision concerning the arsenic cost recovery mechanism in the Agua Fria water district requires the Company to file a rate case for that district not later than May 31, 2008 using a 2007 test year. Presently, the Company does not have plans to file earlier than this date.

The Company's 2007 2011 Business Plan forecasts an overall increase in revenue requirement associated with increases in its cost of service of approximately 32% in the Agua Fria water district for the next rate case. This increase does not include the cost of Agua Fria's arsenic facilities already in rates via surcharge since that is merely a transition from existing recovery via surcharge to recovery via base rates. However, the ACRM is not a full cost recovery mechanism, thus there are arsenic related costs that will be a portion of the next rate case.

The 2007-2011 Business Plan assumes the Company's proposal in this docket for the White Tanks project is approved. To the extent the Commission's decision in this matter differs from the Company's proposal, the Company must recast its revenue requirements forecasts.

EXHIBIT
D-20

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-20
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-40**

Q. Will Arizona-American request that the AFUDC accrued due to approval of Arizona-American's proposals in this case be included in its Agua Fria rate base (or the rate base of any other division) in future cases? If not, will Arizona-American request some other means of recovery of or on the AFUDC? If yes, please describe.

A. The plan is for AFUDC to be recovered through hook-up fee funds. These amounts would be offset by CIAC. If a real-estate slow-down were to significantly slow down the inflow of funds from hook-up fees, or as a result of other unforeseen circumstances, Arizona-American could ask to include the unfunded balance of the Plant in rate base in some future rate case.

EXHIBIT
D-21

MEMORANDUM

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A
M.W.P.

EXHIBIT
D-21
admitted

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: October 6, 2006

RE: STAFF REPORT FOR THE ARIZONA CORPORATION COMMISSION'S GENERIC EVALUATION OF THE REGULATORY IMPACTS OF NON-TRADITIONAL FINANCING ARRANGEMENTS BY WATER FROM THE USE OF UTILITIES AND THEIR AFFILIATES - DOCKET NO. W-00000C-06-0149

Attached is the Staff Report for the Arizona Corporation Commission's evaluation of the regulatory impacts of non-traditional financing arrangements for water and wastewater utilities and their affiliates. This Report does not address the issue of whether entities using certain non-traditional financing arrangements are or are not public service corporations.

EGJ:JJD:CCK:lhm

Originator: James J. Dorf

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DOCUMENT CONTROL

Service List for: GENERIC EVALUATION OF NON-TRADITIONAL FINANCINGS
Docket No. W-00000C-06-0149

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

THE REGULATORY IMPACTS FROM THE USE OF NON-TRADITIONAL FINANCING ARRANGEMENTS BY WATER AND THEIR AFFILIATES UTILITIES

DOCKET NO. W-00000C-06-0149

OCTOBER 2006

EXECUTIVE SUMMARY

In connection with the Arizona Corporation Commission's ("Commission") evaluation of the regulatory impacts of non-traditional financing arrangements by water and wastewater utilities and their affiliates, Staff offers its comments regarding such transactions. In general, Staff recommends that the substance, rather than the form, of the transaction should be evaluated to determine the appropriate regulatory treatment.

Regarding the appropriate regulatory treatment of certain non-traditional funding methods, Staff encourages the development of policies that will facilitate either regulated or non-regulated entities to seek regional solutions to Arizona's water and wastewater infrastructure development. Staff concludes that certain non-traditional financing methods can provide appropriate long-term solutions which promote conservation of water supplies and efficient wastewater utilization. The appropriate regulatory treatment should be determined on a case by case basis. However, based on the scenarios contained in this report, Staff recommends that the costs be treated as advances or contributions instead of equity for ratemaking purposes.

In addition to its review of non-traditional financing methods, Staff requested comments on the proper level of Advances in Aid of Construction ("AIAC") and/or Contributions in Aid of Construction ("CIAC"). Staff continues to recommend that such funding not exceed 30 percent of capital expenditures for private and investor owned utilities.

Staff also requested comments on the proper capital structure for "new" utilities. Staff typically recommends capital structures with at least 40 percent equity as appropriate to provide a balance of cost and financial health for regulated utilities and ratepayers. However, "new" utilities usually require higher levels of equity and should be determined on a case-by-case basis. Staff generally recommends a minimum of 100 percent equity for "new" utilities with variances allowed for good reason.

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EXHIBITS

Accounts 301, 302 and 303 ..... Exhibit A

Description of Coordinator Services ..... Exhibit B

Introduction

On March 8, 2006, a generic docket was opened for the Arizona Corporation Commission ("Commission" or "ACC") in the matter of the Commission's generic evaluation of the regulatory impacts from the use of non-traditional financing arrangements by water and/or wastewater utilities ("utilities") and their affiliates.

On June 2, 2006, the Commission's Utilities Division Staff ("Staff") docketed a series of scenarios and questions which outlined three separate non-traditional financing arrangements for water and wastewater companies (including their affiliates) and requested that respondents propose their perspective of the appropriate regulatory treatment for each arrangement.

The Staff also requested comments on the maximum percentage of total capital that refundable Advances in Aid of Construction ("AIAC") and non-refundable Contributions in Aid of Construction ("CIAC") should represent. Additionally, Staff requested that respondents comment on the most economical capital structure for "new" water or wastewater utilities.

On June 7, 2006, Commissioner Mundell submitted in this docket a memorandum requesting Global Water Resources, LLC ("Global") to make a presentation on "matters of public interest regarding agreements it has with local governmental entities and developers." Commissioner Mundell suggested that Global address the following issues related to Infrastructure Coordination Agreements it has with the cities of Maricopa and Casa Grande and private land owners and developers:

1. The nature of its (Global) relationship with local governments.

2. The nature of its Infrastructure Coordination and Finance Agreements ("ICFAs"), especially

    a. Global's perspective on the role of the Arizona Corporation Commission regarding the agreements.

    b. The nature of "per dwelling fees" versus "hook-up fees".

    c. Why do customers need a middleman to "coordinate" services to be provided by a public service corporation?

On June 12, 2006, Chairman Hatch-Miller docketed a memorandum in support of Commissioner Mundell's request and suggested that municipalities and developers also participate.

Background

Global has entered into several ICFAs and Memorandums of Understanding ("MOU") agreements with developers and /or municipalities. The services to be provided under these agreements are presented below. These agreements require Global to provide certain services that have been traditionally performed by ACC regulated water and wastewater utilities.

Global's states that "With regard to the ICFAs, these agreements are merely a financing tool which place the standards and resource planning squarely in the hands of Global, rather than the developers. By allowing the infrastructure planning and resource development to be managed by Global, substantial long-term benefits are achieved, including: regionalization; rate stability; and risk protection."[1]

Global adds that ICFAs permit the pursuit of (1) conservation of groundwater; (2) consolidation of small or unviable utilities; and (3) cooperation with regulators, local government and developers. Payments made to Global under the ICFAs merely compensate Global for the carrying cost associated with this infrastructure development. It also indicated that IFCAs partially funded Global's acquisition of West Maricopa Combine, Inc.[2]

These Global matters are mentioned here because it is primarily these matters that initiated this docket.

Presented below is Staff's preliminary evaluation of the preferred regulatory treatment for the non-traditional financing arrangements. Staff first presents a summary of the services provided for under these agreements, then a summary of Staff's response to Scenarios 1, 2, and 3. Staff then presents a summary of possible regulatory treatments related to these non-traditional financing arrangements.

Finally, Staff provides its perspective regarding AIAC, CIAC and the proper capital structure for "new" water and wastewater utilities.

Services Provided Under ICFA and MOU Agreements

Global's response and Commissioner Mundell's filing include examples of ICFAs, MOUs or other agreements, some of the parties to which may not be regulated by the Commission. The services offered under these agreements include[3]:

1. Coordination meetings.

2. Conservation coordination efforts.

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[1] Global's Motion to Dismiss and Answer, page 1.
[2] Global's Response to Arizona Water Company's Request for Oral Argument, page 3.
[3] Items 1-7 from Exhibit B MOU in Global's response; items 8-13 from Exhibit B ICFA in Commissioner Mundell's June 7, 2006 filing;

3. Reclamation projects.

4. Economic development efforts.

5. Annual land-use planning documents.

6. Community outreach programs.

7. Annexation assistance.

8. Financing and coordination fee which represents an approximation of the carrying costs associated with interest and capitalized interest associated with the financing of infrastructure for the benefit of the Landowner, until such time as the rates associated from the provision of services within the areas to be served as contemplated by this Agreement generate sufficient revenue to carry the on going carrying costs for this infrastructure.

9. Obtaining permits from ACC, Arizona Department of Water Resources, Arizona Department of Environmental Quality, and Central Arizona Association of Governments.

10. Coordinate with regulated water and wastewater companies to facilitate the provision of service.

11. Coordinate and provide access to utility agreements for water, wastewater, natural gas, electricity, telephone, cable television, internet, and internet services.

12. Coordinate with Landowner the granting of easements and rights of way.

13. The transfer of water rights and wells to regulated water/wastewater companies.

14. See attached Exhibit B which is a description of the services to be provided by the coordinator (from the agreement in Exhibit C of Commissioner Mundell's June 7, 2006 filing).

Many of the above services are usually provided by ACC regulated public service corporations. The cost of providing many of these services, had they been incurred by a regulated water or wastewater utility, would be capitalized as either Organization (Account 301), Franchises (Account 302), Land and Land Rights (Account 303), Wells (Account 307) or other plant accounts under the Uniform System of Accounts ("USoA") promulgated by the National Association of Regulatory Utility Commissioners. See Exhibit A for a copy of the USoA instructions for these accounts.

Staff concludes that, to the extent these services are provided under contracts between non-regulated entities, it is unclear whether the Commission has jurisdiction over the contracts or the related activities. However, the Commission does have jurisdiction over the regulated utilities affected by these agreements and how these utilities account for these costs.

Responses to Staff's Questions

On June 23, 2006, eight responses to Staff's scenarios and questions regarding non-traditional financings were submitted to Docket Control. A summary of the responses is provided on Schedule JJD-1. The responses offered a variety of opinions on each of the questions posed by Staff. There appears to be no consensus as to the proper regulatory treatment to be afforded each of the circumstances posed.

Staff's Response

Staff has developed preliminary positions for its scenarios and questions.

Scenario 1:

A developer purchases a non-regulated parent company's non-voting stock. Each of the non-voting shares has a par value of $1.00, is not eligible for dividends, is partially refundable and can be repurchased (subject to certain conditions) by the non-regulated parent for one cent ($0.01). The parent company subsequently contributes the funds to an ACC regulated subsidiary water utility as additional paid-in-capital.

The form of the transaction at the parent level is somewhat irrelevant. Staff's position is that each case will have to be evaluated on its own merits and appropriate regulatory treatment should follow the substance, rather than the form, of the transaction.

The transactions posed by this scenario are similar to that of a Certificate of Convenience and Necessity ("CC&N") application by Litchfield Park Service Company ("LPSCO").[4] LPSCO's parent company proposed to charge developers a Treatment Plant and Effluent Disposal ("TPED") Facilities charge of $1,500 per equivalent residential unit for which the developers would receive the non-voting class B stock of the parent company. Based upon the facts presented in that case, Staff concluded that any amounts contributed by the parent to LPSCO that were related to the TPED charges would be treated as if they were advances in aid of construction. In its response to Staff's Report in the docket, LPSCO has objected to Staff's recommended treatment. The matter is still pending before the Commission.

[4] Docket No. SW-01428A-05-0022.

Scenario 2:

A developer purchases a regulated utility's non-voting stock and that utility invests those funds in plant. The utility records equity for the proceeds. Neither refundable advances in aid of construction nor contributions in aid of construction are recorded.

Staff's position for this transaction is that each case will have to be evaluated on its own merits and appropriate regulatory treatment should follow the substance, rather than the form, of the transaction.

Scenario 3:

A developer or a Municipal Government pays a fee for services provided by a non-regulated parent company for services typically covered by "Off-site Hook-up Fees" collected by regulated water and wastewater utilities. Then the parent company invests the proceeds in the regulated utility which is recorded as equity by the utility (similar to ICFA/MOU method used by Global).

As stated earlier, it is unclear whether the ACC has jurisdiction over the actual contracts, but does have jurisdiction over the regulated utilities' treatment of the results of these contracts.

Staff has prepared an example of the possible regulatory outcomes that could be utilized by the Commission depending upon the facts and circumstance of each case. Staff has assumed the creation of a new Commission regulated water utility ("Company A") that has constructed facilities costing a total of $500,000. Schedule JJD-3 provides a summary of the plant accounts recorded as a result of the construction.

Company A has a refundable Main Extension Agreement ("MXA") which is an at cost tariff and is intended to recover costs of on-site facilities. In this example there is only one developer, Developer X. Company A also has a non-refundable "Hook-up Fee Tariff" intended to recover back-bone plant costs from Developer X. As indicated in column A on Schedule JJD-3, the total cost of the plant is $500,000 which was funded by $100,000 in Main Extensions, $100,000 with Hook-up Fees and $300,000 in common equity. Assuming no operating expenses or no taxes and an authorized return on rate base of 10 percent, the annual revenue requirement for the first year would be $30,000 (500,000 – 100,000 – 100,000 = 300,000 x 10% = 30,000).

In an alternative situation, Company A is 100 percent owned by a parent company ("Parent") and has a MXA only. Instead of a Hook-up Fee Tariff, Parent has an agreement with Developer X. Parent performs services under the agreement wherein it incurs the costs noted in column B on Schedule JJD-3 ($200,000). The Parent collects $100,000 from Developer X under the agreement and pays $100,000 of its own funds to complete the preliminary facilities construction.

Parent then deeds all $200,000 worth of the property it constructed to Company A as paid in capital and also invests $200,000 of its own funds to complete the initial funding of Company A. Company A then proceeds to complete construction of the remaining facilities. To complete the construction, Company A collects $100,000 in MXAs from Developer X. Based solely on the accounting records of Company A (see column C Schedule JJD-3), a potential regulatory outcome could be an annual revenue requirement of $40,000 (500,000 – 100,000 = 400,000 @ 10% = 40,000).

Because Developer X funds the activities of the Parent under the agreement rather than under a hook-up fee tariff, Parent is able to transfer $200,000 in plant for which it only had to utilize $100,000 of its own funds. In this instance, Staff would recommend that either the rate base be adjusted downward by $100,000 or the return on equity be adjusted downward from 10 percent since a portion of the capital contributed had a zero cost (contributed by developers). Staff assumes that the amount contributed by developers is ultimately collected from lot owners. As such, Staff's preference would be to reduce rate base rather than attempt to adjust the return

Questions 1 & 2:

What is the maximum percentage of refundable "AIAC" or non-refundable "CIAC" appropriate as a percent of total capital for a private or investor owned water utility?

Historically, Staff has recommended limiting AIAC and CIAC funding to 30 percent of total capital. Over reliance on AIAC or CIAC creates undercapitalized water and wastewater providers. To illustrate why Staff uses 30 percent as its upper limit, please refer to Schedule JJD-2. In this example, capital expenditures totaling $1 million are funded with a combined 30 percent or $300,000 of AIAC/CIAC, $420,000 in long-term debt, and $280,000 of common equity. In establishing the company's cost of capital, Staff does not include AIAC or CIAC as part of the capital structure. AIAC and CIAC are subtracted from rate base rather than included in the capital structure and/or the determination of the cost of capital.

In relation to the total capital expenditures, AIAC/CIAC represents 40 percent while the common equity only represents 18 percent of the funding. Assuming the AIAC/CIAC amounts are passed on to lot purchasers, the lot owners would have more capital at risk than the regulated water company. Hence, Staff consistently recommends that AIAC/CIAC not exceed 30 percent of capital expenditures for private or investor owned utilities.

Question 3:

What is the most appropriate and most economical capital structure for a "new" water or wastewater utility?

Many respondents indicated that the Commission should exercise discretion in establishing an appropriate capital structure for new water/wastewater utilities. Staff generally

agrees that establishing a single standardized capitalization requirement may not be appropriate. However, Staff recommends that the Commission establish some parameters from which any deviations must be justified. Traditionally, Staff recommends capital structure for private or investor owned utilities consisting of approximately 40 percent equity and 60 percent debt. Variations from this structure may be appropriate when a utility experiences rapid growth and during a period of unusual capital expenditure requirements, such as arsenic treatment facilities. With a minimum of 40 percent equity, it is presumed this capital structure will provide a balance between cost and financial stability. Therefore, Staff encourages regulated entities with access to the capital markets to have an equity level of 40 to 60 percent.

For "new" water/wastewater utilities, Staff generally recommends equity percentages of up to 100 percent. Factors influencing Staff's recommendation include the experience of the proposed operator, the financial health of the utility's owners, current debt market environment, inflation rate, the projected growth rate, etc.

Other Jurisdictions

Staff surveyed other jurisdictions[5] and responses indicated that other commissions have not encountered or were not aware of similar non-traditional financing arrangements and primarily dealt with AIAC and CIAC on a case-by-case bases.

Summary

With respect to the appropriate regulatory treatment of the non-traditional funding mechanisms, Staff encourages the development of policies that will facilitate either regulated or non-regulated entities to seek regional solutions to Arizona's water and wastewater infrastructure development. Staff concludes that IFCA type arrangements can provide appropriate long-term solutions which promote conservation of water supplies and efficient wastewater utilization. If such costs are incurred at the parent level and subsequently contributed to the regulated utility, the cost of such contributed capital should be determined on a case by case basis. However, based on the scenarios contained in this report, Staff would recommend that these costs be treated as advances or contributions instead of equity for ratemaking purposes.

With respect to the proper level of AIAC and/or CIAC, Staff continues to recommend that such funding not exceed 30 percent of capital expenditures for private and investor owned utilities.

Staff typically recommends capital structures for entities with access to the capital markets of at least 40 percent equity as providing a good balance between cost and financial stability. However, "new" utilities usually require higher levels of equity and should be

[5] E-mail requests sent to California, Pennsylvania, Florida, Georgia and Texas and an informal survey at a NARUC Accounting Subcommittee meeting.

determined on a case-by-case basis. Staff generally recommends 100 percent equity with variances allowed for good reason.

Schedule JJD-1

Non-Traditional Financing Arrangements
Docket No. W-00000C-06-0149
Summary of Responses

Respondant	PROPOSED REGULATORY TREATMENT					
	1. A	1. B	1.C	2. AIAC	3. CIAC	4. Capital Structure
Arizona-American Water Company	Deduct from rate base, phantom hook-up fee	Deduct from rate base, phantom hook-up fee	Deduct from rate base, phantom hook-up fee	Depends on financial situation of a company	Depends on financial situation of a company	Depends on facts but an equity ratio of 20-80% is reasonable
Arizona Water Company	Treat as CIAC - a no cost source of capital	Enforce Rule 14-2-406, mains extension rules	AIAC if refundable or CIAC if nonrefundable	Depends on factors such as size, ownership type, etc.	Depends on factors such as size, ownership type, etc.	Common equity should be approx. 50%
Diversified Water Utilities, Inc.	No opinion	No opinion	No opinion	No limit 1) developers control growth 2) customers benefit 3) developer is at risk 4) protects water co.'s health 5) should be normal developer cost	CIAC is cheapest form of capital and should be encouraged	Depends on facts as equity is not a significant indicator of a utility's capability
Global Water Resources, LLC	No opinion	Appropriate, if voluntary, but not for "sham" transactions	Global's ICFA's are not hook-up fees	Depends, but generally agrees with Staff limit-30% for AIAC + CIAC	Agrees with Staff limit-30% for AIAC + CIAC	Discretionary, but avoid too much AIAC & CIAC
Residential Utility Consumer Office	Treat as equity, but evaluate on case by case basis	Treat as equity, but evaluate on case by case basis	Need to know more about "services" provided	20 to 25%, but case by case basis	20 to 25%, but case by case basis	Should have sufficient equity to have vested interest in company's success, debt is OK.
Robson Communities, Inc.	Should be used to construct plant, include in rate base and earn a return thereon	Should be used to construct plant, include in rate base and earn a return thereon	Should be used to construct plant, include in rate base and earn a return thereon	Should never be required and determined on case by case basis	Should never be required and determined on case by case basis	Should initially be equity oriented but all on case by case basis
Sallquist, Drummond & O'Connor, P.C.	Consider in susequent rate case & determine appropriate rate/return	If new entitiy- ARS §40-301 & 302 control	Source should be of no concern to the Commission	Depends on facts and suggests repayment period be extended	Depends on facts	Prefer to permit some debt in new companies
Valencia Water Company, Inc.	Depends, if investor has no rights, amount should be treated as AIAC	Depends, if investor has no rights, amount should be treated as AIAC	Depends, if investor has no rights, amount should be treated as AIAC	No limit, developer should be at risk, not the water co.	No limit, developer should be at risk, not the water co.	New water company risk should be bourn by developers

Non-Traditional Financing Arrangements
Docket No. W-00000C-06-0149
Capital Structure

Schedule JJD-2

[A] Amount of funding provided by each source.
[B] % of funding from each source.
[C] Capital structure for ratemaking purposes.
[D] Capital structure %'s.

	[A]	[B]	[C]	[D]
AIAC / CIAC	400,000	40%		
L-T Debt	420,000	42%	420,000	70%
Common Equity	180,000	18%	180,000	30%
	1,000,000	100%	600,000	100%

AIAC Generally associated with "mains extension agreements", refundable over 10 years at 10% of related annual revenues. Amounts not refunded are converted to CIAC and amortized over the remaining life of the related plant.

CIAC Generally non-refundable. Amount is amortized over the life of the related plant financed by the CIAC. Amounts not expended within three years are considered taxable income to the utility.

Hook-up Fees Generally used to fund backbone plant such as storage, wells, or other plant specifically identified in the tariff that will benefit all customers. The amount received is usually non-refundable and is amortized similar to CIAC.

All of the above sources of funding for plant are treated as a reduction in rate base in general rate applications. They are not considered as part of the capital structure for rate making purposes.

Non-Traditional Financing Arrangements
Docket No. W-00000C-06-0149
Possible Regulatory Outcomes

Schedule JJD-3

PLANT ACCOUNTS	[A] Actual Total	[B] Initially Incurred by the Parent	[C] Regulated Subsidiary
301 Organization	$5,000	5,000	5,000
302 Franchises	1,000	1,000	1,000
303 Land & Land Rights	1,000	1,000	1,000
304 Structures & Improvements	12,000	12,000	12,000
307 Wells & Springs	40,000	40,000	40,000
311 Pumping Equipment	10,000	10,000	10,000
320 Water Treatment Equipment	6,000	6,000	6,000
330 Distribution Reservoirs	25,000	25,000	25,000
331 Transmission/Distribution Mains	90,000	90,000	90,000
335 Hydrants	10,000	10,000	10,000
Sub-total	200,000	200,000	200,000
333 Services	100,000		100,000
334 Meters & Meter Installations	100,000		100,000
336 Backflow Prevention Devices	30,000		30,000
339 Other Plant	10,000		10,000
340 Office Furniture & Equipment	2,000		2,000
341 Transportation Equipment	15,000		15,000
343 Tools & Garage Equipment	5,000		5,000
344 Laboratory Equipment	1,000		1,000
345 Power Operated Equipment	10,000		10,000
346 Communication Equipment	10,000		10,000
347 Miscellaneous Equipment	2,000		2,000
348 Other Tangible Plant	15,000		15,000
105 C.W.I.P.	0		0
	$500,000	200,000	500,000
Mains Extension Agreements	100,000		100,000
Hook-up Fees	100,000		
ICFA		100,000	
	200,000	100,000	100,000
Common Equity	300,000		400,000
Rev. requirement w/10% RORB *	$30,000		$40,000

* Return on rate base (no operating expenses or taxes).

EXHIBIT A

WATER UTILITY PLANT ACCOUNTS

The water utility plant accounts have been designed utilizing an account matrix. The matrix employs a list of object accounts which in effect act as control accounts. The object accounts are further segregated by the matrix into classifications by functions or subaccounts. The instructions for segregating the object accounts to the function subaccounts are contained in Accounting Instruction 31. Listed below are the object account descriptions.

301. Organization

This account shall include all fees paid to federal or state governments for the privilege of incorporation and expenditures incident to organizing the corporation, partnership or other enterprise and putting it into readiness to do business. A sample of items to be included in this account are listed below.

1. Actual cost of obtaining certificates authorizing an enterprise to engage in the public utility business.
2. Fees and expenses for incorporation.
3. Fees and expenses for mergers or consolidations.
4. Office expenses incident to organizing the utility.
5. Stock and minute books and corporate seal.

Note A:--This account shall not include any discounts upon securities issued or assumed; nor shall it include any costs incident to negotiating loans, selling bonds or other evidences of debt, or expenses in connection with the authorization, issuance and sale of capital stock.

Note B:--Exclude from this account and include in the appropriate expense account the cost of preparing and filing papers in connection with the extension of the term of incorporation unless the first organization costs have been written off. Where charges are made to this account for expenses incurred in mergers, consolidations or reorganizations, amounts previously included herein or in similar accounts in the books of the companies concerned shall be excluded from this account.

302. Franchises

A. This account shall include amounts paid to the federal government, to a state or to a political subdivision thereof in consideration for franchises, consents or certificates, running in perpetuity or for a specified term of more than one year, together with necessary and reasonable expenses incident to procuring such franchises, consents or certificates of permission and approval, including expenses of organizing and merging separate corporations, where statutes require solely for the purpose of acquiring franchise.

B. If a franchise or certificate is acquired by assignment, the charge to this account in respect thereof shall not exceed the amount paid therefor by the utility to the assignor, nor shall it exceed the amount paid by the original grantee, plus the expense of acquisition to such grantee. Any excess of the amount actually paid by the utility over the amount above specified shall be charged to account 426 - Miscellaneous Nonutility Expenses.

C. When any franchise has expired, the book cost thereof shall be credited hereto and charged to account 426 - Miscellaneous Nonutility Expenses, or to account 110.1 - Accumulated Amortization of Utility Plant in Service, as appropriate.

D. Records supporting this account shall be kept so as to show separately the book cost of each franchise.

Note:--Annual or other periodic payments under franchises shall not be included herein but in the appropriate expense account.

303. Land and Land Rights

This account shall include the cost of land and land rights used in connection with source of supply, pumping, water treatment plant, transmission and distribution, and general plant operations (See Accounting Instruction 24). A sample of items to be included in this account are listed below:

1. Bulkheads buried, not requiring maintenance or replacement.
2. Cost, first, of acquisition including mortgages and other liens assumed (but not subsequent interest thereon).
3. Condemnation proceedings, including court and counsel costs.
4. Consents and abutting damages, payment for.
5. Conveyancers' and notaries' fees.
6. Fees, commissions, and salaries to brokers, agents, and others in connection with the acquisition of the land or land rights.
7. Leases, cost of voiding upon purchase to secure possession of land.
8. Removing, relocating, or reconstructing property of others, such as buildings, highways, railroads, bridges, cemeteries, churches, telephone and power lines, etc., in order to acquire quiet possession.
9. Retaining walls unless identified with structures.

10. Special assessments levied by public authorities for public improvements on the basis of benefits for new roads, new bridges, new sewers, new curbing, new pavements, and other public improvements, but not taxes levied to provide for the maintenance of such improvements.
11. Surveys in connection with the acquisition, but not amounts paid for topographical surveys and maps where such costs are attributable to structures or plant equipment erected or to be erected or installed on such land.
12. Taxes assumed, accrued to date of transfer of title.
13. Title, examining, clearing, insuring and registering in connection with the acquisition and defending against claims relating to the period prior to the acquisition.
14. Appraisals prior to closing title.
15. Cost of dealing with distributees or legatees residing outside of the state or county, such as recording power of attorney, recording will or exemplification of will, recording satisfaction of state tax.
16. Filing satisfaction of mortgage.
17. Documentary stamps.
18. Photographs of property at acquisition.
19. Fees and expenses incurred in the acquisition of water rights, and grants.
20. Cost of fill to extend bulkhead line over land under water, where riparian rights are held, which is not occasioned by the erection of a structure.
21. Sidewalks and curbs constructed by the utility on public property.
22. Labor and expenses in connection with securing rights of way, where performed by company employees and company agents.

EXHIBIT B

EXHIBIT B
INFRASTRUCTURE COORDINATION AGREEMENT

DESCRIPTION OF SCW AND PVU SERVICES TO BE COORDINATED BY Coordinator

SCW

- Expand the existing CC&N water service area to include the Development
- Prepare a master water plan with respect to the Development
- Confirm and or develop sufficient water plant capacity for the Development
- Extend a water distribution main line to the Delivery Point
- Provide will-serve letters to applicable governmental agencies necessary for final plat approvals with a schedule of commitment dates personalized for the Development
- Obtain a 100-year assured water supply and Certificate of Designation required for final plat approvals and Department of Real Estate approvals
- Provide expedited final subdivision plat water improvement plan check and coordination with the Arizona Department of Environmental Quality for Approvals to Construct
- Obtain/Develop facilities extension agreement for construction of infrastructure within the Development (subject to reimbursement)

PVU

- Expand the existing CC&N wastewater service area to include the Development
- Prepare a master wastewater plan with respect to the Development
- Develop a master reclaimed water treatment, retention, and distribution plan
- Confirm and or develop sufficient wastewater plant capacity for the Development
- Extend a wastewater collection system main line to the Delivery Point
- Provide all permitting and regulatory approvals including but not limited to an Aquifer Protection Permit and Central Arizona Association of Governments (CAAG) 208 Water Quality Plan
- Provide will-serve letters to applicable governmental agencies necessary for final plat approvals with a schedule of commitment dates personalized for the Development
- Provide expedited final subdivision plat wastewater improvement plan check and coordination with the Arizona Department of Environmental Quality for Approvals to Construct
- Obtain/Develop facilities extension agreement for construction of infrastructure within the property boundaries and is subject to reimbursement

Unofficial

EXHIBIT
D-22

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-22
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-8**

Q. What is Arizona-American's target for a minimum equity ratio?

A. The Company's targeted minimum equity ratio is 40%.

EXHIBIT
D-23

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-23
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-9**

Q. What is Arizona-American's current equity ratio?

A. As oft December 31, 2006, the equity ratio for Arizona-American was 38%.

EXHIBIT
D-24

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-24
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-10**

Q. Please provide Arizona-American's equity ratio for each of the last 10 years.

A. See below. The data presented is for the period 2002 – 2006, which covers the data since the acquisition of the assets of Citizen's Utilities by American Water.

	2002	2003	2004	2005	2006
Common Equity	40.0%	40.0%	32.0%	32.0%	38.0%
Long Term Debt	60.0%	60.0%	68.0%	68.0%	62.0%
Total Capital	100.0%	100.0%	100.0%	100.0%	100.0%

EXHIBIT
D-25

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-25
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-60**

Q. Please list the equity ratio of each affiliate of Arizona-American in the United States of America. The list can be limited to those affiliates that are subject to regulation by a public utilities commission, public service commission, corporation commission or similar rate-setting agency.

A. **Objection by Counsel – This request is burdensome and will not lead to relevant information.**

Without waiving this objection, please see the following table. This information was collected after considerable effort as part of Arizona-American's 2005/2006 Paradise Valley rate case, and has not been updated. Also, please note that the ratios are based on rate case filings, which would have been prepared many months before the commissions' various orders.

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

Equity Ratios for AAW Affiliates

Company Name	Allowed ROE	Equity Thickness
2004		
Texas-American	12.00%	100.00%
West Virginia-American Water Company	7.00%	40.15%
Pennsylvania-American Water Company	10.60%	42.20%
ETown Water Company	9.75%	41.79%
New Jersey-American Water Company	9.75%	46.99%
Hawaii-American	10.60%	40.00%
Missouri-American Water Company	10.00%	42.93%
California-American (Sacramento)	9.79%	36.01%
Virginia-American Water Company	10.10%	40.89%
Indiana-American Water Company	9.25%	43.95%
Kentucky-American Water Company	10.00%	41.13%
2005		
California-American (Coronado/Village)	10.10%	45.00%
California-American (Los Angeles)	10.04%	42.44%
West Virginia-American Water Company	9.85%	40.68%
New Mexico-American Water Company	10.00%	40.00%
Tennessee-American Water Company	9.90%	44.19%
Michigan-American	10.00%	58.58%
Ohio-American Water Company	9.88%	43.92%
New York (Long Island)	10.10%	36.86%
California-American (Sacramento/Larkfield)	9.85%	37.00%

EXHIBIT
D-26

EXHIBIT
D-26
admitted

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-11**

Q. Please provide the Arizona-American's current balance of Cash and Cash Equivalents.

A. As of December 31, 2006: $342,472.

EXHIBIT
D-27

EXHIBIT
D-27
admitted

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-0718

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-16**

Q. Please provide Arizona-American's Debt Service Coverage Ratio for each of the last ten years.

A. See below. The data presented is for the period 2002 – 2006, which covers the data since the acquisition of the Citizen's Utilities assets by American Water.

	2002	2003	2004	2005	2006
EBIT	5,844,832	9,513,853	(24,601,309)	7,737,388	4,171,096
Cash required for payment of Interest and Principal	6,919,000	8,110,000	8,546,000	9,588,000	168,812,119
Debt Service Coverage	84.5%	117.3%	-287.9%	80.7%	2.5%

EXHIBIT
D-28

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-28
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-18**

Q. Please provide Arizona-American's "TIER" or Times Interest Earned Ratio for each of the last ten years.

A. See below. The data presented is for the period 2002 – 2006, which covers the data since the acquisition of the Citizen's Utilities assets by American Water.

	2002	2003	2004	2005	2006
EBIT	5,844,832	9,513,853	(24,601,309)	7,737,388	4,171,096
Interest Charges	8,043,959	8,196,154	8,595,689	9,569,937	9,847,891
TIE	0.73	1.16	(2.86)	0.81	0.42

EXHIBIT
D-29

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-0718

EXHIBIT
D-29
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-22**

Q. Please provide Arizona-American's amount of Contributions in Aid of Construction ("CIAC") for each of the last ten years. Please also provide the amount of CIAC for Arizona-American's Agua Fria division for each of the last ten years.

A. See below. The data presented is for the period 2002 – 2006, which covers the data since the acquisition of the Citizen's Utilities assets by American Water.

American Water

	2002	2003	2004	2005	2006
CIAC - Net of Amortization	7,581,753	10,377,600	16,473,607	20,459,874	35,647,896

Agua Fria

	2002	2003	2004	2005	2006
CIAC - Net of Amortization	1,159	3,324,662	4,703,738	8,188,094	19,732,020

EXHIBIT
D-30

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-30
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-24**

Q. Please provide Arizona-American's amount of Advances in Aid of Construction ("AIAC") for each of the last ten years. Please also provide the amount of AIAC for Arizona-American's Agua Fria division for each of the last ten years.

A. See below. The data presented is for the period 2002 – 2006, which covers the data since the acquisition of the Citizen's Utilities assets by American Water.

Arizona American

	2002	2003	2004	2005	2006
Advances in Aid of Construction (net of refunds)	49,213,869	102,201,524	131,427,883	160,474,919	180,481,909

Aqua Fria

	2002	2003	2004	2005	2006
Advances in Aid of Construction (net of refunds)	14,159,926	40,893,423	47,927,498	70,411,837	81,140,221

EXHIBIT
D-31

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-0718

EXHIBIT
D-31
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-25**

Q. Please provide Arizona-American's current amount of CIAC and AIAC as a percent of total capital. Please see the Staff Report in Docket W-00000C-06-0149 for information on how to calculate this percentage. Please also provide Arizona-American's amount of CIAC and AIAC as a percent of total capital for each of the last 10 years.

A. See below. The data presented is for the period 2002 – 2006, which covers the data since the acquisition of the Citizen's Utilities assets by American Water.

	2002		2003		2004		2005		2006	
AIAC / CIAC	56,795,622	16%	112,579,124	28%	147,901,490	33%	180,934,793	38%	216,129,805	39%
LT Debt	173,824,405	50%	173,792,930	43%	198,772,252	45%	198,757,395	42%	207,839,822	38%
Equity	115,437,405	34%	115,315,673	29%	95,257,356	22%	93,853,739	20%	125,408,846	23%
Total	346,057,432	100%	401,687,727	100%	441,931,098	100%	473,545,927	100%	549,378,473	100%

EXHIBIT
D-32

Agua Fria Water District
Tariff WU-1 hook-up fee

EXHIBIT
D-32
admitted

Calculation of incremental funds
ACC Staff recommended WHU-1

	Difference New vs. Old WHU-1 tariff		Aug-Dec 2007	2008	2009
	$ 2,130				
	Factor				
5/8-inch cust.	1.00		141	338	185
3/4-inch cust.	1.50		938	2,261	2,159
1-inch cust.	2.50		609	1,464	1,482
1.5-inch cust.	5.00		47	110	116
2-inch cust.	8.00		19	40	46
3-inch cust.	16.00	-	-	-	-
Total Customer **Growth** starting Aug 2007			1754	4213	3988
Transitional Growth - **Does Not Pay WHU-1**- already has operational acceptance			1,500	2,000	1500
Net Customer Growth			254	2213	2488

Total Customers	Incremental hook-up fee			
5/8-inch cust.	$2,130.00	$ 43,403	$ 378,169	$ 245,837
3/4-inch cust.	$3,195.00	$ 433,777	$ 3,794,560	$ 4,303,470
1-inch cust.	$5,325.00	$ 469,026	$ 4,094,969	$ 4,923,376
1.5-inch cust.	$10,650.00	$ 72,553	$ 615,364	$ 770,731
2-inch cust.	$17,040.00	$ 46,228	$ 358,030	$ 489,016
3-inch cust.	$34,080.00	$ -	$ -	$ -
HUF Incremental Collections		$ 1,064,988	$ 9,241,092	$ 10,732,429
Accumulated Incremental HUF Collections		$ 1,064,988	$ 10,306,080	$ 21,038,509

2010	2011	2012	2013	2014	2015
131	148	148	148	148	148
2,175	2,451	2,451	2,451	2,451	2,451
1,503	1,694	1,694	1,694	1,694	1,694
117	132	132	132	132	132
45	51	51	51	51	51
3971	4476	4476	4476	4476	4476
1000	1000	1000	1000	1000	1000
2971	3476	3476	3476	3476	3476
$ 208,763	$ 244,811	$ 244,811	$ 244,811	$ 244,811	$ 244,811
$ 5,199,156	$ 6,081,404	$ 6,081,404	$ 6,081,404	$ 6,081,404	$ 6,081,404
$ 5,987,994	$ 7,005,235	$ 7,005,235	$ 7,005,235	$ 7,005,235	$ 7,005,235
$ 932,263	$ 1,091,725	$ 1,091,725	$ 1,091,725	$ 1,091,725	$ 1,091,725
$ 573,700	$ 674,885	$ 674,885	$ 674,885	$ 674,885	$ 674,885
$ -	$ -	$ -	$ -	$ -	$ -
$ 12,901,876	$ 15,098,060	$ 15,098,060	$ 15,098,060	$ 15,098,060	$ 15,098,060
$ 33,940,385	$ 49,038,445	$ 64,136,504	$ 79,234,564	$ 94,332,624	$ 109,430,683

EXHIBIT
D-33

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-33
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-27**

Q.

(A) Will the inflow of funds from Arizona-American's proposed hook-up fee exactly match the outflow of funds related to constructing Arizona-American's proposed White Tanks Plant?

(B) If not, please provide a pro-forma calculation showing the estimated inflow of funds from Arizona-American's proposed hook-up fee and the outflow of funds related to constructing Arizona-American's proposed White Tanks Plant.

(C) If the estimated outflow of funds is greater than the estimated inflow of funds at any point, how will Arizona-American compensate for the shortfall?

(D) What is Arizona-American's plan if the inflow of funds from hook-up fees is less than projected?

A.

(A) No, not exactly. Recall that the existing hook-up fee has funded projects since 2003 and presently accumulated outflows on eligible projects have exceeded inflows. Once the White Tanks Plant begins construction the outflow of funds will continue to exceed the inflow, but eventually (depending on the level of the hook-up fee) inflows will approximately match the outflow of funds for all projects in Agua Fria being funded by the hook-up fee.

(B). Please see the Company's amended application.

(C) The Company will borrow funds for any periods when outflows exceed inflows.

(D) Please see my testimony dated February 21, 2007.

EXHIBIT
D-34

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-34
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-28**

Q. Will Arizona-American need to borrow any money to construct the White Tanks Plant? If yes, please indicate (a) the amount to be borrowed; (b) the length of the loan; (c) the estimated interest rate and any other costs of the loan; (d) whether the loan will be with an affiliate; (e) when and how Arizona Corporation Commission approval will be sought for the loan.

A. Yes.

(a) This has not yet been determined.
(b) This has not been determined.
(c) The interest rate has not been determined. There will not be any other costs of the loan. Recent financing applications by Arizona-American have requested loans at rates not to exceed 6.5%.
(d) The loan(s) will be with our affiliate American Water Capital Corporation.
(e) This has not been determined, except that it will not be part of the next financing application anticipated to be filed soon.

EXHIBIT
D-35

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-35
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates.**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-38**

Q. Is Arizona-American willing to post a bond in the amount of the projected additional hook-up fees for the first three years shown in your answer to MWD 1-37?

A. No.

EXHIBIT
D-36

COMPANY: ARIZONA AMERICAN WATER COMPANY
DISTRICT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-0718

EXHIBIT
D-36
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **19820 N. 7th St., Suite 201**
Phoenix, AZ 85024

Company Response Number: STF 3-7

Q: Funding- Please describe your ability to finance the project and if applicable, please provide copies of any existing letters of commitment including but not limited to interest rates, amounts available and restrictive covenants.

A: Due to the Company's presently poor earnings and leverage, it has little or no ability to finance this large of a project on a stand alone basis at reasonable terms.

The Company must depend on the continued willingness of its parent, American Water, to lend to the Company through American Water Capital Corp ("AWCC"). As regards the White Tanks project, the project is to be funded via hook-up fees treated as contributions.

AWCC is the long-term lender of last resort if hook up fees are inadequate. During brief periods during construction capital expenses will exceed hook up fee contributions, and thus the Company will look to AWCC for interim financing. If growth is significantly less than anticipated in the Agua Fria district over the next several years, the Company may need to request the hook up fee be reset higher so as to allow the hook up fee contributions to more quickly catch up to construction expenses.

EXHIBIT
D-37

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

EXHIBIT
D-37
admitted

Response provided by: **Thomas M. Broderick**

Title: **Manger, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-61**

Q. Is American Water or any other affiliate of Arizona-American willing to invest equity to fund the construction of the proposed White Tanks Plant? If no, please explain why not.

A. The Company has not asked American Water this question since Arizona-American's proposal does not require additional equity investment.

Given Arizona-American's disappointing recent financial performance and the operation of regulatory lag in Arizona regulation, American Water prefers not to invest in discretionary projects, even highly desirable ones like a regional surface water treatment plant.

EXHIBIT
D-38

EXHIBIT
D-38
admitted

COMPANY: ARIZONA AMERICAN WATER COMPANY
SUBJECT: WHITE TANKS TREATMENT PLANT
DOCKET NO: WS-01303A-05-O718

Response provided by: **Thomas M. Broderick**

Title: **Manager, Rates**

Address: **Arizona-American Water Company**
19820 N 7th St., Suite 201
Phoenix, Arizona 85024

Company Response Number: **MWD 1-46**

Q. Will Arizona-American agree to commit in public that it will NOT, during the lifetime of its proposed White Tanks Plant, seek to increase revenue requirement in any manner (whether through an upward adjustment of its cost of equity or otherwise) due to it being financially weaker than a sample of publicly traded water companies?

A. No, just the contrary. Arizona-American has already requested the use of a hypothetical capital structure in several recent pending rate cases to attempt to improve its equity ratio. Arizona-American also will continue to ask that its equity investor(s) be properly compensated for leverage risk, although leverage, standing alone, says nothing about a company's financial strength. Failure to properly compensate a company for leverage risk will weaken a company's finances.

Arizona-American's proposal in this case, if accepted by the Commission, would reduce further erosion of the Company's financial health as compared to a self-build project under traditional Arizona rate-making practices.

EXHIBIT
D-39

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

EXHIBIT
D-39
admitted

MIKE GLEASON - CHAIRMAN
JEFF HATCH-MILLER
WILLIAM A. MUNDELL
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT.	)	DOCKET NO. W-01303A-05-0718

Surrebuttal Testimony of

John Mastracchio

on Behalf of

Maricopa County Municipal
Water Conservation District

March 12, 2007

Q. Please state your name and business address.

A. My name is John Mastracchio. My business address is 43 British American Boulevard, Latham, NY 12110.

Q. By whom are you employed and what is your position?

A. My employer is Malcolm Pirnie, Inc., and my position is Principal Consultant.

Q. Describe your educational and professional background.

A. I hold a Master of Business Administration/Finance degree from Cornell University, a Masters degree in Civil and Environmental Engineering from Clarkson University, and a Bachelor of Arts degree from the State University of New York. I am a Registered Professional Engineer in the State of Pennsylvania and have received the Chartered Financial Analyst (CFA) designation from the CFA Institute. I have been a financial management, engineering, and rate consultant since 1994. My experience includes the design of water and wastewater rates, fees, and charges, capital and financial planning, and municipal utility economics and financial analysis.

Q. What is the purpose of your testimony?

A. To provide rebuttal testimony to testimony submitted by Mr. Thomas M. Broderick.

Q. How much would hook-up fees have to increase if Arizona-American Water Company's (Arizona-American" or "AAW") proposal is accepted?

A. Based on Arizona-American's Revised Application and Staff Report, hook-up fees for a customer with a 5/8-inch meter would increase by between 160 percent and 309 percent, depending upon the option. Arizona-American's proposed options can be summarized in the following table.

	5/8 Inch	3/4 Inch	1 Inch
Current	$1,150	$1,725	$2,875
AAW Option 1	$3,000	$4,500	$7,500
Increase Option 1	$1,850	$2,775	$4,625
AAW Option 2	$4,700	$7,050	$11,750
Increase Option 2	$3,550	$5,325	$8,875
Staff Proposal	$3,280	$4,920	$8,200
Staff Increase	$2,130	$3,195	$5,325

Q. How much would MWD have to charge in hook-up fees if Arizona-American were to purchase treatment services from MWD?

A. The District would not need to charge a hook-up fee.

Q. Do you have any comments about Arizona-American's proposal to recover project costs with hook-up fees?

A. Yes. When evaluating the cost of water service provided to a water customer, it is important to consider the combined impact of water rates, as well as hook-up fees. Under Arizona-American's proposal, a customer would pay for a proportionate share of the cost of the Water Treatment Plant through hook-up fees rather than through the capital component of water rates. Therefore, regardless of whether AAW or MWD constructs the Water Treatment Plant, there would be a cost to water customers served by the facility in proportion to the capital cost of the project.

Mr. Albu's January 24, 2007 direct testimony provides a side-by-side comparison of AAW and MWD project costs, and estimates AAW's project cost to be $9.1 million more than for MWD's Water Treatment Plant, even though AAW's proposed project is for a smaller facility (13.5 MGD versus 20 MGD).

The higher cost of AAW's plant will result in customers paying higher fees and rates than under MWD's project, regardless of whether the capital costs are recovered up-front with hook-up fees or over time through the capital component of water rates.

However, the relative timing of the impact on a typical customer would be similar. Under Arizona-American's proposal, assuming that the hook-up fees are included in a home owner's mortgage, the home owner would pay for the cost of the hook-up fees, along with corresponding mortgage interest, over the life of the mortgage. If MWD builds a treatment plant and Arizona-American were to contract for treatment from MWD, there would likely be a capital component to MWD's water treatment charge which would be passed onto customers. Based on Mr. Davis' January 24, 2007 direct testimony, MWD will be able to finance the Water Treatment Plant with loans or bonds over a term of 20 to 30 years at interest rates in the range of 3.5 percent to 5.0 percent. Therefore, similar to the amortization of hook-up fees over the life of a home owners' mortgage, customers served by MWD's Water Treatment Plant would pay for the capital cost of the plant over a 20- to 30- year period. However, since MWD's water treatment plant costs are estimated to be less than AAW's, the customer impact of MWD's plant would be less. An illustration is attached.

In essence, under either MWD's or Arizona-American's proposal, customers will pay for the cost of the plant over time. But under MWD's proposal, the "principal" amount of these payments will be lower because MWD's plant costs less. Moreover, the "interest" component will likely be lower because MWD's estimated interest rate is lower than current mortgage rates. As a result, under MWD's proposal, a customer will pay an estimated $3,463 over a 30 year period, while under Arizona-American's proposal, a customer will pay an estimated $5,889 over the same period. Note that this comparison does not consider the effect of customers receiving landowner credits from MWD. If such

credits were considered, the difference between MWD and Arizona-American would likely be even more stark.

Q. Could Arizona-American's proposal result in direct rate increases for its customers?

A. Yes. There are three ways that Arizona-American's proposal could result in direct rate increases to its customers. First, regardless of whether AAW or MWD constructs the Water Treatment Plant, there would be a rate increase required to recover associated facility O&M expenses. However, Mr. Sweeney testified that MWD operating costs would be lower than AAW's in a number of categories, including property taxes and power costs. Lower O&M expenses would result in lower O&M rates for the customers served by MWD's water treatment plant.

Second, Mr. Broderick testifies that Arizona-American "reserves the right" to "include a portion of the project in base rates."[1] Mr. Broderick states this might happen if growth is slower than anticipated. I am not an expert on growth in Arizona. But clearly there is some degree of risk that growth will be slower than Arizona-American hopes. Given the large cost of Arizona-American's plant, if any material portion of it is included in rate base, it could result in a substantial rate increase.

Third, Mr. Broderick states that Arizona-American's "financial results have been very disappointing for the past three years."[2] He also states that Arizona-American may request increases in its revenue requirement, possibly through an increased cost of capital, due to its poor financial condition.[3] Thus, if Arizona-American's proposal creates further financial weakness, it could result in Arizona-American seeking to increase its cost of

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[1] Broderick Rebuttal at 6.

[2] Id. at 9.

[3] Arizona-American response to MWD 1-48. Response provided by Mr. Broderick.

equity, resulting in a higher revenue requirement. I do not have enough information at present to evaluate the risk of this scenario occurring.

Q. What about Mr. Broderick's concern that MWD's proposal could result in regulatory lag for Arizona-American?

A. Typically, rate-making processes allow for dollar-for-dollar recovery of prudent expenses. I cannot testify as to the extent to which the Arizona Corporation Commission follows this model, although I would be surprised if there were some significant deviation.

However, if Mr. Broderick still has concerns, there are various ways that regulatory lag can be reduced. For example, Arizona-American could request a purchased water adjustment mechanism to cover services purchased from MWD. Such mechanisms are common in the industry, although I do not know the extent that they are used in Arizona.

Q. Have you analyzed Arizona-American's hook-up fee proposal from a regulatory perspective?

A. No. I am not an expert on Arizona-specific regulatory matters, so I won't testify about those issues. However, I did analyze the proposed hook-up fee using my experience in analyzing rates, finance, and economics in the water industry.

Hook-up fees or system development charges as they are otherwise known, are established based on a reasonable connection between the need for new facilities to provide water service to new customers and the cost of the facilities. One method of ensuring that there is a reasonable connection between the level of hook-up fees and the cost of the facilities is to establish the hook-up fees based on the Incremental or Marginal Cost Approach.

Under the Incremental Cost Approach, new system users are responsible for the cost of capacity that is constructed to serve them. Under this approach, hook-up fees are generally established by dividing the capital expenditures related to the new facilities by the amount of new water capacity that is constructed, and then multiplying this unit cost by the anticipated amount of capacity that will be used by a particular customer.

Based on a review of AAW's proposed hook-up fees, it appears that the options presented generally follow this approach. However, in addition to considering the incremental costs, AAW also considered the timing of hook-up fee revenues and capital costs in order to minimize the shortage at plant completion between capital expenditures and accumulated hook-up fee revenues. While I did not have sufficient information to determine whether, under one or more of AAW's proposed hook-up fee options, customers would be charged in excess of their share of the costs in order for AAW to be able to match annual hook-up fee revenues with capital expenditures, I urge the Commission to review this issue closely.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

ILLUSTRATION OF CAPITAL COST COST IMPACT ON A CUSTOMER WITH A 5/8" SERVICE METER

MWD Water Treatment Plant

Assumptions:

WTP Size	20 MGD
WTP Cost	$47,600,000
Maximum WTP Usage Factor	90%
Water Loss	5%
Financing	100% Debt
Interst Rate	5%
Amortization Period	30
Debt Issuance Cost	2%
Debt Service Coverage Requirement	125%
Average Usage Customer With 5/8" Meter	500 gpd

Water Customer Cost Impact

Amortized Annual Capital Cost	$ 3,158,377
Debt Service Coverage Requirement	789,594
Total Annual Capital-Related Cost	$ 3,947,972
Annualized Capital Cost	$0.2309 per gpd
Annual Capital Cost For Customer With 5/8" Meter	$115.44
Less: Landowner Credit	Variable[1]
Net Annual Cost For Customer With 5/8" Meter	$115.44
Total Customer PMT Over 30 Yrs	$3,463

Arizona-American Water Treatment Plant

Assumptions:

WTP Size	13.5
WTP Cost	$56,743,360
Hook-Up Fee per 5/8" Meter	$3,280
Assume Hook-Up Fee is Included in Homeowners Mortgage	
Homeowner Mortgage Rate	5.80%
Homeowner Mortgage Term	30
Homeowner Tax Rate	15%

Assume Arizona-American does not ask to include any potential unfunded balance of the Plant in rate base in some future rate case.

Water Customer Cost Impact

Annual Capital Cost For Customer With 5/8" Meter	$230.95
Less: Homowner Income Tax Credit	$34.64
Net Annual Customer Cost	$196.30
Total Customer PMT Over 30 Yrs	$5,889

[1]Revenues generated to meet debt service coverage requirements could be used to provide a credit to District landowners, fund capital replacement reserves, or retire debt. The amount of the landowner credit would be at the District's discretion and the amount may vary over time. Therefore, the amount of the landowner credit was not included in this illustration.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT	DOCKET NO. W-01303A-05-0718 **ARIZONA-AMERICAN WATER COMPANY** **NOTICE OF FILING SURREBUTTAL TESTIMONY**

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

- Joseph E. Gross; and
- Thomas M. Broderick.

RESPECTFULLY SUBMITTED on March 12, 2007.

Craig A. Marks

Craig A. Marks
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By: Courtney Appelhans
Courtney Appelhans

EXHIBIT

D-40 admitted

UPDATED ILLUSTRATION OF COST IMPACT ON A CUSTOMER WITH A 5/8" SERVICE METER

1	**MWD Water Treatment Plant**	
2		
3	*Assumptions:*	
5	WTP Size	20 MGD
6	WTP Cost (2006)	$47,600,000
7	Assumed Annual Escalation	4%
8	WTP Cost (2009)	$53,543,526
9	Maximum WTP Usage Factor	90%
10	Water Loss	5%
11	Financing	100% Debt
12	Interst Rate	5%
13	Amortization Period	30
14	Debt Issuance Cost	2%
15	Debt Service Coverage Requirement	125%
16		
17	*Annualized MWD Capital Cost:*	
18	Amortized Annual Capital Cost	$ 3,552,745
19	Debt Service Coverage Requirement	888,186
20	Annual Capital-Related Reveune Requirement	$ 4,440,931
21		
22	*AAW Revenue Requirement:*	
23	AAW Purchase	13.5
24	AAW Annual Capital Cost	$2,997,629
25	AAW Interconnection Capital Cost	$ 3,000,000
26	AAW Additional Capital Costs (2009-11)	3,000,000
27	Total AAW Additional Capital Cost	$6,000,000
28	AAW Required Rate of Return	0.084
29	Return on Plant	$504,000
30	Total Annual Plant Capital Cost	$3,501,629
31	Gross Revenue Conversion Factor	1.62863
32	AAW Revenue Requirement	$5,702,857
33		
34	Projected Annual Customer Impact	
35	AAW Customer Count in 2011	45,331
36	Annual Per Customer	$125.80
37	Less: Landowner Credit[1]	Variable[1]
38	Net Annual Per Customer	$125.80
39		
40	Net Customer Cost Over 30 Yrs	**$3,774**

1	**Arizona-American Water Treatment Plant**	
2		
3	*Assumptions:*	
5	WTP Size	13 MGD
6	WTP Cost (2009)	$59,400,000
7		
8	Proposed Hook-Up Fee per 5/8" Meter	$3,280
9	Existing Hook-Up Fee per 5/8" Meter	$1,150
10	Incremental Hook-up Fee per 5/8" Meter	$2,130
11		
12	Assume Hook-Up Fee is Included in Homeowners Mortgage	
13	Homeowner Mortgage Rate	5.80%
14	Homeowner Mortgage Term	30
15	Homeowner Tax Rate	30%
16		
17		
18	*Water Customer Cost Impact*	
19	Annual Hook-up Fee Cost per 5/8" Meter Customer	$149.97
20		
21		
22		
23	Incremental Customer Cost Over 30 Yrs	$4,499
24	Less: Cumulative Homeowner Income Tax Savings	($711)
25		
26	Net Customer Cost Over 30 Yrs[3]	**$3,788**

[1]Revenues generated to meet debt service coverage requirements could be used to provide a credit to District landowners, fund capital replacement reserves, or retire debt. The amount of the landowner credit would be at the District's discretion and the amount may vary over time. Therefore, the amount of the landowner credit was not included in this illustration.

[2]Under the cash needs approach, annual debt service and debt coverage comprise the capital-related revenue requirement, which can be compared to the revenue requirements associated with the return on rate base and asset depreciation under the utility basis approach. Since there is no revenue requirement for depreciation of MWD's plant in the analysis at the left, the incremental revenue requirement associated with depreciation of AAW's proposed plant was included in the analysis at the right.

[3]Assumes Arizona-American does not ask to the ACC to include any potential unfunded balance of the Plant in rate base in some future rate case.

EXHIBIT

D-41 admitted

EXHIBIT IN RESPONSE TO T. BRODERICK SURREBUTTAL TESTIMONY

Incremental Rate Analysis - AAW Purchase of 13.5 mgd treatment capacity from MWD

1	Plant Size	20 mgd		Testimony of J. Albu
2	Plant Cost (2006$)	$47,600,000		Testimony of J. Albu
3	Debt Issuance Cost	2%		Assumed
4	Amortized Annual Capital Cost	$3,158,377		(Line 2)*(1.02) amortized at 5% over 30 yrs.
5	Annual Capital Cost per $ million Plant Cost	$0.0663525		(Line 4)/(Line 2)
6	Annual Inflation	4%		Assumed
7	On-line Date	2010		Testimony of J. Albu
8	2009 Plant Cost	$53,543,526		(Line 2)*(1.04)^3
9	Land Cost	$0		Direction from J. Sweeney
10	2010 Total Plant Cost	$53,543,526		(Line 8) + (Line 9)
11	2010 Annual Capital Cost	$3,552,745		(Line 10)*(1.02) amortized at 5% over 30 yrs.
12	Debt Service Coverage	$888,186	(25%)	Assumed
13	Total Annual Capital-Related Cost[1]	$4,440,931		(Line 11)+(Line 12)
14	AAW Purchase	13.5 mgd		AAW Revised Application
15	AAW Annual Capital Cost	$2,997,629		(13.5 / 20) * (Line 13)
16	AAW Interconnection Capital Cost	$3,000,000		Testimony of J. Gross
17	AAW Additional Capital Costs (2009-11)	$3,000,000		Testimony of J. Gross
18	Customer Count in 2011	45,331		Revised Application, Exhibit C
19				
20	**MWD Purchase - Test Year Revenue Requirement**			
21	Additional Plant	$6,000,000		(Line 16) + (Line 17)
22	Required Rate of Return	0.084		Rebuttal Testimony of T. Broderick
23	Return on Plant	$504,000		(Line 21) • (Line 22)
24	Annual Plant Capital Cost	$2,997,629		(Line 15)
25	Operating Income Deficiency	($3,501,629)		(Line 23) + (Line 24)
26	Gross Revenue Conversion Factor	1.62863		Rebuttal Testimony of T. Broderick
27	Revenue Deficiency/Revenue Requirement	($5,702,857)		(Line 25) • (Line 26)
28	Projected Customers	45,331		Revised Application, Exhibit C
29				
30	**Projected Annual Customer Impact**			
31	Annual Per Customer	$125.80		(Line 30) / (Line 31)
32	Less: Landowner Credit[2]	Unknown		See Note 2.
33	Net Annual Per Customer	**$125.80**		(Line 31) + (Line 32)
34	Per Month	$10.48		(Line 33) / 12
35				
36	**Net Customer Cost Over 30 Yrs**	**$3,774**		(Line 33) * 30

[1]Analysis of MWD's capital cost is based on a cash needs approach. Under this approach, annual debt service and debt coverage comprise the capital-related revenue requirement, which can be compared to the revenue requirements associated with the return on rate base and asset depreciation under the utility basis approach. Therefore, under this approach, there is no revenue requirement for depreciation of MWD's plant.

[2]Revenues generated to meet debt service coverage could be used to provide a credit to District landowners, fund capital replacement reserves, or retire debt. The amount of the landowner credit would be at the District's discretion and the amount may vary over time. Therefore the amount of the landowner credit was not included in this illustration.

EXHIBIT IN RESPONSE TO T. BRODERICK SURREBUTTAL TESTIMONY

Incremental Rate and Fee Analysis - AAW Builds 13.5 mgd plant with Hook-up Fees

1	Plant Size	13.5	Testimony of J. Gross
2	Plant Cost (2009$)	$59,400,000	Testimony of J. Gross
3	Proposed Hook-Up Fee per 5/8" Meter	$3,280	Revised Application
4	Existing Hook-Up Fee per 5/8" Meter	$1,150	Revised Application
5	Incremental Hook-up Fee per 5/8" Meter	$2,130	(Line 3) / (Line 4)
6			
7	Assume Hook-Up Fee is Included in Homeowners Mortgage:		
8	Homeowner Mortgage Rate	5.80%	Mkt rate 30-yr fixed mort, 0 points
9	Homeowner Mortgage Term	30	Assumed
10	Homeowner Tax Rate	30%	Assumed
11	Annual Incremental Capital Cost For Customer With 5/8" Meter	$149.97	Line 5 amortized over 30 yrs
12	Less: Homowner Income Tax Savings (yr 3)	$35.85	Exhibit Page 3
13	Net Annual Capital Customer Cost (Customer with 5/8" Meter)	**$114.13**	
14			
15			
16	**Projected Annual Customer Impact**		
17	Per Customer (in yr 3)[1]	**$114.13**	(Line 13)
18	Per Month	$9.51	(Line 17) / 12
19			
20	Cumulative Homeowner Income Tax Savings Over 30 Yrs	$710.77	Exhibit Page 3
21	**Revised Net Customer Cost Over 30 Yrs**	**$3,788**	(Line 11)*30 - (Line 20)
22			
23			
24			
25			
26			
27			
28			

[1]Assumes Arizona-American does not ask to include any potential unfunded balance of the Plant in rate base in some future rate case.

EXHIBIT IN RESPONSE TO T. BRODERICK SURREBUTTAL TESTIMONY

Amortization of Hook-up Fees Assuming Inclusion in Homeowner's Mortgage

Mortgage Rate 5.80% Term 30 Years

Month (1)	Beg Bal (2)	PMT (3)	Interest (4)	Principal (5)	End Bal (6)	Tax Savings (4)*0.30
1	$2,130	$12.50	$10.30	$2.20	$2,128	$3.09
2	$2,128	$12.50	$10.28	$2.21	$2,126	$3.09
3	$2,126	$12.50	$10.27	$2.22	$2,123	$3.08
4	$2,123	$12.50	$10.26	$2.23	$2,121	$3.08
5	$2,121	$12.50	$10.25	$2.25	$2,119	$3.08
6	$2,119	$12.50	$10.24	$2.26	$2,117	$3.07
7	$2,117	$12.50	$10.23	$2.27	$2,114	$3.07
8	$2,114	$12.50	$10.22	$2.28	$2,112	$3.07
9	$2,112	$12.50	$10.21	$2.29	$2,110	$3.06
10	$2,110	$12.50	$10.20	$2.30	$2,107	$3.06
11	$2,107	$12.50	$10.19	$2.31	$2,105	$3.06
12	$2,105	$12.50	$10.18	$2.32	$2,103	$3.05
13	$2,103	$12.50	$10.16	$2.33	$2,101	$3.05
14	$2,101	$12.50	$10.15	$2.35	$2,098	$3.05
15	$2,098	$12.50	$10.14	$2.36	$2,096	$3.04
16	$2,096	$12.50	$10.13	$2.37	$2,093	$3.04
17	$2,093	$12.50	$10.12	$2.38	$2,091	$3.04
18	$2,091	$12.50	$10.11	$2.39	$2,089	$3.03
19	$2,089	$12.50	$10.10	$2.40	$2,086	$3.03
20	$2,086	$12.50	$10.08	$2.41	$2,084	$3.03
21	$2,084	$12.50	$10.07	$2.43	$2,081	$3.02
22	$2,081	$12.50	$10.06	$2.44	$2,079	$3.02
23	$2,079	$12.50	$10.05	$2.45	$2,077	$3.01
24	$2,077	$12.50	$10.04	$2.46	$2,074	$3.01
25	$2,074	$12.50	$10.02	$2.47	$2,072	$3.01
26	$2,072	$12.50	$10.01	$2.49	$2,069	$3.00
27	$2,069	$12.50	$10.00	$2.50	$2,067	$3.00
28	$2,067	$12.50	$9.99	$2.51	$2,064	$3.00
29	$2,064	$12.50	$9.98	$2.52	$2,062	$2.99
30	$2,062	$12.50	$9.96	$2.53	$2,059	$2.99
31	$2,059	$12.50	$9.95	$2.55	$2,057	$2.99
32	$2,057	$12.50	$9.94	$2.56	$2,054	$2.98
33	$2,054	$12.50	$9.93	$2.57	$2,051	$2.98
34	$2,051	$12.50	$9.92	$2.58	$2,049	$2.97
35	$2,049	$12.50	$9.90	$2.60	$2,046	$2.97
36	$2,046	$12.50	$9.89	$2.61	$2,044	$2.97
348	$157	$12.50	$0.76	$11.74	$145	$0.23
349	$145	$12.50	$0.70	$11.80	$134	$0.21
350	$134	$12.50	$0.65	$11.85	$122	$0.19
351	$122	$12.50	$0.59	$11.91	$110	$0.18
352	$110	$12.50	$0.53	$11.97	$98	$0.16
353	$98	$12.50	$0.47	$12.02	$86	$0.14
354	$86	$12.50	$0.41	$12.08	$74	$0.12
355	$74	$12.50	$0.36	$12.14	$62	$0.11
356	$62	$12.50	$0.30	$12.20	$49	$0.09
357	$49	$12.50	$0.24	$12.26	$37	$0.07
358	$37	$12.50	$0.18	$12.32	$25	$0.05
359	$25	$12.50	$0.12	$12.38	$12	$0.04
360	$12	$12.50	$0.06	$12.44	($0)	$0.02

Total Estimated Tax Savings $710.77

EXHIBIT

D-42

admitted

EXHIBIT IN RESPONSE TO T. BRODERICK SURREBUTTAL TESTIMONY

Incremental Year 10 Rate Analysis - AAW Purchase of 13.5 mgd treatment capacity from MWD

(Assuming MWD pays off the loans in their entirety thru land sales within 10 years, and does not seek capital recovery of the "equity" invested thru the land sales.)

1	Plant Size	20 mgd	Testimony of J. Albu
2	2009 Plant Cost	$53,543,526	Testimony of J. Albu
3	Land Cost	$0	Direction from J. Sweeney
4	Return on Rate Base	$0	Assume no equity return on rate base
5	Recovery of Depreciation Expense[1]	$1,338,588	Assume 2.5% per year
6	AAW Purchase	13.5 mgd	AAW Revised Application
7	AAW Annual Capital Cost	$0	Assume no equity return on rate base
8	AAW Annual O&M Cost	$903,547	(13.5 / 20) * (Line 5)
9	AAW Interconnection Capital Cost	$3,000,000	Testimony of J. Gross
10	AAW Additional Capital Costs (2009-11)	$3,000,000	Testimony of J. Gross
11	Customer Count in 2011	45,331	Revised Application, Exhibit C
12			
13	**MWD Purchase - Test Year Revenue Requirement**		
14	Additional Plant	$6,000,000	(Line 9) + (Line 10)
15	Required Rate of Return	0.084	Rebuttal Testimony of T. Broderick
16	Return on Plant	$504,000	(Line 14) * (Line 15)
17	Annual Plant Capital Cost	$903,547	(Line 8)
18	Operating Income Deficiency	($1,407,547)	(Line 16) + (Line 17)
19	Gross Revenue Conversion Factor	1.62863	Rebuttal Testimony of T. Broderick
20	Revenue Deficiency/Revenue Requirement	($2,292,373)	(Line 18) * (Line 19)
21	Projected Customers	45,331	Revised Application, Exhibit C
22			
23	**Projected Annual Customer Impact**		
24	Annual Per Customer	$50.57	(Line 20) / (Line 21)
25	Per Month	$4.21	(Line 24) / 12
26			
27	**Net Customer Cost Over 30 Yrs**	**$1,517**	(Line 24) * 30

[1]Under the 100% equity scenario, the analysis of MWD's cost is based on the utility basis approach. Under this approach and assuming no equity return on rate base, there is only a revenue requirement for depreciation of MWD's plant.

EXHIBIT
D-43

EXHIBIT
D-43
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER - CHAIRMAN
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT.	DOCKET NO. W-01303A-05-0718

Direct Testimony of

James P. Albu

on Behalf of

Maricopa County Municipal
Water Conservation District

January 24, 2007

Q. Please state your name and business address.

A. My name is James P. Albu. My business address is 4646 E. Van Buren Street, Suite 400, Phoenix, Arizona 85008

Q. By whom are you employed and what is your position?

A. My employer is Malcolm Pirnie, Inc. and my position is Senior Associate.

Q. Describe your educational and professional background.

A. I have a Bachelor of Science Degree in Civil Engineering. I am a Registered Sanitary Engineer in the State of Arizona and am a Board Certified Environmental Engineer by The American Academy of Environmental Engineers. I have been a consulting engineer on water and wastewater projects since 1973 and in Arizona since 1985.

Q. Mr. Albu, what is the purpose of your direct testimony in this proceeding?

A. The purpose of my testimony is to provide a technical overview of the proposed MWD water treatment facility ("Facility") and to provide overview of services provided by Malcolm Pirnie to MWD with regard to the Facility.

Q. Please describe the water treatment facility that MWD is planning to construct.

A. The facility that MWD plans to construct is as described in the "Maricopa Water District Water Treatment Plant Planning Preliminary Engineering Study Final Report" dated August 2006 as prepared by Malcolm Pirnie, Inc. The first phase of the Facility will be either 10 million gallons per day (MGD) or 20 MGD dependant upon secured commitments from customers prior to commencing detailed design. The proposed Facility will include an intake structure on the Beardsley Canal, raw water impoundment, sand ballasted flocculation, deep-bed granular activated carbon filters, disinfection and finished water storage. Residual solids handling facilities will also be provided.

Q. Please provide an overview of the process that MWD must undertake in order to construct the Facility.

A. MWD has completed the previously mentioned study that identified potential sites and treatment process for the Facility. MWD subsequently selected one of the sites as the preferred location for the Facility. The next step MWD must take is to secure a design consultant to complete a Preliminary and Detailed Design of the Facility that culminates in plans and specifications for the Facility. The design consultant will also assist MWD in securing the necessary permits to move forward with the project. MWD began that process by issuing a Request for Qualifications (RFQ) that conforms to requirements as contained in the Arizona Revised Statutes. MWD has chosen the Construction Manager at Risk (CMR) method for construction of the Facility. Once a design consultant is contracted, MWD intends to issue an RFQ for a CMR firm. The CMR will be responsible for participating with the Design Consultant during the design process as well as managing the Construction Process and securing necessary construction permits.

Q. What is a Construction Manager at Risk method?

A. It is a construction delivery method in which a construction manager/general contractor is brought on during the design phase to be part of the design team and to propose a guaranteed maximum price at or towards the end of the design phase. If owner accepts the guaranteed maximum price, this CMR will construct the facility.

Construction management at risk (CMR) applies a contractor's perspective and input to planning and design decisions and has the ability to fast track early components of construction. CMR allows an owner to select a construction manager based on qualifications, making the CM a member of a collaborative project team, thus reducing risk for the owner.

By making the CMR an integral member of the project team, responsibility for construction is centralized under a single contract. This approach produces a more manageable, predictable project that can save time and money.

CMR is similar in many ways to a design-bid-build approach. The CMR acts as general contractor during construction, assuming the risk of subcontracting the work, and guaranteeing completion of the project and project cost.

An benefit of CMR is that the owner receives pre-construction services such as schedule, budget, and constructability reviews. During pre-construction, construction specialists review building systems, material and equipment selections, and site work to ensure that the owner is getting the best value.

The CMR engages in a number of practices to involve and benefit the owner. They are responsible for complete bid documents, pre-bid meetings, and a fair and competitive bid process. They share the results of all bids with the owner for review and final selection.

The CMR approach gives owners the opportunity to begin construction prior to completion of the design. Portions of the work can be bid before design of unrelated scope are complete.

Q. What permits will be required for the Facility?

A. There are a number of permits that will be required to allow the project to move from design to construction and from construction to operation. It will be part of the Design Consultant's scope of services to identify and assist with securing the necessary permits to move to the construction phase. The CMR will identify and assist with securing the necessary construction permits. As an example, some (but not all) of the permits that will

be required include: Maricopa County Environmental Services Department Approval to Construct and Approval of Construction, Arizona Department of Environmental Quality Aquifer Protect Permit, various building and environmental permits. A 404 Permit may be required from the US Army Corps of Engineers.

Q. What processes and permitting have been completed to date?

A. As referenced above, MWD has completed a site selection and treatment process selection for the Facility. No permits are required at this stage of the MWD project so none have been secured.

Q. Has MWD determined the location of the Facility acquired property for the site?

A. MWD has identified their preferred site for the Facility. It is a 170 acre site east of the Beardsley Canal, west of the Perryville Road realignment and between Olive and Northern Avenues. The site is already owned by MWD.

Q. Does the proposed location of the Facility allow it to be connected to the Arizona American Water distribution system?

A. Although specifics of their system are not available to the MWD team, the proposed location is near existing or proposed AAW transmission facilities that could be used for connection to the plant. The hydraulics of the AAW system have not been analyzed to determine what pumping might be required to move water from the Facility into the AAW system.

Q. What is the anticipated cost for the Facility, including permitting costs associated directly with the Facility?

A. Current estimated construction cost based upon July 2006 dollars for the 20 MGD Facility including mechanical dewatering total $39.6 million. Adding engineering for design and

engineering during construction brings the estimated total for the MWD Facility to $47.6 million in July 2006 dollars.

Q. Please compare these costs to the anticipated costs provided by AAW for its proposed facility.

A. Based upon the numbers provided in Filing by AWW dated September 1, 2006, it appears that AAW's estimated construction cost for their 13.4 MGD facility is $49,146,196.

Adding to that their identified "soft costs" of $7,597,164 yields a total project cost of $56,743,360 This is $9.1 million more than for MWD's proposed Facility, yet their facility that will produce only 67 percent (13.5 MGD) of the MWD Facility. Thus the cost per MGD of treatment capacity is $2.38 million for MWD and $4.23 million for AAW. A side-by-side cost comparison of the two projects is shown on the Appendix 1 to my testimony.

Q. Do you have any comments regarding AAW's proposed design?

A. AAW's proposed design is for 13.5 MGD which is 6.6 MGD smaller than the proposed MWD Facility.

Q. Please provide a timeline of the construction process, including showing when MWD will bring its facility online.

A. MWD has begun the design consultant selection process and expects to have a contract for the design by April 1, 2007. A similar selection process will begin in March for the CMR. It is expected that the design and permitting process can be completed in a year and construction and start-up completed in two years. Because MWD has chosen to use the CMR method for construction over the design-bid-build method, the procurement step is eliminated. The CMR process also allows for early release for construction of design

packages such as excavation and underground work. This helps shorten the construction schedule. The MWD Facility is expected to be on-line by May 2010.

Q. What factors or influences could delay completion of the Facility? How can MWD minimize the effect of these influences?

A. Unforeseen construction conditions, skilled labor shortages, strikes, material shortages, etc. can delay any construction project – either MWD's or AAW's. MWD has the ability to minimize potential impacts of delays because of their surplus supply of available groundwater. MWD has the ability to provide its Facility customers a temporary supply of groundwater should construction and completion of the Facility be delayed.

Q. Can the capacity of the Facility be increased in a manner to timely meet increased demand?

A. The Preliminary Design will plan for a Facility much larger (up to 80 MGD) than the initial phase of construction to accommodate growth in the area. Planning for the larger Facility during the initial phase will allow easier and quicker -- and thus cost effective -- expansions.

Q. What is the anticipated timing of those expansions?

A. The timing of future expansions is impossible to identify at this time. The timing will be dictated by projected future demand and customer needs. Each subsequent expansion can be expected to take approximately three years (one year for design and two for construction) so each customer or potential customer will need to plan accordingly.

Q. How will MWD minimize and/or cover for plant outages?

A. The plant design will contain redundant treatment trains as required for these types of facilities. With proper operation and maintenance of the Facility the industry has a

demonstrated track record of highly reliable facilities. Unforeseen or catastrophic failures can be minimized by MWD's ability to supply groundwater through their existing supply wells. Strategic planning for scheduled outings, if necessary, can coincide with low demand periods in the winter to minimize their effect on customers. MWD's Facility can be expected to be as reliable as the similar facility proposed by AAW.

Q. What are the current and future sources of water to be treated at the Facility?

A. MWD has rights to Agua Fria water that is stored at Lake Pleasant. Customers of the MWD Facility will be required to have their own supplies of raw water that can be delivered to the Facility via the Beardsley Canal. For example, the City of Goodyear has a current and future allocation of Central Arizona Project (CAP) water that is anticipated to be wheeled through the Beardsley Canal for treatment at the Facility then transported to Goodyear for consumption.

Q. Do you foresee any impediments to the timely construction and completion of the Facility?

A. Once a design consultant and CMR are contracted the schedule that has been established is achievable without impact from unforeseen factors. However, I should note that the size of the first phase needs to be finalized in the next few months or the schedule may be affected.

Q. Are there construction contractors available to be able to construct the Facility within the anticipated schedule?

A. There are numerous qualified construction contractors and CMRs in the Phoenix area who are capable of and interested in completing this project. There have been no indications from the market that the schedule cannot be met.

Q. If MWD does not operate the Facility, are there third party operators that are available?

A. If MWD chooses to not be the operator of the Facility, there are third-party operation firms available for contract. During the initial negotiation with AAW for the White Tanks WTP project, it was contemplated and discussed that American Water Service Company, a division of American Water, would be the contract operator of the Facility. There are other contract operation firms available as well.

Q. Does this conclude your testimony?

A. Yes it does.

APPENDIX

1

WTP ENGINEERING & CONSTRUCTION COST COMPARISON

	AAW 13.4 MGD Plant	MWD 20 MGD Plant
Land	$603,000	
Plant Construction	$31,903,000	$39,600,000
Design Changes and Inflation from Bid through design	$7,018,224	N/A
AAW ROM changes	$1,000,000	N/A
Inflation Adjustment 2004-2006	$6,670,000	N/A
Contingency	$1,951,972	included above
Subtotal	**$49,146,196**	**$39,600,000**
"Soft Costs"		
Joint Venture Contract	$3,294,823	N/A
Change Orders through 11/04	$271,546	N/A
Delay Charges	$120,000	N/A
B&V Home Office Support	-$478,038	N/A
Permitting through 11/04	$113,695	N/A
Additional Permitting	$25,500	N/A
Bid Document Prep	$251,440	N/A
Bidding Services	$83,080	N/A
Construction Phase Services	$1,189,730	N/A
Resident Engineer	$594,600	N/A
AAW Internal costs through 12/04	$1,015,788	N/A
Additional AAW Costs	$500,000	N/A
Pilot Tesing and UV Procurement	$115,000	N/A
Owners Internal Costs during construction	$500,000	N/A
Design and Permitting Engineering	N/A	$4,000,000
Engineering During Construction	N/A	$4,000,000
Subtotal	**$7,597,164**	**$8,000,000**
TOTAL	**$56,743,360**	**$47,600,000**

Note: All numbers in 2006 dollars

EXHIBIT
D-44

BEFORE THE ARIZONA CORPORATION COMMISSION

EXHIBIT
D-44
admitted

COMMISSIONERS

MIKE GLEASON – CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT.	DOCKET NO. W-01303A-05-0718

Surrebuttal Testimony of

James P. Albu

on Behalf of

Maricopa County Municipal
Water Conservation District

March 12, 2007

Q. Please state your name and business address.

A. My name is James P. Albu. My business address is 4646 E. Van Buren Street, Suite 400, Phoenix, Arizona 85008.

Q. Are you the same James P. Albu who provided direct testimony in this case?

A. Yes.

Q. What is the purpose of your testimony?

A. To provide rebuttal testimony to testimony submitted by Mr. Joseph E. Gross.

Q. Mr. Gross states that "without a reasonably final design and approved permitting, it is very difficult, if not impossible, to accurately estimate a project's cost or schedule". Do you agree with that statement?

A. I do not. It is true that the exact construction cost of a project is not known until the construction project is completed, however, water utilities and municipalities often allocate money for projects based on conceptual level estimates that are much more basic than the estimates developed for the Maricopa Water District's Water Treatment Plant. I am sure that Mr. Gross in his experience during his tenure at Arizona-American and previously at the City of Scottsdale has dealt with estimating and budgeting of capital projects of this nature. As he must know from his experience, project costs are estimated based on conceptual designs which are refined as the project design nears completion. To account for the relative uncertainties in cost estimating at conceptual levels, significant contingencies are included in these cost estimates. Malcolm Pirnie is a recognized engineering firm that uses the industry accepted standard of care in planning and design services for hundreds of water treatment plant projects. It has been our experience that reasonably accurate construction cost estimates and schedules can be developed at the conceptual planning stage of a project. This is how many municipalities create their budgets for capital improvement programs.

Q. Mr. Gross states that the MWD cost estimate include no inflation to future years. How do you respond?

A. Because of the time value of money, any cost estimate is tied to a certain calendar date. As such the cost estimates provided by Malcolm Pirnie were presented in July 2006 dollars. The Engineering News Record, a professional magazine, provides a service to update cost estimates to account for construction inflation. As we have clearly stated the time frame for which cost estimates were prepared, the cost estimates can be easily updated to any future year using the ENR index. The intent of the comparison between the MWD's cost and Arizona-American's cost was to compare the projected cost for Arizona-American's facility to the projected cost of MWD's facility. The costs submitted by Arizona-American in their September 1, 2006 Revised Application to the ACC included their projected project costs in 2006 dollars. My cost comparison directly compared MWD's costs in 2006 dollars to Arizona-American's costs in 2006 dollars. Mr. Gross can adjust that comparison to any future year he desires using the ENR index.

Q. Mr. Gross states that the MWD estimate includes no assumption of changes to project concept during design or construction. How do you respond?

A. It is an industry accepted practice to estimate cost of a water treatment plant based on an assumed treatment process as it was done in the Malcolm Pirnie report. It is inevitable that certain minor changes to the treatment process are made during detailed design. To account for these minor changes, the cost estimates at this level includes a contingency, as was done by Malcolm Pirnie. As stated on Page 4-13 of the Malcolm Pirnie report that Mr. Gross refers to: "included in the capital cost shown in Table 4-3 are...and a scope of project contingency of 30 percent".

Q. Mr. Gross states that the construction cost estimate is abnormally low if contingencies are included. How do you respond?

A. Malcolm Pirnie has prepared construction cost estimates for hundreds of projects similar in nature to this one and we are confident in this estimate's level of accuracy for this level of estimate. As stated in the Malcolm Pirnie report, the actual cost may vary within a range stated for this level of cost estimate. Moreover, the cost estimates done in this report included line item estimates provided by various major equipment vendors rather than cost curves of overall treatment process as it is typically done for conceptual estimates. For this reason, our confidence in the cost estimate is high.

Q. Mr. Gross states that no land value is included in the cost estimate. How do you respond?

A. Mr. Gross is correct. MWD will determine a value of the land to include in their project budget. It may or may not be the current appraised value of the land. We should point out that Arizona-American has included the purchase price of the land for their site in their project budgets. As they purchased the site a number of years ago, it now has a significantly higher appraised value than the purchase price they included. If MWD were to take the same approach, the land value component of the project would be minimal as MWD has owned the site for many years.

Q. Mr. Gross states that no construction financing costs are included. How do you respond?

A. Mr. Gross is correct. However, the cost comparison submitted as part of my direct testimony did not include a construction financing cost for Arizona-American's project as well. Had construction cost financing been included for both projects, it very likely would have made the MWD project even more attractive than the Arizona-American project as MWD, as a municipal corporation, can obtain more attractive financing than Arizona-

American as a for-profit corporation. MWD's likely financing costs are explained in Mr. Davis's Direct Testimony.

Q. Mr. Gross states that only $8 million in engineering and construction administration costs are included compared to $14.4 million estimated in the Malcolm Pirnie report. How do you respond?

A. $8 million is the correct estimated amount for engineering services (assumed as 20% of the projected construction cost). It is possible that Mr. Gross came up with the $14.4 million figure by adding individual engineering components from Appendix A of the Malcolm Pirnie report. This appendix shows costs for all alternative components that were considered for this project. If that is the case, the error that Mr. Gross made is that not each of these components is included in the recommended process train for the MWD facility. Mr. Gross should have added only the engineering costs associated with the recommend process components. Also, the table indicates that Engineering and Construction Administration are included at 20 percent of construction cost.

Q. Mr. Gross states that the cost comparison submitted with your earlier testimony is not valid. How do you respond?

A. I strongly disagree, and I am confident that my cost comparison is valid and reasonable for the reasons I explained earlier. Mr. Gross states that the comparison was made to a three-year old estimate for the Arizona-American project. As I stated earlier, the figures I presented for the Arizona-American project came from their ACC Revised Application dated September 1, 2006, the most up to date information available at the time of my direct testimony. Arizona-American never disclosed their updated estimate to us until they filed their rebuttal testimony.

Based upon the number Mr. Gross provided in his testimony, excluding construction financing, their project cost is now $54.3 million for their proposed 13.5 MGD plant,

which translates to approximately $4.02 per gallon of capacity. Arizona-American's total cost is still $6.7 million dollars more than the proposed 20 MGD MWD facility. On a per gallon capacity basis, MWD's projected plant cost is $2.38, which is $1.64 per gallon lower than Arizona-American. The differences between MWD's and Arizona-American's costs can be summarized in this chart:

	MWD	Arizona-American
Capacity	20 MGD	13.5 MGD
Cost (2006 dollars)	$47.6 million	$54.3 million
Cost per Gallon of Capacity	$2.38	$4.02

Q. Did Mr. Gross compare the O&M expenses of Arizona-American's proposed plant to those of MWD's proposed plant?

A. No. However, Mr. Broderick stated that he assumed that Arizona-American's and MWD's O&M costs would be similar or "common." However, MWD's O&M costs may be lower for two reasons. First, Arizona-American's design includes an ultraviolet disinfection process that will use a substantial amount of electrical power. MWD's design does not include a similar process. In our experience, such ultraviolet processes can add significantly to the electric costs of operating a treatment plant. Second, as Mr. Sweeney testifies, MWD will have access to its own low-cost power, while Arizona-American will likely have to purchase power from APS.

Q. Mr. Gross states that utilizing "common engineering practice" that the firm capacity of the MWD facility is only 10 mgd. How do you respond?

A. The industry-accepted practice for water treatment plant design is to provide redundant unit processes for the filtration step, however, redundant pretreatment units are not typically

provided. The basis of this practice is that filters are routinely taken out of service for backwashing, whereas pretreatment units are only occasionally taken out of service for scheduled maintenance. These maintenance events are often scheduled at a time when the production requirement from the plant is low and the required demand can be accommodated with fewer pretreatment unit processes. The pretreatment process that will be utilized for the proposed MWD's facility is noted in the industry to accommodate fluctuations in water quality and production in a very robust manner. For this reason, during the development of the conceptual design, Malcolm Pirnie used this industry accepted practice of providing redundant filtration units, however, assumed a conservative set of design criteria for the pretreatment units without redundant units. This same principle is utilized at the other facilities in the area (for example, Scottsdale's CAP WTP) and the regulatory authorities have accepted and approved this design approach. For this reason, I strongly disagree with Mr. Gross in his speculation that the firm capacity is only 50 percent of the design capacity. The actual firm capacity of this plant is 100 percent of the design capacity.

Q. Mr. Gross states that the MWD schedule is unreasonably optimistic. How do you respond?

A. Mr. Gross states that a construction schedule cannot be reasonably ascertained without a detailed design. I totally disagree. Construction schedule, particularly on a green field site such as this, can easily and accurately be estimated based upon a monthly spending rate. Assuming a $40 million dollar project over 24 months yields a monthly average spending rate of $1.7 million. This level of effort is currently being demonstrated on numerous construction projects in the Valley.

Mr. Gross lists a number of studies that are needed before the site selection can be completed. MWD's experience with their lands is that no significant findings have ever impacted project progress. Any studies needed to assure appropriate agencies that the site

is usable will be conducted early during the design phase of the project. History tells us that the schedule is at little risk from these issues.

Mr. Gross states that MWD has no customers and has not decided whether to build a 10 mgd or 20 mgd facility. Mr. Gross is incorrect in that the City of Goodyear has committed to be a customer of the MWD facility. Additionally, MWD is committed to complete a design for a 20 MGD facility that can be constructed as either a 10 MGD or 20 MGD facility. Absent any other customers before construction begins, MWD may choose to construct the 10 MGD facility.

Mr. Gross states that regulatory agencies will not consider permit applications before design reaches 90 percent completion. This assertion is incorrect. It has been our experience, particularly with alternative delivery projects (CM at Risk approach in this case for MWD), that the County is very cooperative in providing staged and expedited approvals when they are included in the design process. Our most recent experience indicates they will provide review at earlier stages of design and provide Approval to Construct on smaller construction packages as plans become available. We have also had recent success with very fast approval processes when we include the regulators in the design process.

Q. Mr. Gross states he believes that the earliest MWD could bring their facility on-line is mid-2011. How do you respond?

A. This is a very conservative opinion rendered on a facility he knows little about. Malcolm Pirnie's knowledge of this project and experience with similar projects delivered using alternative delivery methods has been and still is that this project can be delivered as previously stated.

Q. Mr. Gross states that Arizona-American would need additional expensive infrastructure to connect to the MWD facility. How do you respond?

A. My review of these assertions is, of necessity, limited to the data submitted by Arizona-American. Although they have provided little data to back-up this assertion, it would appear from the scant data they did provide that their additional requirements are significantly overstated. Their exhibit indicates a 30-inch transmission main running south along Citrus Road from Cactus Road. Additionally, they indicate a 20-inch main running north from Cactus along the same north-south alignment. Our understanding is that the system is planned to deliver water from their site easterly along Cactus to Citrus, then split delivery of water both north and south. Eventually there is a plan for a second loop to the south, first heading east on Cactus and then south. A portion of the capacity in the 30-inch main in Citrus Road heading south was provided to furnish deliveries to both the City of Goodyear and Arizona Water Company. If the plant is moved two miles to south at Olive (the MWD site) the Goodyear and Arizona Water capacity in the 30-inch main becomes available to move additional supplies to the north (up to Cactus) since the portion of pipe between Cactus and Olive will no longer be carrying those flows. Since the anticipated eastern loop has not yet been constructed, its tie to the treatment facility can be made at Olive rather than Cactus in the future.

Based on our review of the very limited data provided by Arizona-American, it would appear that Mr. Gross's assertion of cost is grossly overstated.

Mr. Gross also states that "significant additional costs to developers would also be necessary". Without supporting data, this seems to be a stretch as well.

Q. Mr. Gross states that Arizona-American needs to be the operator of the treatment facility because it ties to their system and he seems to imply that no one else could operate it to fit their needs. How do you respond?

A. Mr. Gross mentioned that American Water will be operating the City of Phoenix's new Lake Pleasant WTP. If we were to apply the same logic Mr. Gross uses, no one but the City of Phoenix could operate the Lake Pleasant facility. The City of Phoenix system is much larger and more complicated than the Arizona-American system as the City of Phoenix has 6 water treatment plants and numerous wells feeding their system. Using Mr. Gross's logic, the City of Phoenix is taking a huge risk by allowing American Water to operate their facility. I suspect that American Water would disagree.

Q. Mr. Gross stated that MWD cannot supply groundwater to their customers in the event of plant failure. How do you respond?

A. First, by no means was I trying to imply that MWD intends to have a fully redundant groundwater supply should their surface water treatment become inoperable. It is impractical and cost prohibitive for any water purveyor to have completely redundant supplies. What I indicated was that MWD does have excess groundwater supplies available that could be developed should the need arise due to unforeseen failures in the plant. This is an advantage that the MWD plan has over the Arizona-American plan as they do not have excess supplies available to the same degree.

Q. Mr. Gross states that it would take 6-8 months to convert an MWD agricultural well for potable use. How do you respond?

A. MWD recently completed a conversion that took approximately two months to complete. Arizona-American should be familiar with this conversion, as this particular well is being supplied for their use at the request of a MWD landowner.

Q. Mr. Gross states that MWD would have to expand canal capacity to expand their plant capacity beyond 50 MGD and that would be a costly and time-consuming process. How do you respond?

A. Mr. Gross is correct in that the canal capacity is limited to the MWD site. However, MWD has testified that they intend to complete that expansion of the canal with MWD funds separate from this project. What that means is that no customers of their facility will be expected to pay for the necessary improvements to the canal. This renders the canal expansion a non-issue.

Q. Mr. Gross states that MWD has no experience in designing, constructing or operating water treatment facilities. Is this an issue?

A. No. MWD intends to contract with an engineering firm to design and oversee construction of their facility. There are numerous firms in the Valley qualified to take on this role that provide similar services for municipalities and developers all of the time. MWD also intends to solicit competitive proposals for an operating contract for the facility. By soliciting competitive proposals from qualified-licensed operators, MWD will be able to assure their customers that they are the low cost provider of service.

Q. Mr. Gross states that MWD has no customers and presumes that MWD will need contracts in place before they commit to building the plant. How do you respond?

A. Mr. Gross is incorrect. To the contrary, MWD has a commitment from the City of Goodyear for treatment capacity and intends to move forward with their project. MWD has issued a Request for Qualifications for design firms to begin the design phase of the project.

Q. Does this conclude your testimony?

A. Yes.

EXHIBIT
D-45

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER - CHAIRMAN
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

EXHIBIT
D-45
admitted

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT.	DOCKET NO. W-01303A-05-0718

Direct Testimony of

James R. Sweeney

on Behalf of

Maricopa County Municipal
Water Conservation District No. 1

January 24, 2007

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I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is James R. Sweeney. My business address is 14825 W. Grand Avenue, Surprise, Arizona 85374

Q. By whom are you employed and what is your position?

A. I am employed by the Maricopa County Municipal Water Conservation Distgrict No. 1, which is commonly known as the Maricopa Water District ("MWD" or "District") as the General Manager. As General Manager, my duties include overall responsibility for the District's utility, recreation and real estate operations with general supervision of over 70 employees and reporting to a five-member Board of Directors.

Q. Please provide use with an overview of your education, experience, and professional qualifications.

A. Mr. Sweeney joined MWD as its General Manager in April 1997 and has worked in the public power and water distribution field for over 30 years. Since 1997, he has implemented Maricopa Water District's first in-lieu recharge program and has developed a policy and procedure to wheel non-district water to municipalities and others in the West Salt River Valley. Prior to his employment with MWD, he served joint roles as the General Manager of the Central Arizona Irrigation and Drainage District (CAIDD) and Electrical District No. 4 for nearly 21 years. During his tenure with CAIDD, Mr. Sweeney represented the District in all phases of construction of its water distribution system, including design review, right-of-way acquisition, contract administration and field construction. The $100 million project was successfully completed during a four-year period.

Mr. Sweeney received a Bachelor of Science degree in Agricultural Economics from Arizona State University in 1969 and has completed post-graduate work in 1970 and 1971 at ASU and Central Arizona College (CAC). In addition, Mr. Sweeney has served in a variety of other professional activities. Some of these include Co-Chairman of the Technical Advisory Committee to the Governor's Water Management Commission and Chairman of the Governor's Livestock and Agriculture Advisory Committee.

Q. Mr. Sweeney, what is the purpose of your direct testimony in this proceeding?

A. I provide testimony for the District. My testimony will address a number of points:

- I describe the District, including a history of our long-standing involvement in providing surface water to the District lands.
- I provide an overview of our proposed surface water treatment plant, and I describe our goals for the plant and how it fits into the purpose of the District.
- I describe why our proposal is superior to the proposal of Arizona-American Water Company ("Arizona-American" or "AAW").
- I respond to Arizona-American's request for a large increase in their hook-up fees.
- I describe our offer to provide interim water to Arizona-American.
- I provide a response to the Staff Report filed in this case.
- I provide a specific answer to each of the seven questions posed by Arizona-American.

Q. Does the District have other witnesses as well?

A. Yes. We will present the testimony of two other witnesses.

- James P. Albu, P.E., BCEE, is a senior associate with the respected engineering firm of Malcolm Pirnie, Inc. He describes the engineering plans for our plant, and provides the estimated in-service date for our plant.
- William C. Davis, CFA, is a Managing Director with the firm of Piper Jaffray &

Co., Inc. He describes our options for financing the plant.

II. DESCRIPTION OF THE DISTRICT.

Q. What is the District?

A. The District is a municipal corporation formed under A.R.S. § 48-2901.

Q. How is the District governed?

A. The District is governed by an elected Board of Directors. The Board is elected by the landowners of the District.

Q. When was the District formed?

A. The District was formed in 1925. We are proud of our record in serving our landowners for more than 75 years. Our accomplishments over the years include construction of Beardsley Canal, as well as the construction of the original Waddell Dam, and thus the creation of Lake Pleasant.

Q. Where is the District?

A. The District is located in the west valley, immediately to the west of Luke Air Force Base. The District includes parts of Sun City Grand. Generally, we are located between McDowell Road to the south and Deer Valley road to the north. The westernmost parts of the District adjoin Jackrabbit trail. Most of the District lies to the west of Reems Road, although the easternmost point of the District extends to Dysart Road. A map of the District is attached as Appendix 1.

The District's boundaries are largely the same as Arizona-American's Agua Fria District. Indeed, MWD sold the origins of that potable water system to Citizens Utilities, who then

sold it to Arizona-American.

Q. How large is the District?

A. There are about 40,000 acres located within the District.

Q. What does the District do?

A. We deliver irrigation water and power as well as conduct other activities and ventures for the benefit of the landowners of our District. For example, one of our major activities is the transportation of surface water. We own and operate the Beardsley Canal. We use the canal to deliver surface water to the District lands and other customers in the west valley region. We transport more than 50,000 acre-feet of in-lieu recharge and surface water per year though the Beardsley Canal. The District is therefore a critical link in the water supply of the west valley region. The water we transport includes Agua Fria water as well as CAP water.

In addition to transporting surface water belonging to others, we also hold extensive surface water rights of our own. In particular, we hold the rights to the surface water and sub-flow from the Agua Fria River. On average, we provide more than 30,000 acre-feet of water per year from our Agua Fria River rights. This water is provided to the landowners of the District. In addition to our surface water supplies, we also have 60 groundwater wells that we use to provide water to lands within the District.

As a result of our historical role in the creation of Lake Pleasant, we have long operated a public entrance and related recreational facilities on property the District owns at the Lake. We charge a small access fee to the property, and we also run a marina, RV resort and store in the area. The margin (profit) from these activities subsidizes the operation of our canal system. We are therefore able to offer our landowners water and power services far below

actual cost.

Over the years, the District has acquired numerous tracts of land. This includes lands within our District as well as the lands at Lake Pleasant. In total, we hold approximately 3,000 acres of land. We are currently developing some of our lands. For example, our Zanjero Trails development is located along part of the Beardsley Canal. From time to time, we also sell land for other purposes, such as to school districts for school sites. Proceeds from these developments and sales must be used to benefit the landowners of our District.

We also provide electric power to District lands for irrigation, commercial, and other purposes. We have wholesale power supply contracts with Arizona Public Service Company ("APS"); the Western Area Power Administration ("WAPA") and the Arizona Power Authority. APS also provides transmission and other services.

III. DESCRIPTION OF MWD PLANT.

Q. Please describe the plant the District will build.

A. We are going to build a 20 million gallon per day ("MGD") plant to treat surface water to potable water standards. We will contract with potable water providers in the area who desire treatment service. The engineering specifications of the plant are described by Mr. Albu.

Q. Who will receive service from the plant?

A. We are in an advanced stage of discussions with the City of Goodyear. Goodyear has given a verbal commitment to the project, subject to working out a satisfactory contract. We will also offer service to other water providers in the area.

Q. Will the District provide service to Arizona-American?

A. Yes, if they request service. Service will be provided according to terms and conditions that are typical for similar wholesale treatment agreements.

Q. Why is the District building a plant?

A. We believe that building a plant will serve the interest of our landowners. We will return any margin (profit) made from the operation of the plant to our landowners. In addition, water customers in the District can benefit from our low cost treated water, if their water provider chooses to do business with us.

Q. What factors led to the decision to build the plant?

A. Fundamentally, we believe that building the plant will serve our landowners. There were a number of related factors that came into play as well. For example, the District is rapidly developing. We are therefore transitioning from a primarily agricultural area to a more predominant residential area. We feel that we need to offer new services to benefit the current and future residential landowners. In addition, as development occurs within the District, we are realizing substantial funds from the sale of parcels of District land. We needed to find a way to redeploy these funds in a manner that continues to benefit the landowners. Building a treatment plant serves these objectives.

Q. Why did the joint MWD and Arizona-American project end?

A. We were ultimately unable to reach an agreement with Arizona-American. We spent large amounts of time and money trying to negotiate with Arizona-American. Eventually it became clear that we could not reach an agreement on acceptable terms. While I could give a detailed description of our problems with Arizona-American, I do not want to play the blame game. Ultimately this case is not about the past but about what will be best in the future for our landowners and Arizona-American's customers. I also want to add that

despite our past difficulties, we would be happy to talk to Arizona-American if they wanted to resume a dialogue.

Q. Arizona-American claims that as the need for irrigation declines, the District's "future is at stake." What is your response?

A. Their claim is nonsense. In addition to agricultural irrigation, the District provides renewable surface water to irrigate golf courses, parks, turf lands, and other urban irrigation needs. These services will only grow as development proceeds. Moreover, there are considerable agricultural lands in the vicinity of Luke Air Force base that cannot be developed, and the District will continue to serve those lands. Further, the District also acts as an electrical power provider. Thus, the District will continue to serve as the steward for its surface water rights and its community for decades to come, just as it has done for more than 75 years.

However, we do feel that it is important to adjust our mix of services as the development changes the District lands. It is important that all landowners, not just agricultural landowners, benefit from the District. Providing inexpensive water treatment services to District lands, and returning the margin (profit) to landowners, is one way of insuring that all our landowners benefit.

IV. COMPARISON OF MWD AND AAW PROPOSALS

Q. Please compare the District's proposal and Arizona-American's proposal.

A. The proposals can be compared in terms of cost, profit motive, integration with our other operations, and impact on landowners. In each respect, the District's proposal is superior.

A. **Cost Comparison.**

Q. Please compare the cost of the two proposals.

A. Mr. Albu's testimony contains a detailed comparison of the construction costs of the two proposals. He concludes that Arizona-American's plant will cost $56.7 million for 13.5 MGD, while our plant will cost $47.6 million for 20 MGD. So our plant costs $ 9 million less, yet it delivers substantially more capacity.

Q. Does the District have other cost advantages?

A. Yes. Our operating costs will be lower in a number of categories. For example, as a municipal corporation, we do not have to pay property tax on our site or plant equipment. In contrast, Arizona-American will pay property tax on both its site and plant equipment. In addition, as a municipal power provider, we have access to low cost power that we can use for the plant. In contrast, Arizona-American will have to pay full retail rates for its power.

Q. Since your plant is larger, should it also have greater economies of scale?

A. Yes. This is yet another benefit of our proposal.

B. **Comparison of profit motive.**

Q. Is there a difference in profit motive between Arizona-American and MWD?

A. I believe so. Arizona-American is a for-profit corporation, and as such I can only assume that they hope to make a profit. Certainly, that's what I would expect if I was one of their shareholders. In contrast, the District does not have a profit motive – our motive is to serve the public interest by serving our landowners. Any margin (profit) that we do make will be returned to our landowners. So in one case profits will go to out-of-state shareholders,

while in the other case, any margin will stay right in the District.

Q. How will the District return any margin to the landowners?

A. As the development proceeds, we expect that most landowners in the future will be residential homeowners. In most cases, they will also be water customers of Arizona-American. We therefore contemplated passing the margin to our landowners through a credit on their water bill.

Arizona-American had agreed to cooperate in this plan, subject to Commission approval, in the June 27, 2005 Memorandum of Understanding between the District and Arizona-American. Arizona-American also agreed to jointly develop the written guidelines, protocols, formulae and procedures necessary. In the absence of future cooperation from Arizona-American, the District will develop some alternative means to return the margin to landowners.

Needless to say, any credit becomes more substantial and meaningful as the number of users receiving treated water from the plant who are situated within the District increases. Because substantially all of District lands fall within the Arizona-American service area, serving these users through a second plant owned by Arizona-American would reduce the ability of the District to pass through the margin credit.

However, regardless of whether the margin can be passed through to District landowners or whether other means must be used, it remains that any economic benefits of ownership and operation of the District's plant must ultimately be used or applied for the benefit of our landowners.

Q. Does the District have any requests for the Commission regarding the margin credit?

A. Yes. We request that the Commission: (1) authorize Arizona-American to reflect the margin credit on the bills of its customers; and (2) direct Arizona-American to cooperate in developing and administering the margin credit program.

C. <u>Comparison of integration with other activities.</u>

Q. How do the District's and Arizona-American's proposals compare in terms of integration with their other activities?

A. The District's proposal fits within its other activities, while Arizona-American's does not. The District is no newcomer to surface water – we have provided surface water services for more than 75 years. In contrast, Arizona-American has never used surface water in its Agua Fria Division.

We can offer an integrated surface water solution. We already have Agua Fria surface water that can be used in the plant for District lands. We already have numerous wells that can provide water when surface water is not available, or when the canal is not operating. And we already have the Beardsley Canal – which is the only way to transport surface water to this area. Quite frankly, without access to our water and our canal, I don't see how Arizona-American's plant will be successful. In contrast, we can operate the plant in conjunction with our canal, our wells, and our surface water supply to create a closely coordinated, integrated product.

D. <u>Comparison on impact on landowners.</u>

Q. How would the District's proposal impact landowners?

A. Landowners would receive the benefits of any margin generated by the plant, whether

though the margin credit or otherwise. The MWD plant could also provide a means to return other District revenues directly to Landowners.

Q. How would Arizona-American's proposal impact landowners?

A. Landowners would be subject to a greatly increased hook-up fee. Thus, landowners who have not already paid the existing hook-up fee will have to pay a much greater amount.

We also believe Arizona-American's costs would be higher, resulting in higher rates to water users.

Q. Which of these alternatives is preferable?

A. Under one option, landowners get money, while under the other option some will have to pay a lot of money. The choice between getting money and paying money is pretty simple.

V. ANALYSIS OF HOOK UP FEE REQUEST.

Q. What is Arizona-American's hook-up fee request?

A. The various proposals advocated by Arizona-American result in hook-up fees doubling or tripling in some cases. Based on Arizona-American's Revised Application and the Staff Report, their request can be summarized in the following table:

	5/8 Inch	3/4 Inch	1 Inch
Current	$1,150	$1,725	$2,875
AAW Option 1	$3,000	$4,500	$7,500
Increase Option 1	$1,850	$2,775	$4,625
AAW Option 2	$4,700	$7,050	$11,750
Increase Option 2	$3,550	$5,325	$8,875
Staff Proposal	$3,280	$4,920	$8,200
Staff Increase	$2,130	$3,195	$5,325

Q. Will the District need a hook-up fee to construct the plant?

A. No. The District will not need a hook-up fee. Nor will we need a landowner assessment or any other type of charge to landowners. In contrast, I understand that Arizona-American cannot build its plant without hook-up fees.

Q. Do you have any comments about Arizona-American's hook-up fee proposal?

A. Yes. As a landowner, the District may be subject to these increased fees. We strongly object to such an increase. As development proceeds, the benefits of District land sales should go to our landowners. Arizona-American should not be able to take an exorbitant "cut" of the proceeds for its own corporate coffers.

Q. And do you have comments on behalf of the District's landowners?

A. Yes, as the public body charged with working for the benefit of our landowners, the District strongly objects to these increased fees. There is simply no need for these fees. Arizona-American needs the fees to pay for its plant. The District does not need such fees to fund our plant. Our plant will be adequate to serve Arizona-American's needs, should

they choose to work with us. So there is no need to burden our landowners with such massively increased fees.

Q. Have you analyzed Arizona-American's hook-up fee proposal from a regulatory perspective?

A. No. I understand that there may be issues with the legality and appropriateness of their proposal. (MWD Comments at 6-8). I am not an expert on Commission regulatory matters, so I won't testify about those issues. But as a District official, I urge the Commission to review these issues closely.

Q. Have you analyzed, from a regulatory perspective, Arizona-American's proposals for extraordinary rate treatment of AFUDC and AIAC?

A. No. Again, I am not an expert in such matters. As a District official, I can only urge the Commission to closely review such matters.

VI. INTERIM WATER.

Q. Arizona-American has objected to the timing of the District's plant. Do you have a response?

A. Mr. Albu testifies that our plant should be online by May 2010, only one year after Arizona-American's plant. If Arizona-American has concerns about its capability to serve during this extra year, the District is willing to help.

Q. What is the District offering to address Arizona-American's timing concerns?

A. If Arizona-American selects our plant, then we are willing to provide interim water to meet their incremental needs for the extra year. As I mentioned, we have 60 wells. We have extensively studied these wells, and a number of them produce potable quality water. We

can and will tide them over for the extra year, should they agree to use our plant. In the unlikely event that our plant is not online by May 2010, we can also provide interim water to meet the incremental demand due to any such delay.

Q. Is the District taking other steps to provide Arizona-American with water?

A. Yes. We have heard that Arizona-American demands that landowners provide them with new, potable quality wells before they will sign a main extension agreement. Some landowners have wells, but the wells are not potable quality. We are exploring agreements to temporarily swap these low-quality wells for our potable or better quality wells. We recently entered into one such agreement. We will evaluate similar requests as they come forward. However, in any such agreement, we must ensure that the wells are being used for the benefit of the landowner and not Arizona-American's general water supply.

VII. RESPONSE TO STAFF REPORT.

Q. Do you have any comments on the Staff Report?

A. Yes, based on Arizona-American's erroneous information, Staff concluded that "MWD no longer wishes to finance, build and own the White Tanks Plant." This is not correct, as shown above. The Staff Report was filed before we became involved in this case. Staff did not have the benefit of the information provided by the District, and Staff did not have a chance to analyze our proposals. Thus, Staff unfortunately had to use incomplete and incorrect information. Now that Staff had complete and correct information, we look forward to their revised analysis.

VIII. RESPONSE TO ARIZONA-AMERICAN QUESTIONS.

Q. Does the District have a response to the seven questions posed by Arizona-American in their filing of November 29, 2006?

A. Yes, our response to each question is shown below.

Q. What is District's response to Arizona-American's first question, concerning cost?

A. Our plant is clearly the low cost alternative. A cost comparison is provided in Mr. Albu's testimony. In addition, I provide additional testimony about cost in Section IV.A above.

Q. What is the District's response to Arizona-American's second question, regarding timing?

A. Mr. Albu testifies that our plant will likely be online by May 2010.

Q. What is the District's response to Arizona-American's third question, regarding interim water supplies?

A. I respond to these concerns in Section VI above.

Q. What is the District's response to Arizona-American's fourth question, regarding risks?

A. The District is willing to assume all ordinary risks of ownership. Arizona-American's question refers to our prior negotiations. One of the reasons the prior negotiations between Arizona American and the District failed was Arizona-American's insistence on a capital lease which essentially placed the District in the role as a lender rather than an owner. Under that situation, we insisted on only assuming risks appropriate to a lender. Arizona-American was essentially the owner and operator of the plant, but tried to shift its risks to the District. We could not accept such a proposal. That is all irrelevant now. Under our

plan, the District will own its plant, and will assume all ordinary risks of ownership.

Q. What is the District's response to Arizona-American's fifth question, regarding rates?

A. Mr. Albu address rates in his testimony.

Q. What is the District's response to Arizona-American's sixth question, regarding the best entity to provide potable water treatment service?

A. Arizona-American erroneously states that the district "does not sell potable water." As we have repeatedly reminded them, we provide potable water service at Pleasant Harbor. Arizona-American seems to suggest that the District is not competent to provide potable water treatment. Mr. Albu explains how we will construct and operate the plant to potable water standards. We can and will operate the potable water plant. As General Manager, I insist that we provide the highest quality service, and that will certainly apply to our treatment plant. Arizona-American refers to our supposed "inexperience in the commercial world." I have no idea how they could make such a statement. In Section II above, I describe the many activities and ventures of our District. These ventures are sufficiently profitable that we are able to offer our landowners surface water at only a fraction of the actual cost. In contrast, I have heard that Arizona-American has great difficulty making a profit.

Regarding which entity is "best", I explained in Section IV.C how the District is the best entity, as our plant can be operated in conjunction with our canal, our surface water supply, and our wells. Moreover, our option is more economical and will return margin to our landowners.

Q. Arizona-American's seventh question is "How would customers be better off with MWD's proposal?" What is your answer?

A. Customers would be better off in many ways. Our plant will be less expensive to build yet it will have more capacity. We won't have to pay property taxes and we have access to inexpensive power. We will return our margin to our landowners, who in the future will largely be the homeowners taking residential service from Arizona-American. And customers who are landowners won't have to pay hook-up fees that are double or triple the current fees.

IX. CONCLUSION

Q. Does your last answer give a good summary of the District's case?

A. Yes.

Q. What does the District request that the Commission do in this case?

A. The District requests that the Commission take the following actions:

(1) Deny Arizona-American's request to increase its hook-up fees;

(2) Deny Arizona-American's request for special treatment for AFUDC and AIAC;

(3) Grant approval to Arizona-American to reflect the margin credit on customer bills;

(4) Order Arizona-American to cooperate in using its bills to return the margin credit to qualifying customers.

Q. Are you requesting Commission approval to build the District's plant?

A. No, such approval is not needed. Of course, we will obtain all necessary permits and approvals to construct the plant.

Q. Does this conclude your testimony?

A. Yes.

APPENDIX

1

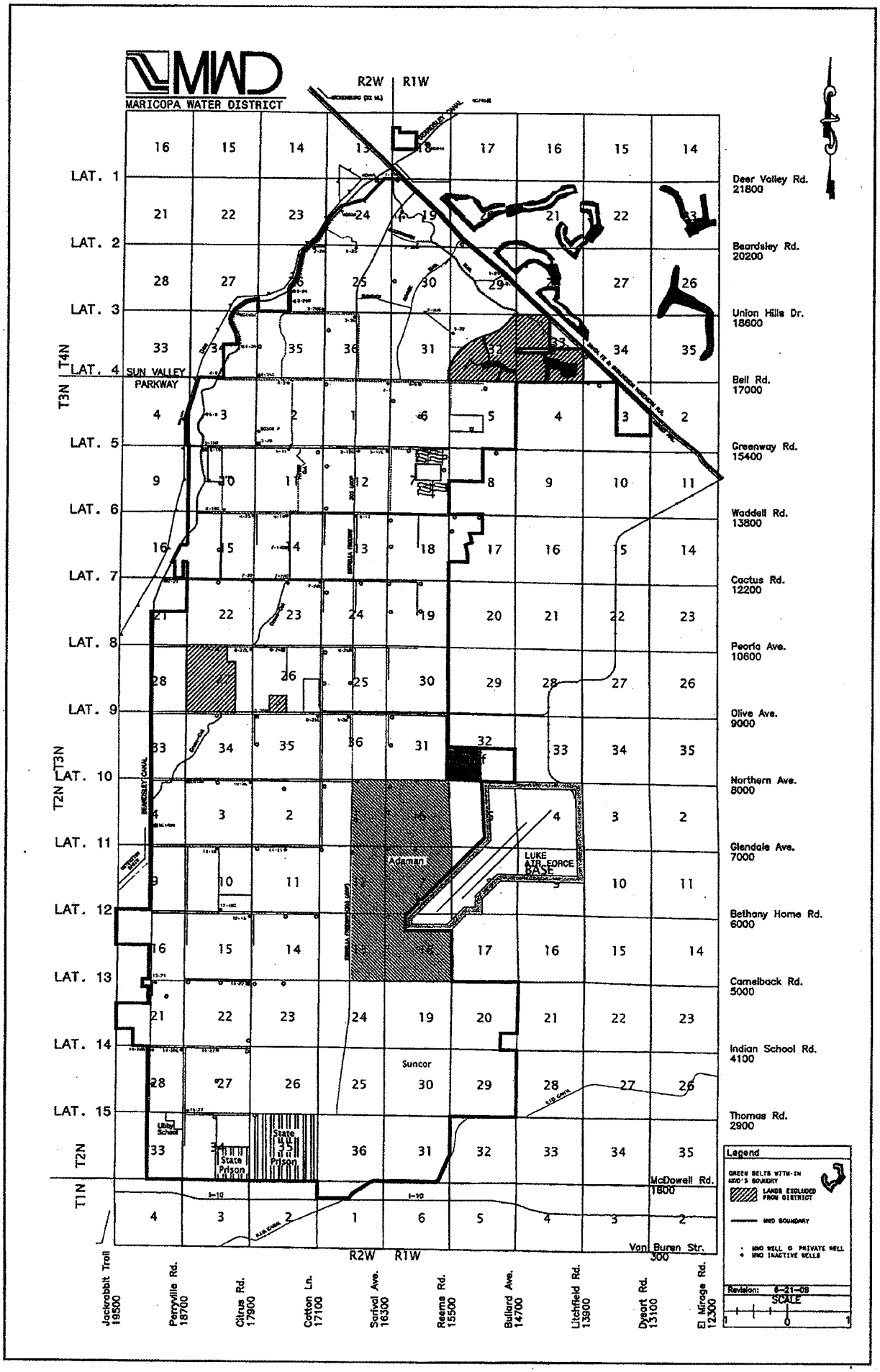
MWD
MARICOPA WATER DISTRICT
R2W
R1W
LAT. 1
LAT. 2
LAT. 3
LAT. 4
LAT. 5
LAT. 6
LAT. 7
LAT. 8
LAT. 9
LAT. 10
LAT. 11
LAT. 12
LAT. 13
LAT. 14
LAT. 15
T4N
T3N
T2N
T1N
SUN VALLEY PARKWAY
Deer Valley Rd. 21800
Beardsley Rd. 20200
Union Hills Dr. 18600
Bell Rd. 17000
Greenway Rd. 15400
Waddell Rd. 13800
Cactus Rd. 12200
Peoria Ave. 10600
Olive Ave. 9000
Northern Ave. 8000
Glendale Ave. 7000
Bethany Home Rd. 6000
Camelback Rd. 5000
Indian School Rd. 4100
Thomas Rd. 2900
McDowell Rd. 1800
Van Buren Str. 300
Adamax
LUKE AIR FORCE BASE
Suncor
State Prison
Legend
GREEN BELTS WITH-IN MWD'S BOUNDARY
LANDS EXCLUDED FROM DISTRICT
MWD BOUNDARY
MWD WELL
PRIVATE WELL
MWD INACTIVE WELLS
Revision: 6-21-06
SCALE
Jackrabbit Trail 19500
Perryville Rd. 18700
Citrus Rd. 17900
Cotton Ln. 17100
Sarival Ave. 16300
Reems Rd. 15500
Bullard Ave. 14700
Litchfield Rd. 13900
Dysart Rd. 13100
El Mirage Rd. 12300

EXHIBIT
D-46

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON – CHAIRMAN
JEFF HATCH-MILLER
WILLIAM A. MUNDELL
KRISTIN K. MAYES
GARY PIERCE

EXHIBIT
D-46
admitted

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT.	DOCKET NO. W-01303A-05-0718

Surrebuttal Testimony of

James R. Sweeney

on Behalf of

Maricopa County Municipal
Water Conservation District No. 1

March 12, 2007

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I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is James R. Sweeney. My business address is 14825 W. Grand Avenue, Surprise, Arizona 85374.

Q. Are you the same James R. Sweeney who provided direct testimony in this case?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. I will respond to certain statements made by Mr. Broderick in his rebuttal testimony. I will also respond to one comment made by Mr. Gross.

II. OBLIGATION TO SERVE.

Q. Let's start with Mr. Gross. He states that MWD has no obligation to serve. Do you have a response?

A. Yes. I assume that Arizona-American has such an obligation under its "certificate of convenience and necessity." As a municipal corporation, MWD does not have such a certificate. What we do have is a track record of more than 70 years of delivering service to our district. When we commit to delivering a service, we deliver it.

We are very aware that Arizona-American would need treatment service from us if their proposed hook-up fee is denied. We know that their customers – who are also largely our landowners – would be depending on us to deliver that service. We have never let the residents of our district down by failing to provide service, and we will not do so here. I can not imagine that MWD – a public entity with a proven track record – would not

provide service under that scenario. I know our management, and I know our board, and I can assure you that we will meet our commitments.

Q. So MWD would not just "walk away" from the project?

A. Under no circumstances will we "walk away" from the project if the Commission rules in our favor. We know that the Commission, Arizona-American, and most importantly, the customers, will be depending on us. You have our commitment that we will deliver.

Q. Can the Commission trust this commitment?

A. Yes. I would hope that our word – as a public entity with a proven track record – would be enough. But if it is not, then we are willing to explore entering into an Inter-Governmental Agreement with the Commission (and RUCO, if they so desire) with respect to our commitment.

Q. What other factors should be considered?

A. Our board is directly accountable to our voters. Those voters will not be happy if service is affected due to actions of MWD. In other words, democracy works.

Q. Do you have other comments on the obligation to serve issue?

A. Yes. Mr. Gross mentioned that an affiliate of Arizona-American managed construction of, and will operate, the City of Phoenix's new 80 MGD surface water treatment plant. I doubt that this affiliate has a regulatory obligation to serve the City of Phoenix's service territory. Presumably, Arizona-American's affiliate and Phoenix believe that their contractual arrangement is reasonable and reliable. Likewise, the City of Goodyear is willing to rely on a contract with MWD for treatment services. If Arizona-American's proposal is denied, we will offer them a similar contract.

Q. Will MWD build its plant?

A. Yes. As I have said, you have our commitment that we will build it if Arizona-American's proposal is denied. And even if you grant their proposal, it is our intent to still build our plant (although it may be smaller in that case). Once our contract with Goodyear is finalized, we will still have to serve them. And we still have a substantial amount of our own surface water that Arizona-American will need, as included in its planning, and will be treated by our plant. It would be inefficient to build two plants a short distance from each other. As it is our intent to build our plant, it makes sense that it should be the regional plant. I don't believe that Arizona-American building a small plant to only treat its CAP allotment is a desirable result.

Q. Will the Commission have access to MWD's plant site and the books and records relating to the plant?

A. Yes. Our books and records are governed by the public records act, so we have no problem sharing them with the Commission. And we would be happy to give Commission representatives access to the plant site.

III. COST COMPARISON.

Q. Do you believe that MWD's plan is better for customers?

A. Yes. One important point that Arizona-American did not address is our proposal for landowner credits. Mr. Broderick claims that he does not have enough information about this proposal. While it is true that the details of the credits have not been finalized, the concept is clear. The credit will return some of the margin (profit) of our plant to our landowners, who are largely the same as Arizona-American's Agua Fria customers. In contrast, any profits earned by Arizona-American will not be shared with the customers. This is a very significant difference between MWD's plan and Arizona-American's plan.

Q. Are there other reasons that you believe MWD's plan is better for customers?

A. Yes, there are several reasons. For example, Mr. Mastracchio estimates that our plan will cost $3,463 per customer over 30 years while Arizona-American's plan will cost $5,889 per customer over that same period. Mr. Albu explains that our plant will cost less to build.

Q. Will electrical costs be different?

A. Yes. Mr. Albu explains that our plant will likely use less electricity because it does not use the ultraviolet disinfection process used by Arizona-American. In addition, MWD has access to low cost power. Under the contracts and rulings governing our power supply, we can supply low cost power to our own plant. However, a plant owned by another entity will not necessarily be serviced by MWD. In my view, Arizona-American may have to rely on higher cost power from APS.

Q. What about taxes?

A. As a municipal corporation, MWD does not have to pay property taxes or income taxes. In contrast, as a for-profit corporation, Arizona-American is fully subject to such taxes.

Q. Do you have a response to Mr. Broderick's offer to sell capacity?

A. I am not going to negotiate with Mr. Broderick through testimony. However, there is one thing about his offer that should be highlighted. He asks for an "incentive adjustment"[1] to motivate Arizona-American to sell capacity. I am no expert, but that sounds like profit –

[1] Broderick Rebuttal at 8.

even though Mr. Broderick trumpets Arizona-American's supposed decision to forgo "profit potential."[2]

IV. CONDITIONS.

Q. Do you have any recommendations if the Commission decides to approve Arizona-American's requests?

A. I strongly believe that MWD's plan is better for customers, and that Arizona-American's plan should be rejected. But I also respect the fact that decisions about Arizona-American's rates and fees are within the Commission's jurisdiction. If the Commission disagrees with me and approves Arizona-American's proposals, then I do have several recommendations to protect the public, including MWD's landowners. Those recommendations are:

1) Any hook-up fees collected by Arizona-American should be subject to refund, should the Commission determine in a rate case that lower fees are appropriate, or should the courts find the fee increase to be invalid.
2) To guarantee Arizona-American's ability to make the refund, it should be ordered to post a bond in the amount of the estimated hook-up fee collections for the next five years.
3) The Commission should make clear that O&M costs for Arizona-American's plant will be evaluated under Commission's traditional ratemaking methods.
4) The Commission should rule that no portion of the cost of Arizona-American's plant will be allowed in rate base.

[2] Broderick Rebuttal at 10.

5) The Commission should rule that it will not allow an increased cost of capital due to financial weakness caused by Arizona-American building the plant.

V. CONCLUSION.

Q. Please summarize your testimony.

A. MWD has a track record of delivering reliable service for more than 70 years. MWD's plan will cost customers less, and it will provide them landowner credits.

Q. Does this conclude your testimony?

A. Yes.

EXHIBIT
D-47
admitted

Maricopa Water District

RATE COMPARISON FOR WASTEWATER TREATMENT PLANT

March 20, 2007

Month	Demand	Energy	Load Factor	APS E-32	MWD Resale Rate	MWD General Service Rate
January	1,030	460,000	60.0%	$ 31,935.87	$ 15,472.16	$ 25,595.96
February	942	380,000	60.0%	$ 27,468.82	$ 13,012.15	$ 21,530.33
March	784	350,000	60.0%	$ 24,411.31	$ 11,776.13	$ 19,479.01
April	1,331	575,000	60.0%	$ 45,985.49	$ 19,443.55	$ 32,171.28
May	1,344	600,000	60.0%	$ 47,470.58	$ 20,176.22	$ 33,381.16
June	1,451	627,000	60.0%	$ 50,101.71	$ 21,200.47	$ 35,079.23
July	1,460	676,000	62.2%	$ 52,825.09	$ 22,594.00	$ 37,379.20
August	1,344	600,000	60.0%	$ 47,470.58	$ 20,176.22	$ 33,381.16
September	1,273	550,000	60.0%	$ 44,006.53	$ 18,598.87	$ 30,773.22
October	1,250	527,000	56.7%	$ 37,284.49	$ 17,897.00	$ 29,613.40
November	1,157	500,000	60.0%	$ 35,083.62	$ 16,909.52	$ 27,977.11
December	1,075	480,000	60.0%	$ 33,303.97	$ 16,144.17	$ 26,708.13
TOTAL	14,443	6,325,000		$ 477,348.06	$ 213,400.45	$ 353,069.20
MAX	1,460	676,000		$ 52,825.09	$ 22,594.00	$ 37,379.20
Estimated Savings					123.7%	35.2%

** Does not include any applicable taxes

** APS demand billing calculated at Secondary Service level

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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EXHIBIT
D-49
judicial notice

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MARC SPITZER
COMMISSIONER
MIKE GLEASON
COMMISSIONER
KRISTIN K. MAYES
COMMISSIONER

IN THE MATTER OF THE COMMISSION'S GENERIC EVALUATION OF THE REGULATORY IMPACTS FROM THE USE OF NON-TRADITIONAL FINANCING ARRANGEMENTS BY WATER UTILITIES AND THEIR AFFILIATES.	Docket No. W-00000C-06-0149

RUCO'S COMMENTS

On June 2, 2006, the Utilities Division ("Staff") issued a letter requesting comments on the appropriate regulatory treatment of several of what it characterized as "non-traditional financings." These comments are the Residential Utility Consumer Office's ("RUCO") response to that request.

1. What is the preferred regulatory treatment for each of the following financing arrangements?

a. A developer purchases a non-regulated parent company's non-voting stock. Each of the non-voting shares has a par value of $1.00, is not eligible for dividends, is partially refundable and can be repurchased (subject to certain conditions) by the non-regulated parent for one cent ($0.001) (*sic*). The parent company subsequently contributes the funds to an ACC regulated subsidiary water utility as additional paid-in capital.

b. A developer purchases a regulated utility's non-voting stock and that utility invests those funds in plant. The utility records equity for the proceeds. Neither refundable advances in aid of construction nor contributions in aid of construction are recorded.

c. A developer or a Municipal Government pays a fee for services provided by a non-regulated parent company for services typically covered by "Off-site Hook-up Fees" collected by regulated water and wastewater utilities. Then the

parent company invests the proceeds in the regulated utility which is recorded as equity by the utility.

As an overview to all three subparts of this question, RUCO identifies two somewhat separate issues that are raised by each scenario. First, is the question of whether the books of the utility should reflect an equity investment arising from the direct or indirect cash infusion. The second issue is whether the utility has utilized appropriate mechanisms to finance the plant it places in service. The ultimate investment of equity into a utility by a developer may create an incentive for the utility to use that equity to finance plant, rather than using advances or contributions, but the appropriateness of using equity rather than advances or contributions is not dependent on what entity provided an equity investment. In scenarios 1A and 1B, RUCO believes that the books of the utility would reflect an equity investment arising from the indirect (in 1A) or direct (in 1B) investment by the developer. However, the fact that it was a developer that provided the funding does not dictate the appropriate regulatory treatment of whether the utility should utilize advances or contributions from a developer to fund a portion of its plant. That question must be answered on a case-by-case basis. The Commission has not established a fixed percentage of plant that ought to be supported by advances or contributions in all cases, but it has approved rate bases that included advances or contributions of approximately 20-25 percent. Thus, for questions 1A and 1B, RUCO believes that the books of the utility would reflect an equity investment, but that the determination of whether the financing of plant was appropriately balanced between debt, equity, advances and contributions would be determined based on a broader understanding of the facts than the question presents, and on a case-by-case basis.

As to question 1C, RUCO cannot provide a specific answer because it cannot accept the premise of the question that there are "services typically covered by 'Off-site Hook-up

Fees' collected by regulated water and wastewater utilities." Many water and wastewater utilities do not have hook-up fees and thus it cannot be said that particular services are typically funded by such fees. The determination of appropriate ratemaking treatment in the case of a developer or municipal government paying a fee for services provided by the non-regulated parent of a utility could only be determined based on an understanding of what services are being provided by that parent. To the extent the services the parent provides to the developer/municipal government are beyond those that are the obligation of a regulated utility, the payment of such an amount may be considered earned income when remitted to the parent from the developer/government entity. In this case, such monies would be equity. The determination of the appropriate ratemaking treatment would be dependent (as discussed for 1A and 1B) on an analysis of the balance the utility ultimately struck in its utilization of debt, equity, advances and contributions to finance its assets.

2. What is the maximum percentage of refundable "Advances in Aid of Construction" ("AIAC") appropriate as a percentage of total capital for a private or investor owned water utility?

3. What is the maximum percentage of non-refundable "Contributions in Aid of Construction" ("CIAC") appropriate as a percent of total capital for a private or investor owned water utility?

The Commission has not established a fixed percentage of plant that ought to be supported by advances or contributions in all cases, but it has approved rate bases that included advances or contributions of approximately 20-25 percent. An over-reliance on advances or contributions can result in a utility that has an inadequate investment of its own in it plant. An under-reliance on advances and contributions (which serve as a credit to rate base) can result in customers paying returns on too large a rate base. The determination of an

appropriate percentage of advances and contributions is like the determination of an optimal capital structure—it must be determined on a case-by-case basis.

4. What is the most appropriate and most economical capital structure for a "new" water or wastewater utility?

As indicated above, there is no single "most appropriate" capital structure that can be applied in every instance. An appropriate capital structure will usually consist of a balance of advances and contributions (both cost-free sources of capital) and of debt and equity. A utility should have sufficient equity investment that it has a vested interest in the success of the company, having its own funds at risk and subject to appropriate reward. However, an appropriate level of debt financing should be included, as debt is a lower cost method of financing than is equity.

RESPECTFULLY SUBMITTED this 23rd day of June,

Scott S. Wakefield
Chief Counsel

AN ORIGINAL AND THIRTEEN COPIES
of the foregoing filed this 23rd day
of June, 2006 with:

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By Ernestine Gamble
Ernestine Gamble
Secretary to Scott Wakefield

APPENDIX B

ARIZONA AMERICAN WATER
AGUA FRIA WATER DISTRICT

Development Name	SubArea	T	R	S	Q	Acres	Density	Dwelling Units by 2008	Non Res Acres Dev by 2008	RES - Water Demand by 2008 (gpd)	NON RES- Water Demand by 2008 (gpd)	TOTAL-Water Demand by 2008 (gpd)	Dwelling Units by 2010	Non Res Acres Dev by 2010	RESI - Water Demand by 2010 (gpd)	NON RES- Water Demand by 2010 (gpd)	TOTAL- Water Demand by 2010 (gpd)	Dwelling Units by 2015	Non Res Acres Dev by 2015	RESI - Water Demand by 2015 (gpd)	NON RES- Water Demand by 2015 (gpd)	TOTAL- Water Demand by 2015 (gpd)	Dwelling Units by 2020	Non Res Acres Dev by 2020	RESI - Water Demand by 2020 (gpd)	NON RES- Water Demand by 2020 (gpd)	TOTAL- Water Demand by 2020 (gpd)	Buildout Dwelling Units	Non Res Acres Dev at Buildout	RESI - Water Demand at Buildout (gpd)	NON RES- Water Demand at Buildout (gpd)	TOTAL- Water Demand at Buildout (gpd)
4N 1W 18 SW	SUN CITY GRAND/SUN VILLAGE	4N	1W	18	SW	80		0	0	0	0	0	0	0	0	0	0	0		0	0	0	0		0	0	0	0	80	0	144000	144000
WHITEHEAD	SUN CITY GRAND/SUN VILLAGE	4N	1W	19	NW	80	3	0		0	0	0	0		0	0	0	120		46837	0	46837	180		70255	0	70255	240	0	93674	0	93674
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	19	NE	80	3.7	298		72772	0	72772	298		72772	0	72772	298		72772	0	72772	298	0	72772	0	72772	298	0	72772	0	72772
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	19	SW	160	2.0	313		76435	0	76435	313		76435	0	76435	313		76435	0	76435	313		76435	0	76435	313	0	76435	0	76435
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	19	SE	150	1.9	284		69353	0	69353	284		69353	0	69353	284		69353	0	69353	284		69353	0	69353	284	0	69353	0	69353
PARK PLACE	SUN CITY GRAND/SUN VILLAGE	4N	1W	28	SW	80	10.5	250	40	0	72000	72000	300	40	0	72000	72000	419	40	0	72000	72000	419	40	0	72000	72000	419	40	0	72000	72000
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	29	NE	75	3.2	149	29	36386	52200	88586	149	29	36386	52200	88586	149	29	36386	52200	88586	149	29	36386	52200	88586	149	29	36386	52200	88586
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	29	NW	120	3.4	404		98657	0	98657	404		98657	0	98657	404		98657	0	98657	404		98657	0	98657	404		98657	0	98657
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	29	SW	160	2.3	369		90110	0	90110	369		90110	0	90110	369		90110	0	90110	369		90110	0	90110	369		90110	0	90110
SUN CITY GRAND (THE VILLAGES)	SUN CITY GRAND/SUN VILLAGE	4N	1W	29	SE	160	3.3	520		126984	0	126984	520		126984	0	126984	520		126984	0	126984	520		126984	0	126984	520		126984	0	126984
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	30	NE	160	1.9	296		72283	0	72283	296		72283	0	72283	296		72283	0	72283	296		72283	0	72283	296		72283	0	72283
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	30	NW	160	1.8	291		71062	0	71062	291		71062	0	71062	291		71062	0	71062	291		71062	0	71062	291		71062	0	71062
SUN CITY GRAND (COMM ASSOC)	SUN CITY GRAND/SUN VILLAGE	4N	1W	30	SW	160	1.3	210		51282	0	51282	210		51282	0	51282	210		51282	0	51282	210		51282	0	51282	210		51282	0	51282
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	30	SE	160	1.6	254		62027	0	62027	254		62027	0	62027	254		62027	0	62027	254		62027	0	62027	254		62027	0	62027
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	31	NE	160	2.7	426		104029	0	104029	426		104029	0	104029	426		104029	0	104029	426		104029	0	104029	426		104029	0	104029
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	31	NW	160	2.6	413		100855	0	100855	413		100855	0	100855	413		100855	0	100855	413		100855	0	100855	413		100855	0	100855
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	31	SW	160	2.8	446		108913	0	108913	446		108913	0	108913	446		108913	0	108913	446		108913	0	108913	446		108913	0	108913
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	31	SE	160	2.5	400		97680	0	97680	400		97680	0	97680	400		97680	0	97680	400		97680	0	97680	400		97680	0	97680
KINGSWOOD PARKE	SUN CITY GRAND/SUN VILLAGE	4N	1W	32	NE	160	3.3	528		173659	0	173659	528		173659	0	173659	528		173659	0	173659	528		173659	0	173659	528		173659	0	173659
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	1W	32	NW	160	3.8	603	0	147253	0	147253	603		147253	0	147253	603		147253	0	147253	603		147253	0	147253	603		147253	0	147253
KINGSWOOD PARKE	SUN CITY GRAND/SUN VILLAGE	4N	1W	32	SW	160	3.4	537	0	176619	0	176619	537		176619	0	176619	537		176619	0	176619	537		176619	0	176619	537		176619	0	176619
KINGSWOOD PARKE	SUN CITY GRAND/SUN VILLAGE	4N	1W	32	SE	160	2.1	343	0	112813	0	112813	343		112813	0	112813	343		112813	0	112813	343		112813	0	112813	343		112813	0	112813
PARK PLACE (SURPRISE RETIREMENT RES)	SUN CITY GRAND/SUN VILLAGE	4N	1W	33	NE	80	1.9	148	0	66888	0	66888	148		66888	0	66888	148		66888	0	66888	148		66888	0	66888	148		66888	0	66888
PARK PLACE (Route 454)	SUN CITY GRAND/SUN VILLAGE	4N	1W	33	NW	40	1.7	67	0	31207	0	31207	67		31207	0	31207	67		31207	0	31207	67		31207	0	31207	67		31207	0	31207
SUN VILLAGE	SUN CITY GRAND/SUN VILLAGE	4N	1W	33	SW	160	3.9	611	3	112913	5400	118313	611	3	112913	5400	118313	611	3	112913	5400	118313	611	3	112913	5400	118313	611	3	112913	5400	118313
SUN VILLAGE	SUN CITY GRAND/SUN VILLAGE	4N	1W	33	SE	160	3.9	611	3	112913	5400	118313	611	3	112913	5400	118313	611	3	112913	5400	118313	611	3	112913	5400	118313	611	3	112913	5400	118313
WESTPOINT TOWN CENTER (Home Depot)	SUN CITY GRAND/SUN VILLAGE	4N	1W	34	SW	80	0	0	75	0	135000	135000	0	75	0	135000	135000	0	75	0	135000	135000	0	75	0	135000	135000	0	75	0	135000	135000
4N 2W 13 SE	SUN CITY GRAND/SUN VILLAGE	4N	2W	13	SE	120	3	60	10	23418	0	23418	120	20	46837	0	46837	180	30	70255	0	70255	240	40	93674	0	93674	240	40	93674	0	93674
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	23	SE	160	1.2	188		45910	0	45910	188		45910	0	45910	188		45910	0	45910	188		45910	0	45910	188		45910	0	45910
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	24	NE	160	2.1	337		82295	0	82295	337		82295	0	82295	337		82295	0	82295	337		82295	0	82295	337		82295	0	82295
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	24	NW	160	2.2	348		84982	0	84982	348		84982	0	84982	348		84982	0	84982	348		84982	0	84982	348		84982	0	84982
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	24	SW	160	3.4	546		133333	0	133333	546		133333	0	133333	546		133333	0	133333	546		133333	0	133333	546		133333	0	133333
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	24	SE	160	2.1	336		82051	0	82051	336		82051	0	82051	336		82051	0	82051	336		82051	0	82051	336		82051	0	82051
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	25	NE	160	3.1	496		121123	0	121123	496		121123	0	121123	496		121123	0	121123	496		121123	0	121123	496		121123	0	121123
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	25	NW	160	1.2	185	2	45177	2700	47877	185	2	45177	2700	47877	185	2	45177	2700	47877	185	2	45177	2700	47877	185	2	45177	2700	47877
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	25	SW	160	2.4	390		95238	0	95238	390		95238	0	95238	390		95238	0	95238	390		95238	0	95238	390		95238	0	95238
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	25	SE	160	2.6	408		99634	0	99634	408		99634	0	99634	408		99634	0	99634	408		99634	0	99634	408		99634	0	99634
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	26	NE	160	1.6	250	1	61050	1800	62850	250	1	61050	1800	62850	250	1	61050	1800	62850	250	1	61050	1800	62850	250	1	61050	1800	62850
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	26	SW	160	2.2	357		87179	0	87179	357		87179	0	87179	357		87179	0	87179	357		87179	0	87179	357		87179	0	87179
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	26	SE	160	0.8	130		31746	0	31746	130		31746	0	31746	130		31746	0	31746	130		31746	0	31746	130		31746	0	31746
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	27	SE	160	0.8	122		72143	0	72143	122		72143	0	72143	122		72143	0	72143	122		72143	0	72143	122		72143	0	72143
ARIZONA TRADITIONS	ARIZONA TRADITIONS	4N	2W	34	NE	160	3.2	504		193825	0	193825	504		193825	0	193825	504		193825	0	193825	504		193825	0	193825	504		193825	0	193825
BELL POINT 1 & 2	ARIZONA TRADITIONS	4N	2W	34	NW	160	1.7	276		127411	0	127411	276		127411	0	127411	276		127411	0	127411	276		127411	0	127411	276		127411	0	127411
BELL POINT 1 & 2	ARIZONA TRADITIONS	4N	2W	34	SW	160	1.7	276		127411	0	127411	276		127411	0	127411	276		127411	0	127411	276		127411	0	127411	276		127411	0	127411
ARIZONA TRADITIONS	ARIZONA TRADITIONS	4N	2W	34	SE	160	2.6	411		168148	0	168148	411		168148	0	168148	411		168148	0	168148	411		168148	0	168148	411		168148	0	168148
HAPPY TRAILS	ARIZONA TRADITIONS	4N	2W	35	NE	160	4.7	759		72864	0	72864	759		72864	0	72864	759		72864	0	72864	759		72864	0	72864	759		72864	0	72864
ARIZONA TRADITIONS	ARIZONA TRADITIONS	4N	2W	35	NW	160	1.8	295		133460	0	133460	295		133460	0	133460	295		133460	0	133460	295		133460	0	133460	295		133460	0	133460
ARIZONA TRADITIONS	ARIZONA TRADITIONS	4N	2W	35	SW	160	2.0	320		141242	0	141242	320		141242	0	141242	320		141242	0	141242	320		141242	0	141242	320		141242	0	141242
HAPPY TRAILS	ARIZONA TRADITIONS	4N	2W	35	SE	160	7.5	1195		114720	0	114720	1195		114720	0	114720	1195		114720	0	114720	1195		114720	0	114720	1195		114720	0	114720
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	36	NE	160	2.7	429		104762	0	104762	429		104762	0	104762	429		104762	0	104762	429		104762	0	104762	429		104762	0	104762
BELL WEST RANCH	ARIZONA TRADITIONS	4N	2W	36	NW	160	3.5	557		207809	0	207809	557		207809	0	207809	557		207809	0	207809	557		207809	0	207809	557		207809	0	207809
BELL WEST RANCH	ARIZONA TRADITIONS	4N	2W	36	SW	160	3.5	550	5	204012	9000	213012	550	5	204012	9000	213012	550	5	204012	9000	213012	550	5	204012	9000	213012	550	5	204012	9000	213012
SUN CITY GRAND	SUN CITY GRAND/SUN VILLAGE	4N	2W	36	SE	160	1.6	254		62027	0	62027	254		62027	0	62027	254		62027	0	62027	254		62027	0	62027	254		62027	0	62027
WESTPOINT TOWN CENTER	SUN CITY GRAND/SUN VILLAGE	3N	1W	3	NE	80	10.9	600	25	254100	45000	299100	600	25	254100	45000	299100	600	25	254100	45000	299100	600	25	254100	45000	299100	600	25	254100	45000	299100
WESTPOINT TOWN CENTER	SUN CITY GRAND/SUN VILLAGE	3N	1W	3	NW	160	2.8	225	80	95288	144000	239288	225	80	95288	144000	239288	225	80	95288	144000	239288	225	80	95288	144000	239288	225	80	95288	144000	239288
WESTPOINT TOWN CENTER	SUN CITY GRAND/SUN VILLAGE	3N	1W	3	SW	160	4.5	585	15	247748	27000	274748	585	20	247748	36000	283748	585	25	247748	45000	292748	585	30	247748	54000	301748	585	30	247748	54000	301748
WESTPOINT TOWN CENTER	SUN CITY GRAND/SUN VILLAGE	3N	1W	3	SE	160	2.8	449		190152	0	190152	449		190152	0	190152	449		190152	0	190152	449		190152	0	190152	449		190152	0	190152
GREENWAY PARC	SUN CITY GRAND/SUN VILLAGE	3N	1W	7	NE	160	4.0	638		228426	0	228426	638		228426	0	228426	638		228426	0	228426	638		228426	0	228426	638		228426	0	228426
LEGACY PARC I	SUN CITY GRAND/SUN VILLAGE	3N	1W	7	NW	160	3.2	512		195654	0	195654	516		197029	0	197029	516		197029	0	197029	516		197029	0	197029	516		197029	0	197029
LEGACY PARC II	SUN CITY GRAND/SUN VILLAGE	3N	1W	7	SW	160	3.2	514		196457	0	196457	515		196763	0	196763	515		196763	0	196763	515		196763	0	196763	515		196763	0	196763
TASH PROPERTY	SUN CITY GRAND/SUN VILLAGE	3N	1W	7	SE	160	1.7	239	0	110680	0	110680	239	20	110680	0	110680	239	20	110680	0	110680	239	20	110680	0	110680	239	20	110680	0	110680
PRASADA MIXED USE GATEWAY	WESTCOR	3N	1W	18	NE	160	10.1	0	0	0	0	0	100	3	26970	5000	31970	350	7	94395	13333	107728	660	12	177902	21667	199569	1370	25	369489	45000	414489
PRASADA MIXED USE GATEWAY	WESTCOR	3N	1W	18	NW	160	10.1	0	0	0	0	0	100	3	26970	5000	31970	350	7	94395	13333	107728	660	12	177902	21667	199569	1370	25	369489	45000	414489
PRASADA MIXED USE GATEWAY	WESTCOR	3N	1W	18	SW	160	10.1	0	0	0	0	0	100	3	26970	5000	31970	350	7	94395	13333	107728	660	12	177902	21667	199569	1370	25	369489	45000	414489
PRASADA MIXED USE GATEWAY	WESTCOR	3N	1W	18	SE	160	10.1	0	0	0	0	0	100	3	26970	5000	31970	350	7	94395	13333	107728	660	12	177902	21667	199569	1370	25	369489	45000	414489
GREER RANCH NORTH	WESTCOR	3N	1W	19	NE	160	3.0	263	8	102736	14400	117136	352	14	137293	25200	162493	439	14	171226	25200	196426	439	14	171226	25200	196426	439	14	171226	25200	196426
GREER RANCH NORTH	WESTCOR	3N	1W	19	NW	160	3.0	263	8	102522	14400	116922	439	15	170870	27000	197870	439	15	170870	27000	197870	439	15	170870	27000	197870	439	15	170870	27000	197870
GREER RANCH SOUTH	WESTCOR	3N	1W	19	SW	160	3.2	427	25	164009	45000	209009	427	25	164009	45000	209009	427	25	164009	45000	209009	427	25	164009	45000	209009	427	25	164009	45000	209009
GREER RANCH SOUTH	WESTCOR	3N	1W	19	SE	160	1.9	200	25	89593	45000	134593	200	25	89593	45000	134593	200	25	89593	45000	134593	200	25	89593	45000	134593	200	55	89593	99000	188593
TWELVE OAKS	303 CORRIDOR AREA	3N	1W	30	NE	160	1.0	50	0	27233	0	27233	100	0	54465	0	54465	160	0	87144	0	87144	160	0	87144	0	87144	160	0	87144	0	87144
TWELVE OAKS	303 CORRIDOR AREA	3N	1W	30	NW	160	1.0	50		27233	0	27233	100	0	54465	0	54465	160	0	87144	0	87144	160	0	87144	0	87144	160	0	87144	0	87144
PRASADA	303 CORRIDOR AREA	3N	1W	30	SW	160	1.9	0	0	0	0	0	0	0	0	315	315	121	2	53743	1881	55624	220	4	98082	3433	101515	302	5	134359	4703	139061
TWELVE OAKS	303 CORRIDOR AREA	3N	1W	30	SE	160		0	20	0	36000	36000	0	40	0	72000	72000	0	80	0	144000	144000	0	160	0	288000	288000	0	160	0	288000	288000
WOOLF CROSSING	303 CORRIDOR AREA	3N	1W	31	NE	160	2.4	41	23	17036	23200	40236	82	46	34073	46400	80473	164	93	68146	92800	160946	164	93	68146	92800	160946	164	93	68146	92800	160946
WOOLF CROSSING	303 CORRIDOR AREA	3N	1W	31	NW	160	1.6	41	15	19225	26955	46180	82	30	38450	53910	92360	164	60	76901	107820	184721	164	60	76901	107820	184721	164	60	76901	107820	184721
WOOLF CROSSING	303 CORRIDOR AREA	3N	1W	31	SW	160	1.4	41	10	20343	17730	38073	82	20	40686	35460	76146	164	39	81371	70920	152291	164	39	81371	70920	152291	164	39	81371	70920	152291
WOOLF CROSSING	303 CORRIDOR AREA	3N	1W	31	SE	160	4.7	41	31	13978	31250	45228	82	63	27957	62500	90457	164	125	55913	125000	180913	164	125	55913	125000	180913	164	125	55913	125000	180913
FALCON DUNES GOLF COURSE & ADJACENT L	303 CORRIDOR AREA	3N	1W	32	S	320			0	0	0	0	0	0	0	0	0	0	160	0	160000	160000	0	160	0	160000	160000		160	0	160000	160000
NORTH WEST RANCH	SUN CITY GRAND/SUN VILLAGE	3N	2W	1	NE	160	5.6	447	80	144475	144000	288475	447	80	144475	144000	288475	447	80	144475	144000	288475	447	80	144475	144000	288475	447	80	144475	144000	288475
SURPRISE FARMS	ARIZONA TRADITIONS	3N	2W	1	NW	160	3.7	445	39	163282	70200	233482	445	39	163282	70200	233482	445	39	163282	70200	233482	445	39	163282	70200	233482	445	39	163282	70200	233482
SURPRISE FARMS	ARIZONA TRADITIONS	3N	2W	1	SW	160	3.6	536	10	198397	18000	216397	536	10	198397	18000	216397	536	10	198397	18000	216397	536	10	198397	18000	216397	536	10	198397	18000	216397
NORTH WEST RANCH	SUN CITY GRAND/SUN VILLAGE	3N	2W	1	SE	160	2.6	392	7	160501	12600	173101	392	7	160501	12600	173101	392	7	160501	12600	173101	392	7	160501	12600	173101	392	7	160501	12600	173101
SURPRISE FARMS	ARIZONA TRADITIONS	3N	2W	2	NE	160	2.7	420	4	169399	7200	176599	420	4	169399	7200	176599	420	4	169399	7200	176599	420	4	169399	7200	176599	420	4	169399	7200	176599
SURPRISE FARMS (Dysart Unified SD)	ARIZONA TRADITIONS	3N	2W	2	NW	160	3.9	520	20	188143	36000	224143	520	20	188143	36000	224143	520	20	188143	36000	224143	520	25	188143	45000	233143	520	25	188143	45000	233143
SURPRISE FARMS (Dysart Unified SD)	ARIZONA TRADITIONS	3N	2W	2	SW	160	3.4	520	5	196194	9000	205194	520	5	196194	9000	205194	520	5	196194	9000	205194	520	5	196194	9000	205194	520	5	196194	9000	205194
SURPRISE FARMS	ARIZONA TRADITIONS	3N	2W	2	SE	160	3.9	624		224922	0	224922	624		224922	0	224922	624		224922	0	224922	624		224922	0	224922	624		224922	0	224922
SURPRISE FARMS (Dysart Unified SD)	ARIZONA TRADITIONS	3N	2W	3	NE	160	3.7	520	20	190229	36000	226229	520	20	190229	36000	226229	520	20	190229	36000	226229	520	20	190229	36000	226229	520	20	190229	36000	226229
SURPRISE FARMS/ZANJERO TRAILS	ARIZONA TRADITIONS	3N	2W	3	NW	160	3.3	520	0	198092	0	198092	520	0	198092	0	198092	520	0	198092	0	198092	520	0	198092	0	198092	520	0	198092	0	198092
SURPRISE FARMS/ZANJERO TRAILS	ARIZONA TRADITIONS	3N	2W	3	SW	160	3.3	520	0	198092	0	198092	520	0	198092	0	198092	520	0	198092	0	198092	520	0	198092	0	198092	520	0	198092	0	198092
SURPRISE FARMS (Dysart Unified SD)	ARIZONA TRADITIONS	3N	2W	3	SE	160	3.4	520	5	196194	9000	205194	520	5	196194	9000	205194	520	5	196194	9000	205194	520	5	196194	9000	205194	520	5	196194	9000	205194
3N 2W 4 NE	ARIZONA TRADITIONS	3N	2W	4	NE	160	5	0		0	0	0	0		0	0	0	0		0	0	0	400	80	133715	0	133715	400	80	133715	0	133715
3N 2W 4 SE	ARIZONA TRADITIONS	3N	2W	4	SE	160	5	0		0	0	0	0		0	0	0	0		0	0	0	400	80	133715	0	133715	400	80	133715	0	133715
3N 2W 9 NE	SIERRA MONTANA	3N	2W	9	NE	160	5	0		0	0	0	0		0	0	0	0		0	0	0	400	80	133715	0	133715	400	80	133715	0	133715
3N 2W 9 SE	SIERRA MONTANA	3N	2W	9	SE	160	5	0		0	0	0	0		0	0	0	0		0	0	0	400	80	133715	0	133715	400	80	133715	0	133715
SIERRA MONTANA	SIERRA MONTANA	3N	2W	10	NE	160	3.25	520		198092	0	198092	520		198092	0	198092	520		198092	0	198092	520		198092	0	198092	520		198092	0	198092
SIERRA MONTANA/ZANJERO TRAILS	SIERRA MONTANA	3N	2W	10	NW	160	1.4	231	0	112553	0	112553	231	0	112553	0	112553	231	0	112553	0	112553	231	0	112553	0	112553	231	0	112553	0	112553
WADDELL HACIENDAS/ZANJERO TRAILS	SIERRA MONTANA	3N	2W	10	SW	160	0.9	90	0	50504	0	50504	90	0	50504	0	50504	145	0	81368	0	81368	145	0	81368	0	81368	145	0	81368	0	81368
WADDELL HACIENDAS	SIERRA MONTANA	3N	2W	10	SE	160	0.7	110		67122	0	67122	110		67122	0	67122	110		67122	0	67122	110		67122	0	67122	110		67122	0	67122
SIERRA MONTANA	SIERRA MONTANA	3N	2W	11	NE	160	3.3	520		198092	0	198092	520		198092	0	198092	520		198092	0	198092	520		198092	0	198092	520		198092	0	198092
SIERRA MONTANA	SIERRA MONTANA	3N	2W	11	NW	160	3.7	520	20	190229	36000	226229	520	20	190229	36000	226229	520	20	190229	36000	226229	520	20	190229	36000	226229	520	20	190229	36000	226229

EXHIBIT D-50 admitted

3,09

APPENDIX B

ARIZONA AMERICAN WATER
AGUA FRIA WATER DISTRICT

Development Name	SubArea	T	R	S	Q	Acres	Density	Dwelling Units by 2006	Non Res Acres Dev by 2006	RES - Water Demand by 2006 (gpd)	NON RES-Water Demand by 2006 (gpd)	TOTAL-Water Demand by 2006 (gpd)	Dwelling Units by 2010	Non Res Acres Dev by 2010	RESI - Water Demand by 2010 (gpd)	NON RES-Water Demand by 2010 (gpd)	TOTAL-Water Demand by 2010 (gpd)	Dwelling Units by 2015	Non Res Acres Dev by 2015	RESI - Water Demand by 2015 (gpd)	NON RES-Water Demand by 2015 (gpd)	TOTAL-Water Demand by 2015 (gpd)	Dwelling Units by 2020	Non Res Acres Dev by 2020	RESI - Water Demand by 2020 (gpd)	NON RES-Water Demand by 2020 (gpd)	TOTAL-Water Demand by 2020 (gpd)	Buildout Dwelling Units	Non Res Acres Dev at Buildout	RESI - Water Demand at Buildout (gpd)	NON RES-Water Demand at Buildout (gpd)	TOTAL-Water Demand at Buildout (gpd)
SIERRA MONTANA	SIERRA MONTANA	3N	2W	11	SW	160	3.8	600		218859	0	218859	600		218859	0	218859	600		218859	0	218859	600		218859	0	218859	600		218859	0	218859
SCHUFF PROPERTY	SIERRA MONTANA	3N	2W	11	SE	160	0.8	131		75811	0	75811	131		75811	0	75811	131		75811	0	75811	131		75811	0	75811	131		75811	0	75811
PRASADA MIXED USE GATEWAY	SIERRA MONTANA	3N	2W	12	NE	160	5.3	0	0	0	0	0	44	9	14569	17000	31569	135	25	44254	45333	89587	193	41	63133	73667	136800	400	85	131123	153000	284123
PRASADA MIXED USE GATEWAY	WESTCOR	3N	2W	12	NW	160	5.7	0	0	0	0	0	44	100	14268	198000	212268	135	100	43338	198000	241338	193	100	61826	198000	259826	400	100	128408	198000	326408
PRASADA MIXED USE GATEWAY	WESTCOR	3N	2W	12	SW	160	10.0	59	7	15983	12600	28583	81	13	21943	24000	45943	132	36	35760	64000	99760	193	58	52174	104000	156174	400	120	108362	216000	324362
PRASADA MIXED USE GATEWAY	WESTCOR	3N	2W	12	SE	160	0.0	0	7	0	12600	12600	0	16	0	29000	29000	0	43	0	77333	77333	0	70	0	125667	125667	0	145	0	261000	261000
PRASADA MIXED USE GATEWAY	SIERRA MONTANA\WESTCOR	3N	2W	13	NW	160	8.9	60	7	9976	12600	22576	82	17	13634	30000	43634	148	44	24633	80000	104633	241	72	40029	130000	170029	500	150	83136	270000	353136
PRASADA MIXED USE GATEWAY	SIERRA MONTANA	3N	2W	13	SW	160	8.9	60	7	16845	12600	29445	82	15	23022	27500	50522	148	41	41552	73333	114886	96	66	27036	119167	146203	200	138	56152	247500	303652
3N 2W 14 NE	SIERRA MONTANA	3N	2W	13	SE	160	50.0	60	7	16845	12600	29445	82	15	23022	27500	50522	148	41	41552	73333	114886	96	66	27036	119167	146203	200	138	56152	247500	303652
SARAH ANN RANCH	SIERRA MONTANA	3N	2W	14	NE	160	4.0	0	0	0	0	0	50	0	17885	0	17885	640	0	228925	0	228925	640	0	228925	0	228925	640	0	228925	0	228925
SARAH ANN RANCH	SIERRA MONTANA	3N	2W	14	NW	160	3.0	300		117092	0	117092	480		187347	0	187347	480		187347	0	187347	480		187347	0	187347	480		187347	0	187347
SOUTHWEST	SIERRA MONTANA	3N	2W	14	SW	160	3.0	300		117092	0	117092	480		187347	0	187347	480		187347	0	187347	480		187347	0	187347	480		187347	0	187347
PRASADA LAKES	SIERRA MONTANA	3N	2W	14	SE	160	1.0	0	0	0	0	0	64	0	34858	0	34858	160	0	87144	0	87144	160	0	87144	0	87144	160	0	87144	0	87144
PRASADA LAKES/ZANJERO TRAILS	SIERRA MONTANA	3N	2W	15	NE	160	2.7	101	0	40896	0	40896	202	2	81791	1881	83672	335	4	135644	3541	139185	404	6	163582	5754	169336	404	8	163582	7524	171106
PRASADA LAKES/ZANJERO TRAILS	SIERRA MONTANA	3N	2W	15	NW	160	3.3	101	0	38327	0	38327	202	12	76654	11286	87940	335	19	127125	17704	144828	395	31	149893	28768	178662	395	40	149893	37620	187513
PRASADA LAKES	SIERRA MONTANA	3N	2W	15	SW	160	4.0	102	0	36540	0	36540	204	2	73081	3176	76257	335	5	120010	8471	128481	597	8	213869	13765	227633	597	10	213869	18000	231869
3N 2W 15 NE	SIERRA MONTANA	3N	2W	15	SE	160	5.6	102	0	32970	0	32970	204	3	65940	4765	70704	615	7	198789	12706	211495	810	11	261819	20647	282467	810	15	261819	27000	288819
WHITE TANKS WTP	SIERRA MONTANA	3N	2W	16	NE	160	0.8	0		0	0	0	0		0	0	0	0		0	0	0	120		71317	0	71317	120		71317	0	71317
ZANJERO TRAILS	SIERRA MONTANA	3N	2W	16	SE	160	0.4	0		0	0	0	0		0	0	0	0		0	0	0	60		44001	0	44001	60		44001	0	44001
ZANJERO TRAILS	SIERRA MONTANA	3N	2W	21	NE	148	4.0	0	0	0	0	0	0		0	0	0	116	0	41494	0	41494	271	0	96818	0	96818	593	0	212005	0	212005
PRASADA LAKES	SIERRA MONTANA	3N	2W	21	SE	160	4.0	0	0	0	0	0	0	0	0	0	0	116	4	41627	0	41627	434	8	155262	0	155262	594	11	212687	0	212687
PRASADA LAKES	WTP ZONE 3	3N	2W	22	NE	160	6.1	0	0	0	0	0	0	1	0	0	0	200	0	63003	0	63003	400	0	126006	0	126006	973	0	306510	0	306510
PRASADA LAKES/ZANJERO TRAILS	WTP ZONE 3	3N	2W	22	NW	160	5.7	0	0	0	0	0	0	0	0	0	0	200	14	64096	25412	89507	400	23	128191	41294	169485	747	30	239397	54000	293397
PRASADA LAKES	WTP ZONE 3	3N	2W	22	SW	160	4.0	0	0	0	0	0	0	0	0	0	0	200	0	71675	0	71675	400	0	143350	0	143350	636	0	227927	0	227927
PRASADA LAKES	WTP ZONE 3	3N	2W	22	SE	160	3.6	0	0	0	0	0	0	0	0	0	0	200	0	73707	0	73707	400	0	147414	0	147414	580	0	213751	0	213751
PRASADA LAKES	WTP ZONE 3	3N	2W	23	NE	160	5.5	0	0	0	0	0	101	4	32866	6353	39219	360	9	117146	16941	134087	616	15	200449	27529	227979	765	20	248934	36000	284934
PRASADA LAKES	WTP ZONE 3	3N	2W	23	NW	160	5.7	0	0	0	0	0	102	4	32827	7941	40768	360	12	115861	21176	137037	616	19	198250	34412	232662	765	25	246204	45000	291204
PRASADA LAKES	WTP ZONE 3	3N	2W	23	SW	160	4.9	0	0	0	0	0	101	1	33896	1588	35485	360	2	120818	4235	125054	616	4	206734	6882	213616	765	5	256739	9000	265739
PRASADA LAKES	WTP ZONE 3	3N	2W	23	SE	160	5.5	0	0	0	0	0	102	4	33178	6353	39531	360	9	117252	16941	134193	619	15	201346	27529	228875	766	20	249161	36000	285161
SYCAMORE FARMS	WESTCOR	3N	2W	24	NE	160	6.2	150	17	46868	31154	78022	204	29	63813	51923	115736	408	58	127626	103846	231472	531	75	165914	135000	300914	531	75	165914	135000	300914
SYCAMORE FARMS	WTP ZONE 3	3N	2W	24	NW	160	6.2	0	17	0	31154	31154	204	29	63813	51923	115736	408	58	127626	103846	231472	531	75	165914	135000	300914	531	75	165914	135000	300914
SYCAMORE FARMS	WTP ZONE 3	3N	2W	24	SW	160	6.1	0	9	0	15369	15369	288	14	90796	25615	116412	577	28	181592	51231	232823	750	37	236070	66600	302670	750	37	236070	66600	302670
SYCAMORE FARMS	WTP ZONE 3	3N	2W	24	SE	160	6.1	150	9	47214	15369	62583	288	14	90796	25615	116412	577	28	181592	51231	232823	750	37	236070	66600	302670	750	37	236070	66600	302670
3N2W25NE	WESTCOR	3N	2W	25	NE	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	288000	288000
PRASADA	303 CORRIDOR AREA	3N	2W	25	NW	160	6.5	0	0	0	0	0	0	30	0	54000	54000	297	30	91676	54000	145676	542	34	167308	60444	227752	743	46	229189	82800	311989
PRASADA	303 CORRIDOR AREA	3N	2W	25	SW	160	2.2	0	0	0	0	0	0	0	0	0	0	100	7	42739	12600	55339	183	35	77998	62546	140544	250	48	106846	85680	192526
PRASADA	303 CORRIDOR AREA	3N	2W	25	SE	160	3.6	0	0	0	0	0	0	0	0	0	0	222	3	81717	2822	84538	405	5	149133	5149	154283	555	8	204292	7054	211346
MINNESOTA TITLE	WTP ZONE 3	3N	2W	26	NE	160	1.0	39		21241	0	21241	42		22875	0	22875	160		87144	0	87144	160		87144	0	87144	160		87144	0	87144
MINNESOTA TITLE /ZANJERO PASS	WTP ZONE 3	3N	2W	26	NW	160	1.0	100		54465	0	54465	120		65358	0	65358	160		87144	0	87144	160		87144	0	87144	160		87144	0	87144
MINNESOTA TITLE /ZANJERO PASS	WTP ZONE 3	3N	2W	26	SW	160	1.5	100		48163	0	48163	130		62611	0	62611	200		96325	0	96325	240		115590	0	115590	240		115590	0	115590
MINNESOTA TITLE /ZANJERO PASS	WTP ZONE 3	3N	2W	26	SE	160	0.8	80		47545	0	47545	120		71317	0	71317	120		71317	0	71317	120		71317	0	71317	120		71317	0	71317
ZANJERO TRAILS	WTP ZONE 3	3N	2W	27	NE	160	3.2	225	24	86249	0	86249	325	24	124582	0	124582	433	24	165982	0	165982	433	24	165982	0	165982	433	24	165982	0	165982
ZANJERO TRAILS	WTP ZONE 3	3N	2W	27	NW	160	2.7	225	0	90607	0	90607	325	0	130877	0	130877	433	0	174369	0	174369	433	0	174369	0	174369	433	0	174369	0	174369
ZANJERO TRAILS	WTP ZONE 3	3N	2W	27	SW	160	2.7	225	0	90607	0	90607	325	0	130877	0	130877	433	0	174369	0	174369	433	0	174369	0	174369	433	0	174369	0	174369
ZANJERO TRAILS	WTP ZONE 3	3N	2W	27	SE	160	3.0	225	17	87572	0	87572	325	17	126493	0	126493	433	17	168528	0	168528	433	17	168528	0	168528	433	17	168528	0	168528
3N 2W 33 NE (ZANJERO TRAILS)	WTP ZONE 3	3N	2W	28	NE	160	3.2	0	0	0	0	0	36	0	13738	0	13738	101	0	38615	0	38615	377	0	144025	0	144025	517	0	197295	0	197295
3N 2W 33 SE (ZANJERO TRAILS)	WTP ZONE 3	3N	2W	28	SE	160	2.4	0	0	0	0	0	28	2	11704	0	11704	63	10	26508	0	26508	237	18	98868	0	98868	324	25	135436	0	135436
WHITE TANK FOOTHILLS	WTP ZONE 3	3N	2W	33	NE	160	3.1	0	0	0	0	0	34	0	13160	0	13160	94	2	36211	0	36211	349	4	135060	0	135060	478	5	185013	0	185013
WHITE TANK FOOTHILLS	WTP ZONE 3	3N	2W	33	SE	160	3.0	0	0	0	0	0	34	0	13296	0	13296	93	0	36508	0	36508	348	0	136168	0	136168	477	0	186531	0	186531
WHITE TANK FOOTHILLS	WTP ZONE 3	3N	2W	34	NE	160	2.5	150	15	62049	0	62049	225	30	93074	0	93074	322	30	133199	0	133199	322	30	133199	0	133199	322	30	133199	0	133199
WHITE TANK FOOTHILLS	WTP ZONE 3	3N	2W	34	NW	160	2.2	150	15	64139	0	64139	225	15	96208	0	96208	322	15	137684	0	137684	322	15	137684	0	137684	322	15	137684	0	137684
WHITE TANK FOOTHILLS	WTP ZONE 3	3N	2W	34	SW	160	2.0	150		66145	0	66145	225		99217	0	99217	321		141550	0	141550	321		141550	0	141550	321		141550	0	141550
WHITE TANK FOOTHILLS	WTP ZONE 3	3N	2W	34	SE	160	2.0	150		66145	0	66145	225		99217	0	99217	321		141550	0	141550	321		141550	0	141550	321		141550	0	141550
VIRGIN FARMS	303 CORRIDOR AREA	3N	2W	35	NE	160	2.3	0		0	0	0	0		0	0	0	0		0	0	0	375		157745	0	157745	375		157745	0	157745
VIRGIN FARMS	303 CORRIDOR AREA	3N	2W	35	NW	160	2.3	0		0	0	0	0		0	0	0	0		0	0	0	375		157745	0	157745	375		157745	0	157745
CRYSTAL SPRINGS ESTATES (& WHITE TANK	303 CORRIDOR AREA	3N	2W	35	SW	160	2.3	72		30287	0	30287	72		30287	0	30287	375		157745	0	157745	375		157745	0	157745	375		157745	0	157745
WHITE TANK MOUNTAIN RANCH	303 CORRIDOR AREA	3N	2W	35	SE	160	2.5	0	12	0	21600	21600	0	12	0	21600	21600	225	12	92435	21600	114035	250	12	102706	21600	124306	375	12	154058	21600	175658
WOOLF CROSSING	303 CORRIDOR AREA	3N	2W	36	NE	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	288000	288000
3N 2W 36 NW	303 CORRIDOR AREA	3N	2W	36	NW	160	2.3	0		0	0	0	0		0	0	0	375		157745	0	157745	375		157745	0	157745	375		157745	0	157745
VIRGIN FARMS	303 CORRIDOR AREA	3N	2W	36	SW	160	2.3	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	288000	288000
VIRGIN FARMS	303 CORRIDOR AREA	3N	2W	36	SE	160	2.3	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	288000	288000
BUSINESS PARK	CLEARWATER FARMS/303 CORRIDOR	2N	2W	1	NW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0
BUSINESS PARK	CLEARWATER FARMS/303 CORRIDOR	2N	2W	1	SW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0
CLEARWATER FARMS	CLEARWATER FARMS	2N	2W	2	NE	160	0.5	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879
CLEARWATER FARMS	CLEARWATER FARMS	2N	2W	2	NW	160	0.5	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879
CLEARWATER FARMS	CLEARWATER FARMS	2N	2W	2	SW	160	0.5	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879
CLEARWATER FARMS	CLEARWATER FARMS	2N	2W	2	SE	160	0.5	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879
CLEARWATER FARMS	CLEARWATER FARMS	2N	2W	3	NE	160	0.5	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879
CLEARWATER FARMS	CLEARWATER FARMS	2N	2W	3	NW	160	0.5	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879
CLEARWATER FARMS	CLEARWATER FARMS	2N	2W	3	SW	160	0.5	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879
CLEARWATER FARMS	CLEARWATER FARMS	2N	2W	3	SE	160	0.5	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879
ZANJERO TRAILS	WTP ZONE 3	2N	2W	4	NE	160	2.0	0	0	0	0	0	0	0	0	0	0	63	0	27644	0	27644	234	0	103107	0	103107	320	0	141242	0	141242
2N 2W 4 NW	WTP ZONE 3	2N	2W	4	NW	160	2.0				0	0	0		0	0	0	0	0	0	0	0	80	0	35277	0	35277	160	0	70554	0	70554
2N 2W 4 SW	WTP ZONE 3	2N	2W	4	SW	160	1.0	0		0	0	0	0		0	0	0	160		87144	0	87144	160	17	87144	0	87144	160		87144	0	87144
ZANJERO TRAILS	CLEARWATER FARMS	2N	2W	4	SE	160	2.0	0	0	0	0	0	1	0	441	0	441	63	0	27704	0	27704	234	0	103331	0	103331	321	0	141550	0	141550
VERRADO	VERRADO ZONE 3	2N	2W	7	NE	160	0.9	0		0	0	0	0		0	0	0	50		27771	0	27771	150		83312	0	83312	150		83312	0	83312
VERRADO	VERRADO ZONE 3	2N	2W	7	NW	160	0.9	0		0	0	0	0		0	0	0	50		27771	0	27771	150		83312	0	83312	150		83312	0	83312
VERRADO	VERRADO ZONE 3	2N	2W	7	SW	160	0.0	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0
VERRADO	VERRADO ZONE 3	2N	2W	7	SE	160	0.0	0		0	0	0	0		0	0	0	39	9	19021	0	19021	146	17	70945	0	70945	200	23	97185	0	97185
ZANJERO TRAILS	CLEARWATER FARMS	2N	2W	9	NE	160	1.5	0	0	0	0	0	0	2	0	0	0	0		0	0	0	80		43572	0	43572	160		87144	0	87144
2N 2W 9 NW	CLEARWATER FARMS	2N	2W	9	NW	160	1.0	0		0	0	0	0		0	0	0	0		0	0	0	80		43572	0	43572	160		87144	0	87144
2N 2W 9 SW	CLEARWATER FARMS	2N	2W	9	SW	160	1.0	0		0	0	0	0		0	0	0	81	0	33077	0	33077	302	0	123371	0	123371	414	0	169002	0	169002
ZANJERO TRAILS	CLEARWATER FARMS	2N	2W	9	SE	160	2.6	0	0	0	0	0	0	0	0	0	0	0		0	0	0	76		51879	0	51879	76		51879	0	51879
CLEARWATER FARMS	CLEARWATER FARMS	2N	2W	10	NE	160	0.5	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879
CLEARWATER FARMS	CLEARWATER FARMS	2N	2W	10	NW	160	0.5	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879
CLEARWATER FARMS	CLEARWATER FARMS	2N	2W	10	SW	160	0.5	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879	76		51879	0	51879
CLEARWATER FARMS	CLEARWATER FARMS	2N	2W	10	SE	160	0.7	76		45634	0	45634	116		69652	0	69652	116		69652	0	69652	116		69652	0	69652	116		69652	0	69652
2N 2W 11 NE	CLEARWATER FARMS	2N	2W	11	NE	160	1.0	60		32679	0	32679	70		38126	0	38126	100		54465	0	54465	120		65358	0	65358	160		87144	0	87144
2N 2W 11 NW	CLEARWATER FARMS	2N	2W	11	NW	160	1.0	60		32679	0	32679	70		38126	0	38126	100		54465	0	54465	120		65358	0	65358	160		87144	0	87144
MONTANA FARMS II	CLEARWATER FARMS	2N	2W	11	SW	160	1.0	60		32679	0	32679	80		43572	0	43572	160		87144	0	87144	160		87144	0	87144	160		87144	0	87144
MONTANA FARMS	CLEARWATER FARMS	2N	2W	11	SE	160	1	60		32679	0	32679	80		43572	0	43572	160		87144	0	87144	160		87144	0	87144	160		87144	0	87144
LUKE COMPATIBLE	CLEARWATER FARMS/303 CORRIDOR	2N	2W	12	NW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
LUKE COMPATIBLE	ZONE 1	2N	2W	12	SW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
2N 2W 13 NW	ZONE 1	2N	2W	13	NW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
2N 2W 13 SW	ZONE 1	2N	2W	13	SW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
2N 2W 14 NE	ZONE 1	2N	2W	14	NE	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
2N 2W 14 NW	ZONE 1	2N	2W	14	NW	160	3	0		0	0	0	0		0	0	0	120		46837	0	46837	240		93674	0	93674	480		187347	0	187347
2N 2W 14 SW	ZONE 1	2N	2W	14	SW	160	3.0	0		0	0	0	0		0	0	0	120		46837	0	46837	240		93674	0	93674	480		187347	0	187347
2N 2W 14 SE	ZONE 1	2N	2W	14	SE	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000

BROWN AND CALDWELL

4/5/2006

APPENDIX B

ARIZONA AMERICAN WATER
AGUA FRIA WATER DISTRICT

Development Name	SubArea	T	R	S	Q	Acres	Density	Dwelling Units by 2008	Non Res Acres Dev by 2008	RES - Water Demand by 2008 (gpd)	NON RES-Water Demand by 2008 (gpd)	TOTAL-Water Demand by 2008 (gpd)	Dwelling Units by 2010	Non Res Acres Dev by 2010	RESI - Water Demand by 2010 (gpd)	NON RES-Water Demand by 2010 (gpd)	TOTAL-Water Demand by 2010 (gpd)	Dwelling Units by 2015	Non Res Acres Dev by 2015	RESI - Water Demand by 2015 (gpd)	NON RES-Water Demand by 2015 (gpd)	TOTAL-Water Demand by 2015 (gpd)	Dwelling Units by 2020	Non Res Acres Dev by 2020	RESI - Water Demand by 2020 (gpd)	NON RES-Water Demand by 2020 (gpd)	TOTAL-Water Demand by 2020 (gpd)	Buildout Dwelling Units	Non Res Acres Dev at Buildout	RESI - Water Demand at Buildout (gpd)	NON RES-Water Demand at Buildout (gpd)	TOTAL-Water Demand at Buildout (gpd)
RUSSEL RANCH	CLEARWATER FARMS	2N	2W	15	NE	160	1.6	125		59462	0	59462	175		83247	0	83247	250		118925	0	118925	250		118925	0	118925	250		118925	0	118925
S.W.	CLEARWATER FARMS	2N	2W	15	NW	160	1.3	60		29878	0	29878	107		53282	0	53282	215		107062	0	107062	215		107062	0	107062	215		107062	0	107062
2N 2W 15 SW	CLEARWATER FARMS	2N	2W	15	SW	160	1.3	60		29878	0	29878	107		53282	0	53282	215		107062	0	107062	215		107062	0	107062	215		107062	0	107062
RUSSEL RANCH	CLEARWATER FARMS	2N	2W	15	SE	160	1.6	125		59462	0	59462	175		83247	0	83247	250		118925	0	118925	250		118925	0	118925	250		118925	0	118925
ZANJERO TRAILS	SEDELLA/CLEARWATER/VERRADO ZON	2N	2W	16	NE	160	3.3	0	0	0	0	0	34	1	12864	1737	14600	95	6	35840	10368	46208	353	11	133678	18922	152599	484	14	183120	25920	209040
ZANJERO TRAILS	SEDELLA/CLEARWATER/VERRADO ZON	2N	2W	16	NW	160	3.3	0	0	0	0	0	34	1	12864	0	12864	95	6	35840	0	35840	353	11	133678	0	133678	484	14	183120	0	183120
JACKRABBIT ESTATES	SEDELLA/CLEARWATER/VERRADO ZON	2N	2W	16	SW	80	4.6	50		17128	0	17128	75		25693	0	25693	100		34257	0	34257	240		82216	0	82216	369		126407	0	126407
ZANJERO TRAILS	SEDELLA/CLEARWATER/VERRADO ZON	2N	2W	16	SE	80	18.6	0	0	0	0	0	39	3	8752	0	8752	117	19	26310	0	26310	437	35	98131	0	98131	599	48	134426	0	134426
2N 2W 17 NE	SEDELLA/CLEARWATER/VERRADO ZON	2N	2W	17	NE	80	6.0	0		0	0	0	0		0	0	0	346		109441	0	109441	346		109441	0	109441	480		151826	0	151826
2N 2W 17 NW	SEDELLA/CLEARWATER/VERRADO ZON	2N	2W	17	NW	80	6.0	0		0	0	0	0		0	0	0	346		109441	0	109441	346		109441	0	109441	480		151826	0	151826
VERRADO	VERRADO ZONE 3	2N	2W	18	NE	160	0.6	0		0	0	0	0		0	0	0	50		31405	0	31405	100		62810	0	62810	100		62810	0	62810
VERRADO	VERRADO ZONE 3	2N	2W	18	NW	160	0.6	0		0	0	0	0		0	0	0	50		31405	0	31405	100		62810	0	62810	100		62810	0	62810
VERRADO	VERRADO ZONE 3	2N	2W	18	SW	160	0.6	0		0	0	0	0		0	0	0	100		62810	0	62810	100		62810	0	62810	100		62810	0	62810
VERRADO	VERRADO ZONE 3	2N	2W	18	SE	160	2.1	0		0	0	0	0		0	0	0	50		21765	0	21765	335		145823	0	145823	335		145823	0	145823
VERRADO	VERRADO ZONE 3	2N	2W	19	NE	160	3.8	250	10	90494	18000	108494	350	20	126691	36000	162691	500	25	180988	45000	225988	500	25	180988	45000	225988	500	30	180988	54000	234988
VERRADO	VERRADO ZONE 3	2N	2W	19	NW	160	3.1	200	10	77464	18000	95464	300	20	116196	36000	152196	400	25	154929	45000	199929	400	25	154929	45000	199929	400	30	154929	54000	208929
VERRADO	VERRADO ZONE 3	2N	2W	19	SW	160	3.8	60	10	21719	18000	39719	250	20	90494	36000	126494	500	25	180988	45000	225988	500	25	180988	45000	225988	500	30	180988	54000	234988
VERRADO	VERRADO ZONE 3	2N	2W	19	SE	160	3.5	60	10	22424	18000	40424	225	20	84089	36000	120089	450	25	168178	45000	213178	450	25	168178	45000	213178	450	30	168178	54000	222178
VERRADO	VERRADO ZONE 3	2N	2W	20	SW	160	1.9	60	20	26800	36000	62800	100	20	44666	36000	80666	250	20	111666	36000	147666	250	20	111666	36000	147666	250	30	111666	54000	165666
VERRADO	VERRADO ZONE 3	2N	2W	20	SE	160	1.9	60	20	26800	36000	62800	100	20	44666	36000	80666	250	20	111666	36000	147666	250	20	111666	36000	147666	250	30	111666	54000	165666
SEDELLA	ZONE 1	2N	2W	22	NE	160	2.0	42	0	18374	0	18374	125	5	55121	9000	64121	292	10	128615	18000	146615	292	15	128615	27000	155615	292	15	128615	27000	155615
SEDELLA	ZONE 1	2N	2W	22	NW	160	2.1	42	0	18100	0	18100	125	7	54300	12600	66900	292	14	126700	25200	151900	292	22	126700	39600	166300	292	22	126700	39600	166300
SEDELLA	ZONE 1	2N	2W	22	SW	160	2.0	42	0	18335	0	18335	125	5	55005	9000	64005	292	10	128346	18000	146346	292	16	128346	28800	157146	292	16	128346	28800	157146
SEDELLA	ZONE 1	2N	2W	22	SE	160	2.1	42	0	18257	0	18257	125	6	54772	10800	65572	292	12	127802	21600	149402	292	18	127802	32400	160202	292	18	127802	32400	160202
ABEL	ZONE 1	2N	2W	23	NE	160		0	0	0	0	0	0	40	0	40000	40000	0	160	0	160000	160000	0	160	0	160000	160000	0	160	0	160000	160000
BEAZER	ZONE 1	2N	2W	23	NW	160	1.825	73	0	33117	0	33117	219	0	99351	0	99351	292	0	132468	0	132468	292	0	132513	0	132513	292	0	132513	0	132513
BEAZER & ABEL	ZONE 1	2N	2W	23	SW	160	1.23	31	0	16011	0	16011	94	15	48034	27000	75034	125	58	64045	104400	168445	125	58	64045	104400	168445	125	58	64045	104400	168445
ABEL	ZONE 1	2N	2W	23	SE	160		0	0	0	0	0	0	40	0	40000	40000	0	160	0	160000	160000	0	160	0	160000	160000	0	160	0	160000	160000
2N 2W 26 NE	ZONE 1	2N	2W	26	NE	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
2N 2W 26 NW	ZONE 1	2N	2W	26	NW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
2N 2W 26 SW	ZONE 1	2N	2W	26	SW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
2N 2W 26 SE	ZONE 1	2N	2W	26	SE	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
2N 2W 27 NE	ZONE 1	2N	2W	27	NE	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
2N 2W 27 NW	ZONE 1	2N	2W	27	NW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
2N 2W 27 SW	ZONE 1	2N	2W	27	SW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
2N 2W 27 SE	ZONE 1	2N	2W	27	SE	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
VERRADO	VERRADO ZONE 3	2N	2W	30	NE	160	3.8	350		126753	0	126753	480	20	173833	36000	209833	480	30	173833	54000	227833	480	35	173833	63000	236833	480	35	173833	63000	236833
VERRADO	VERRADO ZONE 3	2N	2W	30	NW	160	3.8	350		126753	0	126753	480	20	173833	36000	209833	480	30	173833	54000	227833	480	35	173833	63000	236833	480	35	173833	63000	236833
VERRADO	VERRADO ZONE 3	2N	2W	30	SW	160	3.8	60		21729	0	21729	250	20	90538	36000	126538	480	30	173833	54000	227833	480	35	173833	63000	236833	480	35	173833	63000	236833
VERRADO	VERRADO ZONE 3	2N	2W	30	SE	160	3.8	60		21729	0	21729	250	20	90538	36000	126538	480	30	173833	54000	227833	480	35	173833	63000	236833	480	35	173833	63000	236833
VERRADO	VERRADO ZONE 3	2N	2W	31	NE	160	4.3	60	5	20947	0	20947	200	5	69823	0	69823	450	5	157102	0	157102	650	5	226925	0	226925	650	10	226925	0	226925
VERRADO	VERRADO ZONE 3	2N	2W	31	NW	160	4.3	60	5	20947	0	20947	200	5	69823	0	69823	450	5	157102	0	157102	650	5	226925	0	226925	650	10	226925	0	226925
VERRADO	VERRADO ZONE 3	2N	2W	31	SW	160	5.0	60	5	20057	0	20057	200	5	66857	0	66857	450	5	150429	0	150429	750	5	250715	0	250715	750	10	250715	0	250715
VERRADO	VERRADO ZONE 3	2N	2W	31	SE	160	4.3	60	5	20947	0	20947	300	5	104735	0	104735	350	5	122190	0	122190	650	5	226925	0	226925	650	10	226925	0	226925
2N 2W 34 NE	ZONE 1	2N	2W	34	NE	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
2N 2W 34 NW	ZONE 1	2N	2W	34	NW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	160000	160000
2N 2W 34 SW	ZONE 1	2N	2W	34	SW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0	160	0	288000	288000
PERRYVILLE PRISON	ZONE 1	2N	2W	34	SE	160		0	100	0	94050	94050	0	100	0	94050	94050	0	100	0	94050	94050	0	100	0	94050	94050	0	150	0	141075	141075
PERRYVILLE PRISON	ZONE 1	2N	2W	35	NE	160		0	25	0	23513	23513	0	25	0	23513	23513	0	25	0	23513	23513	0	25	0	23513	23513	0	38	0	35269	35269
PERRYVILLE PRISON	ZONE 1	2N	2W	35	NW	160		0	75	0	70538	70538	0	75	0	70538	70538	0	75	0	70538	70538	0	75	0	70538	70538	0	113	0	105806	105806
PERRYVILLE PRISON	ZONE 1	2N	2W	35	SW	160		0	100	0	94050	94050	0	100	0	94050	94050	0	100	0	94050	94050	0	100	0	94050	94050	0	150	0	141075	141075
PERRYVILLE PRISON	ZONE 1	2N	2W	35	SE	160		0	100	0	94050	94050	0	100	0	94050	94050	0	100	0	94050	94050	0	100	0	94050	94050	0	150	0	141075	141075
VERRADO	VERRADO ZONE 8	2N	3W	3	NE	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0
VERRADO	VERRADO ZONE 8	2N	3W	3	NW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0
VERRADO	VERRADO ZONE 8	2N	3W	3	SW	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0
VERRADO	VERRADO ZONE 8	2N	3W	3	SE	160		0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0
VERRADO	VERRADO ZONE 8	2N	3W	10	NE	160		0		0	0	0	0		0	0	0	0		0	0	0	0	3.5	0	6300	6300	0	3.5	0	6300	6300
VERRADO	VERRADO ZONE 8	2N	3W	10	NW	160		0		0	0	0	0		0	0	0	0		0	0	0	0	3.5	0	6300	6300	0	3.5	0	6300	6300
VERRADO	VERRADO ZONE 8	2N	3W	10	SW	160		0		0	0	0	0		0	0	0	0		0	0	0	0	3.5	0	6300	6300	0	3.5	0	6300	6300
VERRADO	VERRADO ZONE 8	2N	3W	10	SE	160		0		0	0	0	0		0	0	0	0		0	0	0	0	3.5	0	6300	6300	0	3.5	0	6300	6300
VERRADO	VERRADO ZONE 8	2N	3W	11	NE	160	0.0	0		0	0	0	0		0	0	0	0		0	0	0	0	50	0	90000	90000	0	50	0	90000	90000
VERRADO	VERRADO ZONE 8	2N	3W	11	NW	160	0.0	0		0	0	0	0		0	0	0	0		0	0	0	0	50	0	90000	90000	0	50	0	90000	90000
VERRADO	VERRADO ZONE 8	2N	3W	11	SW	160	0.0	0		0	0	0	0		0	0	0	0		0	0	0	0	50	0	90000	90000	0	50	0	90000	90000
VERRADO	VERRADO ZONE 8	2N	3W	11	SE	160	0.0	0		0	0	0	0		0	0	0	0		0	0	0	0	50	0	90000	90000	0	50	0	90000	90000
VERRADO	VERRADO ZONE 8	2N	3W	12	NE	160	0.0	0		0	0	0	0		0	0	0	0		0	0	0	0	50	0	90000	90000	0	50	0	90000	90000
VERRADO	VERRADO ZONE 8	2N	3W	12	NW	160	0.0	0		0	0	0	0		0	0	0	0		0	0	0	0	50	0	90000	90000	0	50	0	90000	90000
VERRADO	VERRADO ZONE 8	2N	3W	12	SW	160	0.0	0		0	0	0	0		0	0	0	0		0	0	0	0	50	0	90000	90000	0	50	0	90000	90000
VERRADO	VERRADO ZONE 8	2N	3W	12	SE	160	0.0	0		0	0	0	0		0	0	0	0		0	0	0	0	50	0	90000	90000	0	50	0	90000	90000
VERRADO	VERRADO ZONE 3	2N	3W	13	NE	160	0.5	0		0	0	0	0		0	0	0	75		51402	0	51402	75		51402	0	51402	75		51402	0	51402
VERRADO	VERRADO ZONE 3	2N	3W	13	NW	160	0.5	0		0	0	0	0		0	0	0	75		51402	0	51402	75		51402	0	51402	75		51402	0	51402
VERRADO	VERRADO ZONE 3/VERRADO ZONE 6	2N	3W	13	SW	160	0.0	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0
VERRADO	VERRADO ZONE 3/VERRADO ZONE 6	2N	3W	13	SE	160	0.0	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0	0		0	0	0
VERRADO	VERRADO ZONE 6	2N	3W	23	NE	160	0.5	0		0	0	0	0		0	0	0	30		20561	0	20561	75		51402	0	51402	75		51402	0	51402
VERRADO	VERRADO ZONE 6	2N	3W	23	NW	160	0.5	0		0	0	0	0		0	0	0	30		20561	0	20561	75		51402	0	51402	75		51402	0	51402
VERRADO	VERRADO ZONE 6	2N	3W	23	SW	160	0.5	0		0	0	0	0		0	0	0	30		20561	0	20561	75		51402	0	51402	75		51402	0	51402
VERRADO	VERRADO ZONE 6	2N	3W	23	SE	160	0.5	0		0	0	0	0		0	0	0	30		20561	0	20561	75		51402	0	51402	75		51402	0	51402
VERRADO	VERRADO ZONE 6	2N	3W	24	NE	160	1.1	0		0	0	0	20	72	10479	129600	140079	100	72	52394	129600	181994	100	72	52394	129600	181994	100	72	52394	129600	181994
VERRADO	VERRADO ZONE 6	2N	3W	24	NW	160	1.3	0		0	0	0	0		0	0	0	100	5	50413	9000	59413	200	5	100826	9000	109826	200	5	100826	9000	109826
VERRADO	VERRADO ZONE 3/VERRADO ZONE 6	2N	3W	24	SW	160	1.3	0		0	0	0	0		0	0	0	100	5	50413	9000	59413	200	5	100826	9000	109826	200	5	100826	9000	109826
VERRADO	VERRADO ZONE 3	2N	3W	24	SE	160	2.3	0		0	0	0	20	72	8492	129600	138092	150	72	63690	129600	193290	200	72	84919	129600	214519	200	72	84919	129600	214519
VERRADO	VERRADO ZONE 3	2N	3W	25	NE	160	1.3	100		50901	0	50901	100		50901	0	50901	150		76351	0	76351	200		101802	0	101802	200		101802	0	101802
VERRADO	VERRADO ZONE 3	2N	3W	25	NW	160	0.6	100		62810	0	62810	100		62810	0	62810	100		62810	0	62810	100		62810	0	62810	100		62810	0	62810
VERRADO	VERRADO ZONE 3	2N	3W	25	SW	160	0.6	100		62810	0	62810	100		62810	0	62810	100		62810	0	62810	100		62810	0	62810	100		62810	0	62810
VERRADO	VERRADO ZONE 3	2N	3W	25	SE	160	0.6	100		62810	0	62810	100		62810	0	62810	100		62810	0	62810	100		62810	0	62810	100		62810	0	62810
VERRADO	VERRADO ZONE 1	1N	2W	6	NE	65		0	10		18000	18000	0	10	0	18000	18000	0	10	0	18000	18000	0	50	0	90000	90000	0	50	0	90000	90000
VERRADO	VERRADO ZONE 1	1N	2W	6	NW	132		0	5		9000	9000	0	5	0	9000	9000	0	5	0	9000	9000	0	15	0	27000	27000	0	15	0	27000	27000
						44,413		40,126	1,354	13,649,406	1,868,881	15,518,288	47,208	2,176	16,303,513	3,148,842	19,452,355	63,332	3,310	22,460,941	4,679,058	27,139,999	77,572	4,630	27,737,416	6,340,248	34,077,665	87,302	8,982	30,861,260	11,874,240	42,735,500

MARICOPA WATER DISTRICT
WATER TREATMENT PLANT PLANNING
PRELIMINARY ENGINEERING STUDY

EXHIBIT
D-51
admitted

Final Report - August 2006

Prepared by: MALCOLM PIRNIE

5165-002

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Abbreviations

%	Percent
AACE	Association for the Advancement of Cost Engineering
af/y	Acre-feet per year
CAP	Central Arizona Project
CRSP	Colorado River Storage Project
DAF	Dissolved air flotation
DBP	Disinfection byproduct
du/ac	Dwellings per acre
EBCT	Empty bed contact time
ft	Feet
ft^2	Square feet
GAC	Granular activated carbon
gpm	Gallons per minute
GRIC	Gila River Indian Community
kWh	Kilowatt hour
M	Million
M$	Million dollars
mgd	Million gallons per day
min	Minutes
MWD	Maricopa Water District
NOM	Natural organic matter
O&M	Operation and maintenance
RWI	Raw water impoundment
SBF	Sand ballasted flocculation
T&O	Taste and odor
TDS	Total dissolved solids
TOC	Total organic carbon
WESTCAPS	West Valley CAP Subcontractors
WTP	Water Treatment Plant

Executive Summary

Maricopa Water District (MWD) is pursuing the construction of a water treatment plant (WTP) to provide potable water to wholesale customers in the surrounding area. The WTP will treat surface water from the Beardsley Canal, which conveys Colorado River water delivered via the Central Arizona Project (CAP) Canal. MWD believes they can provide a cost-effective solution for the surrounding communities to cooperate with each other and participate in a regional water treatment project.

The MWD Board authorized a Preliminary Engineering Study to determine the potential customer base (and treatment capacity) for the proposed WTP, identify potential sites for the WTP, and select a treatment process train for the WTP. The findings of this Preliminary Engineering Study are documented in this report and summarized below:

- **Treatment Capacity Evaluation** (Section 2) – Several potential customers within five miles of MWD boundaries have been identified. The known surface water allocations (CAP and Agua Fria) total 58.7 mgd. The City of Goodyear, which is the largest potential customer and the customer that has expressed the most interest in partnering with MWD, currently has a CAP allocation of 3.2 mgd and will be receiving an additional 12.7 mgd through a lease with the Gila River Indian Community (6.3 mgd) and through a reallocation of CAP water (6.4 mgd).
- **Site Selection** (Section 3) – Five sites along the Beardsley Canal on land already owned by MWD were investigated as potential locations for the WTP. Based on the technical feasibility of locating a WTP at each site and land use planning information from MWD, two sites were identified as preferred locations: Site 2A (East of the Canal, between Northern and Olive Avenues) and Site 3 (East of the Canal, between Glendale and Northern Avenues).
- **Treatment Process Recommendation** (Section 4) – Several possible unit process alternatives were evaluated for implementation at the proposed WTP. Several unit processes were determined to be infeasible for the site, and the remaining unit processes were combined into 24 potential treatment process trains. Using the WTP treatment goals along with order of magnitude capital and operating costs for the proposed treatment trains, the process train consisting of a raw water impoundment, sand ballasted flocculation, and deep-bed granular activated carbon filters was recommended. Residuals from the treatment process will be treated using a gravity thickener and either solar drying beds or a centrifuge.

This Preliminary Engineering Study provides MWD with information on the feasibility of constructing a WTP. The next steps entail finalizing the capacity of the WTP, finalizing the site selection, and developing a conceptual design for the facility. If the MWD Board decides to design and construct a WTP, it will take approximately 3.5 years from the notice to proceed until the WTP can deliver water.

1. Introduction

1.1 Maricopa Water District Background

Maricopa Water District (MWD) service area is located in the Phoenix metropolitan area, approximately 30 miles northwest of downtown Phoenix. The approximate boundaries of the district (shown in Figure 1-1) are Grand Avenue to the north, I-10 to the south, the Beardsley Canal (191st Avenue) to the west, and Reems Road (155th Avenue) to the east. MWD service area is approximately 65 square miles and has traditionally been an agricultural area.

MWD provides irrigation water for lands within the district boundaries. This area of the West Valley is undergoing a rapid population increase, and some of the land within the MWD boundaries is being converted from agricultural use to residential use. As such, there is a need to provide potable water (rather than irrigation water) to the customers within the district. In addition, the communities surrounding MWD are also facing increasing potable water demands. MWD recognizes the changing water market in the area and would like to adapt to serve the area in the best manner possible. As such, MWD has begun the initial planning stages for the construction of a new potable water treatment plant (WTP). The WTP will treat surface water from the Beardsley Canal, which contains Colorado River water delivered via the Central Arizona Project (CAP) Canal. MWD is interested in constructing the WTP for the following reasons:

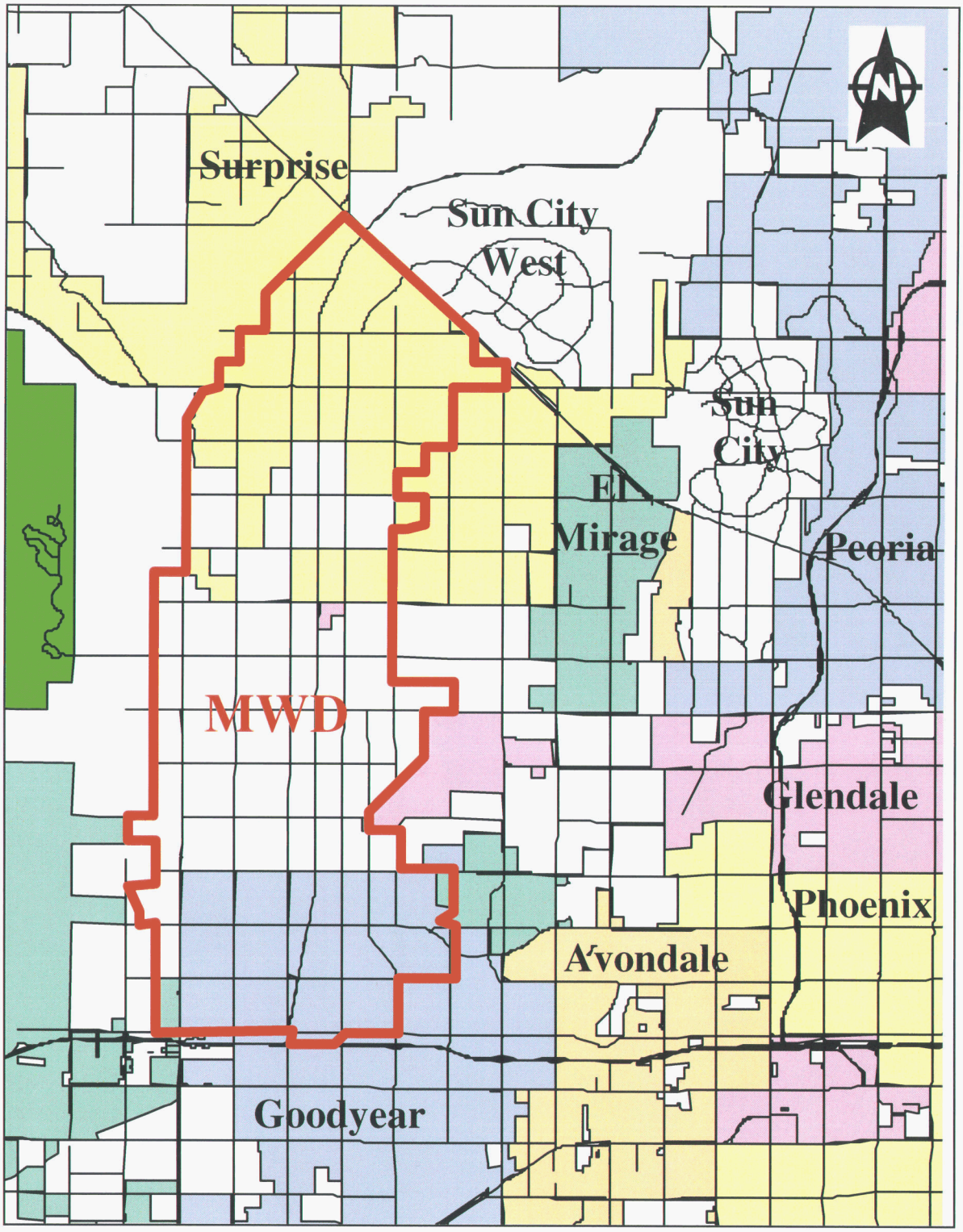
- There is a business opportunity for MWD to treat CAP water and sell to wholesale customers
- There are several potential customers in the communities surrounding MWD
- The customers have CAP allocations but no method of transporting, treating, or delivering the water
- MWD has a raw water conveyance system (the Beardsley Canal) and land available for construction
- MWD has renewable agreements in place with Hoover Power and the Colorado River Storage Project (CRSP) for power at a commercially attractive rate

MWD believes they can provide the surrounding communities with a cost-effective solution to mitigate shortage of potable water and an opportunity to cooperate with each other and participate in a regional water treatment project.

1.2 Study Objectives

In May 2006, MWD began a Preliminary Engineering Study to evaluate the potential construction of a WTP. The objectives of the Preliminary Engineering Study were as follows:

- Determine the potential capacity



0 2 4 Miles

Approximate Scale

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MARICOPA WATER DISTRICT
PRELIMINARY WATER TREATMENT PLANT PLANNING
MARICOPA WATER DISTRICT LOCATION AND BOUNDARIES

August 2006

FIGURE 1-1

- Evaluate potential sites
- Screen potential treatment processes and estimate costs

This report documents the findings of the preliminary engineering study. In addition, the report also includes a timeline with information on the tasks needed to go from a green-field site to having a completed WTP delivering water.

2. Treatment Capacity Evaluation

The anticipated customers for the new WTP proposed by MWD are all wholesale customers. As such, traditional methods of forecasting demands (e.g., using land use maps, growth projections, and per capita demand factors) are not appropriate for determining the ultimate capacity of the WTP. Instead, it is more important to develop a list of customers in the surrounding areas that are potential partners for MWD. Using this list along with the available CAP allotment for each entity provides insight for the potential ultimate capacity of the facility. The WTP will be constructed in phases to support growth and demands of new bulk delivery customers in the area as they increase participation in the project. The maximum treatment capacity for the plant is not finalized at the present time; however, a preliminary analysis indicates that Phase I of the plant could be approximately 20 mgd of capacity. The ultimate capacity of the facility may be 80 mgd or greater. This section includes information on the potential customers, their CAP allocations, other water sources, and an initial discussion of the customers' interest level in this project.

2.1 Potential Customers

There are several potential wholesale customers in the area surrounding MWD. The preliminary evaluation focused on communities that are within 5 miles of the MWD border and water companies that serve these communities:

- City of Goodyear
- City of Avondale
- City of El Mirage
- City of Surprise
- Sun City (Arizona American Water)
- Sun City West (Arizona American Water)
- MWD (Arizona American Water)
- White Tanks (Arizona Water Company)
- Agua Fria (Arizona American Water)

Other neighboring communities were briefly considered, but because of limited surface water allocations or because they already have decided how to best user their surface water allocations, they were not considered further (e.g., Buckeye, Glendale, and Peoria).

2.2 CAP ALLOCATIONS

The total available CAP allocation for the communities presented in Section 2.1 is 44.4 mgd (Table 2-1). The allocations shown are a compilation of the data available on the allocation section of the CAP website (www.cap-az.com) and information in the master plans for the communities. This table includes the currently known allocations obtained through leases with the Gila River Indian Community (GRIC). It should be mentioned that there could be additions to these allocations through further agreement with Indian Communities and/or CAP.

Table 2-1: CAP Water Allocations

Community	CAP Allocation	
	af/y	mgd
Goodyear [1]	17,742	15.9
Avondale	5,416	4.8
El Mirage [2]	508	0.5
Surprise [3]	7,303	6.6
White Tanks (AZ Water Company)	968	0.9
Agua Fria (Arizona-American)	11,093	9.9
Sun City (Arizona-American)	4,189	3.7
Sun City West (Arizona-American)	2,372	2.1
Total	**49,153**	**44.4**

[1] Includes 3,531 af/y (3.2 mgd) currently available and an additional 14,211 af/y (12.7 mgd) that will become available in 2009.
[2] Available from the AZ Water Settlement.
[3] Available in 2010.

2.3 OTHER WATER SOURCES

In addition to the CAP allocations shown in Table 2-1, the MWD WTP may also be used to treat surface water from other sources or ground water. In particular, MWD currently has access to 16,000 af/y (14.3 mgd) of Agua Fria water that may not be needed for the District's direct use customers. This amount is an annual average, and the actual amount available in a given year depends on the available supply and will vary according to the weather and seasonal runoff from the watershed. MWD may also be able to use some of the wells within the district to provide a backup to the surface water supplies. However, at this time it is not possible to send groundwater from within the district to areas outside of the district, so the appropriate water rights and exchanges would need to be developed before this strategy could be implemented.

Including the additional Agua Fria surface water allocation, the capacity of the MWD WTP could be as high as 58.7 mgd.

2.4 Interest Level and Phasing

The communities listed in Table 2-1 have all expressed interest in treating their CAP allocations. At the present time, Arizona American has expressed interest in constructing their own WTP; however, it is unclear whether they will be able to secure the partnerships and funding needed for construction. The other communities have varying levels of interest in participating in the MWD WTP project:

- The **City of Goodyear** has expressed the most interest in the MWD WTP project. They have attended the workshops during the Preliminary Engineering Study and have participated in some of the initial decision making. The City of Goodyear would like to participate in the project provided that the rate structure is amenable. At a minimum in Phase I, Goodyear is interested in approximately 5 mgd of capacity by 2009 with phased increases in capacity to meet their growing demands.
- The **City of Avondale** is commissioning a study to determine how best to use their surface water allocations.
- The **City of Surprise** has long range plans for their own surface water treatment plant, but has expressed interest in the MWD project.
- The **City of El Mirage** has expressed interest in the MWD project as it would be prohibitively expensive for El Mirage to build their own facility for treating their CAP allocation.

2.5 Future Capacity Determination Work

During the next several months, MWD should continue discussions with the City of Goodyear regarding their participation in the MWD WTP. In addition, it may be beneficial to open discussions with the other surrounding communities to further gauge their interest level. Through the discussions with Goodyear and the other communities, MWD should work to develop signed partnership agreements for the design of the facility.

3. Site Selection

The proposed MWD WTP will be constructed on a new site within the district boundary. MWD owns over 2,500 acres of land that borders the Beardsley Canal. Although a preliminary land use plan has been developed for the land owned by MWD, almost all of the land is available as a potential site for the MWD WTP. At the initial project meeting, four potential areas for locating the WTP were identified and during the project, a fifth site was brought into consideration. This section includes the site selection criteria, descriptions of the candidate sites, a comparison of the potential sites, and a recommendation for moving forward and finalizing the site for the WTP.

3.1 Site Selection Criteria

There are several criteria to consider when selecting a site for a WTP. Some of the site characteristics are related to the engineering design of the WTP (e.g., size, topography, and elevation) while others address specific concerns of MWD (e.g., proximity to residential neighborhoods and land use master plan). This section includes a list of site characteristics and how each one affects the site selection for the MWD WTP. The following criteria should be considered when selecting a site:

- **Size** – The WTP site should be large enough to accommodate the master site plan for the treatment facility at ultimate capacity. A reasonable estimate for preliminary planning is approximately one acre per mgd of capacity; however using treatment processes with smaller footprints can allow for significant reductions in space requirements. Section 4 contains more information on the size of the proposed WTP.
- **Topography** – A site that allows for the use of gravity to flow water through the plant is preferable (i.e., the site should slope downwards away from the source water towards the delivery point for the treated water).
- **Elevation** – The elevation of the WTP site will determine whether treated water can flow by gravity to the customer or whether it will need to be pumped.
- **Proximity to the water source** – A site near the Beardsley Canal will minimize the cost needed to convey raw water from the canal to the WTP.
- **Proximity to the potential customers** – A site near the customers will reduce the cost of conveying treated water by pumping or gravity flow.
- **Zoning ordinances or land use restrictions** – Commercial or industrial zones are typically preferred to minimize the effect on neighboring properties and to facilitate obtaining permits.
- **Land use master plan** – The areas that are master planned for higher density housing can be sold for higher prices. As such, areas master planned for lower density housing are preferable because there is smaller loss of revenue from unsold land.

- **Canal conveyance capacity** – A capacity evaluation for the Beardsley Canal was completed in 1999 for the West Valley CAP Subcontractors (WESTCAPS). This evaluation noted that the canal capacity south of Cactus Road is 50 mgd and will need to be increased if the capacity of the WTP exceeds 50 mgd.

3.2 Site Descriptions

Taking the selection criteria presented in Section 3.1 into consideration, the project team identified four potential sites for the MWD WTP at the first project meeting (Sites 1, 2, 3, and 4 on Figure 3-1). In a subsequent meeting that also included representatives from *Land Solutions*, MWD's land use planning consultants, a fifth site was added (Site 2A on Figure 3-1). The topography of all sites is similar and slopes downward from northwest to southeast. As such, the sites to the north have a higher average elevation than the sites to the south. Descriptions of each site and elements relating to the selection criteria are presented in this section.

3.2.1 Site 1 - East of Perryville Road, South of Waddell Road

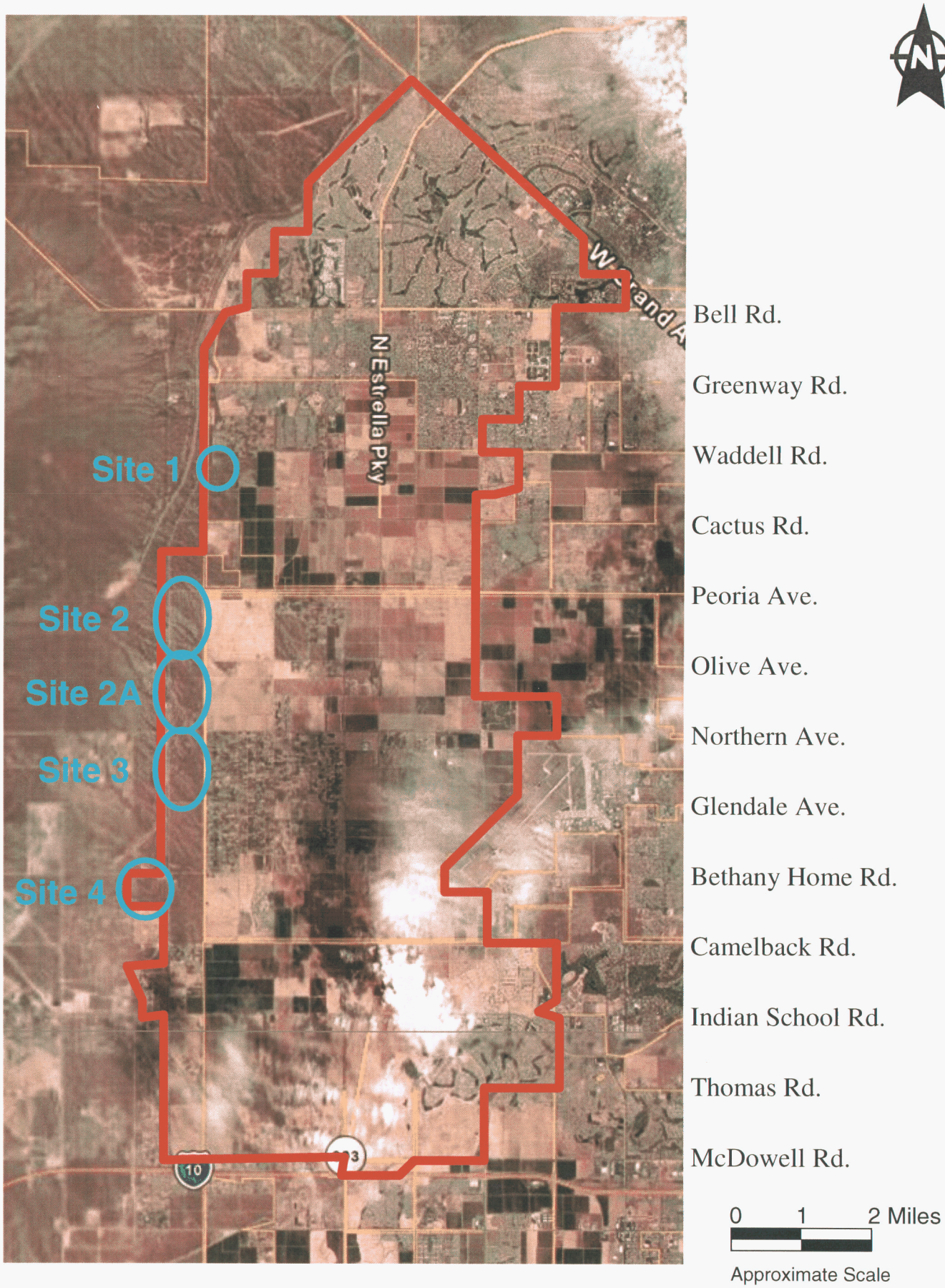
Site 1, shown in Figure 3-2, is an area of approximately 50 acres that is bisected by the Beardsley Canal. The site is slightly small for the ultimate capacity, but using processes with smaller footprints may make it feasible. The site is north of Cactus Road, so no canal improvements would be needed to convey the anticipated ultimate capacity of 80 mgd to the site. Site 1 has the highest average elevation of all the sites considered (approximately 1330 feet) and is the northern-most site evaluated. According to the Zanjero Trails land use plan, this area is master planned for a density of 2.0 to 2.5 dwelling units per acre (du/ac).

3.2.2 Site 2 - East of the Canal and Between Olive, Peoria Avenues

Site 2, shown in Figure 3-3, is an area of approximately 150 acres that is east of the Beardsley Canal and south of Peoria Avenue. This area is significantly larger than the anticipated size of the WTP site, but having a larger site increases flexibility to arrange the facilities in a manner to provide buffers with the surrounding areas. Because the site is south of Cactus Road, canal improvements are needed to convey more than 50 mgd to the site. Site 2 has an average elevation of approximately 1280 feet. According to the Zanjero Trails land use plan, this area is master planned for a density of 3.0 to 4.0 du/ac. The area directly east of Site 2 is a recently-developed residential community with rapid home sales. It is unknown how the new homeowners would react to having a WTP located nearby.

3.2.3 Site 3 - East of the Canal, Between Glendale and Northern Avenues

Site 3, shown in Figure 3-4, is an area of approximately 240 acres that is east of the Beardsley Canal, west of the proposed realignment of Perryville Road, and between Glendale and Northern Avenues. This site is also significantly larger than is needed for the WTP facilities, allowing for increased buffer areas. The site is south of Cactus Road, so canal improvements are needed to convey more than 50 mgd to the site. Site 3 has an average elevation of



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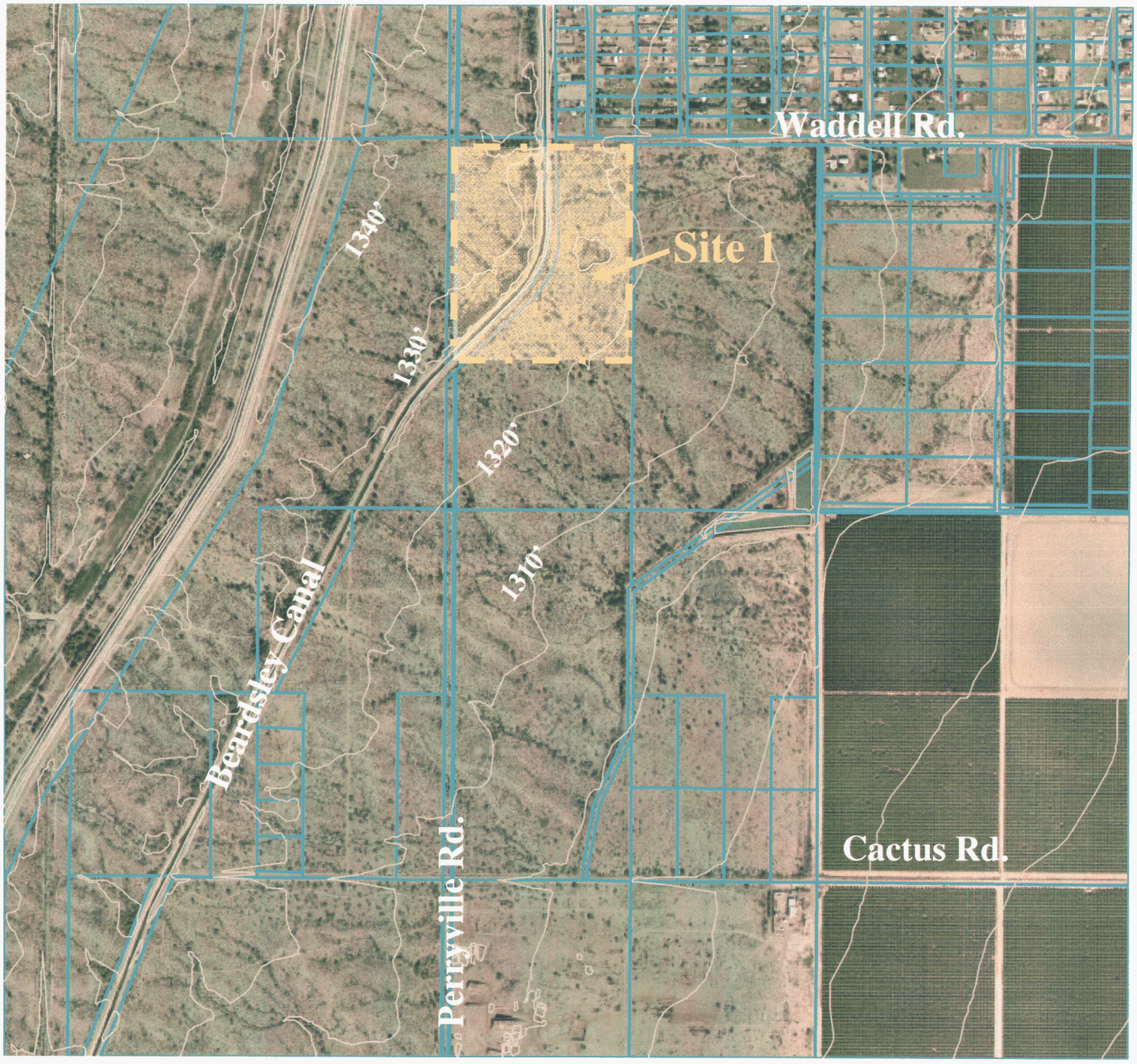
PRELIMINARY WATER TREATMENT PLANT PLANNING
POTENTIAL WTP SITES

August 2006

FIGURE 3-1



0 0.25 0.5 Miles

Approximate Scale

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PRELIMINARY WATER TREATMENT PLANT PLANNING
SITE 1 AERIAL PHOTOGRAPH

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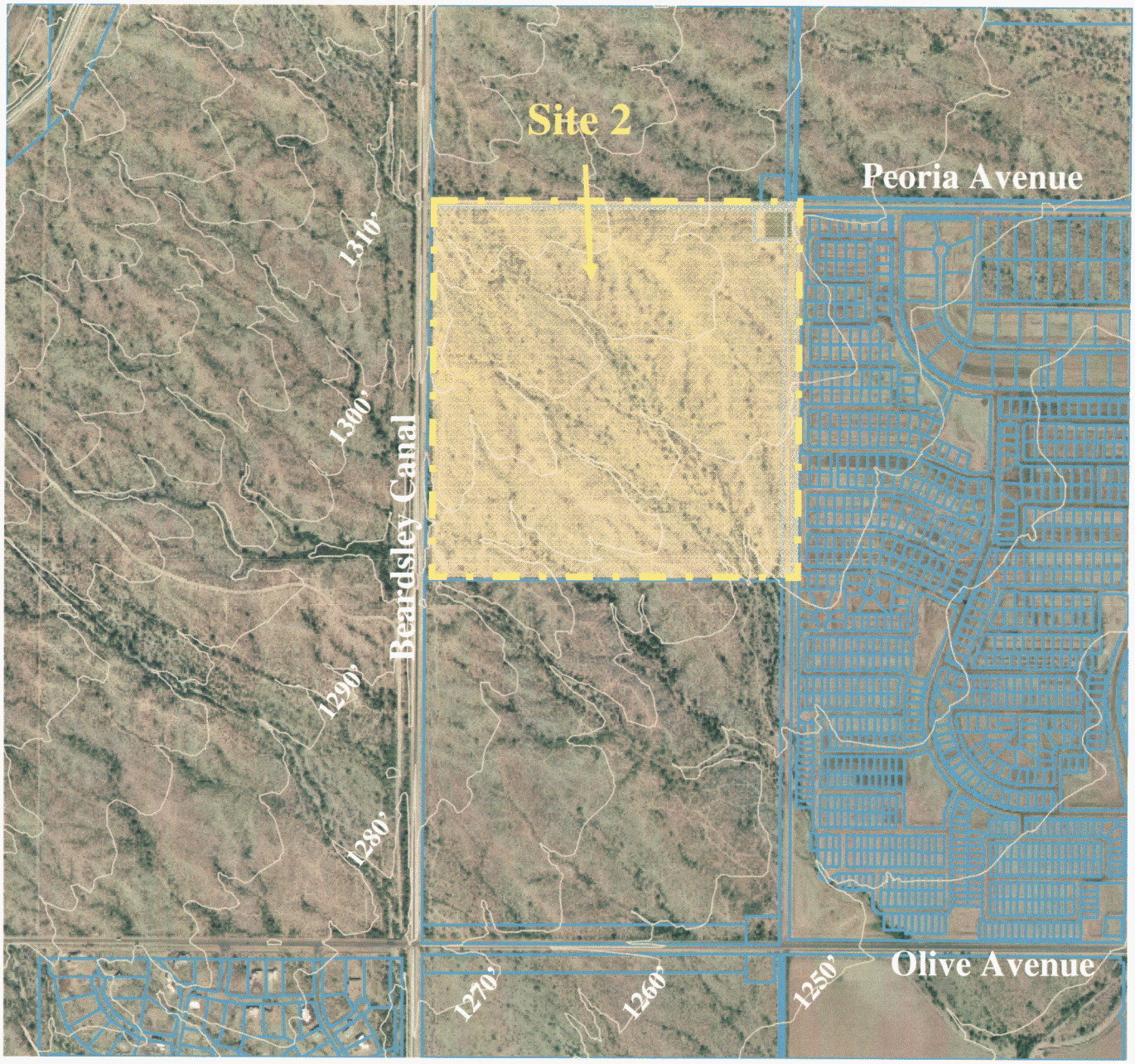
FIGURE 3-2



0 0.25 0.5 Miles

Approximate Scale

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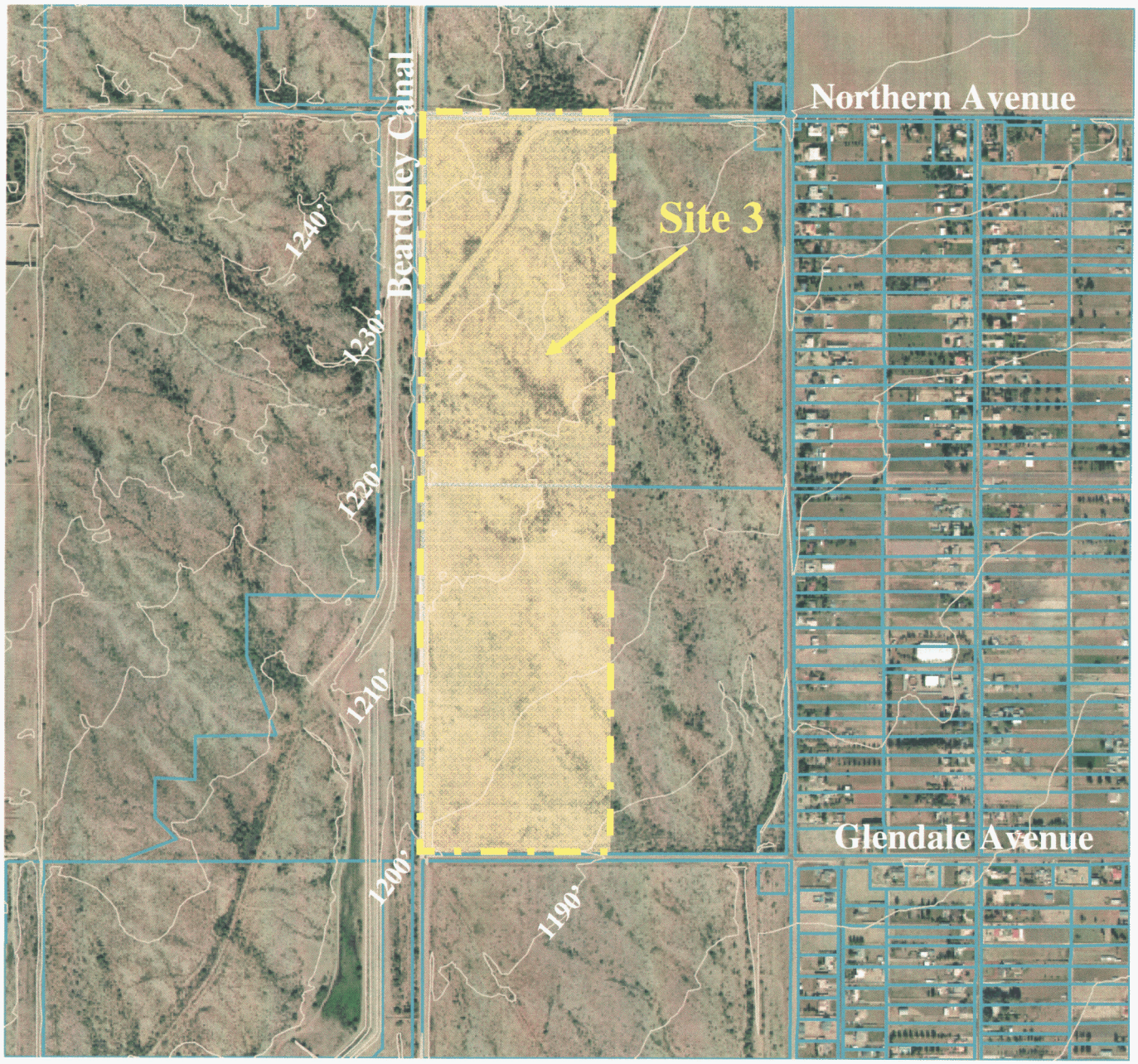
PRELIMINARY WATER TREATMENT PLANT PLANNING
SITE 2 AERIAL PHOTOGRAPH

August 2006

FIGURE 3-3



0 0.25 0.5 Miles

Approximate Scale

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SITE 3 AERIAL PHOTOGRAPH

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FIGURE 3-4

approximately 1210 feet. According to the Zanjero Trails land use plan, this area is master planned for a density of 2.5 to 3.5 du/ac. Clearwater Farms, an established residential community, is located approximately ¼ mile east of the proposed site. The residents of Clearwater Farms were very involved during the preparation of the Zanjero Trails land use plan and negotiated a realignment of Perryville Road. As such, this is considered a potentially sensitive area, especially with respect to aesthetic concerns of lighting, noise, and odor.

3.2.4 Site 4 - West of the Canal, South of Bethany Home Road

Site 4, shown in Figure 3-5, is an area of approximately 170 acres that is west of the Beardsley Canal and south of Bethany Home Road. Similar to Sites 2 and 3, this site is larger than is needed for the WTP (allowing flexibility in arranging the treatment unit processes) and is south of Cactus Road, thereby necessitating canal improvements at the higher flow rates. Site 4 has the lowest average elevation of all sites considered (approximately 1180 feet) and slopes downward from west to east (toward the canal). The area is master planned for a density of 3.0 to 3.5 du/ac. The site is located in the spillway for the probably maximum flood (1 in 10000 years). Although it is unlikely that a flood of this magnitude would occur, this should be considered in the site evaluation. Site 4 is the southern-most site evaluated and is closest to the largest potential customer (City of Goodyear); however, it is further away from other potential customers that are north of the District.

3.2.5 Site 2A - East of the Canal, Between Northern and Olive Avenues

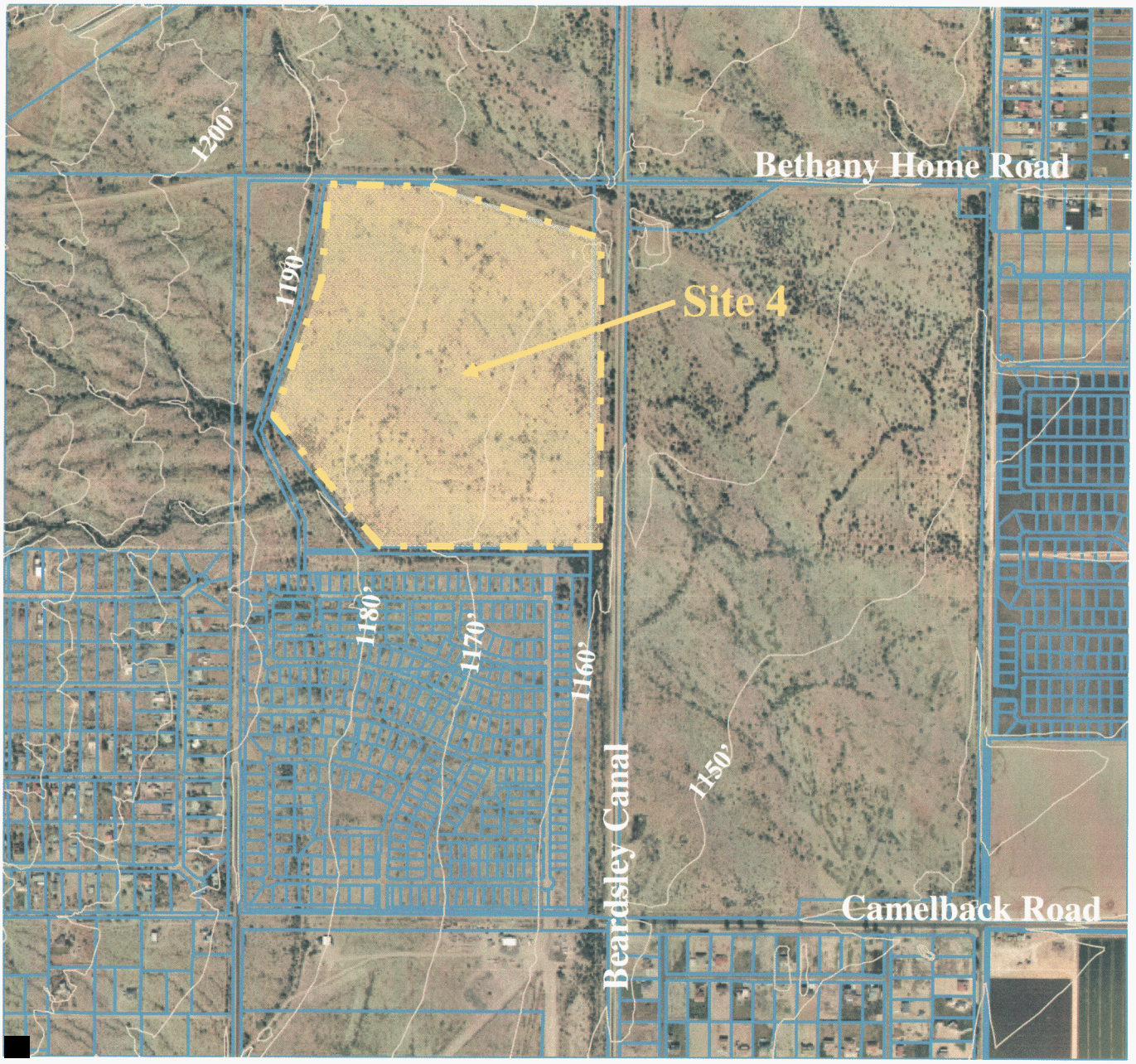
Site 2A, shown in Figure 3-6, was initially not considered as a potential site for the WTP because of the Flood Control Drainage Structure to be located directly east of the Beardsley Canal in the future. However, after further discussion it was determined that the structure will only occupy an area approximately 200 feet wide adjacent to the canal, leaving sufficient space for locating a WTP. Site 2A is an area of approximately 170 acres that is east of the Beardsley Canal and Flood Control Drainage Structure, west of the proposed Perryville Road realignment, and between Northern and Olive Avenues. The site is similar to Sites 2, 3, and 4 with respect to size considerations and necessary canal improvements. Site 2A has an average elevation of approximately 1250 feet and is master planned for a housing density of 2.0 to 2.5 du/ac.

3.3 Site Comparisons

Several characteristics of the sites described in Section 3.2 are similar to each other and are therefore not considered differentiators when selecting the potential WTP site:

- All sites are located along the canal and are therefore close to the water source.
- All sites are at an elevation sufficient to delver water by gravity to the customers located to the south.
- All sites are large enough to construct an 80 mgd facility.

As the site evaluation progressed, two characteristics that were initially thought of as differentiators were placed lower on the priority list: canal improvements and proximity to



0 0.25 0.5 Miles

Approximate Scale

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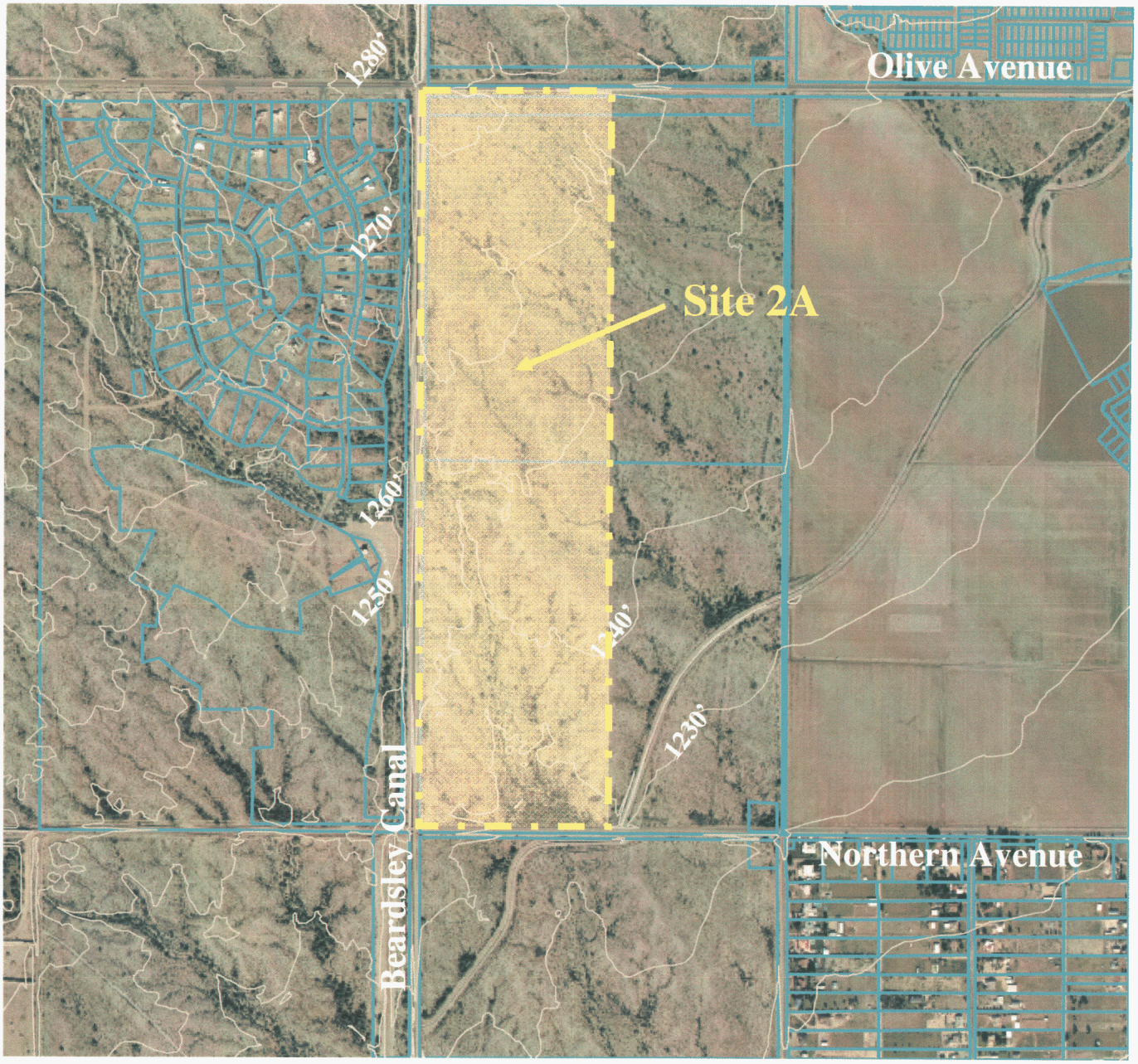
MARICOPA WATER DISTRICT
PRELIMINARY WATER TREATMENT PLANT PLANNING
SITE 4 AERIAL PHOTOGRAPH

August 2006

FIGURE 3-5



0 0.25 0.5 Miles

Approximate Scale

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MARICOPA WATER DISTRICT
PRELIMINARY WATER TREATMENT PLANT PLANNING
SITE 2A AERIAL PHOTOGRAPH

August 2006

FIGURE 3-6

residential neighborhoods. MWD indicated that the canal improvements needed to convey more than 50 mgd south of Cactus Road will likely be implemented regardless of the site selected. With respect to potential neighborhood concerns, it is unknown whether a WTP would be considered an attractive or an unattractive neighbor for a residential neighborhood when compared to other potential land uses.

The remaining characteristics that provide some differentiation between the sites are as follows:

- Because of the topography (sloping downward from northwest to southeast), sites located east of the canal can more easily implement gravity flow through the WTP. As such Site 4 is considered less desirable.
- The further north the site is located, the shorter the pipelines will be to deliver water to the northern customers. Locating the WTP further south will shorten the pipelines to deliver water to the southern customers. Sites that are more centrally located are preferable (Sites 2, 2A, and 3).
- Because land with higher master planned land use density can likely be sold for a higher price, there will be less lost revenue if a site with a lower land use density is selected; as such, sites with lower planned land use density are preferable (Sites 1, 2A, and 3).
- Larger sites are preferable to smaller sites because of the increased flexibility to arrange the treatment plant elements with large buffer areas from the surrounding communities. As such, Site 1 is considered less desirable.
- Because Site 1 is bisected by the Canal, it may be more challenging to situate the treatment plant elements in manner that facilitates the hydraulic connection between unit processes. Pumping and crossing the canal may be needed.

3.4 Recommended Site Locations and Future Work

Based on the site selection criteria and the descriptions of the sites, two sites emerged as the preferred WTP site locations.

- **Site 2A** – East of the Canal, between Northern and Olive Avenues
- **Site 3** – East of the Canal, between Glendale and Northern Avenues

From a technical standpoint, both sites are sufficiently large, both slope downward away from the canal toward the delivery point (facilitating gravity flow through the WTP), and both are centrally located (facilitating delivery to the northern and southern customers). In addition, these sites have a lower proposed land use density so less revenue will be lost by not selling the land to developers. Before selecting a final site for the WTP, a public involvement program should be implemented so that concerns of the community can also be considered in the site selection. In addition, wildlife and vegetation evaluations, cultural and historical investigations, and geographic and topographic surveys should also be conducted before finalizing the site selection.

4. Treatment Process Selection

Several treatment process alternatives were considered for use at the proposed MWD WTP. After the kick-off meeting, two project workshops were conducted to facilitate selection of the preferred treatment process train. The following is a description of the project meetings:

- Kickoff Meeting (May 17, 2006) – The philosophy and regulations behind water treatment were discussed along with the goals of the project.
- First Project Workshop (June 8, 2006) – Information was presented on 4 pretreatment (pre-sedimentation, raw water impoundment, oxidation, recharge), 4 clarification (conventional flocculation and sedimentation, plate settlers, ballasted flocculation, dissolved air flotation), 4 filtration (dual-media granular, GAC filter-adsorbers, membranes, biofiltration), 4 disinfection (chlorine, chloramine, ozone, ultraviolet light), 2 advanced treatment (post-filter GAC, TDS removal), and 2 solids handling (drying beds, mechanical dewatering) processes. The infeasible alternatives were eliminated, and a list of 24 potential process trains was developed from the remaining 9 unit processes.
- Second Project Workshop (June 22, 2006) – Footprint and cost details were provided for the potential process trains and two trains were short-listed for further evaluation. Site layouts for the two treatment trains were presented for both 20 mgd and a possible future expansion to 80 mgd.

This section focuses on the information presented in the second project workshop after the infeasible treatment processes were eliminated, including descriptions of the unit processes, preliminary design criteria, conceptual costs, and selection of the recommended treatment process.

4.1 Treatment Process Goals

The goals for the treatment process are as follows:

- Meet all applicable regulations – This includes the recently promulgated Long Term 2 Enhanced Surface Water Treatment Rule for pathogen and particulate removal and the Stage 2 Disinfectants and Disinfection Byproduct Rule as it relates to consecutive systems.
- Achieve compatibility with disinfection strategy of surrounding customer base – Use free chlorine to satisfy the customers' needs.
- Achieve treatment goals for aesthetic parameters – The recommended treatment process will minimize customer taste and odor (T&O) complaints and will produce total dissolved solids (TDS) below 750 mg/L. The non-enforceable secondary standard for TDS is 500 mg/L but this may not be feasible using CAP water as the source.

4.2 Initial Process Alternatives

At the first project workshop, 16 unit process and 4 disinfection alternatives were presented, and several infeasible processes were eliminated. The remaining list of potential unit processes for the WTP constructed by MWD included two types of pre-sedimentation, three types of clarification, two types of filtration, and two types of solids handling. A discussion of the infeasible alternatives and brief descriptions of each process are included below.

4.2.1 Infeasible Processes

The infeasible alternatives included oxidation, recharge, plate settlers, dual-media granular filters, membranes, post-filter granular activated carbon (GAC), and TDS removal. Based on the desired water quality, oxidation and TDS removal are not required at this time and were eliminated. However, they may be desirable in the future. The recharge/recovery process was not chosen because of the uncertainty in water quality of recovered water. Plate settlers were removed from the treatment alternatives because they require extensive operator/maintenance attention. Both dual-media filters and membranes were eliminated because they do not provide adequate TOC removal and would require a separate TOC removal process, making them economically infeasible. Additionally, chlorine was selected as the disinfectant over chloramine, ozone, and ultraviolet light to produce water compatible with the water already in the distribution systems of the potential customers.

4.2.2 Pre-Sedimentation Processes

Like many water sources, the raw water emanating from the CAP Canal will be susceptible to variations in turbidity caused by the seasons and runoff into the canal system. Including a pre-sedimentation basin is important for solids removal during periods of high turbidity and to maintain a constant feed into the WTP. Two types of pre-sedimentation basins were considered for this project.

Conventional Pre-Sedimentation Basin

The concept for a "conventional" pre-sedimentation basin is to provide extra settling time to reduce solids loading and attenuate fluctuations in water quality to the downstream processes. In some cases, the pre-sedimentation basin can also be used as a contact basin for oxidants, powdered activated carbon, or other chemicals before the addition of a coagulant. The basin are constructed of concrete, and the hydraulic residence time is typically on the order of 30 to 60 minutes. As solids accumulate at the bottom of the basin, they are removed and sent to the solids handling facility for processing.

Raw Water Impoundment

The other concept for pre-sedimentation is a raw water impoundment (RWI), which is a large earthen basin lined with a plastic liner. The hydraulic residence time, approximately 20 to 30 times that of the conventional pre-sedimentation basin, is typically 12 to 24 hours. Although a RWI is significantly larger than a conventional pre-sedimentation basin and not ideal for

treatment plants where land is limited, its robust properties minimize the water quality fluctuations reaching the WTP and provide one day of raw water storage. Unlike the pre-sedimentation basin, a RWI will have to be drained to remove the settled solids (typically on the order of 5-10 years, depending on water quality).

4.2.3 Clarification Processes

The purpose of clarification is to reduce the solids loading reaching the filtration processes. By removing most solids in the clarification processes, filtration facilities can operate more efficiently. Three clarification processes that were considered for this WTP are summarized below.

Conventional Clarification

Conventional clarification using coagulation, flocculation, and sedimentation (shown schematically in Figure 4-1) is the most commonly used process for particulate removal.

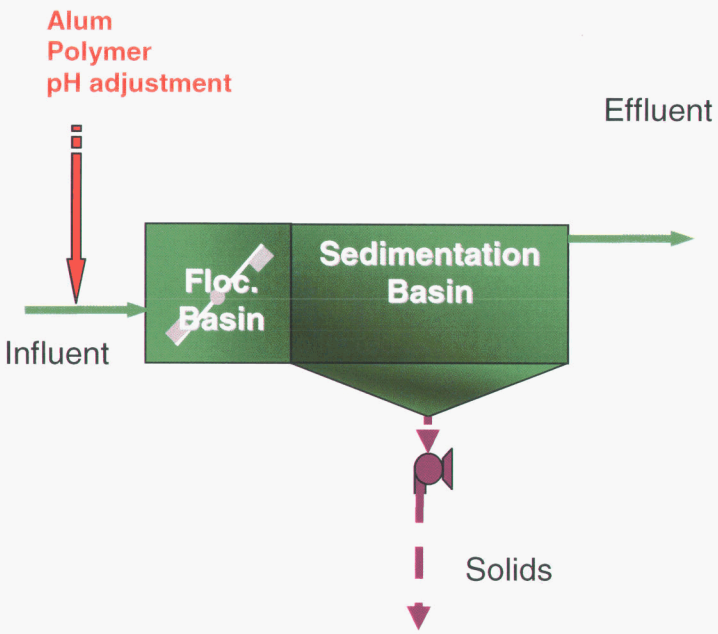


Figure 4-1: Conventional Flocculation/ Sedimentation Treatment Process Schematic

A coagulant (with or without a coagulant aid) is added to the water to destabilize particulates and to chemically react with natural organic matter (NOM). In the flocculation basin, the raw water and coagulants mix gently to promote agglomeration and particle collision. In the settling basin, the agglomerated particles settle due to gravity, and the supernatant is passed on to the filtration step. The sediment is collected at the bottom and removed from the basin.

Conventional clarification typically produces clarified water turbidity around 1 NTU or lower. Conventional treatment is not effective for the removal of taste and odor causing compounds and is often not used when there are space constraints because of its large footprint.

Sand Ballasted Flocculation

Sand ballasted flocculation (SBF), or ACTIFLO® (manufactured by Krüger), is a physical-chemical treatment process that uses continuously recycled micro-sand to enhance flocculation and sedimentation. As shown in Figure 4-2, the process operates as follows: In the coagulation chamber, a traditional metal coagulant (alum or ferric chloride) is added into a flash mixer. In the injection chamber, high molecular weight polymer and micro-sand are added to enhance floc formation. In the maturation chamber, the polymer, coagulant, and micro-sand are gently mixed to form a heavy floc that settles easily. The settling tank has inclined tube settlers to further aid in floc removal. The clarified water flows over launders. The residuals are removed from the bottom of the settling tank with scrapers and is sent through a hydrocyclone to separate the residuals from the micro-sand. The residuals are sent to a solids handling facility for further processing, and the micro-sand is recycled to the injection chamber.

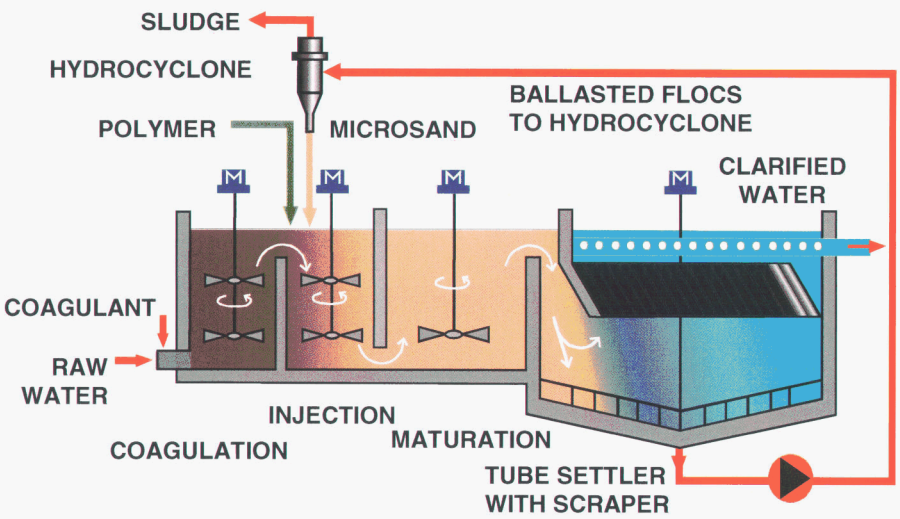


Figure 4-2: Sand Ballasted Flocculation Process Schematic

The primary advantage of sand ballasted flocculation is that it significantly reduces the process footprint needed for clarification (less than 10 percent of the area required for conventional clarification). Disadvantages are that the instrumentation and controls are more complex, therefore making the process more operator-dependent; the micro-sand and polymer added may pass through the system and affect downstream processes; and the use of hydrocyclone to separate the residuals from the sand breaks up the residuals into finer particulates, which can create an additional burden on the solids handling processes.

Dissolved Air Flotation

Dissolved air flotation (DAF), shown schematically in Figure 4-3, is a clarification method where flocculated particles attach to micro bubbles of air and "float" to the surface. A low density coagulant and raw water are gently mixed in a two or three stage flocculation process. The flocculation mixing promotes agglomeration; however, small flocs are preferred because it is easier to float those to the surface than larger, heavier flocs. Micro bubbles are then injected by an air saturator and attach to the flocs. The low density of the air bubbles brings the flocs to the top and forms a residual blanket, which is then removed by a hydraulic or a mechanical system.

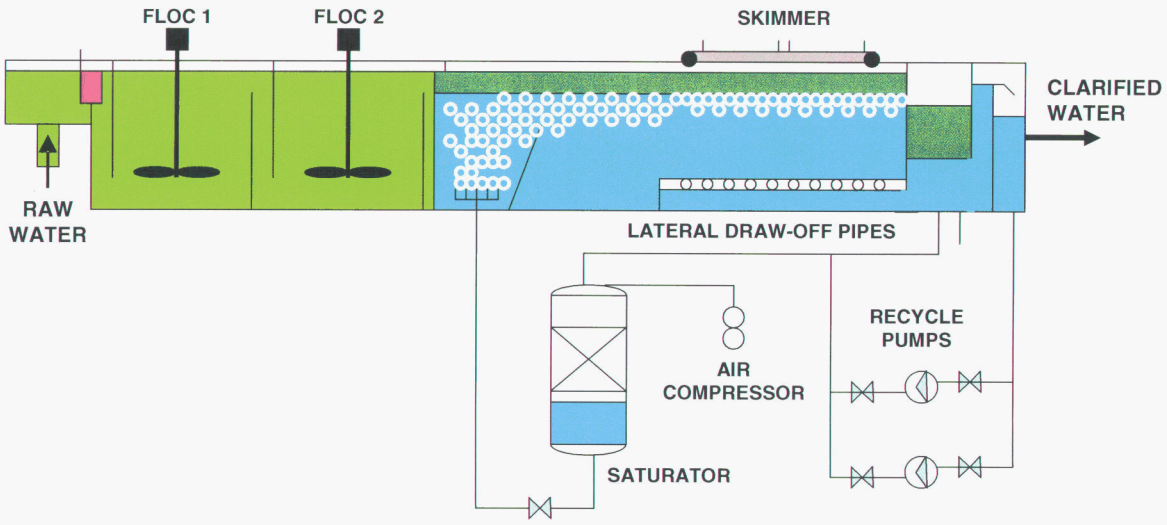


Figure 4-3: Dissolved Air Flotation Process Schematic

Turbidity, pathogen, total organic carbon (TOC), and disinfection byproduct (DBP) precursor removal by DAF has been reported to be similar to conventional clarification. In addition, algae removal of up to 90 percent has been reported.

4.2.4 Filtration Processes

The purpose of filtration is to remove suspended solids from the water that are not removed during the clarification process. Two potential filtration processes are summarized in this section. In addition to removing particulates, the proposed filtration processes provide the added benefit of reducing TOC and T&O.

Deep Bed Granular Activated Carbon Filters

Granular activated carbon filter adsorption is a variation of conventional granular dual media filters. In these filters, GAC is used as the filter media, which provides removal of particulate contaminants by filtration while also removing dissolved contaminants through adsorption and biodegradation. GAC filter adsorbers can be made with a single deep (assumed to be 96 inches

for this study) GAC layer (Figure 4-4). Clarified water is fed through the filter at rates generally between 2 gallons per minute per square foot (gpm/ft^2) and 12 gpm/ft^2. Particles are trapped in the filter as water passes through the filter. GAC filters are periodically backwashed; the length of the filter cycle is typically less than 48 hours, but it ultimately depends on the filtered water turbidity, headloss through the filter, and maximum filter run time. The backwash sequence may be challenging because it is difficult to control the backwash flow rates without losing GAC in the filter troughs, and particulates suspended in the filter media will pass though the GAC, potentially being adsorbed and shortening the life of the GAC.

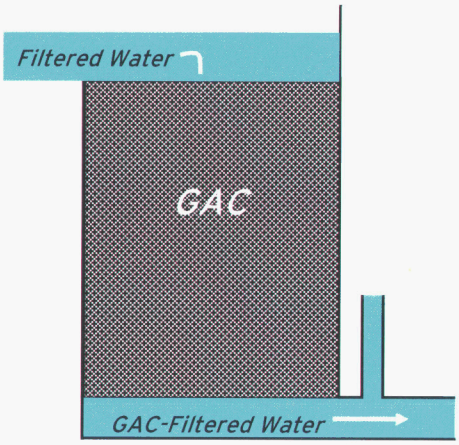


Figure 4-4: Typical Granular Activated Carbon Filter Cross-Section

The empty bed contact time (EBCT) for this type of filter is approximately 10 minutes. If the treatment process relies on removal of dissolved contaminants by adsorption, the GAC will need to be replaced and/or regenerated. The frequency of replacements depends on the extent of desired removal and the available EBCT. Alternatively, if the removal of dissolved contaminants is only achieved through biological degradation on the GAC surface, the media replacement occurs less frequently (or never).

Traditionally, GAC filter media is used to control taste and odor compounds, but it also is used to reduce organic compounds (e.g., TOC, NOM) and inorganic compounds (e.g., nitrogen, sulfides, and heavy metals). The primary disadvantage of this process is that particle removal and organics adsorption are combined in one process, making optimization challenging. In addition, the cost of replacing or regenerating the GAC can be significant.

Ozone-Biofiltration

Biofiltration also uses GAC beds as described previously; however, the EBCT is half that of the deep bed GAC filters. A typical EBCT for GAC biofilters is approximately 5 minutes, decreasing the bed depth to approximately 48 inches. As GAC filters age, bacteria begin to colonize, digesting the organics passing through the media, a process known as biodegradation. As long

as the filters are not backwashed with chlorinated water, the bacteria will continue to digest the organic matter, theoretically breaking it down into carbon dioxide and water. This process can be enhanced further with the use of ozone prior to filtration.

Ozone is one of the most powerful oxidants used in water treatment. Ozone can oxidize organic molecules into smaller chains and inorganics such as iron and manganese to their insoluble states for removal by sedimentation or filtration. The detention time in the ozone application chamber is approximately 2 to 3 minutes. The ozonated water then passes to an ozone dissipation chamber where the ozone reacts with organic compounds, breaking apart carbon chains thereby creating smaller organic molecules. Ozone does not significantly contribute to the formation of trihalomethanes or haloacetic acids. However, if bromide is present in the source water, bromate can form, which must be monitored because it is a regulated DBP.

The primary advantage of the ozone-biofiltration process shown in Figure 4-5 is its robust ability to destroy T&O causing compounds and to inactive bacteria and viruses. Disadvantages include the high capital cost and formation potential for bromate. Some of the initial capital cost, however, can be offset by the reduction in GAC media replacement frequency when compared to deep bed GAC filters.

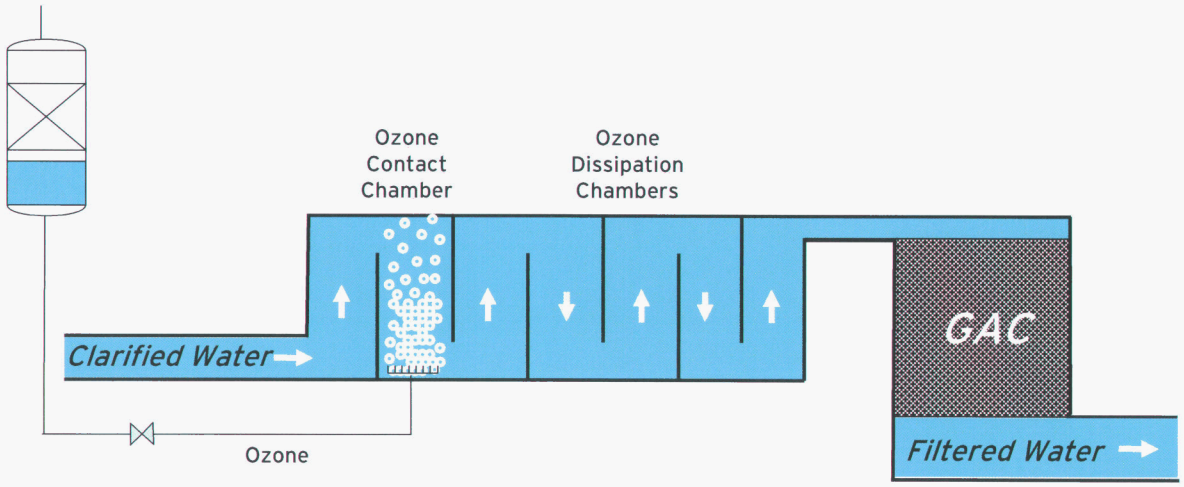


Figure 4-5: Typical Ozone-Biofiltration Cross Section

4.2.5 Solids Handling Processes

The purpose of solids handling is to concentrate solids produced from a WTP into a manageable form, minimizing disposal costs. A gravity thickener receives residuals from the treatment process and concentrates the solids through a settling process. The thickened residuals are then sent to a dewatering process. The gravity thickener and the two dewatering processes under consideration for this WTP are summarized in this section.

Gravity Thickeners

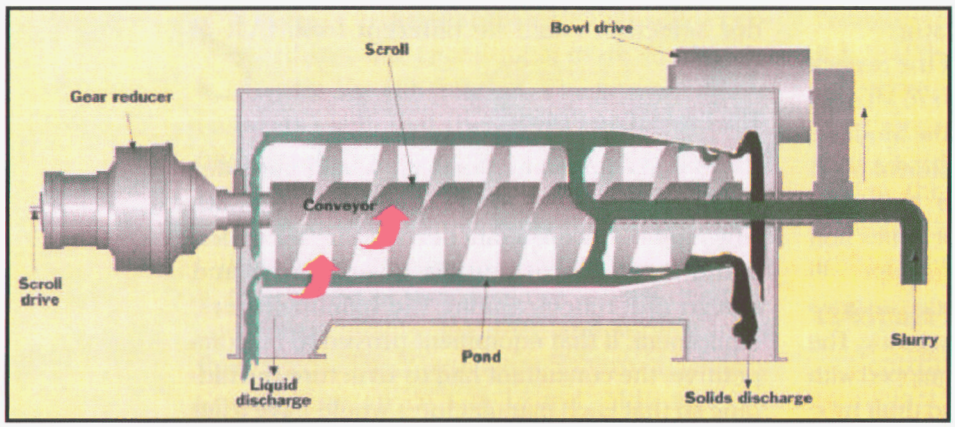
Gravity thickeners act as a sedimentation basin for residuals originating from the treatment plant. Pre-sedimentation solids, sedimentation solids, filter backwash, and plant runoff are sent to gravity thickeners, where solids are collected at the bottom by gravity and then sent to a dewatering process. The supernatant is transferred to the head of the plant where it joins the raw water feed. The size and efficiency of the gravity thickener will depend on the quality of the water it receives. Gravity thickeners work very well with conventional floc/sed processes because the large floc residuals are easily settled. The settling process may be more difficult following sand ballasted flocculation because the process tends to break up floc residuals, increasing the settling time. If a DAF process is used, gravity thickeners may not be needed, but this, along with the other scenarios, would need to be evaluated in the next phase of the project.

Solar Drying Beds

The use of solar drying beds is an alternative for dewatering because of Arizona's low humidity and warm climate. The residuals produced from the gravity thickener are pumped onto large concrete pads, where water and solids separate via evaporation, eventually leaving solids with a lower moisture content. The solids are then removed from the drying beds with a front-end loader and sent to a landfill. The advantages of solar drying beds are the low use of electricity and the low moisture content in the solid waste. The primary disadvantage is the large amount of space that each drying bed requires.

Centrifuge

A centrifuge, shown in Figure 4-6, applies a centrifugal force to a thickened residuals stream from the gravity thickener, forcing the liquid and solid fractions to separate. The liquid obtained is recycled through the plant, and the solids leaving the centrifuge are collected and hauled away to a disposal location. The advantages of a centrifuge are minimal odor production, continuous feed, and a small process footprint. The disadvantages of the process are the high electricity consumption and noise. In order to minimize the noise, the centrifuge should be placed in a building.



Source: Ireland and Balchunas, 1998.

Figure 4-6: Typical Centrifuge Cross Section

4.3 Process Design Criteria

Preliminary process design criteria were used to develop footprints and dimensions for each of the unit processes. The process footprints were used as building blocks for the site layouts. Even though the WTP has been designed at 20 mgd entering and leaving the plant, flowrates will vary from process to process depending on the recycle stream. The flow rate schematic shown in Figure 4-7 was used as the basis for design. 0.2 mgd entering and leaving the dewatering process will not be recycled if solar drying beds are chosen.

Additional facilities common to all treatment plant processes (backwash clarifier, gravity thickener, clearwell, chemical facility, intermediate pumping, admin building/lab/shop, disinfection facility, high service pump station, canal intake/bar screen) were also sized to develop more complete water treatment plant footprints. The criteria and footprint dimensions for each unit process alternative are shown in Table 4-1. Footprint dimensions for the additional facilities are shown in Table 4-2.

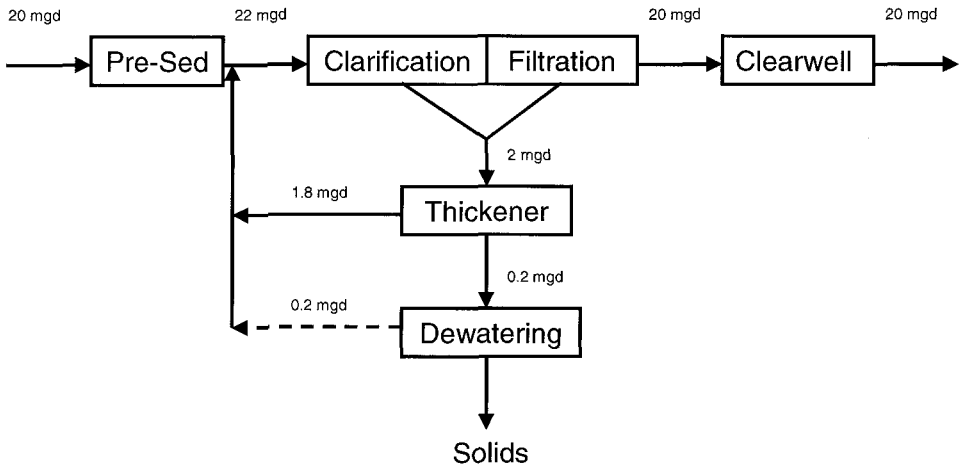


Figure 4-7: MWD WTP Flow Rate Diagram

Table 4-1: Process Alternatives Preliminary Design Criteria

Pre-Sedimentation	
No. of trains	2 (10 mgd each)
Total detention time	60 minutes
Individual dimensions	80 ft diameter x 12 ft
Raw Water Impoundment	
No. of trains	2 (10 mgd each)
Total detention time	24 hours
Individual dimensions	120 ft x 800 ft x 15 ft
Conventional Flocculation and Sedimentation	
No. of trains	3 (7.3 mgd each)
No. of flocculation stages	3
Hydraulic residence times	Flocculation: 30 min Sedimentation: 120 min
Flocculation basin dimensions	35 ft x 150 ft x 12 ft
Sedimentation basin overflow rate	1100 gpd/ft^2
Sedimentation basin dimensions	50 ft x 150 ft x 12 ft
Process dimensions	150 ft x 150 ft x 12 ft

Table 4-1: Process Alternatives Preliminary Design Criteria (con't)

Dissolved Air Flotation	
No. of trains	2 (11 mgd each)
Rise rate	8-10 gpm/ft^2
Hydraulic residence times	Flocculation: 5-10 min Flotation: 20-30 min
Process dimensions	60 ft x 80 ft x 13 ft
Sand Ballasted Flocculation	
No. of trains	2 (11 mgd each)
Rise rate	20-25 gpm/ft^2
Hydraulic residence times	Flocculation: 5-10 min Sedimentation: 7 min
Process dimensions	45 ft x 55 ft x 18 ft
Deep-Bed Mono-Media GAC Filters	
Filtration rate	6 gpm/ft^2 (constant rate)
No. of filters	9 (two out-of-service)
Empty bed contact time	10 min
Media depth	96 inches GAC
Combined filter dimensions	55 ft x 80 ft
Ozone-Biofiltration	
Filtration rate	6 gpm/ft^2 (constant rate)
No. of filters	9 (two out-of-service)
Empty bed contact time	5 min
Media depth	48 inches GAC
Combined filter dimensions	55 ft x 80 ft
Ozone contactor detention time	15 min
Ozone contactor dimensions	40 ft x 55 ft x 15 ft
Backwash Clarifier	
Backwash rate	17 gpm/ft^2
Backwash duration	15 min
Number of filters backwashed consecutively	2
Backwash clarifier dimensions	50 ft diameter x 12 ft

Table 4-1: Process Alternatives Preliminary Design Criteria (cont.)

Gravity Thickeners	
No. of Units	2
Flow received	2.0 mgd
Weir overflow rate	250 gpd/ft^2
Thickened solids concentration	2-4%
Individual thickener dimensions	80 ft diameter x 12 ft
Drying Beds	
Design flow rate	140 gpm
Number of Units	12
Dewatered solids concentration	20-30%
Dimensions	180 ft x 440 ft
Centrifuge	
Design Flow Rate	140 gpm
Number of Units	2 (one out-of-service)
Dewatered solids concentration	20-30%
Housing dimensions	80 ft x 80 ft

Table 4-2: Additional Facility Dimensions Needed for Costing and Layouts

Facility	Dimensions
Clearwell (2 MG)	130 ft diameter x 20 ft
Chemical Facility	70 ft x 140 ft
Intermediate Pumping	25 ft x 60 ft
Admin Building/Lab/Shop	100 ft x 100 ft
High Service Pump Station	25 ft x 60 ft
Disinfection Facility	50 ft x 70 ft
Canal Intake/Bar Screen	40 ft x 50 ft

4.4 Process Conceptual Costs

Using the preliminary design criteria and footprints presented in Tables 4-1 and 4-2, the capital cost, O&M cost, and total present value for each of the unit processes was determined using previous project designs for similar plants. The costs developed are Level 4 costs as defined by the Association for the Advancement of Cost Engineering (AACE). Level 4 costs are appropriate for a screening or feasibility analysis at an approximate project completion of 1 to 15 percent.

The basis for the costs is site layouts, process flow diagrams, and a preliminary list of engineered equipment. The accuracy range of a Level 4 estimate is minus 15 to plus 20 percent in the best case and minus 30 percent to plus 50 percent in the worst case.

Included in the capital cost shown in Table 4-3 are earthworks, concrete, equipment and installation, sitework, piping, electrical and instrumentation, engineering and construction administration, and a scope of project contingency of 30 percent. Operation and maintenance costs include electricity ($0.06/kWh), chemicals, and materials. Labor is not included in either the capital cost or the O&M cost, but stated as a separate line item. Land prices were not taken into account. The total present and annualized costs are based off a 6 percent interest rate for 20 years. For a breakdown of each unit process cost, refer to Appendix A.

Table 4-3: Capital, Annual O&M, and Present Value Costs of Unit Processes

Unit Process	Capital Cost	Annual O&M Cost	Total Present Value
Pre-Sedimentation	$3,500,000	$70,000	$4,300,000
Raw Water Impoundment	$2,500,000	$50,000	$3,100,000
Conventional Flocculation/Sedimentation	$9,900,000	$400,000	$15,000,000
Sand Ballasted Flocculation	$6,400,000	$380,000	$11,000,000
Dissolved Air Flotation	$6,700,000	$370,000	$11,000,000
Deep Bed GAC Filters	$7,900,000	$840,000	$17,000,000
Ozone-Biofiltration	$17,000,000	$450,000	$24,000,000
Drying Beds	$2,000,000	$40,000	$2,500,000
Centrifuge	$3,600,000	$80,000	$4,500,000
Gravity Thickener	$1,400,000	$50,000	$2,000,000
Backwash Clarifier	$1,200,000	$36,000	$1,600,000
Chemical Facility	$5,500,000	$130,000	$7,000,000
Intermediate Pumping	$1,500,000	$45,000	$2,000,000
Admin Building/Lab/Shop	$6,300,000	$150,000	$8,000,000
Disinfectant Facility	$2,500,000	$100,000	$3,700,000
High Service Pump Station	$4,500,000	$330,000	$8,300,000
Canal Intake/Bar Screen	$2,700,000	$57,000	$3,400,000
Clearwell	$1,100,000	$23,000	$1,400,000
Labor		$550,000	$6,300,000

4.5 Building Treatment Trains

Given the treatment processes described in Section 4.1, 24 treatment process trains are possible. Each unit processes was combined with others to form potential process trains shown in Table 4-4. The four alternatives highlighted in yellow have the lowest capital costs and total present values.

Table 4-4: Level 4 Preliminary Cost Estimates for Treatment Alternatives

No.	Pre Treatment	Clarification	Filtration	Solids	Common Elements	Total Capital (M$)	Unit Capital Cost ($/gal)	Total Annual O&M (M$/year)	Total Present Value (M$)	Total Present Value ($/gpd)
11	RWI	SBF (Actiflo)	Deep GAC	Thickener + Drying Beds	All	45.8	2.29	2.77	77.5	3.88
7	RWI	DAF	Deep GAC	Thickener + Drying Beds	All	46.0	2.30	2.76	77.7	3.88
23	Pre-Sed	SBF (Actiflo)	Deep GAC	Thickener + Drying Beds	All	46.8	2.34	2.79	78.8	3.94
19	Pre-Sed	DAF	Deep GAC	Thickener + Drying Beds	All	47.0	2.35	2.78	78.9	3.95
12	RWI	SBF (Actiflo)	Deep GAC	Thickener + Centrifuge	All	47.3	2.37	2.81	79.6	3.98
8	RWI	DAF	Deep GAC	Thickener + Centrifuge	All	47.6	2.38	2.80	79.7	3.99
24	Pre-Sed	SBF (Actiflo)	Deep GAC	Thickener + Centrifuge	All	48.3	2.42	2.83	80.8	4.04
20	Pre-Sed	DAF	Deep GAC	Thickener + Centrifuge	All	48.6	2.43	2.82	81.0	4.05
3	RWI	Floc/Sed	Deep GAC	Thickener + Drying Beds	All	49.2	2.46	2.79	81.3	4.06
9	RWI	SBF (Actiflo)	Biofiltration	Thickener + Drying Beds	All	55.3	2.76	2.55	84.5	4.23
15	Pre-Sed	Floc/Sed	Deep GAC	Thickener + Drying Beds	All	50.2	2.51	2.81	82.5	4.12
5	RWI	DAF	Biofiltration	Thickener + Drying Beds	All	55.5	2.78	2.54	84.7	4.23
4	RWI	Floc/Sed	Deep GAC	Thickener + Centrifuge	All	50.8	2.54	2.83	83.3	4.16
21	Pre-Sed	SBF (Actiflo)	Biofiltration	Thickener + Drying Beds	All	56.3	2.81	2.57	85.8	4.29
17	Pre-Sed	DAF	Biofiltration	Thickener + Drying Beds	All	56.5	2.83	2.56	85.9	4.30
10	RWI	SBF (Actiflo)	Biofiltration	Thickener + Centrifuge	All	56.8	2.84	2.59	86.6	4.33
16	Pre-Sed	Floc/Sed	Deep GAC	Thickener + Centrifuge	All	51.8	2.59	2.85	84.5	4.23
6	RWI	DAF	Biofiltration	Thickener + Centrifuge	All	57.1	2.86	2.58	86.7	4.34
22	Pre-Sed	SBF (Actiflo)	Biofiltration	Thickener + Centrifuge	All	57.8	2.89	2.61	87.8	4.39
18	Pre-Sed	DAF	Biofiltration	Thickener + Centrifuge	All	58.1	2.91	2.60	87.9	4.40
1	RWI	Floc/Sed	Biofiltration	Thickener + Drying Beds	All	58.8	2.94	2.57	88.2	4.41
13	Pre-Sed	Floc/Sed	Biofiltration	Thickener + Drying Beds	All	59.8	2.99	2.59	89.5	4.47
2	RWI	Floc/Sed	Biofiltration	Thickener + Centrifuge	All	60.3	3.02	2.61	90.3	4.51
14	Pre-Sed	Floc/Sed	Biofiltration	Thickener + Centrifuge	All	61.3	3.07	2.63	91.5	4.58

NOTES:

Yellow Rows Indicate Lowest Capital Cost and Lowest Total Cost

4.6 Selecting the Recommended Treatment Trains

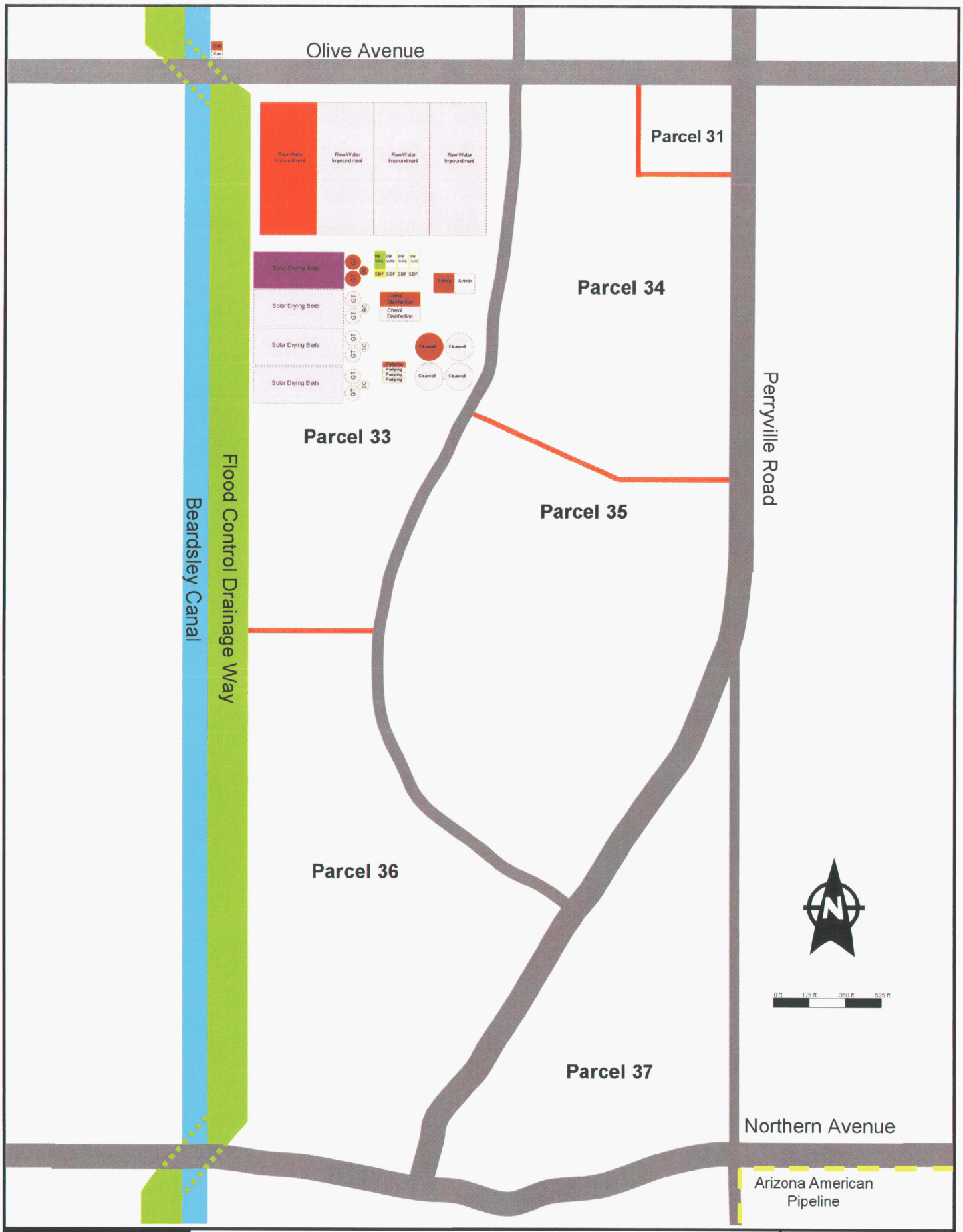
The main decision drivers for selecting the recommended treatment process trains were as follows:

- Do the treatment processes provide the desired water quality?
- Do the process footprints fit on the site layout?
- Which processes will provide the most economical solution to meet the above criteria?

Because all processes could achieve the desired water quality and land space was not a priority, the team selected the most economical solution: Alternative 11 consisting of raw water impoundment, sand ballasted flocculation, deep bed GAC and drying beds. The raw water impoundment facility will provide a buffer between the canal and water treatment plant that will not only minimize turbidity spikes reaching the plant but will also provide 24 hours of raw water should the canal experience downtime. Sand ballasted flocculation and deep bed GAC filters will provide excellent particulate and organic removal needed to achieve the Federal and State water quality regulations and MWD water quality goals. Drying beds are the lowest cost alternative for solids handling if space is not a priority. Because drying beds may present odor issues, Alternative 12, which is identical to Alternative 11 except for centrifuges in place of drying beds, is also a recommended alternative.

Additionally, Alternatives 7 and 8 (similar to 11 and 12 with DAF instead of SBF) may also considered in future evaluations. Although the cost evaluation performed in the Preliminary Engineering Study identifies these alternatives as nearly equal, because of the lower quantity of residuals produced by DAF, there may be a significant cost savings by reducing the size of the gravity thickener. Selection of a clarification technology should consider the overall package, including the clarification step and the residuals handling. The final decision between Alternatives 11, 12, 7, and 8 can be deferred until later in the design process after a more thorough investigation is conducted. Based on AACE Level 4 estimates of the four alternatives, the capital cost of each process is between $32 M and $71 M, worst case. The total present value for each process is between $54 M and $120 M at 6 percent for 20 years.

The layouts for Alternatives 11, 12, 7, and 8 in both selected sites (2A and 3) are shown in Figures 4-8 through 4-15. In the eight figures, the 20 mgd facilities are presented in bold colors, and the additional facilities needed for 80 mgd ultimate capacity are shown in lightened colors. Based on the figures, Alternatives 7 and 11 occupy approximately 45 to 50 acres and Alternatives 8 and 12 occupy 35 to 40 acres at 80 mgd. These anticipated areas are significantly smaller than the land available at either site. This allows flexibility when finalizing the site layouts to include sufficient buffer zones between the WTP and neighboring communities.



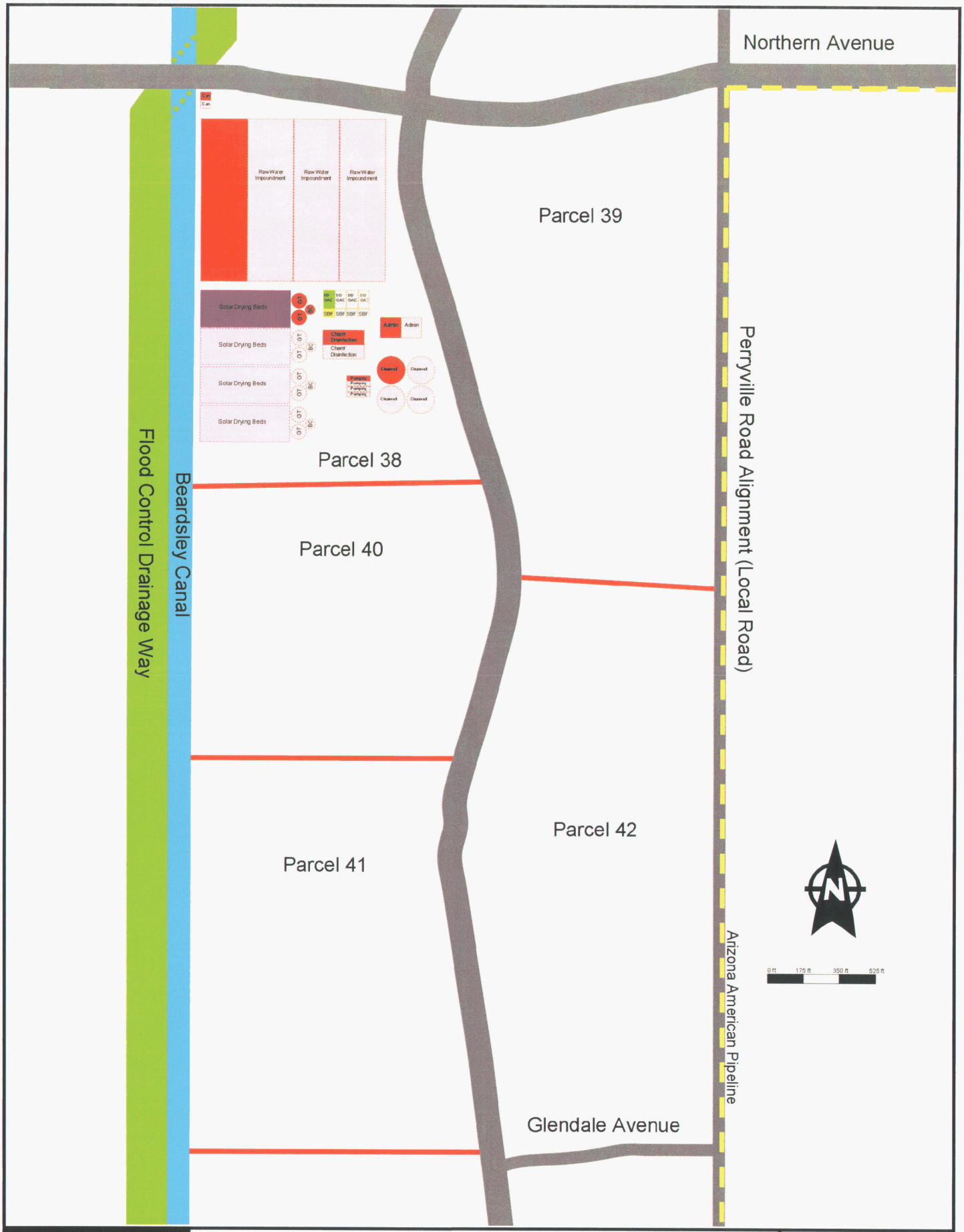
MALCOLM PIRNIE

MARICOPA WATER DISTRICT
PRELIMINARY WATER TREATMENT PLANT PLANNING

ALTERNATIVE 11 AT SITE 2A (20 MGD/80 MGD)

August 2006

FIGURE 4-8



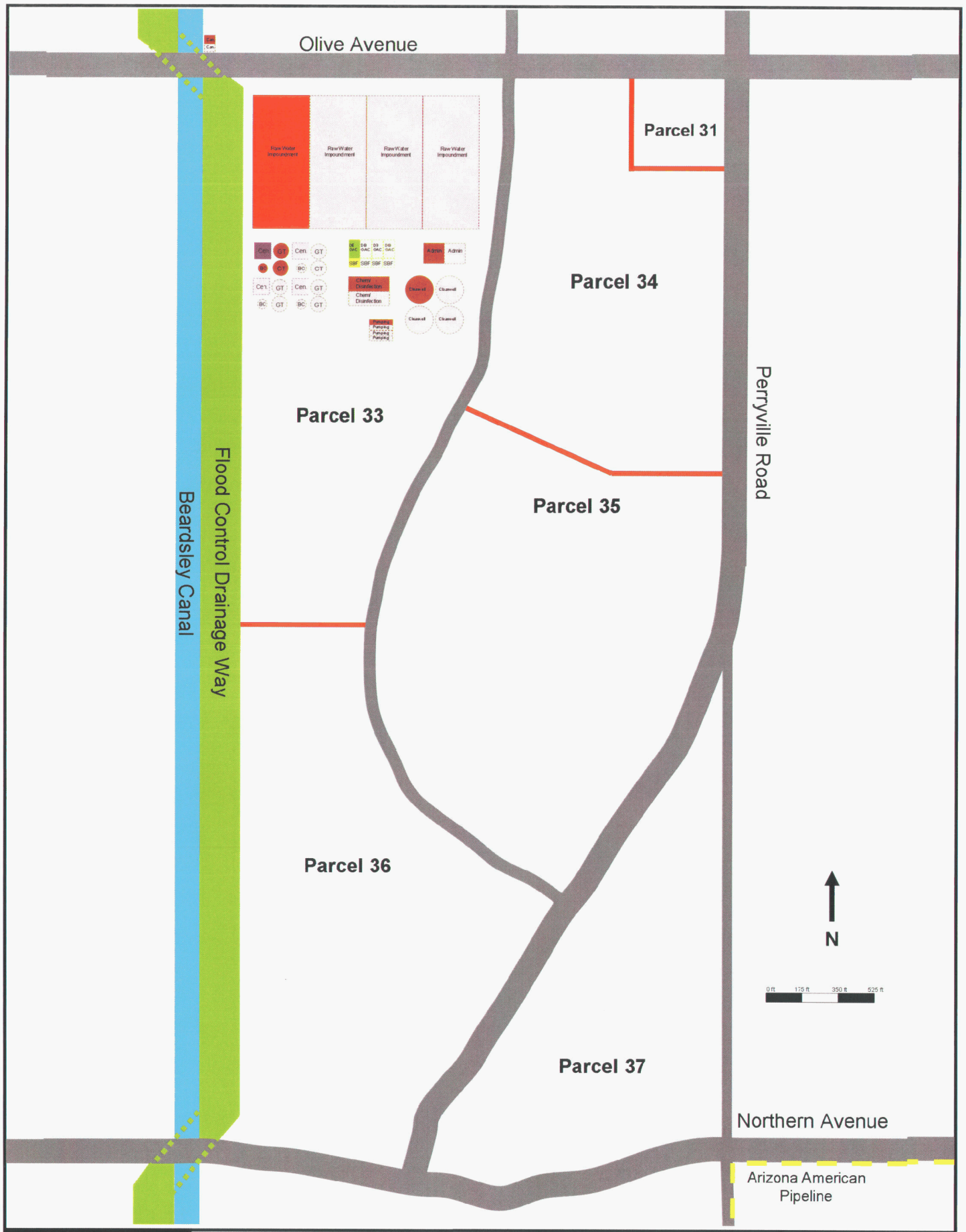
MALCOLM PIRNIE

MARICOPA WATER DISTRICT
PRELIMINARY WATER TREATMENT PLANT PLANNING

ALTERNATIVE 11 AT SITE 3 (20 MGD/80 MGD)

August 2006

FIGURE 4-9



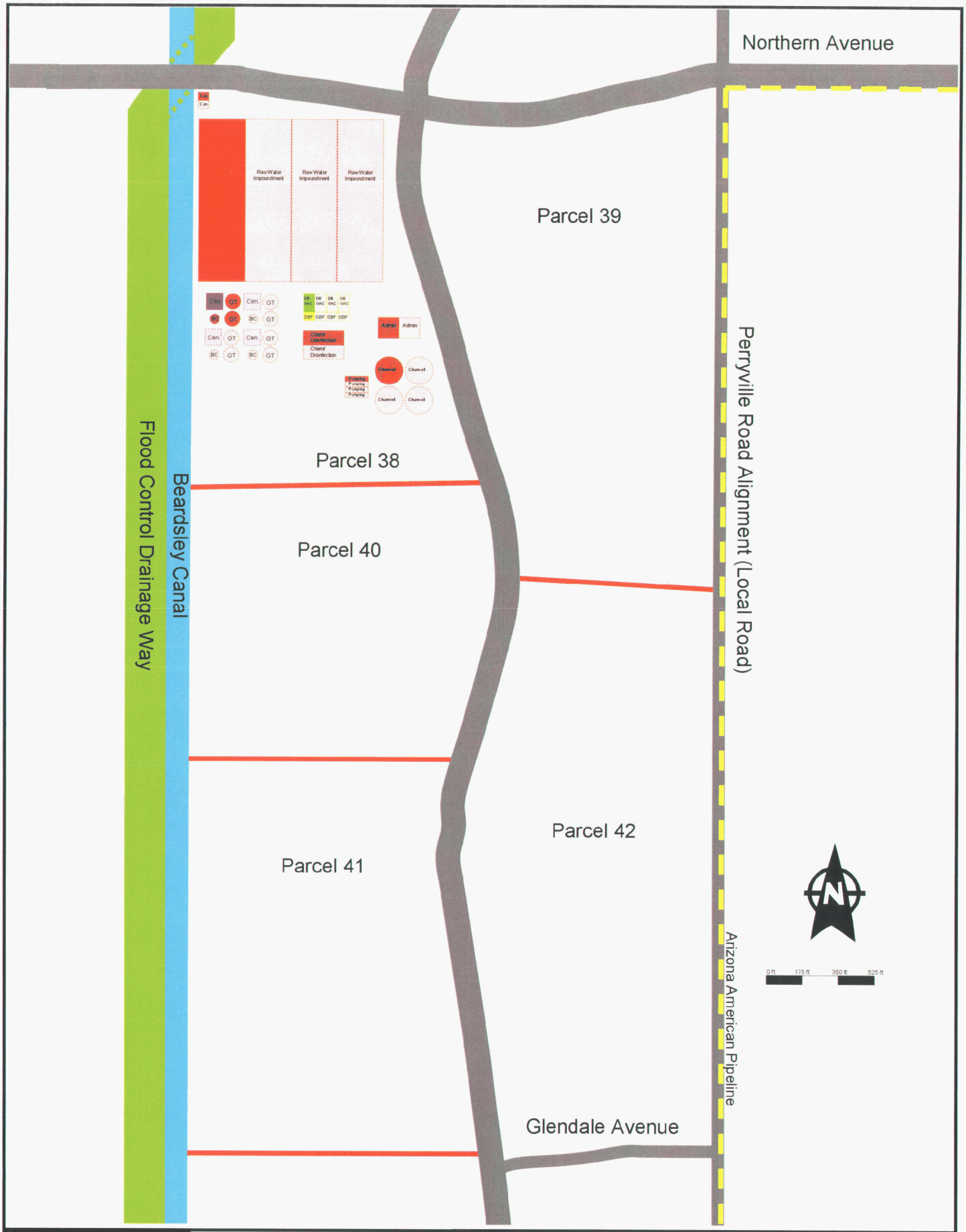
MALCOLM PIRNIE

MARICOPA WATER DISTRICT
PRELIMINARY WATER TREATMENT PLANT PLANNING

ALTERNATIVE 12 AT SITE 2A (20 MGD/80 MGD)

August 2006

FIGURE 4-10



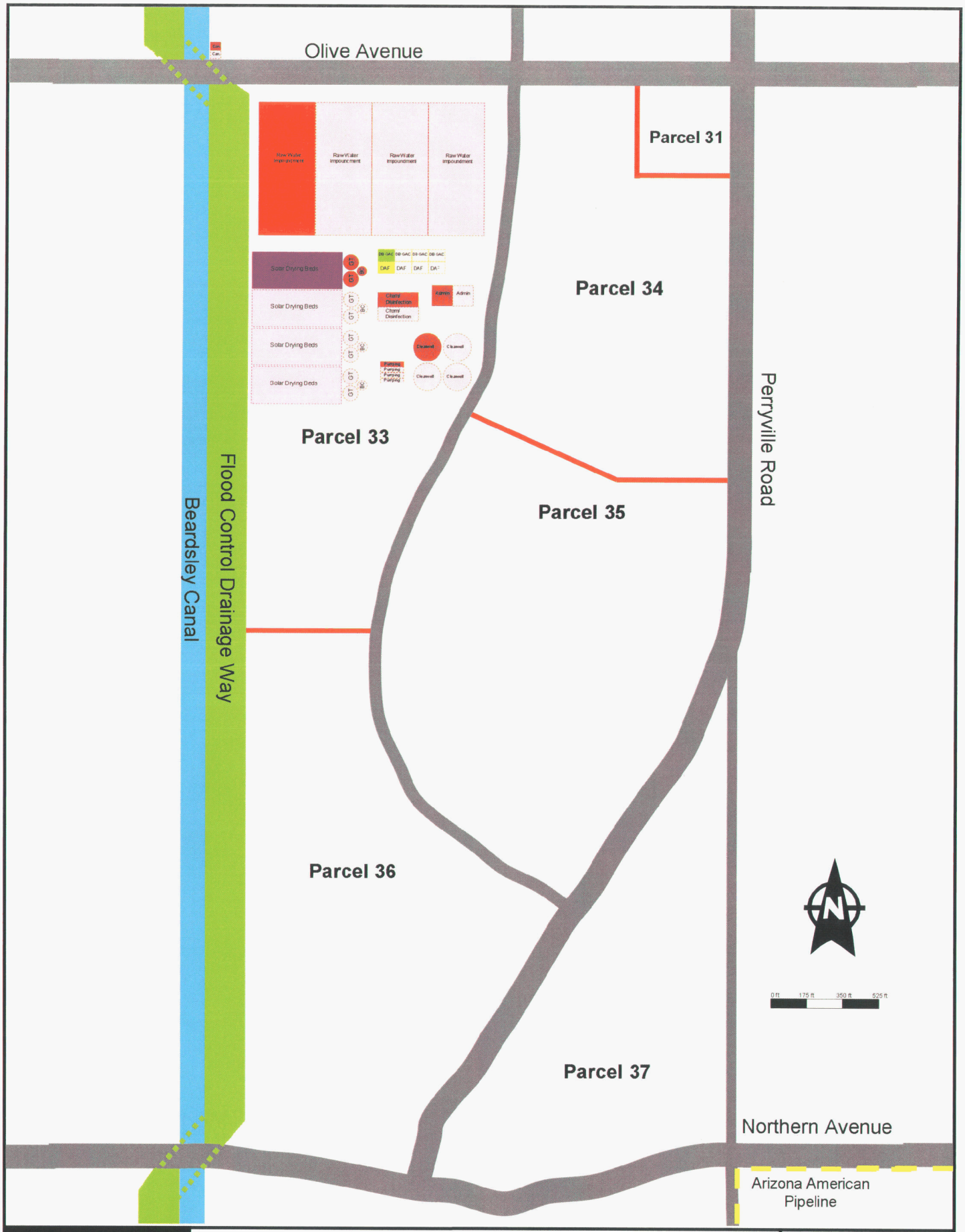
MALCOLM PIRNIE

MARICOPA WATER DISTRICT
PRELIMINARY WATER TREATMENT PLANT PLANNING

ALTERNATIVE 12 AT SITE 3 (20 MGD/80 MGD)

August 2006

FIGURE 4-11



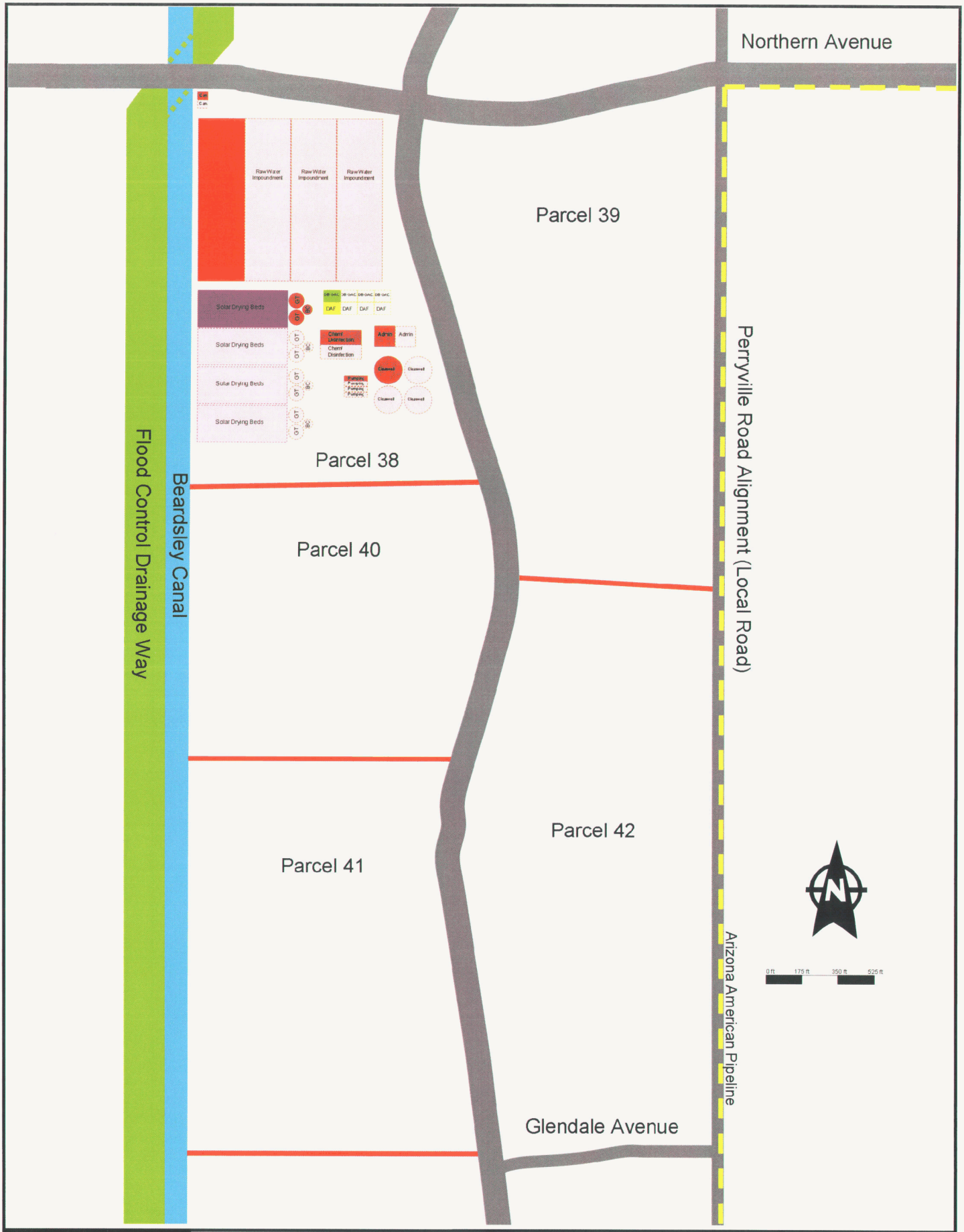
MALCOLM PIRNIE

MARICOPA WATER DISTRICT
PRELIMINARY WATER TREATMENT PLANT PLANNING

ALTERNATIVE 7 AT SITE 2A (20 MGD/80 MGD)

August 2006

FIGURE 4-12



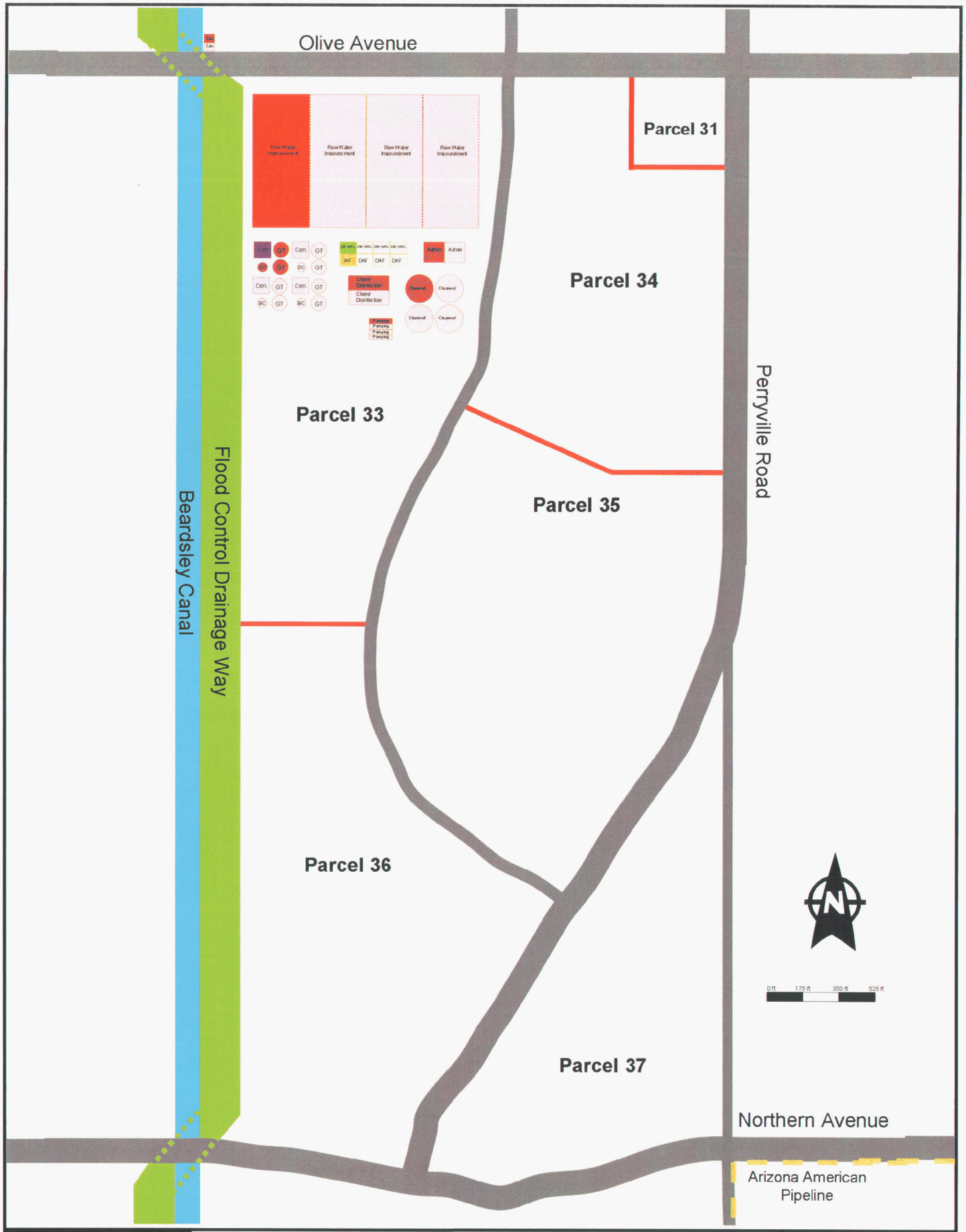
MALCOLM PIRNIE

MARICOPA WATER DISTRICT
PRELIMINARY WATER TREATMENT PLANT PLANNING

ALTERNATIVE 7 AT SITE 3 (20 MGD/80 MGD)

August 2006

FIGURE 4-13



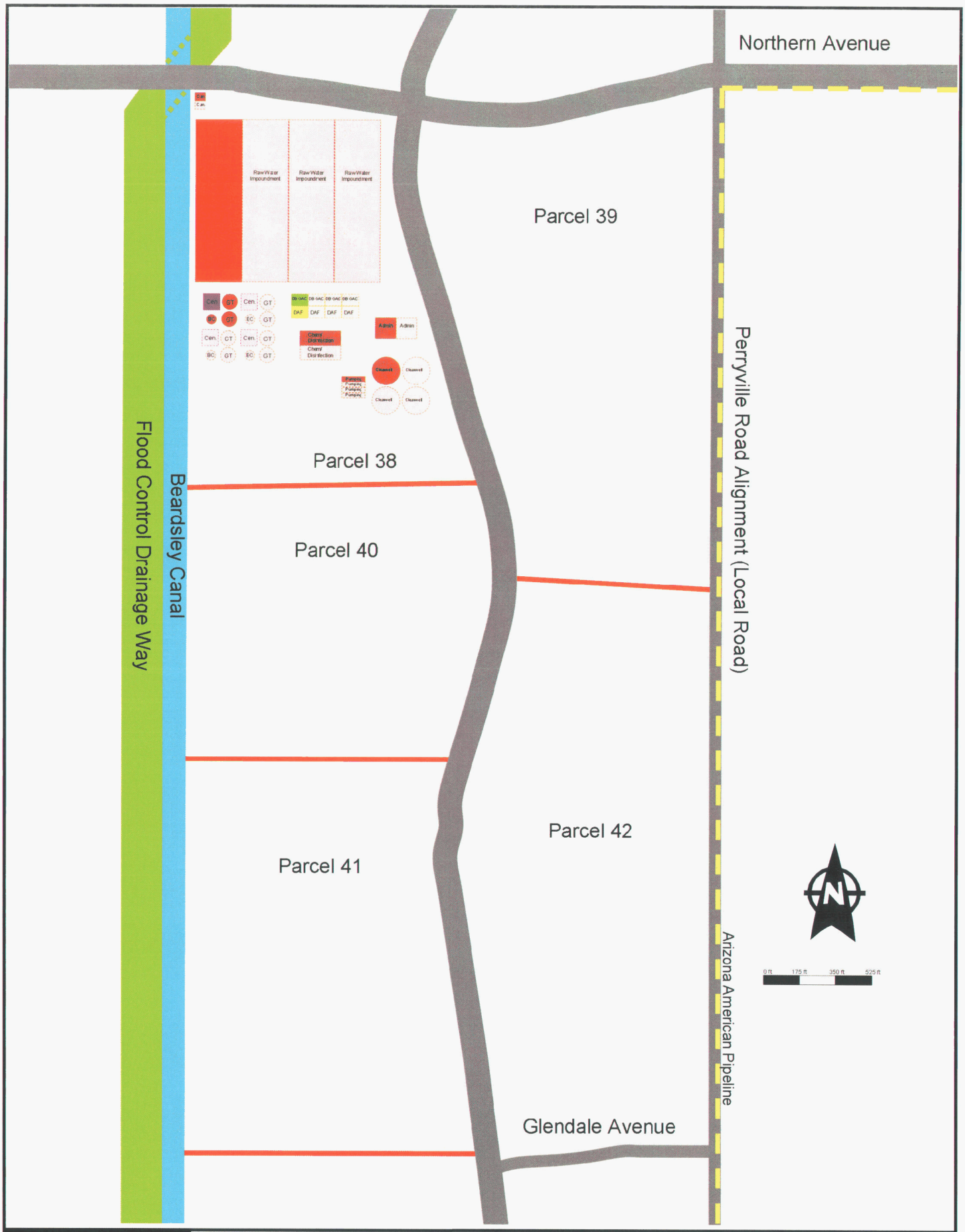
MALCOLM PIRNIE

MARICOPA WATER DISTRICT
PRELIMINARY WATER TREATMENT PLANT PLANNING

ALTERNATIVE 8 AT SITE 2A (20 MGD/80 MGD)

August 2006

FIGURE 4-14



MALCOLM PIRNIE

MARICOPA WATER DISTRICT
PRELIMINARY WATER TREATMENT PLANT PLANNING

ALTERNATIVE 8 AT SITE 3 (20 MGD/80 MGD)

August 2006

FIGURE 4-15

5. Conclusions and Recommendations

This Preliminary Engineering Study provides MWD with information on the feasibility of constructing a WTP, particularly with respect to the treatment capacity, WTP site, and treatment process selection. This section summarizes the results of the Preliminary Engineering Study and provides information on the next steps needed to move toward construction of a WTP.

5.1 Treatment Capacity Evaluation

This project identified several potential customers within five miles of MWD boundaries. The known surface water allocations (CAP and Agua Fria) total 58.7 mgd. The available water could increase through leasing agreements with Indian Communities and/or reallocations from CAP. To date, the community that has expressed the most interest in partnering with MWD for the WTP is the City of Goodyear. Provided the rate structure is amenable, Goodyear is interested in approximately 5 mgd of capacity by 2009 with phased increases in capacity to meet their growing demands. During the next several months, MWD should continue discussions with the City of Goodyear and open discussions with the other surrounding communities to further gauge their interest level. The capacity of Phase I, which could be as much as 20 mgd, should be finalized by continued discussions and negotiations with the potential partners for the facility.

5.2 Site Selection

Five sites along the Beardsley Canal on land already owned by MWD were investigated as potential locations for the WTP. Based on the technical feasibility of locating a WTP at each site and land use planning information from MWD, two sites emerged as the preferred WTP site locations:

- **Site 2A** – East of the Canal, between Northern and Olive Avenues
- **Site 3** – East of the Canal, between Glendale and Northern Avenues

Before selecting a final site for the WTP, a public involvement program should be implemented so that concerns of the community can also be considered in the site selection. In addition, wildlife and vegetation evaluations, cultural and historical investigations, and geographic and topographic surveys should also be conducted before finalizing the site selection.

5.3 Treatment Process Selection

Several possible unit process alternatives were evaluated for implementation at the proposed WTP. Using the WTP treatment goals along with order of magnitude capital and operating costs for the proposed treatment trains, the top two recommended process trains include the

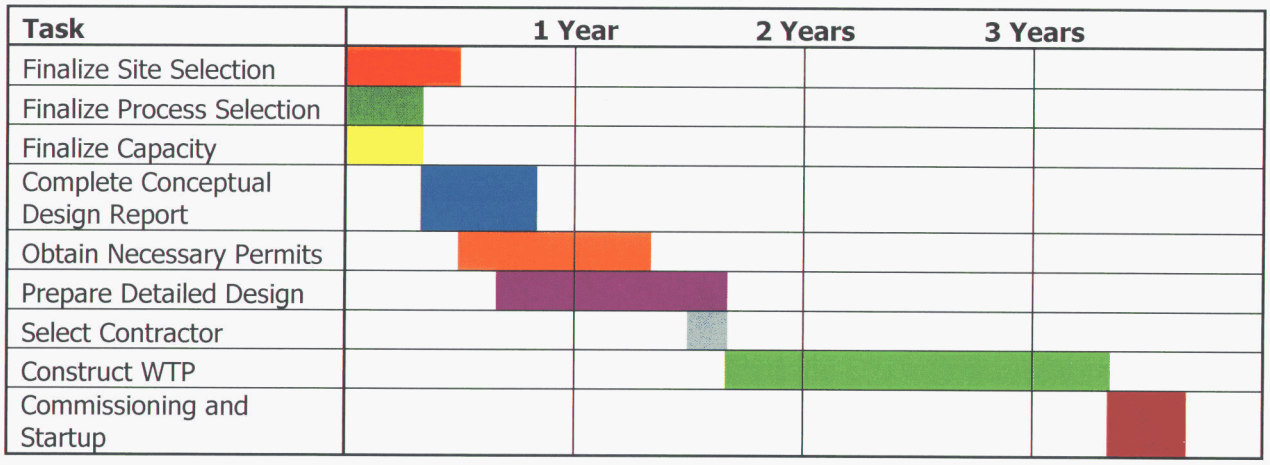
following treatment processes: raw water impoundment, high-rate clarification, and deep-bed GAC filters. Residuals from the treatment process will be treated using a gravity thickener and either solar drying beds or a centrifuge. The high-rate clarification will either be sand ballasted flocculation or dissolved air flotation (DAF). Although the cost evaluation performed in the Preliminary Engineering Study identifies these alternatives as nearly equal, because of the lower quantity of residuals produced by DAF, there may be a significant cost savings by reducing the size of the gravity thickener. Selection of a clarification technology should consider the overall package, including the clarification step and the and residuals handling. The final decision can be deferred until later in the design process after a more thorough investigation is conducted.

5.4 Project Timeline and Next Steps

The next steps entail finalizing the capacity, site selection, and process selection for the WTP and developing a conceptual design for the facility. If the MWD Board decides to design and construct a WTP, it will take approximately 3.5 years from the notice to proceed until the WTP can deliver water.

The tasks necessary to complete the project are described in this section and are accompanied by a timeline (Figure 5-1). Following this report, a survey should be conducted to finalize the site selection. Finalizing site selection will take approximately 6 months and entails conducting wildlife and vegetation evaluations; cultural, historical, and archeological investigations; and geographic and topographic surveys. During this time, the treatment process should also be finalized and MWD should obtain partner agreements to determine the capacity. To finalize the treatment process selection, a more thorough evaluation of clarification technologies and how they related to the residuals handling processes is recommended. In addition, it is recommended that MWD visit WTPs using drying beds and centrifuges to help determine the most appropriate residuals handling process. Once the process and capacity have been determined, the conceptual design of the WTP can begin and necessary permits can be obtained. Following, detailed design drawings and specifications can be developed and a construction contractor can be secured. Project construction, commissioning, and startup will last approximately 24 months.

Figure 5-1: Estimated Project Timeline



Appendix A. Unit Process Costs

Table A-1: Unit Process Conceptual Level Capital Costs, O&M Costs, and Total Present Values

	Raw Water Impoundment	Pre-Sedimentation Basin	Conventional Floc/Sed	Sand Ballasted Flocculation	Dissolved Air Flotation	Deep Bed GAC Filters[3]	Ozone[2]	GAC Filters[3]	Gravity Thickener	Drying Beds[1]	Centrifuge[3]
Earthworks	$890,000	$330,000	$340,000	$370,000	$460,000	$180,000	$800,000	$180,000	$82,000	$70,000	$590,000
Concrete	$0	$950,000	$3,300,000	$2,600,000	$2,600,000	$1,300,000	$970,000	$1,300,000	$120,000	$950,000	$160,000
Equipment and Installation (25% equipment)	$250,000	$310,000	$910,000	$150,000	$150,000	$2,000,000	$2,400,000	$1,600,000	$440,000	$22,000	$850,000
Sitework (5%)	$57,000	$80,000	$230,000	$150,000	$460,000	$170,000	$210,000	$150,000	$32,000	$52,000	$80,000
Piping (15%)	$170,000	$240,000	$680,000	$450,000	$610,000	$700,000	$630,000	$620,000	$96,000	$160,000	$320,000
Electrical & Instrumentation - E&I (20%)	$230,000	$320,000	$910,000	$590,000	$1,300,000	$700,000	$1,700,000	$620,000	$130,000	$52,000	$320,000
Scope of Project Contingency (30% capital)	$500,000	$700,000	$1,900,000	$1,200,000	$1,120,000	$1,500,000	$2,000,000	$1,300,000	$300,000	$400,000	$700,000
Engineering and Construction Administration (20%)	$420,000	$590,000	$1,650,000	$1,070,000		$1,310,000	$1,740,000	$1,150,000	$240,000	$340,000	$600,000
Land											
Capital Cost	**$2,517,000**	**$3,520,000**	**$9,920,000**	**$6,430,000**	**$6,700,000**	**$7,860,000**	**$10,450,000**	**$6,920,000**	**$1,440,000**	**$2,046,000**	**$3,620,000**
CAPITAL COST RANGE	**$2.1 M - $3.3 M**	**$3.0 M - $4.6 M**	**$8.4 M - $13 M**	**$5.5 M - $8.4 M**	**$5.7 M - $8.7 M**	**$6.7 M - $10 M**	**$8.9 M - $14 M**	**$5.9 M - $9.0 M**	**$1.2 M - $1.9 M**	**$1.7 M - $2.7 M**	**$3.1 M - $4.7 M**
Electricity ($0.06/kWh)	$0	$0	$4,000	$16,000	$40,000	$0	$9,000	$0	$25,000	$2,000	$10,000
Chemicals	$0	$0	$200,000	$230,000	$200,000	$680,000	$230,000	$25,000	$0	$0	$0
Labor	$50,000	$70,000	$200,000	$130,000	$130,000	$160,000	$210,000	$140,000	$29,000	$41,000	$72,000
Materials (2% capital)	**$50,000**	**$70,000**	**$400,000**	**$380,000**	**$370,000**	**$840,000**	**$450,000**	**$170,000**	**$50,000**	**$40,000**	**$80,000**
O&M Cost	**$43,000 - $65,000**	**$60,000 - $91,000**	**$340,000 - $520,000**	**$320,000 - $480,000**	**$310,000 - $480,000**	**$0.7 M - $1.1 M**	**$380,000 - $590,000**	**$140,000 - $220,000**	**$43,000 - $65,000**	**$34,000 - $52,000**	**$68,000 - $100,000**
O&M COST RANGE											
Total Present Cost (6%, 20 years)	**$3,090,000**	**$4,323,000**	**$14,508,000**	**$10,789,000**	**$10,944,000**	**$17,495,000**	**$15,611,000**	**$8,870,000**	**$2,013,000**	**$2,505,000**	**$4,538,000**
TOTAL PRESENT COST RANGE	**$2.6 M - $4.0 M**	**$3.7 M - $5.6 M**	**$12 M - $19 M**	**$9.2 M - $14 M**	**$9.3 - $14 M**	**$15 M - $23 M**	**$13 M - $20 M**	**$7.2 M - $12 M**	**$1.7 M - $2.6 M**	**$2.1 M - $3.3 M**	**$3.9 M - $5.9 M**
Total Annualized Cost (6%, 20 years)	**$269,000**	**$377,000**	**$1,265,000**	**$941,000**	**$954,000**	**$1,525,000**	**$1,361,000**	**$773,000**	**$176,000**	**$218,000**	**$396,000**
TOTAL ANNUALIZED COST	**$230,000 - $350,000**	**$320,000 - $490,000**	**$1.1 M - $1.6 M**	**$0.8 M - $1.2 M**	**$0.8 M - $1.2 M**	**$1.3 M - $2.0 M**	**$1.2 M - $1.8 M**	**$0.7 M - $1.0 M**	**$150,000 - $230,000**	**$190,000 - $280,000**	**$340,000 - $510,000**

	Backwash Clarifier	Chemical Facility	Intermediate Pumping	Admin Building/ Lab/Shop4	Disinfectant Facility	High Service Pump Station	Canal Intake/Bar Screen5	Clearwell
Earthworks	$110,000	$2,100,000	$12,000	$2,800,000	$550,000	$130,000	$0	$290,000
Concrete	$240,000		$470,000		$68,000	$1,200,000	$270,000	$310,000
Equipment and Installation (25% equipment)	$230,000	$400,000	$210,000	$0	$540,000	$710,000	$1,400,000	$0
Sitework (5%)	$29,000	$130,000	$35,000	$280,000	$58,000	$100,000	$84,000	$30,000
Piping (15%)	$87,000	$380,000	$100,000	$420,000	$170,000	$310,000	$0	$90,000
Electrical & Instrumentation - E&I (20%)	$120,000	$500,000	$140,000	$560,000	$230,000	$410,000	$0	$30,000
Scope of Project Contingency (30% capital)	$200,000	$1,100,000	$300,000	$1,200,000	$500,000	$900,000	$500,000	$200,000
Engineering and Construction Administration (20%)	$200,000	$920,000	$250,000	$1,050,000	$420,000	$750,000	$450,000	$190,000
Land								
Capital Cost	**$1,216,000**	**$5,530,000**	**$1,517,000**	**$6,310,000**	**$2,536,000**	**$4,510,000**	**$2,704,000**	**$1,140,000**
CAPITAL COST RANGE	**$1.0 M - $1.6 M**	**$4.7 M - $7.2 M**	**$1.3 M - $2.0 M**	**$5.4 M - $8.2 M**	**$2.2 M - $3.3 M**	**$3.8 M - $5.9 M**	**$2.3 M - $3.5 M**	**$1.0 M - $1.5 M**
Electricity ($0.06/kWh)	$12,000	$13,000	$15,000	$16,000	$22,000	$240,000	$3,000	$0
Chemicals	$0	$0	$0	$0	$27,000	$0	$0	$0
Labor	$24,000	$111,000	$30,000	$130,000	$51,000	$90,000	$54,000	$23,000
Materials (2% capital)	**$36,000**	**$124,000**	**$45,000**	**$146,000**	**$100,000**	**$330,000**	**$57,000**	**$23,000**
O&M Cost	**$30,000 - $47,000**	**$110,000 - $160,000**	**$38,000 - $59,000**	**$120,000 - $190,000**	**$85,000 - $130,000**	**$280,000 - $430,000**	**$48,000 - $74,000**	**$20,000 - $30,000**
O&M COST RANGE								
Total Present Cost (6%, 20 years)	**$1,629,000**	**$6,952,000**	**$2,033,000**	**$7,985,000**	**$3,683,000**	**$8,295,000**	**$3,358,000**	**$1,404,000**
TOTAL PRESENT COST RANGE	**$1.4 M - $2.1 M**	**$5.9 M - $9.0 M**	**$1.7 M - $2.6 M**	**$6.8 M - $10 M**	**$3.1 M - $4.8 M**	**$7.1 M - $11 M**	**$2.9 M - $4.4 M**	**$1.2 M - $1.8 M**
Total Annualized Cost (6%, 20 years)	**$142,000**	**$606,000**	**$177,000**	**$696,000**	**$321,000**	**$723,000**	**$293,000**	**$122,000**
TOTAL ANNUALIZED COST	**$120,000 - $180,000**	**$520,000 - $790,000**	**$150,000 - $230,000**	**$590,000 - $900,000**	**$270,000 - $420,000**	**$610,000 - $940,000**	**$250,000 - $380,000**	**$100,000 - $160,000**

NOTES:

(1) Electrical & Installation - E&I (5%)
(2) Electrical & Installation - E&I (40%)
(3) Piping (20%)
(4) Sitework (10%)
(5) Piping included in Equipment and Installation

EXHIBIT
D-54

EXHIBIT
D-54
admitted

Arizona-American Water

2007-2011 from Business Plan

	2002		2003		2004		2005		2006		2007		2008		2009		2010		2011	
AIAC / CIAC	56,795,622	16%	112,579,124	28%	147,901,490	33%	180,934,793	38%	216,129,805	39%	257,707,914	42%	276,684,741	41%	352,982,459	45%	394,887,659	48%	434,681,109	51%
LT Debt	173,824,405	50%	173,792,930	43%	198,772,252	45%	198,757,395	42%	207,839,822	38%	214,130,000	35%	247,995,000	36%	272,545,000	35%	262,482,000	32%	231,371,000	27%
Equity	115,437,405	33%	115,315,673	29%	95,257,356	22%	93,853,739	20%	125,408,846	23%	142,585,000	23%	156,655,000	23%	157,564,000	20%	160,589,000	20%	181,353,000	21%
Total	346,057,432	100%	401,687,727	100%	441,931,098	100%	473,545,927	100%	549,378,473	100%	614,422,914	100%	681,334,741	100%	783,091,459	100%	817,958,659	100%	847,405,109	100%
LT Debt & Equity	289,261,810		289,108,603		294,029,608		292,611,134		333,248,668		356,715,000		404,650,000		430,109,000		423,071,000		412,724,000	

Please note Anthem refunds are programmed for 2008.
Please note AIAC/CAIC is likely overstated in 2007 and onward as compared to likely actuals due to later than forecasted implementation of Agua Fria WHU-1 hook-up fee increase and over forecasting of proceeds under Anthem's new hook-up fee.

EXHIBIT
A 1
admi Hees

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON - Chairman
JEFF HATCH-MILLER
WILLIAM A. MUNDELL
KRISTIN K. MAYES
GARY PIERCE

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 **STIPULATION**

Arizona-American Water Company ("Arizona-American"), on the one hand, and Courtland Homes, Inc. ("Courtland"), Taylor Woodrow/Arizona, Inc. ("Taylor Woodrow"), CHI Construction Company ("CHI"), and Trend Homes, Inc. ("Trend") (collectively the "Developers"), on the other hand, through counsel undersigned, hereby stipulate to the following:

1. Arizona-American has entered into Water Facilities Line Extension Agreements ("LXAs") to provide water service to the Developers' projects commonly known as Greer Ranch North (Courtland), Sycamore Farms (Taylor Woodrow), Sarah Ann Ranch (CHI), and Cortessa (Trend) (collectively the "Projects").

2. The Projects are at operational acceptance for purposes of the LXAs.

3. The Developers have each paid to Arizona-American 100% of the required Water Facility Hook-Up Fees (the "Hook-Up Fees") for the Projects under Arizona-American's existing Arizona Corporation Commission ("ACC") approved tariff.

4. Unless ordered to by the ACC, Arizona-American will not impose or seek to impose higher Hook-Up Fees on the Projects if the ACC subsequently approves an increase to Arizona-American's tariff.

5. Any true-ups to the Hook-Up Fees that may arise in the future relating to the Hook-Up Fees already paid for the Projects will be based on the ACC approved tariff that existed at the time the payment was made.

6. This stipulation is not intended to modify the term of any LXA between a Developer and Arizona-American.

7. This stipulation may be offered as an exhibit at any hearing in the above-captioned matter.

DATED this 19th day of March, 2007.

By _____
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GREENBERG TRAURIG, LLP

By _____
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Attorneys for Trend Homes, Inc.

EXHIBIT
A-2
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

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KRISTIN K. MAYES
BARRY WONG

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT	DOCKET NO. W-01303A-05-0718 **ARIZONA-AMERICAN WATER COMPANY** **REVISED APPLICATION**

I. INTRODUCTION

On October 11, 2005, Arizona-American Water Company ("Arizona-American" or the "Company") filed for certain approvals associated with construction of a water treatment facility known as the White Tanks Regional Water Treatment Facility ("White Tanks Plant"). The White Tanks Plant is designed to treat water delivered from the Central Arizona Project for distribution to Arizona-American's customers in its Agua Fria Water District. In Arizona-American's initial application, the White Tanks Plant was to be financed, built, and owned by the Maricopa County Municipal Water Conservation District Number One ("MWD"). Further, Arizona-American would obtain treatment services through a long-term capital lease with MWD, and an Arizona-American affiliate would operate the plant through an Operation and Maintenance Agreement with MWD. As part of that application, Arizona-American asked for approval of a number of requests.

Arizona-American still believes that the White Tanks Plant is needed to support future growth in our Agua Fria Water District. It will allow us to provide safe, reliable, supplies of

renewable water to our customers, and largely avoid the need to drill new water wells. However, circumstances have changed since the initial application. MWD no longer wishes to finance, build, and own the White Tanks Plant.

Arizona-American can construct, own, and operate the White Tanks Plant, but it will not be able to do so under a conventional rate-making model, where the Company would finance the facility during construction, then file a rate case after the facility was completed, and then wait to begin recovery on and of its investment until after the rate case concluded. Arizona-American's financial situation will not allow it to attract the funds needed for a project of this size. To support construction of the White Tanks Plant, Arizona-American will have to significantly increase the current hook-up fees charged for new connections in its Agua Fria Water District. This will bring hook-up fees closer to the levels in effect or proposed in other fast-growing areas of Maricopa County.

Most of the approvals originally requested are no longer needed, but Arizona-American will still need certain accounting approvals in order to construct the White Tanks Plant. An evidentiary hearing should not be needed to process this revised application.

II. BACKGROUND

Arizona-American is a public service corporation engaged in providing water and wastewater utility services in portions of Maricopa, Mohave, and Santa Cruz Counties, Arizona, pursuant to various certificates of public convenience and necessity granted by the Arizona Corporation Commission (the "Commission") to Arizona-American and its predecessors in interest. The Company presently provides utility service to approximately 100,000 water customers and 50,000 sewer customers in Arizona, and is Arizona's largest investor-owned water and wastewater utility. Arizona-American's Agua Fria District is located in the rapidly developing western Phoenix suburbs (generally north of I-10, between the White Tank Mountains and the 101 Expressway), where the Company currently has about 30,000 water customers and is adding approximately 3,500 new water customers per year.

The Company's central business office is located at 19820 North Seventh Street, Suite 201, Phoenix, Arizona 85024, and its telephone number is (623) 445-2400. The person responsible for overseeing and directing the conduct of this application is Thomas M. Broderick. Mr. Broderick's contact information follows:

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Manager, Rates and Regulations, Western Region
American Water Company
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Please direct all data requests and other requests for information concerning this revised application to Mr. Broderick, with a copy to Arizona-American's undersigned counsel.

III. THE WHITE TANKS PLANT

As part of its initial application in this case, Arizona-American filed the White Tanks Report. The Report is no longer part of the revised application.

A. Regional Need for Surface Water Treatment Facility

Over the last 50 years, the West Valley has developed largely based on groundwater resources. As a result, groundwater overdraft and depletion in the area has been severe. Arizona-American and other entities serving the West Valley have access to Colorado River water delivered through canals and other facilities owned by the Central Arizona Project ("CAP"). However, treatment is required for this water to meet drinking-water standards.

In 1997, a number of western Maricopa County municipalities and private water companies holding CAP water contracts formed WESTCAPS to develop cooperative regional solutions for use of the region's CAP water allocations and other renewable water supplies. This effort was driven by the concerns of the Arizona Department of Water Resources ("ADWR") and West Valley water providers about the long-term consequences of continuing to use only groundwater to support population growth. Continuing to rely solely on groundwater would be

imprudent because of accelerated groundwater level declines, land subsidence, declining well-production rates, and the increasing number of wells that could not meet Safe Drinking Water Act standards.

WESTCAPS determined that regional planning was needed to develop the most cost-effective strategy to supply the water needed to support the growth expected in the West Valley. To facilitate the WESTCAPS plan development and the curtailment of groundwater use in the West Valley, ADWR contributed a total of $200,000 toward the study. The U.S. Bureau of Reclamation also contributed over $1,000,000 of in-kind services toward the project.

In April 2001, WESTCAPS released its Regional Water Supply Plan. Groundwater modeling studies, conducted by ADWR and by the Bureau of Reclamation as part of the WESTCAPS study, warned that continued reliance on groundwater to support new development will result in long-term groundwater declines that approach or exceed the ADWR Assured Water Supply limit of 1000 feet below land surface. This would also accelerate land-subsidence problems. The Regional Water Supply Plan concluded that the area's water suppliers should maximize their use of CAP water and other surface water resources. To treat that water, WESTCAPS recommended the construction of two regional treatment facilities.

One of those treatment facilities has become the White Tanks Regional Water Treatment Facility ("White Tanks Plant"). The WESTCAPS study selected the site of the proposed White Tanks Plant (Cactus and Perryville Road, on the Beardsley canal) because of its location on the canal and its proximity to multiple water provider service areas. The 45-acre plant site is large enough to support a facility that could ultimately treat up to 80 million gallons per day (MGD).

Arizona-American's recent experience underscores the need for the White Tanks Plant. Most recently constructed wells within the Agua Fria District have exhibited poor water quality and low rates of water production. Over the last few years, levels of arsenic, fluoride, nitrate, chromium, or other constituents in excess of Federal and State drinking water standards have become all-too common in new wells constructed within the Agua Fria District south of

Greenway Road. These wells will require expensive wellhead treatment systems to remove the contaminants at a considerably higher total capital and operation and maintenance cost than needed for wells only a few years ago. To locate water, deeper drilling has been necessary, which raises capital costs and increases pumping costs (electricity). In addition, well yields below Greenway have been lower than for new wells north of Greenway. Overall, Arizona-American's recent experience with new well construction—whether drilled by the Company or by a developer—highlights the need for surface water treatment plant capacity to minimize long-term water costs for Arizona-American's customers in its Agua Fria District.

B. <u>Project Background</u>

Arizona-American holds a CAP-water subcontract for 11,093 acre-feet per year, which will require treatment before it can be delivered to its Agua Fria customers. In addition, Arizona-American and MWD have an agreement whereby MWD will provide Agua Fria River Water it now controls to Arizona-American for treatment and delivery to its customers residing within the MWD area. Arizona-American estimates that this agreement will result in up to 21,000 acre-feet per year of additional surface water being available for direct treatment and delivery at buildout of the Agua Fria District.

In 2002, Arizona-American began moving forward with the regional treatment plant concept by purchasing a 45-acre parcel of land at the site identified in the WESTCAPS Regional Water Supply Plan. At that time, Arizona-American believed that it could obtain financing to design, build, and operate this regional treatment facility—the White Tanks Plant.

In 2003, Arizona-American signed a contract for design and construction of the White Tanks Plant with the Joint Venture of Black and Veatch (design and engineering), and Western Summit Constructors, Inc. (construction). The White Tanks Plant is designed to be constructed in phases. The capacity of the Phase I(a) plant is 13.5 MGD and is expandable to 20 MGD (Phase I(b)) with the addition of one more treatment-unit train. Three additional phases (20

MGD each) can eventually be added, depending on the rate of development in the region, for a total treatment capacity of 80 MGD.

Arizona-American now projects that the White Tanks Plant will be needed in May 2009 to meet customer demands expected for that summer. This is one year later than estimated in the Company's initial application. The Company was able to delay the in-service date one year for two reasons: customer growth has slowed because of the recent real-estate slowdown, and new low-cost facilities and resources are being added that will improve water availability in critical areas of the Agua Fria Water District.

Black and Veatch has now finalized the plans for the White Tanks Plant, so that Arizona-American can competitively bid its construction. Arizona-American intends to begin the competitive bid process at roughly at the same time as the Commission provides the necessary approvals requested in this revised application. Permitting (through Maricopa County and other agencies), of the Phase I plant is essentially complete.

C. <u>Project Schedule</u>

As just discussed, Arizona-American requires additional water-production capacity by the summer of 2009 to meet its Agua Fria customers' rapidly growing water demands. Construction of the White Tanks Plant will require approximately 24 months. Therefore, in order for the plant to be available to meet summer-2009 demands, construction must begin during the second quarter of 2007. An abbreviated schedule of significant milestones follows:

- Commission Approval (Q4 2006)
- RFP for Construction Contract Issued (Q4 2006)
- Conditional Construction Contract Awarded (Q1 2007)
- Construction Begins (Q2 2007)
- Construction Completed (Q2 2009)

D. Construction Cost

Exhibit A to this revised application summarizes the latest cost estimates for the White Tanks Plant. For a 6.7 MGD plant, Arizona-American estimates a total cost of $64,815,000. For a 13.5 MGD plant the estimated cost increases by just $2,510,000 to $67,325,000. The difference is largely attributable to adding one more treatment train during initial construction. Given the relatively small difference for twice the treatment capacity, it would not be prudent to initially build the smaller capacity plant and then add the treatment train later. This would likely be significantly more expensive, because a contractor would have to mobilize a new work force and add the new treatment train while the facility was actually operating. The operation and maintenance costs associated with the two options should be the same, until such time as the additional capacity is actually needed.

Other entities have approached Arizona-American concerning purchasing treatment services at the completed plant. If the additional capacity is immediately available, this will make the White Tanks Plant more attractive to other purchasers. In turn, third-party purchases would reduce the future revenue requirement or hook-up fees required to recover the cost of the facility.

IV. WATER SUPPLY ALTERNATIVE

The alternative to the White Tanks Plant would be business as usual—continuing to rely on groundwater supplies. Arizona-American does not believe that this option would be wise for several reasons.

A well-construction option is problematic. As discussed above, in the Agua Fria District Arizona-American and developers have been finding it increasingly more difficult to locate and obtain suitable well sites. ADWR well-spacing regulations have made permitting of high capacity wells extremely difficult. Flow rates in many new wells south of Greenway have been disappointing. Several wells drilled or tested for potable water supply in this area have proven completely unusable. Further, most new wells in the area south of Greenway are requiring

arsenic treatment. Levels of arsenic, fluorides, nitrates, and chromium are also troubling and may require additional high-cost treatment.

Even if high-quality, high-yield, wells could be found, continuing to drill wells would be contrary to public policy. Groundwater modeling studies conducted by ADWR and by the Bureau of Reclamation warn that continued reliance on groundwater to support new development would cause unacceptable groundwater level declines and accelerate land-subsidence problems. Also, the WESTCAPS study concluded that the area's water suppliers should maximize their use of CAP and other surface water resources and recommended the construction of two regional treatment facilities, one of which is the White Tanks Plant. Finally, the Commission has strongly encouraged utilities under its jurisdiction to make full use of surface-water resources, which cannot be delivered to customers without treatment.

For all these reasons, construction of the White Tanks Plant is the prudent course of action.

V. INITIAL APPLICATION

Arizona-American's initial application in this case also requested certain approvals needed for construction of the White Tanks Plant. Like the revised application, the initial application asked to increase hook-up fees in the Company's Agua Fria Water District to fund the White Tanks Plant. However, the initial application was substantially more complicated than the revised application, because of several factors:

- Arizona-American was to sell the plant site, a pipeline, and other assets to MWD to be included as part of the White Tanks Plant.
- MWD was to finance, construct, and own the White Tanks Plant.
- Arizona-American's long-term commitment for a majority of the White Tank Plant's treatment capacity required that the transaction be accounted for as a capital lease.
- An Arizona-American affiliate was to operate and maintain the White Tanks Plant under a long-term O&M agreement.

Because of these factors, Arizona-American had to request several approvals from the Commission that are no longer needed:

- Authorize Arizona-American Water Company under A.R.S. § 40-301 *et. seq* to issue an evidence of indebtedness in an amount equal to the capital lease asset and determined consistent with the methodology set forth in Attachment B to the initial application;
- Authorize Arizona-American Water Company under A.R.S. § 40-285 to transfer the Pipeline Main and other assets to MWD;
- Find that it is prudent for Arizona-American Water Company to enter into the agreements contemplated in the MOU, including the proposed capital lease with MWD;
- Approve the regulatory process set forth in Section IVA of the White Tanks Report; and
- Authorize the ratemaking treatment set in Section IVB of the White Tanks Report for the proposed capital lease and associated documents between Arizona-American and MWD.

In the next sections, Arizona-American will describe the few approvals needed for it to proceed with the White Tanks Plant on its own.

VI. TWO ALTERNATIVE REQUESTS

A. Option 1

In its Agua Fria District, Arizona-American is currently charging builders a Water Facilities Hook-Up Fee of only $1,150 for 5/8 x 3/4-inch meters, $1,750 for 3/4-inch meters, $2,875 for one-inch meters, with increasing fees for larger meters. This is substantially less than builders are paying in similar high-growth areas in Maricopa County. For example, in the City of Peoria, the current water hook-up fee for 3/4 and one-inch meters is $3,497. The City of Surprise is proposing new development fees for Water Resources ($3,447) and Drinking Water

System ($3,500) totaling $6,955 for new-home residential water customers with 3/4-inch meters. Finally, in Decision No. 68857, the Commission approved a rate-base reduction tariff for Arizona-American's Anthem Water District. This tariff applies to all new connections and starts at $3,000 for 5/8 x 3/4-inch meters. The rate-base reduction tariff is on top of a $765 per equivalent residential unit capacity reservation charge.

For Option 1, Arizona-American proposes to increase its hook-up fee to the same level as the rate-base reduction fee in effect for its Anthem Water District. Exhibit B lists by year each capital project that is currently eligible for recovery through funds generated by the Agua Fria Water Facilities Hook-Up Fee. The 13.5 MGD White Tanks Plant is listed in the first row, with the total cost equal to the $67,325,000 detailed in Exhibit A. Total projected CapEx for eligible projects, including the White Tanks Plant, equals $132,892,655.

Exhibit C is a spreadsheet that projects Water Facilities Hook-Up Fee collections and offsets collections against the eligible water projects listed in Exhibit B. Essentially, present anticipated hook-up fee collections will be enough only to fund existing projects. If the White Tanks Plant is built, there will be a permanent deficit in excess of $70,000,000, which would have to be funded through increased rates.

Option 1 is shown on Exhibit D. It resets the Water Facilities Hook-Up Fees to the level recently approved by the Commission for Arizona-American's Anthem Water District. At these levels, the White Tanks Plant would be fully funded, but not until late 2013. Further, without an accounting order, Arizona-American would not be able to recover its carrying costs on the unrecovered balance, so it would still not be made whole on its investment for the benefit of its customers.

A. Option 2

Option 2 is shown on Exhibit E. It resets the Water Facilities Hook-Up Fees to levels roughly sufficient to fund the White Tanks Plant in the year it enters service – 2009. This hook-up fee would start at $4,700 for a 5/8 x 3/4-inch meter.

VII. ACCOUNTING ORDER

Arizona-American also requests an accounting order to cover two matters:

First, the order should provide Arizona-American the ability to accrue post-in-service AFUDC on the unfunded balance of the White Tanks Plant investment. This will allow Arizona-American to be made whole on its investment until hook-up fees collections are sufficient to fund the entire Plant balance. Even with Option 2, there is an expected lag between plant completion and the needed hook-up fee collections. And if growth is less than expected, this lag could be even greater. Customers should be indifferent because the hook-up fee funds will be treated as contributions and will completely offset the plant investment, including the post-in-service AFUDC.

Second, the order should provide that collected hook-up fees will not be considered to be contributions until some corresponding eligible plant enters service. Because CWIP is not included in rate base, the contribution balance would otherwise grow far faster than rate base, causing rate base to decline rapidly, only to then bounce back as the plant entered service. Earnings would also yo-yo.

VIII. 2008 RATE CASE

In Decision No. 68825, the Commission required Arizona-American to file a rate case for its Agua Fria District by no later than May 31, 2008, based on a 2007 test year. Arizona-American would like to include two proposals related to the White Tanks Plant in that filing.

First, Arizona-American would propose to adjust the Water Facilities Hook-Up Fees based on information known to that date. This will include:

- Actual to-date plant costs;
- The effects of any third-party treatment contracts;
- Actual hook-up fee collections;
- Revised projected customer additions and meter preferences; and
- Future capital requirements.

Second, Arizona-American would propose a mechanism, similar to the Commission's ACRM procedure, to recover operation and maintenance costs associated with the White Tanks Plant between rate cases. The Company currently estimates that these O&M costs will be approximately $1.5 million per year, based on current media, electricity, and other costs.

IX. NO HEARING REQUIRED

Because Arizona-American is asking only to adjust the existing Water Facilities Hook-Up Fees and for an accounting order, no hearing should be required. Hook-up fee collections that exceed current requirements are kept in a separate account and do not affect earnings. However, time is of the essence if the White Tanks Plant is to enter service in time to satisfy peak-demands expected in 2009. Therefore, Arizona-American asks that a Staff Report be issued by October 13, 2006, and that Arizona-American and any other parties be provided until November 3, 2006, the opportunity to respond, in the nature of exceptions, to the Staff Report. This should allow this matter to be considered at the Commission's regularly scheduled November 21-22, 2006, Open Meeting.

X. CUSTOMER BENEFITS

There are a number of important customer benefits to construction of the White Tanks Plant and the associated approvals:

- The transaction will make possible the construction of a regional surface-water treatment facility known as the White Tanks Plant.
- Arizona-American will be able to use its share of the treatment capacity at the White Tanks Plant to treat its entitlement to Colorado River water delivered through facilities of the Central Arizona Project and its future Agua Fria River Water entitlement.
- Consistent with state, local, and Commission policy, the transaction will preserve groundwater resources throughout the Company's Agua Fria District by significantly reducing anticipated groundwater usage.

- With the hook-up fee adjustments, there should be no near-term rate increases for existing customers.

XI. REQUESTED COMMISSION ACTIONS

Arizona-American requests the following specific actions from the Commission as part of its order in this proceeding:

- Adjust the Water Facilities Hook-Up Fees in accordance with either Option 1 or Option 2, above.
- Provide an Accounting Order as described in Section VII, above.
- Order Arizona-American to file, as part of its 2008 Agua Fria Rate Filing, a revised Water Facilities Hook-Up Fee proposal based on the best information known to the Company at that time.
- Order Arizona-American to file, as part of its 2008 Agua Fria Rate Filing, for approval of a proposed mechanism, similar to the Commission's ACRM procedure, to recover operation and maintenance expense for the White Tanks Plant incurred between rate cases.

XII. CONCLUSION

For all the reasons set forth above Arizona-American Water Company asks the Commission to provide the requested relief.

RESPECTFULLY SUBMITTED on September 1, 2006.

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By: Amy Yates
Amy Yates

White Tanks Plant Phase 1A Budget Review

7/31/2006
b. vandenson

Item	Est Cost from SYSTEMS ENG in New Jersey for 6.7 MGD	Proposed Adjustments from Phx Review for 6.7 MGD	Est Revised Cost for 6.7 MGD	Proposed Adjustments from Phx Review for 13.4 MGD	Est Revised Cost for 13.4 MGD	
Land and Land Rights						
Sub Total Land Purchase	**$603,000**		**$603,000**		**$603,000**	
Phase 1A Plant Construction						
Structures and Improvements	$17,986,000		$17,986,000		$17,986,000	
Raw water storage reservoirs	$1,638,000		$1,638,000		$1,638,000	
Beardsley Canal Intake	$422,000		$422,000		$422,000	
Backup Power	$380,000		$380,000		$380,000	
Pumps, Motors & Piping	$1,986,000		$1,986,000		$1,986,000	
Water Treatment Equipment	$7,138,000		$7,138,000		$7,138,000	
Finished Water Reservoir	$2,151,000		$2,151,000		$2,151,000	
Office Furniture	$32,000		$32,000		$32,000	
Tools & Equipment	$40,000		$40,000		$40,000	
Laboratory Equipment	$130,000		$130,000		$130,000	
Sub Total #1	$31,903,000		$31,903,000		$31,903,000	
Design Changes and Inflation from bid through design	$7,000,000	*$18,224* (1)	$7,018,224	*$18,224* (1)	$7,018,224	
Az AM Water ROM Changes per July/August 2006 Scope Review	$0	($900,000) (2)	($900,000)	*$1,000,000* (5)	$1,000,000	
Sub Total #2	$38,903,000	($881,776)	$38,021,224	$1,018,224	$39,921,224	
Inflation Adjustment 2004 - 2006	$8,220,000	$300,000 (3)	$8,520,000	$450,000 (3)	$8,870,000	
Contingency - 5%	$1,945,150	($44,089) (4)	$1,901,061	$50,911 (4)	$1,951,972	
Sub Total Construction	$47,068,150		$46,442,285		$48,543,196	
Phase 1A Soft Costs						
Original WT Joint Venture Contract	$3,294,823		$3,294,823		$3,294,823	
Change Orders Through 11/04	$271,546		$271,546		$271,546	
Delay Charges	$120,000		$120,000		$120,000	
B&V Home Office Support	($478,038)		($478,038)		($478,038)	
Permitting Through 11/04	$113,695		$113,695		$113,695	
Additional Permitting Estimate	$25,500		$25,500		$25,500	
Bid Document Preparation	$251,440		$251,440		$251,440	
Bidding Services	$83,080		$83,080		$83,080	
Construction Phase Services	$1,189,730		$1,189,730		$1,189,730	
Resident Engineer	$594,600		$594,600		$594,600	
AAW Internal Costs Through 12/04	$1,015,788		$1,015,788		$1,015,788	
Estimated Additional AAW Costs	$500,000		$500,000		$500,000	
Pilot Testing & UV Procurement Costs	$115,000		$115,000		$115,000	
Owners Internal Costs During Construction	$500,000		$500,000		$500,000	
Sub Total Soft Costs	$7,597,164		$7,597,164		$7,597,164	
Sum of Sub Totals	$55,268,314	<- IN 2006 $$$'S, DOES NOT INCLUDE AFUDC, OHD, ETC.	$54,842,449	<- IN 2006 $$$'S, DOES NOT INCLUDE AFUDC, OHD, ETC.	$56,743,360	<- IN 2006 $$$'S, DOES NOT INCLUDE AFUDC, OHD, ETC.
AFUDC @6.5%	$3,592,440		$3,551,759		$3,688,318	
OHD @4.25%	$2,348,903		$2,322,304		$2,411,593	
Total	$61,209,658	<- IN 2006 $$$'S	$60,516,512	<- IN 2006 $$$'S	$62,843,272	<- IN 2006 $$$'S
Prior	$5,924,071		$5,924,071	$5,924,071	$5,924,071	$5,924,071
2006 Budget	$175,929		$175,929	$175,929	$175,929	$175,929
2007 Spend	$15,430,704		$15,236,623	$15,237,000	$15,888,116	$15,888,000
2008 Spend w/out Inflation	$25,350,443		$25,031,596		$26,101,905	
2008 Inflation (per J. Sauter)	$2,332,241		$2,302,907		$2,401,375	
2008 Budget (w/ inflation)	$27,682,683		$27,334,503	$27,335,000	$28,503,280	$28,503,000
2009 Spend w/out Inflation	$14,328,511		$14,148,293		$14,753,251	
2009 Inflation (per J. Sauter)	$2,020,320		$1,994,909		$2,080,208	
2009 Budget (w/ inflation)	$16,348,831		$16,143,203	$16,143,000	$16,833,459	$16,834,000
overall project budget	**$65,562,219**		**$64,814,329**	**$64,815,000**	**$67,324,855**	**$67,325,000**

FOOTNOTES:
(1) ADJUSTED TO MATCH TREND REGISTER
(2) REFLECTS AZ AMERICAN SOW CHANGE, ELIMINATE ONE FINISHED WATER RESERVOIR (-$750k), DOWNSIZE UV (-$50k), & ELECTRICAL DOWNSIZING (-$100k)
(3) INFLATION INCREASE REPRESENTS A OF DELTA 12% VERSUS 8% PER YEAR AS USED IN PREVIOUS ESTIMATES, ALSO REFLECTS MATERIAL INCREASE FOR ELECTRICAL ($300k)
(4) CONTINGENCY VARIES BASED ON CALCULATION (BASED ON 5%)
(5) REFLECTS AZ AMERICAN SOW CHANGE, ADDING BACK IN RAW WATER STORAGE BASIN, FLOCC BASIN, DAF CLARIFIER, & FILTER (SUM OF THESE ITEMS IS ~+$1M)

NOTE:
COST BREAKDOWN (HIGHLIGHTS) FOR THE ADMIN BUILDING:
> LAB EQUIPMENT $30k (BID ALLOWANCE)
> SHOP EQUIPMENT $30k (BID ALLOWANCE)
> COMPUTER EQUIPMENT $20K (BID ALLOWANCE)
> ESTIMATED COST TO CONSTRUCT ADMIN BLDG IS $366,300 - AREA -> 6660 $55 <- $/SQFT (FOR ROM ESTIMATE (TOM J.)

Docket No. W-01303A-05-0718
Revised Application

Capital Expenditures Related to Water Hook-Up Fees

District	Brief Description of Proposed Expenditures	Prior	Total 2006	Total 2007	Total 2008	Total 2009	Total 2010	Total 2011	Post 2011	Total
Agua Fria Water Investment Projects										
23610204	AF White Tanks CAP Treatment Plant	5,924,071	175,929	15,237,000	27,335,000	18,653,000	-	-	-	67,325,000
23610205	AF Surface Water Trunk Main Ph 1	9,735,508	339,492	-	-	-	-	-	-	10,075,000
23610602	AF White Tanks Trans Pipeline		25,000	2,750,000	-	-	-	-	-	2,775,000
23610401	AF Verrado Zone 3S Reservoir Expansion	47,303	2,087,697	-	-	-	-	-	-	2,135,000
23610501	AF WP 11 (Verrado Zone 3N BPS)	-	-	-	163,500	1,362,000	-	-	-	1,525,500
23610506	AF Well 7.3 (Corte Bella Well 3)	-	-	-	-	425,390	1,489,665	-	-	1,915,055
23610512	AF WP 9 Additional Pumps	146,526	3,474	-	-	-	-	-	-	150,000
23610513	AF WP 5 Expansion	-	-	-	-	-	-	-	1,936,750	1,936,750
23610515	AF Sierra Montana Plant Expansion	-	-	250,000	2,511,250	-	-	-	-	2,761,250
23610516	AF Corte Bella Plant Expansion	-	-	-	-	-	-	-	2,540,000	2,540,000
23610517	AF Verrado Z3N Reservoir	-	-	-	327,000	3,632,000	-	-	-	3,9[illegible]000
23610601	AF Verrado Zone 6 Reservoir 1.2MG		-	-	-	-	141,600	1,470,000	-	1,[illegible]0
23610604	AF 303 Corridor BPS		-	-	-	794,500	-	612,500	1,270,000	2,67[illegible],000
23610605	AF Westcor BPS		-	-	-	-	-	-	1,270,000	1,270,000
23610608	AF Rancho Cabrillo - New Well / Storage / Booster site		-	-	-	-	-	-	1,016,000	1,016,000
23610609	AF Verrado WTP Zone 5N Booster Pump Station		-	-	-	113,500	1,180,000	-	-	1,293,500
23610610	AF Verrado WTP Zone 6N Booster Pump Station		-	-	-	-	118,000	1,225,000	-	1,343,000
23610611	AF Sierra Montana Plant Expansion - Phase 2		-	-	-	-	-	-	635,000	635,000
2361XXXX	Sedella Transmission Main		-	-	-	340,500	590,000	-	3,810,000	4,740,500
2361YYYY	Westcor BPS Trans Line		-	-	-	-	-	1,225,000	1,270,000	2,495,000
2361ZZZZ	AF Verrado Z3N Trans Main	-	-	-	381,500	3,405,000	-	-	-	3,786,500
2361AAAA	AF Verrado Z6S BPS		100,000	800,000	-	-	-	-	-	900,000
2361BBBB	AF Verrado Z4N BPS		-	-	-	113,500	1,180,000	-	-	1,293,500
2361DDDD	AF Verrado Z8 BPS		-	-	-	-	-	122,500	635,000	757,500
2361EEEE	AF Verrado Z8 Reservoir		-	-	-	-	-	122,500	1,270,000	1,392,500
2361CCCC	AF Dist System/SOS Improvement Ph 1		100,000	-	-	-	-	-	-	100,000
2361FFFF	AF Dist System/SOS Improvement Ph 2		-	600,000	-	-	-	-	-	600,000
2361GGGG	AF Dist System/SOS Improvement Ph 3		-	500,000	5,450,000	-	-	-	-	5,950,000
	AF Prasada BPS		-	-	-	-	-	-	1,270,000	1,270,000
	AF Sedella BPS		-	-	-	567,500	826,000	-	1,270,000	2,663,500
	Total	**15,853,408**	**2,831,592**	**20,137,000**	**36,168,250**	**29,406,890**	**5,525,265**	**4,777,500**	**18,192,750**	**132,892,655**

The numbers above are based upon the current CAPEX budget (Q2RF)

Average CapEx spend 2006-2011 (excluding White Tanks projects) ***5,721,846***

*This project has a contribution from a Developer of $571,726.82 in 2006 which reduced American's cost

Collected Hook-Up Fees as of 12/31/05	$ 3,988,010
Expected annual CapEx	5,721,846
Growth	0.05
Five_eight	0.2036
Three_four	0.4348
One	0.3335
One_half	0.0104
Two	0.0177
Three	0
	100% **Check sum of meter size shares**
Total Water Facilities Hook-Up Fees	

	Existing HUF $ 1,150 Factor	No Change	2004	2005	2006	2007	2008	2009	2010	2011	2012
5/8-inch cust.	1.00			725	791	706	711	689	677	579	607
3/4-inch cust.	1.50			1,549	1,688	1,508	1,518	1,471	1,446	1,235	1,297
1-inch cust.	2.50			1,188	1,295	1,157	1,165	1,128	1,109	947	995
1.5-inch cust.	5.00			37	40	36	36	35	35	30	31
2-inch cust.	8.00			63	69	61	62	60	59	50	53
3-inch cust.	16.00			-	-	-	-	-	-	-	-
Customer Growth				3563	3883	3468	3492	3383	3326	2841	2983
Total Customers			21,375	24,938	28,821	32,289	35,781	39,164	42,490	45,331	48,314
5/8-inch cust.	$1,150.00	$1,150.00			$ 909,650	$ 811,900	$ 817,650	$ 792,350	$ 778,550	$ 665,850	$ 698,451
3/4-inch cust.	$1,725.00	$1,725.00			$ 2,911,800	$ 2,601,300	$ 2,618,550	$ 2,537,475	$ 2,494,350	$ 2,130,375	$ 2,237,377
1-inch cust.	$2,875.00	$2,875.00			$ 3,723,125	$ 3,326,375	$ 3,349,375	$ 3,243,000	$ 3,188,375	$ 2,722,625	$ 2,860,186
1.5-inch cust.	$5,750.00	$5,750.00			$ 230,000	$ 207,000	$ 207,000	$ 201,250	$ 201,250	$ 172,500	$ 178,386
2-inch cust.	$9,200.00	$9,200.00			$ 634,800	$ 561,200	$ 570,400	$ 552,000	$ 542,800	$ 460,000	$ 485,760
3-inch cust.	$18,400.00	$18,400.00			$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total HUF Collections					$ 8,409,375	$ 7,507,775	$ 7,562,975	$ 7,326,075	$ 7,205,325	$ 6,151,350	$ 6,460,160
Balance Forward				$ 3,988,010	$ 12,397,385	$ 19,905,160	$ 27,468,135	$ 34,794,210	$ 41,999,535	$ 48,150,885	$ 54,611,046
Existing capex program				15,853,408	18,685,000	38,822,000	74,990,250	104,397,140	109,922,405	114,699,905	132,892,655
Net Unfunded Plant				-11,865,398	-6,287,615	-18,916,840	-47,522,115	-69,602,930	-67,922,870	-66,549,020	-78,281,610

Collected Hook-Up Fees as of 12/31/05	$ 3,988,010	
Expected annual CapEx	5,721,846	
Growth	0.05	
Five_eight	0.2036	
Three_four	0.4348	
One	0.3335	
One_half	0.0104	
Two	0.0177	
Three	0	
		100%
Total Water Facilities Hook-Up Fees		

	Existing HUF	No Change										
	$ 1,150											
	Factor		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
5/8-inch cust.	1.00		607	607	607	607	607	607	607	607	607	607
3/4-inch cust.	1.50		1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297
1-inch cust.	2.50		995	995	995	995	995	995	995	995	995	995
1.5-inch cust.	5.00		31	31	31	31	31	31	31	31	31	31
2-inch cust.	8.00		53	53	53	53	53	53	53	53	53	53
3-inch cust.	16.00		-	-	-	-	-	-	-	-	-	-
Customer Growth			2983	2983	2983	2983	2983	2983	2983	2983	2983	2983
Total Customers			51,297	54,280	57,263	60,246	63,229	66,212	69,195	72,178	75,162	78,145
5/8-inch cust.	$1,150.00	$1,150.00	$ 698,451	$ 698,451	$ 698,451	$ 698,451	$ 698,451	$ 698,451	$ 698,451	$ 698,451	$ 698,451	$ 698,451
3/4-inch cust.	$1,725.00	$1,725.00	$ 2,237,377	$ 2,237,377	$ 2,237,377	$ 2,237,377	$ 2,237,377	$ 2,237,377	$ 2,237,377	$ 2,237,377	$ 2,237,377	$ 2,237,377
1-inch cust.	$2,875.00	$2,875.00	$ 2,860,186	$ 2,860,186	$ 2,860,186	$ 2,860,186	$ 2,860,186	$ 2,860,186	$ 2,860,186	$ 2,860,186	$ 2,860,186	$ 2,860,186
1.5-inch cust.	$5,750.00	$5,750.00	$ 178,386	$ 178,386	$ 178,386	$ 178,386	$ 178,386	$ 178,386	$ 178,386	$ 178,386	$ 178,386	$ 178,386
2-inch cust.	$9,200.00	$9,200.00	$ 485,760	$ 485,760	$ 485,760	$ 485,760	$ 485,760	$ 485,760	$ 485,760	$ 485,760	$ 485,760	$ 485,760
3-inch cust.	$18,400.00	$18,400.00	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total HUF Collections			$ 6,460,160	$ 6,460,160	$ 6,460,160	$ 6,460,160	$ 6,460,160	$ 6,460,160	$ 6,460,160	$ 6,460,160	$ 6,460,160	$ 6,460,160
Balance Forward			$ 61,071,206	$ 67,531,366	$ 73,991,526	$ 80,451,686	$ 86,911,847	$ 93,372,007	$ 99,832,167	$ 106,292,327	$ 112,752,487	$ 119,212,648
Existing capex program			138,614,501	144,336,347	150,058,193	155,780,039	161,501,885	167,223,731	172,945,577	178,667,423	184,389,269	190,111,115
Net Unfunded Plant			-77,543,295	-76,804,981	-76,066,667	-75,328,353	-74,590,039	-73,851,724	-73,113,410	-72,375,096	-71,636,782	-70,898,468

Collected Hook-Up Fees as of 12/31/05 $ 3,988,010

Total Proposed Hook-Up Fees

	Existing HUF	New HUF											
	$ 1,150	$ 3,000											
	Factor	Factor	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
5/8-inch cust.	1.00	1.00		725	791	706	711	689	677	579	607	607	607
3/4-inch cust.	1.50	1.50		1,549	1,688	1,508	1,518	1,471	1,446	1,235	1,297	1,297	1,297
1-inch cust.	2.50	2.50		1,188	1,295	1,157	1,165	1,128	1,109	947	995	995	995
1.5-inch cust.	5.00	5.00		37	40	36	36	35	35	30	31	31	31
2-inch cust.	8.00	8.00		63	69	61	62	60	59	50	53	53	53
3-inch cust.	16.00	16.00		-	-	-	-	-	-	-	-	-	-
Customer Growth				3,563	3,883	3,468	3,492	3,383	3,326	2,841	2,983	2,983	2,983
Total Customers			21,375	24,938	28,821	32,289	35,781	39,164	42,490	45,331	48,314	51,297	54,280
5/8-inch cust.	$1,150.00	$ 3,000			$ 909,650	$ 2,118,000	$ 2,133,000	$ 2,067,000	$ 2,031,000	$ 1,737,000	$ 1,822,047	$ 1,822,047	$ 1,822,047
3/4-inch cust.	$1,725.00	$ 4,500			$ 2,911,800	$ 6,786,000	$ 6,831,000	$ 6,619,500	$ 6,507,000	$ 5,557,500	$ 5,836,636	$ 5,836,636	$ 5,836,636
1-inch cust.	$2,875.00	$ 7,500			$ 3,723,125	$ 8,677,500	$ 8,737,500	$ 8,460,000	$ 8,317,500	$ 7,102,500	$ 7,461,354	$ 7,461,354	$ 7,461,354
1.5-inch cust.	$5,750.00	$ 15,000			$ 230,000	$ 540,000	$ 540,000	$ 525,000	$ 525,000	$ 450,000	$ 465,356	$ 465,356	$ 465,356
2-inch cust.	$9,200.00	$ 24,000			$ 634,800	$ 1,464,000	$ 1,488,000	$ 1,440,000	$ 1,416,000	$ 1,200,000	$ 1,267,200	$ 1,267,200	$ 1,267,200
3-inch cust.	$18,400.00	$ 48,000			$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total HUF Collections					$ 8,409,375	$ 19,585,500	$ 19,729,500	$ 19,111,500	$ 18,796,500	$ 16,047,000	$ 16,852,592	$ 16,852,592	$ 16,852,592
Balance Forward				$ 3,988,010	$ 12,397,385	$ 31,982,885	$ 51,712,385	$ 70,823,885	$ 89,620,385	$ 105,667,385	$ 122,519,977	$ 139,372,569	$ 156,225,161
Existing capex program				15,853,408	18,685,000	38,822,000	74,990,250	104,397,140	109,922,405	114,699,905	132,892,655	138,614,501	144,336,347
Net Unfunded Plant				-11,865,398	-6,287,615	-6,839,115	-23,277,865	-33,573,255	-20,302,020	-9,032,520	-10,372,678	758,068	11,888,814

Collected Hook-Up Fees as of 12/31/05 $ 3,988,010

Total Proposed Hook-Up Fees

	Existing HUF	New HUF								
	$ 1,150	$ 3,000								
	Factor	Factor	2015	2016	2017	2018	2019	2020	2021	2022
5/8-inch cust.	1.00	1.00	607	607	607	607	607	607	607	607
3/4-inch cust.	1.50	1.50	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297
1-inch cust.	2.50	2.50	995	995	995	995	995	995	995	995
1.5-inch cust.	5.00	5.00	31	31	31	31	31	31	31	31
2-inch cust.	8.00	8.00	53	53	53	53	53	53	53	53
3-inch cust.	16.00	16.00	-	-	-	-	-	-	-	-
Customer Growth			2,983	2,983	2,983	2,983	2,983	2,983	2,983	2,983
Total Customers			57,263	60,246	63,229	66,212	69,195	72,178	75,162	78,145
5/8-inch cust.	$1,150.00	$ 3,000	$ 1,822,047	$ 1,822,047	$ 1,822,047	$ 1,822,047	$ 1,822,047	$ 1,822,047	$ 1,822,047	$ 1,822,047
3/4-inch cust.	$1,725.00	$ 4,500	$ 5,836,636	$ 5,836,636	$ 5,836,636	$ 5,836,636	$ 5,836,636	$ 5,836,636	$ 5,836,636	$ 5,836,636
1-inch cust.	$2,875.00	$ 7,500	$ 7,461,354	$ 7,461,354	$ 7,461,354	$ 7,461,354	$ 7,461,354	$ 7,461,354	$ 7,461,354	$ 7,461,354
1.5-inch cust.	$5,750.00	$ 15,000	$ 465,356	$ 465,356	$ 465,356	$ 465,356	$ 465,356	$ 465,356	$ 465,356	$ 465,356
2-inch cust.	$9,200.00	$ 24,000	$ 1,267,200	$ 1,267,200	$ 1,267,200	$ 1,267,200	$ 1,267,200	$ 1,267,200	$ 1,267,200	$ 1,267,200
3-inch cust.	$18,400.00	$ 48,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total HUF Collections			$ 16,852,592	$ 16,852,592	$ 16,852,592	$ 16,852,592	$ 16,852,592	$ 16,852,592	$ 16,852,592	$ 16,852,592
Balance Forward			$ 173,077,753	$ 189,930,344	$ 206,782,936	$ 223,635,528	$ 240,488,120	$ 257,340,712	$ 274,193,304	$ 291,045,895
Existing capex program			150,058,193	155,780,039	161,501,885	167,223,731	172,945,577	178,667,423	184,389,269	190,111,115
Net Unfunded Plant			23,019,559	34,150,305	45,281,051	56,411,797	67,542,543	78,673,289	89,804,034	100,934,780

Collected Hook-Up Fees as of 12/31/05 $ 3,988,010

Total Proposed Hook-Up Fees

	Existing HUF	New HUF											
	$ 1,150	$ 4,700											
	Factor	Factor	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
5/8-inch cust.	1.00	1.00		725	791	706	711	689	677	579	607	607	607
3/4-inch cust.	1.50	1.50		1,549	1,688	1,508	1,518	1,471	1,446	1,235	1,297	1,297	1,297
1-inch cust.	2.50	2.50		1,188	1,295	1,157	1,165	1,128	1,109	947	995	995	995
1.5-inch cust.	5.00	5.00		37	40	36	36	35	35	30	31	31	31
2-inch cust.	8.00	8.00		63	69	61	62	60	59	50	53	53	53
3-inch cust.	16.00	16.00		-	-	-	-	-	-	-	-	-	-
Customer Growth				3,563	3,883	3,468	3,492	3,383	3,326	2,641	2,983	2,983	2,983
Total Customers			21,375	24,938	28,821	32,289	35,781	39,164	42,490	45,331	48,314	51,297	54,280
5/8-inch cust.	$ 1,150	$ 4,700			$ 909,650	$ 3,318,200	$ 3,341,700	$ 3,238,300	$ 3,181,900	$ 2,721,300	$ 2,854,540	$ 2,854,540	$ 2,854,540
3/4-inch cust.	$ 1,725	$ 7,050			$ 2,911,800	$ 10,631,400	$ 10,701,900	$ 10,370,550	$ 10,194,300	$ 8,706,750	$ 9,144,062	$ 9,144,062	$ 9,144,062
1-inch cust.	$ 2,875	$ 11,750			$ 3,723,125	$ 13,594,750	$ 13,688,750	$ 13,254,000	$ 13,030,750	$ 11,127,250	$ 11,689,454	$ 11,689,454	$ 11,689,454
1.5-inch cust.	$ 5,750	$ 23,500			$ 230,000	$ 846,000	$ 846,000	$ 822,500	$ 822,500	$ 705,000	$ 729,057	$ 729,057	$ 729,057
2-inch cust.	$ 9,200	$ 37,600			$ 634,800	$ 2,293,600	$ 2,331,200	$ 2,256,000	$ 2,218,400	$ 1,880,000	$ 1,985,279	$ 1,985,279	$ 1,985,279
3-inch cust.	$ 18,400	$ 75,200			$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total HUF Collections					$ 8,409,375	$ 30,683,950	$ 30,909,550	$ 29,941,350	$ 29,447,850	$ 25,140,300	$ 26,402,394	$ 26,402,394	$ 26,402,394
Balance Forward				$ 3,988,010	$ 12,397,385	$ 43,081,335	$ 73,990,885	$ 103,932,235	$ 133,380,085	$ 158,520,385	$ 184,922,779	$ 211,325,173	$ 237,727,567
Existing capex program				15,853,408	18,685,000	38,822,000	74,990,250	104,397,140	109,922,405	114,699,905	132,892,655	138,614,501	144,336,347
Net Unfunded Plant				-11,865,398	-6,287,615	4,259,335	-999,365	-464,905	23,457,680	43,820,480	52,030,124	72,710,672	93,391,220

Collected Hook-Up Fees as of 12/31/05 $ 3,988,010

Total Proposed Hook-Up Fees

	Existing HUF	New HUF								
	$ 1,150	$ 4,700								
	Factor	Factor	2015	2016	2017	2018	2019	2020	2021	2022
5/8-inch cust.	1.00	1.00	607	607	607	607	607	607	607	607
3/4-inch cust.	1.50	1.50	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297
1-inch cust.	2.50	2.50	995	995	995	995	995	995	995	995
1.5-inch cust.	5.00	5.00	31	31	31	31	31	31	31	31
2-inch cust.	8.00	8.00	53	53	53	53	53	53	53	53
3-inch cust.	16.00	16.00	-	-	-	-	-	-	-	-
Customer Growth			2,983	2,983	2,983	2,983	2,983	2,983	2,983	2,983
Total Customers			57,263	60,246	63,229	66,212	69,195	72,178	75,162	78,145
5/8-inch cust.	$ 1,150	$ 4,700	$ 2,854,540	$ 2,854,540	$ 2,854,540	$ 2,854,540	$ 2,854,540	$ 2,854,540	$ 2,854,540	$ 2,854,540
3/4-inch cust.	$ 1,725	$ 7,050	$ 9,144,062	$ 9,144,062	$ 9,144,062	$ 9,144,062	$ 9,144,062	$ 9,144,062	$ 9,144,062	$ 9,144,062
1-inch cust.	$ 2,875	$ 11,750	$ 11,689,454	$ 11,689,454	$ 11,689,454	$ 11,689,454	$ 11,689,454	$ 11,689,454	$ 11,689,454	$ 11,689,454
1.5-inch cust.	$ 5,750	$ 23,500	$ 729,057	$ 729,057	$ 729,057	$ 729,057	$ 729,057	$ 729,057	$ 729,057	$ 729,057
2-inch cust.	$ 9,200	$ 37,600	$ 1,985,279	$ 1,985,279	$ 1,985,279	$ 1,985,279	$ 1,985,279	$ 1,985,279	$ 1,985,279	$ 1,985,279
3-inch cust.	$ 18,400	$ 75,200	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total HUF Collections			$ 26,402,394	$ 26,402,394	$ 26,402,394	$ 26,402,394	$ 26,402,394	$ 26,402,394	$ 26,402,394	$ 26,402,394
Balance Forward			$ 264,129,961	$ 290,532,355	$ 316,934,748	$ 343,337,142	$ 369,739,536	$ 396,141,930	$ 422,544,324	$ 448,946,718
Existing capex program			150,058,193	155,780,039	161,501,885	167,223,731	172,945,577	178,667,423	184,389,269	190,111,115
Net Unfunded Plant			114,071,768	134,752,315	155,432,863	176,113,411	196,793,959	217,474,507	238,155,055	258,835,603

EXHIBIT
A-3
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT	DOCKET NO. W-01303A-05-0718

TESTIMONY
OF
G. TROY DAY
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 21, 2007

TESTIMONY
OF
G. TROY DAY
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 21, 2007

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EXHIBIT

EXECUTIVE SUMMARY

Troy Day testifies that:

Arizona-American has developed a Master Plan for providing long-term water service in its Agua Fria Water Certificate of Convenience and Necessity "(CC&N)." Each developer must execute a line extension agreement ("LXA"), which governs exactly which water facilities a developer must construct before receiving water service. Each LXA includes exhibits, which detail all required water distribution, supply, storage, and transmission facilities for the new development.

When Arizona-American determines that the increased demand associated with the development will exceed what Arizona-American can supply to the area, it will require the developer to provide enough water, typically from new wells, to meet the incremental demand. If the water quality and quantity meets the standards set forth in the LXA, Arizona-American accepts the well and the developer deeds the well to Arizona-American. If the developer cannot provide acceptable water supplies, then Arizona-American will not set new meters until the developer can live up to its obligation under the LXA. This protects existing water customers from a future water shortage caused by new customers' demand.

Actual well delivery quantities may be disappointing. Further, water quality may be unacceptable without, or even with, expensive treatment. In these cases Arizona-American has been forced to postpone setting water meters until the developer can provide the required water necessary to meet the demand of their development. As the District has developed toward the south and west, new well yields and water quality have been inconsistent and disappointing. It is getting more difficult and expensive for developers to provide ground water to support their developments.

It is unlikely that Arizona-American would have to actually go to the Commission to request a moratorium. If Arizona-American continues to vigorously enforce its LXAs, we should be able to avoid that last resort. If a developer can provide the required water, Arizona-American will continue to set meters and take on new customers in the development. However, if the water supplies are not delivered, Arizona-American will continue to refuse to set meters until the supplies are deliver. The ability to provide adequate water resources is becoming more difficult and more expensive.

Arizona-American will still need well supplies, even after a regional treatment facility comes on line. We must be able to supply our customers, even if the plant is off-line, whether during planned or unexpected outages. Wells are also necessary to meet peak demands in the high use summer months. Further, Arizona-American's CAP allotment is only part of our overall resource portfolio, and cannot be delivered everywhere in the Agua Fria District. Well supplies will continue to be needed. However, fewer wells will be needed from developers once the White Tanks Plant is on line.

As the Agua Fria District builds out, Arizona-American will need to obtain additional surface water supplies, as well as additional well-water supplies.

I INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Troy Day. My business address is 19820 N. 7th Street, Suite 201, Phoenix, Arizona 85024 and my business phone is 623-445-2420.

Q. IN WHAT CAPACITY AND BY WHOM ARE YOU EMPLOYED?

A. I am the Production Director for American Water, Western Region. Arizona-American Water Company ("Arizona-American" or the "Company") is a wholly-owned subsidiary of American Water.

Q. PLEASE DESCRIBE YOUR PRIMARY RESPONSIBILITIES FOR THE COMPANY.

A. I guide the Western Region's capital improvement program to ensure Arizona and Texas Operations facilities comply with American Water standards, as well as all regulatory requirements. I direct the implementation of standards of practice, policies, and business plans to ensure operational efficiency and effectiveness. I ensure water and wastewater operations meet the required standards and are in compliance with all regulatory requirements.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND EDUCATION.

A. Previously, I served as the Director of Water Quality for American Water. I came to American Water from the Arizona Department of Environmental Quality, where I managed numerous programs including water permits and water quality standards. Before that I worked as a Hydrologist for the Arizona Department of Water Resources. I am a graduate of Arizona State University, where I studied Geology.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. No.

II PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. I will discuss Arizona-American's requirement that a developer must agree in a line extension agreement to provide long-term water supplies for a new development in our Agua Fria Water District, and the consequences if the developer cannot fulfill these obligations.

III LONG-TERM WATER SUPPLIES

Q. WHAT MUST A DEVELOPER PROVE BEFORE IT CAN DEVELOP A PROJECT IN ARIZONA-AMERICAN'S AGUA FRIA CERTIFICATE OF CONVENIENCE AND NECESSITY?

A. The developer must prove that it has a 100-year assured water supply.

Q. WHAT DOES ARIZONA-AMERICAN REQUIRE FROM A DEVELOPER BEFORE IT CAN PROVIDE WATER SERVICE TO A NEW DEVELOPMENT?

A. Arizona-American has developed a Master Plan for providing long-term water service in its Agua Fria Water Certificate of Convenience and Necessity "(CC&N)." Each developer must execute a line extension agreement ("LXA"), which governs exactly which water facilities a developer must construct before receiving water service. Each LXA includes exhibits, which detail all required water distribution, supply, storage, and transmission facilities for the new development.

Q. WHEN WILL ARIZONA-AMERICAN REQUIRE A DEVELOPER TO PROVIDE A WELL OR ANOTHER SOURCE OF SUPPLY?

A. When Arizona-American determines that the increased demand associated with the development will exceed what Arizona-American can supply to the area, it will require the developer to provide enough water, typically from new wells, to meet the incremental demand. To compensate for the cost of the facilities, Arizona-American will typically credit the developer toward the hook-up fees for the development.

Q. WHAT HAPPENS AFTER A DEVELOPER DRILLS AND OUTFITS A WELL?

A. If the water quality and quantity meets the standards set forth in the LXA, Arizona-American accepts the well and the developer deeds the well to Arizona-American.

Q. WHAT HAPPENS IF A DEVELOPER CANNOT PROVIDE ACCEPTABLE WATER SUPPLIES?

A. If the developer cannot provide acceptable water supplies, then Arizona-American will not set new meters until the developer can live up to its obligation under the LXA. This protects existing water customers from a future water shortage caused by new customers' demand.

Q. HAS A DEVELOPER EVER BEEN UNABLE TO PROVIDE WATER WHEN EXPECTED IN THE LXA?

A. Yes. Hydrology is not an exact science. Actual well delivery quantities may be disappointing. Further, water quality may be unacceptable without, or even with, expensive treatment. In these cases Arizona-American has been forced to postpone setting water meters until the developer can provide the required water.

Q. WHAT HAS BEEN THE RECENT TREND FOR WATER QUANTITY AND QUALITY FROM RECENT WELLS IN THE AGUA FRIA CC&N?

A. As the District has developed toward the south and west, new well yields and water quality have been disappointing. It is getting more difficult and expensive for developers to provide ground water to support their developments.

Q. ARIZONA-AMERICAN RAISED THE ISSUE OF A POTENTIAL MORATORIUM ON NEW SERVICE CONNECTIONS IN 2009, IF THE WHITE TANKS PLANT IS NOT BUILT. CAN YOU DISCUSS THIS ISSUE?

A. Yes. I can certainly see why developers would be concerned about such a moratorium. I think it is unlikely that Arizona-American would have to actually go to the Commission to request a moratorium. If Arizona-American continues to vigorously enforce its LXAs, we should be able to avoid that last resort. If a developer can provide the required water, Arizona-American will continue to set meters and take on new customers in the development. However, if the water supplies are not delivered, Arizona-American will continue to refuse to set meters until the supplies are delivered.

Q. DOES THIS MEAN THAT DEVELOPERS WILL NOT NEED TO PROVIDE WATER SUPPLIES ONCE THE WHITE TANKS PLANT IS ON-LINE?

A. No, for two reasons. One, Arizona-American has to be able to supply its customers, even if the plant is off-line, whether during planned or unexpected outages. This will always require well supplies. Second, Arizona-American's CAP allotment is only part of our overall resource portfolio, and cannot be delivered everywhere in the Agua Fria District. Well supplies will continue to be needed. However, fewer wells should be needed from developers once the White Tanks Plant is on line.

Q. ARE ARIZONA-AMERICAN'S SURFACE WATER SUPPLIES SUFFICIENT TO SUPPLY ITS AGUA FRIA DISTRICT?

A. No. As the Agua Fria District builds out, Arizona-American will need to obtain additional surface water supplies, as well as additional well-water supplies.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY IN THIS CASE?**

2 A. Yes.

EXHIBIT
A-4
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT	DOCKET NO. W-01303A-05-0718

TESTIMONY
OF
JOSEPH E. GROSS, P. E.
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 21, 2007

TESTIMONY
OF
JOSEPH E. GROSS, P. E.
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 21, 2007

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JEG-1. Agua Fria Water District Master Plan Schematic
JEG-2 American Water Surface Water Treatment Plants

EXECUTIVE SUMMARY

Joseph E. Gross testifies as follows:

Mr. Gross first sponsors the following sections of the Revised Application.

- Page 3, line 15 – Page 8, line 13;
- Exhibit A; and
- Exhibit B.

A coalition of West Valley CAP contractors (WESTCAPS), including Arizona-American, produced a Regional Water Supply Plan in 2001, which recommended that an 80-mgd surface water treatment facility be constructed within Arizona-American's Agua Fria Water District to serve the District and surrounding communities. Arizona-American committed to take the lead in building and operating a regional treatment facility to provide potable water for its customers and for resale to other members of WESTCAPS. Arizona-American's 2003 Agua Fria Master Plan identified the project parameters and recommended that the Company begin plant construction. Capital funding was approved at the time for land acquisition and engineering design. Land was purchased, RFP's for design-build were solicited, a design-build team was awarded a contract, and design and permitting of the project began in late 2003. Extensive master planning efforts have taken place over the past four years to insure that the infrastructure necessary to distribute the plant's treated water will be in place in a timely manner. Black & Veatch, part of the original design-build team, finalized the White Tanks Plant design for bidding in November 2006.

For the White Tanks Plant, Arizona-American has spent over six million dollars to date for land acquisition, the completed design, permitting, company labor and overhead. Further, Arizona-American has spent over ten million dollars to date on the completed 13-mile north-south water transmission main, which will deliver the treated water from the White Tanks Plant to other transmission mains located throughout the Agua Fria Service Area.

The White Tanks Plant facilities consist of:

- Raw water facilities, including the intake structure, screening, storage basins, and pumping station.
- Water treatment facilities, including mixing, flocculation, dissolved air floatation (DAF) clarification, and filtration.
- Finished water and disinfection facilities, including Ultraviolet light disinfection, chlorination, storage basins and pumping station.
- Residual processing facilities, including DAF solids removal, filter backwash, filter-to-waste system, wastewater clarifiers, return flow pumping, and drying beds.
- Chemical feed and storage facilities.
- Emergency Generator to allow plant to operate in the event of a power outage.

The following schedule is updated from the one contained in Arizona-American's Revised Application:

- January 30, 2007 — Construction Bids Received
- February 2007 — Bid Analysis and Internal Approvals
- March 19, 2007 — Commission Hearings
- May 8, 2007 — Commission Open Meeting
- May 9, 2007 — Notice to Proceed to Construction Contractor
- April 30, 2009 — Plant In Service

- October 5, 2009 Final Project Completion

Mr. Gross estimates that the plant will cost $59.4 million. The plant consists of three process trains of 6.67 mgd each, for a total capacity of 20 mgd. Utilizing common engineering practice, the reliable capacity of the plant would be rated at 13.4 mgd, assuming one train is not in service, either during a backwash cycle or when undergoing media replacement or maintenance. Expansion to a reliable capacity of 20 mgd would only require construction of one additional 6.67-mgd process train. This would bring gross capacity to 26.7 mgd, with a firm capacity rating of 20 mgd. The completed plant design includes space for adding another process train. If a third party could commit by the end of 2007 to using or purchasing sufficient capacity to warrant the expansion, the cost to add one additional 6.67-mgd process train would be approximately two million dollars. This would significantly reduce the White Tanks Plant's per-mgd capacity cost.

Considerable process and project management expertise exists today within American Water's staff in Arizona and at corporate level. The design project manager since the beginning of this project is still on board. He understands the rationale for each aspect of the selected treatment processes and will continue to oversee any design issues needing clarification during construction. American Water's senior construction management person has also tracked this project from the beginning, providing cost-effective constructability reviews and comments. He is currently relocating to Arizona to be the full-time construction manager for this project. Additionally, Mr. Gross has significant experience with major water treatment projects in Scottsdale and will be closely involved in any management-level decisions needed to keep this project on track.

Arizona-American currently owns, maintains, and operates the 7-mgd CAP water treatment plant that supplies treated water to the Anthem community. On February 26, 2007, we began operations for the 3 mgd Cave Creek CAP water treatment plant. Further, we own and operate eight new arsenic treatment facilities in Arizona.

An Arizona-American affiliate (American Water Enterprises) managed construction of the City of Phoenix' brand new 80-mgd CAP water treatment plant and will also operate the plant for the City. This plant is ultimately expandable to 320 mgd. American Water's regulated companies currently operate 79 surface water treatment plants, with a combined treatment capacity of over 1390 million gallons per day. As the owner of these facilities, American Water is involved in all aspects of plant operation, including treating water to meet or surpass required standards, and the repair and replacement of all equipment.

Mr. Gross next responds to the testimony of MWD witness James Albu. He has eleven major concerns with this testimony:

a. **The MWD plant has not yet been designed.**
Without a reasonably final design and approved permitting, it is very difficult, if not impossible, to accurately estimate a project's cost or schedule. At this point, all MWD has is a brief preliminary engineering study.

b. **The MWD cost "estimate' is seriously flawed.**
MWD's costs are estimates made prior to even a conceptual design for the MWD plant. Apparent problems with the cost estimates include:
- No inflation to future years until actual construction.
- Assumption of no changes to the project concept during design or construction.
- Abnormally low construction estimate, if contingencies are included, as stated.
- No land value, currently appraised at $115,000 per acre, is charged.
- No construction financing costs are included.

- Only $8 million in engineering and construction administration costs are included, compared to $14.4 million estimated for same services in the Malcolm Pirnie Final Report of the MWD Water Treatment Plant Planning: Preliminary Engineering Study. ("Preliminary Engineering Study").

c. The MWD plant would only be able to provide 10 mgd of firm capacity.

The MWD Treatment Plant would consist of two 10-mgd treatment trains. Utilizing common engineering practice, the reliable capacity of the plant would be rated at just 10 mgd, assuming one clarification train is not in service, due to an unscheduled outage or maintenance requirements. If 20 mgd of capacity were committed equally to two parties and one train went out of service, each party would be left with just 5 mgd of treatment capacity. Losing 5 mgd of an important resource on a hot summer day could certainly present problems for each of the buyers. Further, if MWD actually expects to sell firm capacity, the final design will have to include a back-up treatment train, which is further evidence that MWD's preliminary cost estimate is flawed.

d. The MWD schedule is unreasonably optimistic.

The MWD schedule is unreliable because of the conceptual nature of the MWD proposed plant. Without a reasonably final design, it is difficult at best to estimate how long it would take to construct the facility. Further, the Preliminary Engineering Study identifies a number of issues that will need to be addressed before finalizing site selection. Further, MWD has no customers for a plant and has not decided whether to construct a 10-mgd or 20-mgd plant.

One significant scheduling error is the Preliminary Engineering Study's assumption that permitting can begin prior to the start of detailed design and be completed prior to design completion. Permit applications are normally not considered by regulatory agencies prior to 90% completion of plans. Also, Maricopa County normally takes six to eight months to process a Special Use Permit. Then, a County Building Permit is normally not issued for approximately 30 days after approval of the Special Use Permit by the County Board of Supervisors.

e. The MWD plant site would require Arizona-American to construct additional, expensive, transmission facilities.

Significant additional costs in transmission system routing would be required if the plant location was changed. The Arizona-American master plan is based on our main water transmission line being routed along Cactus Road to two major booster pump stations. A plant at the proposed MWD site, over two miles south of Cactus Road, would require redundant pipelines to bring the water back north to the Cactus Road alignment. Additional booster pumps may also be required to move the water uphill.

A large transmission main to bring the water north to Cactus Road would likely cost in excess of $6 million in construction costs, if aligned along the Beardsley Canal.

f. Arizona-American would not be the operator of the MWD plant.

Arizona-American's Plant design incorporates a centralized instrumentation and control system at the White Tanks Plant, which would also communicate with all the groundwater plants in the Agua Fria service area. This allows Arizona-American to dispatch the Plant's output in coordination with our transmission system and with groundwater production needed to meet peak demands in summer and during canal outages. Managing a coordinated water production, transmission, and distribution system in a geographic area as large as our Agua Fria Water District requires significant expertise and relies on years of institutional knowledge. Arizona-American does not believe that ceding operational control of the regional water plant would be wise, particularly coupled with relocating the instrumentation system needed to coordinate MWD's plant's output with our integrated system. At best, this would require extensive training, operating protocols, and additional equipment expense. At worst, our customer' reliable water deliveries could be jeopardized.

g. MWD cannot provide back-up well water in a timely manner.

Despite its claim, MWD cannot provide back-up water in the event of a plant outage. MWD's wells are irrigation wells. In order to supply water to treatment plant customers, several lengthy, costly steps would have to be taken—at the customer's expense. First, irrigation wells would have to be identified that would not require additional treatment, other than chlorination. Arsenic, nitrate, and fluoride levels are not issues for irrigation wells, but are critically important for potable water wells. Second, after a potential candidate well was identified, it would have to be equipped with a sanitary steel casing, automated with instrumentation and controls, upgraded with a new pump and motor capable of meeting distribution line pressures, and provided with a tank for chlorine contact time. Only then could the well provide drinking water for customers.

Based on our recent experience with converting one MWD well to a potable water well, it would take 6 - 8 months to identify, permit, and convert one of MWD's irrigation wells to a potable-water well. Additional pipeline connections would then need to be constructed to get the water from the converted well to the customer's delivery system. Repairing or rebuilding a facility in the event of a catastrophic outage would likely take less time than identifying, permitting, and converting a suitable number of MWD wells to replace treatment capacity during the outage.

h. The MWD plant site would eventually require costly expansion of the Beardsley Canal.

In the Preliminary Engineering Study, page 3-2, Malcolm Pirnie states: "canal capacity south of Cactus Road is 50 mgd and will need to be increased if the capacity of the [Water Treatment Plant] exceeds 50 mgd." MWD's proposed plant site is south of Cactus Road. This means that MWD will have to expand the canal, which would be a costly, time consuming process, in order to increase the plant's capacity to over 50 mgd. By contrast, Arizona-American acquired its site north of Cactus Road, so it will not be necessary to expand the Beardsley Canal to increase plant capacity up to 80 mgd.

i. MWD has no experience in designing, constructing, or operating major potable water treatment facilities.

j. MWD has no customers for the MWD plant.

MWD has not committed to build a plant without having first completed contracts with customers for the capacity.

k. MWD has no obligation to construct a treatment plant.

If MWD were unable to finalize contracts for sufficient capacity to justify building a treatment plant, it could just decide to focus its efforts in another direction. By contrast, Arizona-American has identified its own need for its White Tanks Plant and does not require capacity commitments from any other party to proceed. As soon as the Commission approves increasing hook-up fees to a level sufficient to proceed, Arizona-American will award the bid and construction will commence shortly afterward.

1 I **INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE**
3 **NUMBER.**

4 A. My name is Joseph E. Gross. My business address is 19820 N. 7th Street, Suite 201,
5 Phoenix, Arizona 85024, and my telephone number is 623-445-2401.

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by Arizona-American Water Company, Inc. ("Arizona-American" or the
8 "Company") as Project Delivery Manager ("Engineering Manager") for Arizona.

9 **Q. PLEASE BRIEFLY OUTLINE YOUR RESPONSIBILITIES AS THE**
10 **ENGINEERING MANAGER.**

11 A. I am responsible for project delivery of Arizona-American's capital program; first
12 providing input to the budgeting process, then providing oversight of the design and
13 construction contracts to ensure compliance with assigned budget and schedule. Among
14 other things, I supervised design and construction of Arizona-American's arsenic-
15 remediation facilities and am now responsible for construction of the White Tanks
16 Regional Water Treatment Facility ("White Tanks Plant").

17 **Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

18 A. I received a Bachelor of Science degree from the United States Military Academy in civil
19 engineering in 1962 and a Master of Science degree from the Ohio State University in
20 Geodetic Science in 1968.

21 **Q. DID YOU SERVE IN THE MILITARY FOLLOWING YOUR GRADUATION**
22 **FROM THE UNITED STATES MILITARY ACADEMY?**

23 A. Yes. I served as an officer in the United States Army for 28 years, including 12 months
24 in Vietnam as a combat engineer battalion advisor; and 18 months as a battalion

commander in the 101st Airborne Division. In 1979, I began a number of assignments with the US Army Corps of Engineers, where I served until retirement in 1990.

Q. HAVE YOU HAD ANY OTHER FORMAL TRAINING?

A. I attended two-week senior executive management training programs at Carnegie Mellon University in 1986 and at Arizona State University in 1994.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. I joined Arizona-American in October 2004. I was previously employed by the City of Scottsdale for fourteen years in the positions of Capital Project Management Director, Water Campus Project Director, and Water Resources Director. Before that, I had extensive field-level and executive-level experience in the US Army Corps of Engineers, including large projects located in the United States, Iran, and Saudi Arabia. Among other responsibilities, I supervised the Corps' extensive flood-control projects in the Phoenix metropolitan area from 1979 to 1982. This included the construction of the Indian Bend Wash flood-control facilities in Scottsdale, construction of Cave Buttes and Adobe Dams in north Phoenix, and design of the Arizona Canal Diversion Channel.

Q. ARE YOU A REGISTERED PROFESSIONAL ENGINEER?

A. I am a registered Professional Engineer in the states of Arizona and Pennsylvania.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. I submitted testimony in Arizona-American's arsenic-cost-recovery mechanism ("ACRM") case for its Agua Fria, Sun City West, and Havasu Water Districts (Docket No. W-01303A-05-0280, *et. al*). This testimony was adopted by another witness for the actual hearing. I also filed testimony in Arizona-American's recent Paradise Valley Water District rate case (Docket No. W-01303A-05-0405) and was examined on March 6, 2006.

II PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. I will be sponsoring certain portions of Arizona-American's Revised Application in this docket. I will also update the Commission on Arizona-American's actions to construct the White Tanks Water Treatment Plant ("White Tanks Plant"). Finally, I will respond to certain portions of the Direct Testimony of James R. Sweeney and James P. Albu on behalf of the Maricopa Water District.

III REVISED APPLICATION

Q. WHICH PORTIONS OF ARIZONA-AMERICAN'S REVISED APPLICATION ARE YOU SPONSORING?

A. On September 1, 2006, Arizona-American filed its Revised Application in this docket. I am sponsoring the following sections of the Revised Application.

- Page 3, line 15 – Page 8, line 13;
- Exhibit A; and
- Exhibit B.

IV STATUS OF WHITE TANKS PLANT

Q. WHEN DID THE COMPANY FIRST BECOME INVOLVED IN THIS PROJECT?

A. A coalition of West Valley CAP contractors (WESTCAPS), including Arizona-American, produced a Regional Water Supply Plan in 2001, which recommended that a surface water treatment facility be constructed within Arizona-American's Agua Fria Water District to serve the District and surrounding communities. The study recommended an ultimate reliable capacity of 80 million gallons per day (mgd), based on future water demands of the study area. Arizona-American committed to take the lead in

building and operating a regional treatment facility to provide potable water for its customers and for resale to other members of WESTCAPS.

Q. PLEASE PROVIDE A BRIEF HISTORY OF ARIZONA-AMERICAN'S INVOLVEMENT WITH THE WHITE TANKS PLANT.

A. Arizona-American's 2003 Agua Fria Master Plan identified the project parameters and recommended that the Company begin plant construction. Capital funding was approved at the time for land acquisition and engineering design. Land was purchased, RFP's for design-build were solicited, a design-build team was awarded a contract, and design and permitting of the project began in late 2003.

Arizona-American subsequently entered into negotiations with Maricopa County Municipal Water Conservation District #1 ("MWD"), which indicated its interest in funding the construction, and would allow Arizona-American to operate the plant and deliver water to its customers for a negotiated fee. In May of 2006, negotiations between Arizona-American and MWD ended. Arizona-American decided to proceed with this critical construction of the White Tanks Plant by filing for an increase in hookup fees for the Agua Fria Water District.

Q. IS THE DESIGN FOR THE WHITE TANKS PLANT COMPLETE?

A. Yes. Black & Veatch, part of the original design-build team, finalized the design for bidding in November 2006.

Q. WHAT FACILITIES ARE INCLUDED IN THE WHITE TANKS PLANT?

A. The facilities designed as part of this project consist of:

- Raw water facilities, including the intake structure, screening, storage basins, and pumping station.

- Water treatment facilities, including mixing, flocculation, dissolved air floatation (DAF) clarification, and filtration.
- Finished water and disinfection facilities, including Ultraviolet light disinfection, chlorination, storage basins and pumping station.
- Residual processing facilities, including DAF solids removal, filter backwash, filter-to-waste system, wastewater clarifiers, return flow pumping, and drying beds.
- Chemical feed and storage facilities.
- Emergency Generator to allow plant to operate in the event of a power outage.

Q. HOW DOES THIS PROJECT FIT INTO THE COMPANY'S MASTER PLAN?

A. Extensive master planning efforts have taken place over the past four years to insure that the infrastructure necessary to distribute the plant's treated water will be in place in a timely manner. We have a refined master plan, a schematic of which is attached as Exhibit JEG-1. The entire master plan is based on the treatment plant location of Cactus Road and the Beardsley canal, where we have purchased 46 acres. A change in plant location would require significant changes in existing and planned transmission main infrastructure; both by the company and by major developers.

Q. HOW MUCH CAPITAL HAS ARIZONA-AMERICAN INVESTED IN THIS PROJECT TO DATE?

A. For the White Tanks Plant, Arizona-American has spent over six million dollars to date for land acquisition, the completed design, permitting, company labor and overhead. Further, Arizona-American has spent over ten million dollars to date on the completed 13-mile north-south water transmission main, which will deliver the treated water from the White Tanks Plant to other transmission mains located throughout the Agua Fria Service Area.

Q. WHAT IS THE PROJECT SCHEDULE?

A. The following schedule is updated from the one contained in our Revised Application:

- January 30, 2007 — Construction Bids Received
- February 2007 — Bid Analysis and Internal Approvals
- March 19, 2007 — Commission Hearings
- May 8, 2007 — Commission Open Meeting
- May 9, 2007 — Notice to Proceed to Construction Contractor
- April 30, 2009 — Plant In Service
- October 5, 2009 — Final Project Completion

Obviously, this schedule is dependent on the timing of the Commission approval process. With any slippage prior to issuing the Contractor's Notice to Proceed, we will not be able to meet the April 30, 2009, in-service date.

Q. WHAT ARE YOUR PROJECTED TOTAL COSTS FOR THIS PROJECT?

A. We project a total project cost of $59.4 million, calculated as follows:

- Actual Costs to Date: $ 06.2 million
- Construction: $ 39.3 million
- Canal Intake: $ 00.6 million
- Tools, equipment, furnishings: $ 00.2 million
- Construction Administration: $ 00.5 million
- Technical Review Services: $ 01.3 million
- Resident Observation: $ 00.6 million
- APS Service Line: $ 00.3 million
- Contingencies: $ 02.0 million
- Overhead: $ 03.3 million
- Construction Financing [AFUDC]: $ 05.1 million

- **TOTAL** **$ 59.4 million**

Q. HOW DID YOU ESTIMATE THESE COSTS?

A. The actual costs to date are firm. The construction cost is firm, since we have bids from four contractors. The competitive bids varied by only 12%; and we have selected the firm submitting the lowest bid. The other costs are estimates, based upon our experience in constructing other large water treatment plants; and based upon the Company's standard accounting practices. Therefore, we consider the projected total costs to be quite accurate.

Q. WHAT IS THE CAPACITY OF THE ARIZONA-AMERICAN DESIGNED PLANT?

A. The plant consists of three process trains of 6.67 mgd each, for a total capacity of 20 mgd. Utilizing common engineering practice, the reliable capacity of the plant would be rated at 13.4 mgd, assuming one train is not in service, either during a backwash cycle or when undergoing media replacement or maintenance.

Q. IF COMMITMENTS FROM ANOTHER PARTY JUSTIFIED EXPANSION, COULD THE WHITE TANKS PLANT BE EXPANDED TO 20 MGD OF FIRM CAPACITY?

A. Expansion to a reliable capacity of 20 mgd would only require construction of one additional 6.67-mgd process train. This would bring gross capacity to 26.7 mgd, with a firm capacity rating of 20 mgd. The completed plant design includes space for adding another process train.

Q. HOW MUCH WOULD IT ADD TO THE FINAL COST OF THE WHITE TANKS PLANT TO CONSTRUCT ONE MORE FILTER TRAIN AND EXPAND FIRM CAPACITY TO 20 MGD?

A. If a third party could commit by the end of 2007 to using or purchasing sufficient capacity to warrant the expansion, the cost to add one additional 6.67-mgd process train would be approximately two million dollars. Obviously, this would significantly reduce the White Tanks Plant's per-mgd capacity cost.

Q. DOES ARIZONA-AMERICAN HAVE THE NECESSARY EXPERTISE TO CONSTRUCT AND OPERATE A SURFACE WATER TREATMENT PLANT?

A. Considerable process and project management expertise exists today within American Water's staff in Arizona and at corporate level. The design project manager since the beginning of this project is still on board. He understands the rationale for each aspect of the selected treatment processes and will continue to oversee any design issues needing clarification during construction. American Water's senior construction management person has also tracked this project from the beginning, providing cost-effective constructability reviews and comments. He is currently relocating to Arizona to be the full-time construction manager for this project. Additionally, I have significant experience with major water treatment projects in Scottsdale and will be closely involved in any management-level decisions needed to keep this project on track.

Q. IS ARIZONA-AMERICAN EXPERIENCED IN OPERATING WATER TREATMENT PLANTS?

A. Certainly. Arizona-American currently owns, maintains, and operates the 7-mgd CAP water treatment plant that supplies treated water to the Anthem community. On February 26, 2007, we began operations for the 3-mgd Cave Creek CAP water treatment plant. Further, we own and operate eight new arsenic treatment facilities in Arizona.

Q. WHAT KIND OF EXPERIENCE DOES ARIZONA-AMERICAN'S AFFILIATES HAVE IN CONSTRUCTING AND OPERATING SURFACE WATER TREATMENT PLANTS?

A. An Arizona-American affiliate (American Water Enterprises) managed construction of the City of Phoenix' brand new 80-mgd CAP water treatment plant and will also operate the plant for the City. This plant is ultimately expandable to 320 mgd. American Water's regulated companies currently operate 79 surface water treatment plants, with a combined treatment capacity of over 1390 million gallons per day. As the owner of these facilities, American Water is involved in all aspects of plant operation, including treating water to meet or surpass required standards, and the repair and replacement of all equipment. Attached as Exhibit JEG-2, is a spreadsheet showing surface water treatment plants constructed in recent years by American Water companies nationwide.

V. RESPONSE TO MWD

Q. HAVE YOU REVIEWED THE TESTIMONY OF JAMES ALBU?

A. Yes I have.

Q. HOW DO YOU RESPOND TO MR. ALBU'S TESTIMONY?

A. I have the following major concerns with Mr. Albu's testimony:

a. The MWD plant has not yet been designed.

b. The MWD cost "estimate' is seriously flawed.

c. The MWD plant would only be able to provide 10 mgd of firm capacity.

d. The MWD schedule is unreasonably optimistic.

e. The MWD plant site would require Arizona-American to construct additional, expensive, transmission facilities.

f. Arizona-American would not be the operator of the MWD plant.

g. MWD cannot provide back-up well water in a timely manner.

h. The MWD plant site would eventually require costly expansion of the Beardsley Canal.

i. MWD has no experience in designing, constructing, or operating major potable water treatment facilities.

j. MWD has no customers for the MWD plant.

k. MWD has no obligation to construct a treatment plant.

I will discuss each of these points in order.

A <u>THE MWD PLANT HAS NOT YET BEEN DESIGNED</u>

Q. WHY DOES IT MATTER THAT THE MWD PLANT HAS NOT YET BEEN DESIGNED?

A. Without a reasonably final design and approved permitting, it is very difficult, if not impossible, to accurately estimate a project's cost or schedule. At this point, all MWD has is a brief preliminary engineering study.

B <u>THE MWD COST "ESTIMATE' IS SERIOUSLY FLAWED</u>

Q. WHAT IS WRONG WITH MWD'S COST ESTIMATE?

A. MWD's costs are estimates made prior to even a conceptual design for the MWD plant. Apparent problems with the cost estimates include:

- No inflation to future years until actual construction.
- Assumption of no changes to the project concept during design or construction.
- Abnormally low construction estimate, if contingencies are included, as stated.
- No land value, currently appraised at $115,000 per acre, is charged.
- No construction financing costs are included.
- Only $8 million in engineering and construction administration costs are included, compared to $14.4 million estimated for same services in the Malcolm Pirnie Final

Report of the MWD Water Treatment Plant Planning: Preliminary Engineering Study. ("Preliminary Engineering Study").

Q. IN APPENDIX 1, MR. ALBU PURPORTS TO COMPARE HIS COST ESTIMATE TO AN ESTIMATE OF THE EXPECTED COST OF ARIZONA-AMERICAN'S WHITE TANKS PLANT. IS THIS COMPARISON VALID?

A. No, for two reasons. First, as I just discussed, the estimated cost of the MWD plant cannot be relied on. Second, the AAW White Tanks Plant costs shown in Mr. Albu's Appendix 1 were copied from a three-year old estimate prepared prior to finalizing the Plant's design and receiving actual plant construction bids.

Q. WHAT IS THE PRESENT BEST ESTIMATE OF ARIZONA-AMERICAN'S COST TO CONSTRUCT THE WHITE TANKS PLANT?

A. The present best estimated total project cost is the $59.4 million total that I discussed earlier in my testimony. This is based upon a completed design and actual bids from four responsible contractors. Also, it is important to note that my estimate includes $5.1 million in construction financing [AFUDC] costs, which were not included in Mr. Albu's Appendix 1. Without these costs, the estimate would be $54.3 million, $2.4 million less than the comparable figure stated in Appendix 1.

C <u>THE MWD PLANT WOULD ONLY BE ABLE TO PROVIDE 10 MGD OF FIRM CAPACITY.</u>

Q. WHAT WOULD BE THE FIRM CAPACITY OF THE MWD TREATMENT PLANT?

A. Based on the Preliminary Engineering Study and MWD's Data Response 4-15, the MWD Treatment Plant would consist of two 10 mgd treatment trains. Utilizing common engineering practice, the reliable capacity of the plant would be rated at just 10 mgd,

assuming one clarification train is not in service, due to an unscheduled outage or maintenance requirements.

Q. WHY DOES IT MATTER THAT THE MWD PLANT WOULD ONLY BE ABLE TO PROVIDE JUST 10 MGD OF FIRM TREATMENT CAPACITY?

A. It matters for two reasons. First, if 20 mgd of capacity were committed equally to two parties and one train went out of service, each party would be left with just 5 mgd of treatment capacity. Losing 5 mgd of an important resource on a hot summer day could certainly present problems for each of the buyers. Second, if MWD actually expects to sell firm capacity, the final design will have to include a back-up treatment train, which is further evidence that MWD's preliminary cost estimate is flawed.

D THE MWD SCHEDULE IS UNREASONABLY OPTIMISTIC

Q. HOW IS THE MWD SCHEDULE UNREASONABLY OPTIMISTIC?

A. Fundamentally, the MWD schedule is unreliable because of the conceptual nature of the MWD proposed plant. Without a reasonably final design, it is difficult at best to estimate how long it would take to construct the facility. Further, the Preliminary Engineering Study identifies a number of issues that will need to be addressed before finalizing site selection. These include public involvement, wildlife and vegetation evaluations, and cultural and historical investigations. These issues have the potential to seriously derail any proposed schedule. Further, MWD has no customers for a plant and has not decided whether to construct a 10-mgd or 20-mgd plant.

One significant scheduling error, in my opinion, is the Preliminary Engineering Study's assumption that permitting can begin prior to the start of detailed design and be completed prior to design completion. My experience has been that permit applications are normally not considered by regulatory agencies prior to 90% completion of plans.

Also, Maricopa County normally takes six to eight months to process a Special Use Permit. Then, a County Building Permit is normally not issued for approximately 30 days after approval of the Special Use Permit by the County Board of Supervisors. The Deputy Director of the Maricopa County Planning and Development Department does not agree with the MWD claim of exemption from this process, since constructing a major potable water treatment plant is not incidental to and in furtherance of the primary purpose of MWD.

Q. WHEN COULD MWD REASONABLY EXPECT TO BRING A TREATMENT PLANT IN SERVICE/

A. Based on the factors that I just discussed, I believe that MWD could not bring a treatment plant into service before mid-2011 at the earliest. This would miss the primary water demand period for 2011.

E <u>THE PROPOSED MWD PLANT SITE WOULD REQUIRE ARIZONA-AMERICAN TO CONSTRUCT ADDITIONAL, EXPENSIVE, INTERCONNECTION FACILITIES</u>

Q. WHY WOULD ARIZONA-AMERICAN HAVE TO CONSTRUCT ADDITIONAL, EXPENSIVE, INTERCONNECTION FACILITIES IF THE PLANT WERE BUILT AT MWD'S PROPOSED SITE?

A. The WESTCAPS study identified a site north of Cactus Road as being best for a regional water treatment plant site for a number of reasons, including its significantly lower O&M costs for service to Arizona-American's Agua Fria Water District. Since acquiring the White Tank Plant site, based on further analysis in our 2003 Master Plan, Arizona-American's system expansions have been based on receiving treated CAP water from that location.

Significant additional costs in transmission system routing would be required if the plant location was changed. The Arizona-American master plan is based on our main water transmission line being routed along Cactus Road to two major booster pump stations. A plant at the proposed MWD site, over two miles south of Cactus Road, would require redundant pipelines to bring the water back north to the Cactus Road alignment. Additional booster pumps may also be required to move the water uphill.

Q. HOW MUCH WOULD IT COST TO INTERCONNECT WITH A TREATMENT PLANT LOCATED AT MWD'S PROPOSED SITE?

A large transmission main to bring the water north to Cactus Road would likely cost in excess of $6 million in construction costs, if aligned along the Beardsley Canal. Another option, depending on the urgency of meeting water demands in 2009, would involve an interim pipeline to the south costing over $2 million, to be followed by a multi-million dollar longer term solution to bring the water back north. Exhibit JEG-1 depicts the transmission system planned for the Cactus Road alignment. Significant additional costs to developers would also be necessary if we were to deviate from the planned alignment of the transmission pipelines.

F <u>ARIZONA-AMERICAN WOULD NOT BE THE OPERATOR OF THE MWD PLANT</u>

Q. WHY DOES IT MATTER IF ARIZONA-AMERICAN WOULD NOT OPERATE THE REGIONAL TREATMENT FACILITY?

A. Arizona-American's Plant design incorporates a centralized instrumentation and control system at the White Tanks Plant, which would also communicate with all the groundwater plants in the Agua Fria service area. This allows Arizona-American to dispatch the Plant's output in coordination with our transmission system and with groundwater production needed to meet peak demands in summer and during canal

outages. Managing a coordinated water production, transmission, and distribution system in a geographic area as large as our Agua Fria Water District requires significant expertise and relies on years of institutional knowledge. Arizona-American does not believe that ceding operational control of the regional water plant would be wise, particularly coupled with relocating the instrumentation system needed to coordinate MWD's plant's output with our integrated system. At best, this would require extensive training, operating protocols, and additional equipment expense. At worst, our customer' reliable water deliveries could be jeopardized.

G <u>MWD CANNOT PROVIDE BACK-UP WATER</u>

Q. MR. ALBU CLAIMS THAT MWD COULD SUPPLY GROUNDWATER TO ITS CUSTOMERS IN THE EVENT OF AN "UNFORESEEN OR CATASTROPHIC FAILURE." IS THIS POSSIBLE?

A. The short answer is "no." MWD's wells are irrigation wells. In order to supply water to treatment plant customers, several lengthy, costly steps would have to be taken—at the customer's expense. First, irrigation wells would have to be identified that would not require additional treatment, other than chlorination. Arsenic, nitrate, and fluoride levels are not issues for irrigation wells, but are critically important for potable water wells. Second, after a potential candidate well was identified, it would have to be equipped with a sanitary steel casing, automated with instrumentation and controls, upgraded with a new pump and motor capable of meeting distribution line pressures, and provided with a tank for chlorine contact time. Only then could the well provide drinking water for customers.

Q. HOW LONG WOULD IT TAKE TO IDENTIFY A SUITABLE WELL AND CONVERT IT TO A POTABLE WATER WELL?

A. Based on our recent experience with converting one MWD well to a potable water well, I estimate that it would take 6 - 8 months to identify, permit, and convert one of MWD's

irrigation wells to a potable-water well. By comparison, we estimate two years to construct a new surface water treatment facility. Repairing or rebuilding a facility in the event of a catastrophic outage would likely take less time than identifying, permitting, and converting a suitable number of MWD wells to replace treatment capacity during the outage.

Q. IN THE UNLIKELY EVENT THAT AN MWD CUSTOMER WERE TO DECIDE TO CONVERT MWD IRRIGATION WELLS TO POTABLE WATER WELLS, HOW WOULD THAT WATER BE DELIVERED TO RETAIL CUSTOMERS?

A. That is the fatal flaw. MWD's wells are not connected to any potable water delivery systems. A treatment customer would have to locate, permit, and construct a delivery pipeline or pipelines from the well(s) to its water system. This would be a time-consuming and costly process for receiving service from MWD in the event of an outage.

Q. COULDN'T MWD USE THE BEARDSLEY CANAL TO DELIVER TREATED WATER FOR ITS CUSTOMERS IN THE EVENT OF AN OUTAGE?

A. No. The Beardsley Canal transports raw, untreated CAP water. Any treated water added to the Canal would have to be retreated before it could be delivered to retail water customers.

H <u>THE MWD PLANT SITE WOULD EVENTUALLY REQUIRE COSTLY EXPANSION OF THE BEARDSLEY CANAL</u>

Q. WHY WOULD MWD HAVE TO EVENTUALLY EXPAND THE BEARDSLEY CANAL?

A. In the Preliminary Engineering Study, page 3-2, Malcolm Pirnie states: "canal capacity south of Cactus Road is 50 mgd and will need to be increased if the capacity of the [Water Treatment Plant] exceeds 50 mgd." MWD's proposed plant site is south of

Cactus Road. This means that MWD will have to expand the canal, which would be a costly, time consuming process, in order to increase the plant's capacity to over 50 mgd. By contrast, Arizona-American acquired its site north of Cactus Road, so it will not be necessary to expand the Beardsley Canal to increase plant capacity up to 80 mgd.

I MWD HAS NO EXPERIENCE IN DESIGNING, CONSTRUCTING, OR OPERATING POTABLE WATER TREATMENT FACILITIES

Q. ARE YOU AWARE OF ANY EXPERIENCE THAT MWD HAS IN DESIGNING, CONSTRUCTING OR MANAGING POTABLE WATER TREATMENT FACILITIES?

A. No, other than providing potable water for customers of MWD's Lake Pleasant Marina.

J MWD HAS NO CUSTOMERS FOR THE MWD PLANT

Q. WHY IS IT IMPORTANT THAT MWD DOES NOT HAVE ANY CUSTOMERS FOR ITS PROPOSED PLANT?

A. MWD has not committed to build a plant without having first completed contracts with customers for the capacity. Indeed, Mr. Albu states (page 7, lines 18-20): "However, I should note that the size of the first phase needs to be finalized in the next few months or the schedule may be affected." Presumably, Mr. Albu means that contracts will be needed for the required capacity to be finalized.

K MWD HAS NO OBLIGATION TO CONSTRUCT A TREATMENT PLANT

Q. DOES MWD HAVE ANY OBLIGATION TO CONSTRUCT A TREATMENT PLANT?

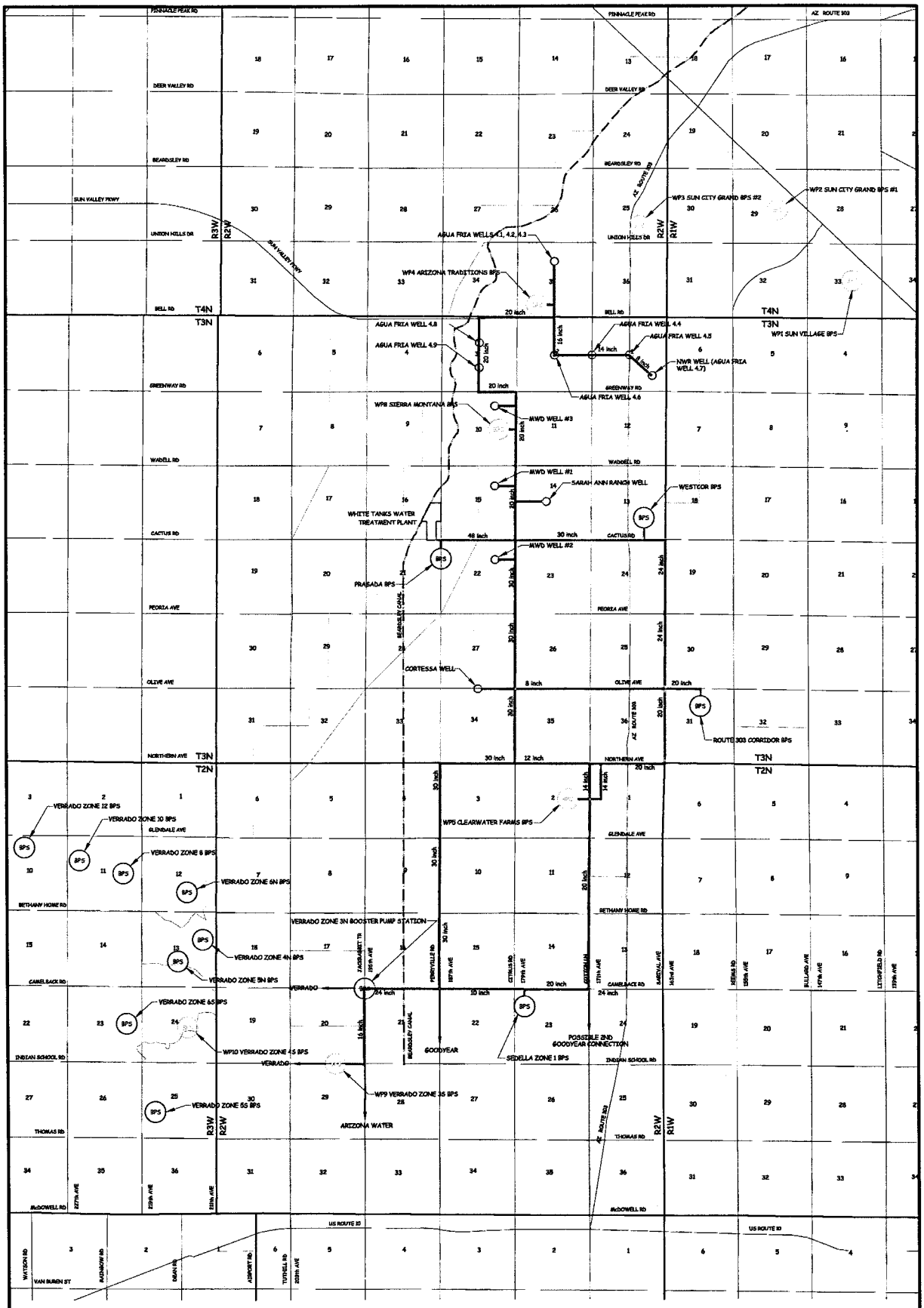
A. No. If MWD were unable to finalize contracts for sufficient capacity to justify building a treatment plant, it could just decide to focus its efforts in another direction. By contrast,

Arizona-American has identified its own need for its White Tanks Plant and does not require capacity commitments from any other party to proceed. As soon as the Commission approves increasing hook-up fees to a level sufficient to proceed, Arizona-American will award the bid and construction will commence shortly afterward.

Q. DOES THIS CONCLUDE YOUR TESTIMONY IN THIS CASE?

A. Yes.

Docket No. W-01303A-05-0718
Arizona-American Water Company
Testimony of Joseph E. Gross
Exhibit JEG-1



NOTE: MORE FUTURE WELLS ARE REQUIRED TO MEET BUILDOUT DEMANDS. LOCATIONS NOT KNOWN.

LEGEND

- EXISTING TRANSMISSION MAIN
- 2008 TRANSMISSION MAIN
- FUTURE TRANSMISSION MAIN (2010)
- EXISTING BPS
- FUTURE BPS

BROWN AND CALDWELL

Arizona American Water

FIGURE 1

AGUA FRIA WATER SYSTEM TRANSMISSION MAIN AND GROUNDWATER WELLS AT BUILDOUT

XREFS:

DWG FILE: P:\Arizona-American Water Comp\128932 - Agua Fria Master Plan\Drawings\WW\2-sheets\F-FIGURES\128932-figure 10.dwg Mar 16, 2006 - 11:31am mjanz

Docket No. W-01303A-05-0718
Arizona-American Water Company
Testimony of Joseph E. Gross
Exhibit JEG-2

American Water Surface Water Treatment Plants

State	Project	Capacity, MGD	In Service Date
AZ	Lake Pleasant WTP	80	4/7/2007
AZ	Anthem WTP Phase 4	7	4/30/2003
NJ	Delaware River Regional WTP	30	4/1/1996
PA	Yardley WTP	6	12/15/1997
PA	PAWC Huntsville WTP	4.5	12/15/1999
MO	St. Joseph WTP	12	4/1/2000
WV	Fayette WTP	4	12/1/2000
IL	Alton WTP	15	12/31/2001
PA	Norristown WTP	18	6/1/2002
NJ	Oak Glen WTP	10	8/1/2003
PA	Clarion WTP	4	6/1/2004
PA	West Shore WTP	12	4/1/2006

EXHIBIT
A-5
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT	DOCKET NO. W-01303A-05-0718

SURREBUTTAL TESTIMONY
OF
JOSEPH E. GROSS, P. E.
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
MARCH 12, 2007

SURREBUTTAL TESTIMONY
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EXECUTIVE SUMMARY

Joseph E. Gross testifies as follows:

Exhibit A in Arizona-American's Revised Application has been superseded by the cost estimate set forth in his direct testimony. That estimate is based on actual costs to date and the firm bids that Arizona-American has received from four contractors. As such, this is far more accurate than the estimate contained in Exhibit A, which should now be disregarded.

If Arizona-American were to build a plant with 20 mgd of firm capacity, it would cost approximately $61.4 million in 2009. This cost is virtually identical to MWD's $60 million preliminary estimate for its proposed 20-mgd treatment plant, based upon their costs escalated to 2009.

MWD's $60 million preliminary estimate is valuable only as a rough check for the expected cost of Arizona-American's White Tanks Plant. MWD did not address the issue of total capacity versus firm capacity. An Arizona-American 20-mgd plant would actually include four 6.7 mgd treatment trains, which would allow the Company to provide 20 mgd of firm treatment capacity, even when one train is out of service. By contrast, when one train is out of service at the proposed MWD facility, the plant would only be able to provide 10 mgd of capacity. Also, Arizona-American's plant cost estimate is based on actual bids that the Company has received, and includes land costs. MWD's "estimate" is based on a preliminary design study, and land costs still need to be added to the plant cost. Further, Arizona-American will not have to build additional interconnection facilities in addition to those currently planned, but new interconnection facilities would be needed if Arizona-American were to buy treatment capacity from MWD. Finally, delaying the availability of treatment capacity until 2011 or later is just not a good option.

Arizona-American has received four bids from contractors who wish to build the White Tanks Plant. By the terms of the Invitations for Bid, these bids are firm until approximately May 1, 2007. Arizona-American cannot award the bid until the Commission approves its application. As a consequence, if Commission approval is delayed significantly past May 1, it is probable that one or more bidders would no longer be available, and/or that construction costs could increase.

If the White Tanks Plant is not operational in 2009, Arizona-American may have to construct a 3.5 mile pipeline along the Cotton Lane alignment, from Paradise Lane to Cactus Road, then west to Citrus. This would allow Arizona-American to transfer additional groundwater from wells in the northern portion of the service area to the southern portion, where demand continues to increase. The total cost of this pipeline is budgeted at over $6 million.

I INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Joseph E. Gross. My business address is 19820 N. 7th Street, Suite 201, Phoenix, Arizona 85024, and my telephone number is 623-445-2401.

Q. ARE YOU THE SAME JOSEPH E. GROSS WHO PREVIOUSLY SUBMITTED TESTIMONY IN THIS CASE

A. Yes.

II PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. I will clarify the status of certain portions of Arizona-American's Revised Application in this docket. I will then briefly discuss MWD's preliminary cost estimate for its treatment plant and how it compares to the actual expected cost for our White Tanks Plant. I will then discuss the immediate consequences if the Commission delays its approval of Arizona-American's requested relief in this case. Finally, I will discuss likely additional capital expenditures that Arizona-American will incur if the White Tanks Plant were significantly delayed.

III REVISED APPLICATION – EXHIBIT A

Q. IN YOUR DIRECT TESTIMONY YOU STATED THAT YOU WERE SPONSORING EXHIBIT A TO ARIZONA-AMERICAN'S REVISED APPLICATION. *IS THIS STILL CORRECT?*

A. No. The cost estimate for the White Tanks Plant in Exhibit A has now been superseded by the cost estimate set forth in my direct testimony. As I stated, that estimate is based on actual costs to date and the firm bids that we have received from four contractors. As

such, this is far more accurate than the estimate contained in Exhibit A, which should now be disregarded.

IV MWD – PRELIMINARY COST ESTIMATE

Q. DO YOU HAVE ANY ADDITIONAL COMMENTS ON MWD'S PRELIMINARY COST ESTIMATE?

A. Yes. In my direct testimony, I discussed the cost estimate for MWD's treatment plant that was presented in Mr. Albu's direct testimony. I have now had the opportunity to review another plant estimate that MWD provided as an attachment in response to Company Data Request 1-24. The complete DR is attached to Mr. Broderick's surrebuttal testimony as Exhibit TMB-S2.

Q. WHAT ELSE WOULD YOU LIKE TO SAY ABOUT MWD'S PRELIMINARY ESTIMATE?

A. The estimate appears to be based on the one provided as part of Mr. Albu's testimony, but it has been escalated to 2008 dollars. MWD's estimated plant cost for 20 mgd of total capacity in 2008 is $57.7 million. If we use MWD's 4% cost escalator, the 2009 cost for the MWD plant would be $60 million.

Q. ARE YOU CLAIMING THAT AN MWD TREATMENT PLANT COULD BE COMPLETED IN 2009?

A. Certainly not. Even MWD does not believe that it could complete a plant before 2010. As I have previously testified, I believe that MWD's proposed completion date is very optimistic. My only purpose for escalating the MWD preliminary estimate to 2009 dollars is to provide a same-year comparison for the construction cost of the two options.

Q. WHAT IS THE EXPECTED COST OF ARIZONA-AMERICAN'S WHITE TANKS PLANT IF WERE TO BUILD 20 MGD OF FIRM CAPACITY?

A. As I testified, based on the bids we have received, we should be able to complete a plant with 20 mgd of firm capacity for $61.4 million in 2009. This cost is virtually identical to MWD's $60 million preliminary estimate for a 20-mgd treatment plant, based upon their costs escalated to 2009.

Q. IS THE MWD PRELIMINARY ESTIMATE REALLY COMPARABLE?

A. Only as a rough check for the expected cost of Arizona-American's White Tanks Plant. As I previously testified, MWD did not address the issue of total capacity versus firm capacity. To try to clarify the comparison, an Arizona-American 20-mgd plant would actually include four 6.7 mgd treatment trains, which would allow us to provide 20 mgd of firm treatment capacity, even if one train was out of service. By contrast, when one train is out of service at the proposed MWD facility, the plant would only be able to provide 10 mgd of capacity. Also, our plant cost estimate is based on actual bids that we have received, and includes land costs. MWD's "estimate" is based on a preliminary design study, and land costs will still need to be added to the plant cost. Further, Arizona-American will not have to build additional interconnection facilities in addition to those currently planned, but new interconnection facilities would be needed if we were to buy treatment capacity from MWD. Finally, delaying the availability of treatment capacity until 2011 or later is just not a good option.

Q. WHAT DO YOU CONCLUDE ABOUT MWD'S PROPOSED TREATMENT PLANT?

A. MWD's treatment plant would not be available until much later than Arizona-American's White Tanks Plant and, therefore, would likely cost more than Arizona-American's White Tanks Plant, and would provide less reliable capacity. For these and all the other reasons I stated in my direct testimony, purchasing treatment capacity from MWD's proposed treatment plant would not be a prudent option for Arizona-American.

V CONSEQUENCES OF COMMISSION DELAY

Q. WHAT WILL HAPPEN IF THE COMMISSION DELAYS APPROVAL OF ARIZONA-AMERICAN'S APPLICATION?

A. Arizona-American has received four bids from contractors who wish to build the White Tanks Plant. By the terms of the Invitations for Bid, these bids are firm until approximately May 1, 2007. Arizona-American cannot award the bid until the Commission approves its application. As a consequence, if Commission approval is delayed significantly past May 1, it is probable that one or more bidders would no longer be available, and/or that construction costs could increase.

Q. YOU ARE NOT TRYING TO PRESSURE THE COMMISSION, ARE YOU?

A. No, certainly not. To the contrary, Arizona-American very much appreciates the expedited schedule for this case, and the significant commitment of resources in this docket by the Hearing Division, the Staff, and the other parties. However, Arizona-American is still trying to do everything it can to bring the White Tanks Plant on line by May 2009. To do this, we have had to proceed on a parallel path with this case, which required that we actually issue the Invitations for Bid and then receive and evaluate contractors' bids. This will allow us to move forward within days after receiving Commission approval of our application.

VI CONSEQUENCES OF SIGNIFICANT PLANT DELAY

Q. WHAT WOULD HAPPEN IF THE AVAILABILITY OF TREATMENT CAPACITY WERE DELAYED FOR A YEAR OR MORE?

A. To determine the capacity needed to meet demands in our Agua Fria Water District up to and after 2009, Arizona-American commissioned an Alternative Source of Supply Analysis, which was completed by Brown & Caldwell in May 2006. The Analysis recommended a number of actions to insure capacity until 2009, many of which are

underway at a cost of approximately $2 million. If the White Tanks Plant is not operational in 2009, Brown & Caldwell recommended that Arizona-American construct a 3.5-mile pipeline along the Cotton Lane alignment, from Paradise Lane to Cactus Road, then west to Citrus. This would allow Arizona-American to transfer additional groundwater from wells in the northern portion of the service area to the southern portion, where demand continues to increase. The total cost of this pipeline is budgeted at over $6 million.

Q. ARE YOU STATING THAT ARIZONA-AMERICAN WILL DEFINITELY BUILD THIS ADDITIONAL PIPELINE PROJECT IF THE WHITE TANKS PLANT IS DELAYED PAST 2009?

A. No. What I am saying is that the longer the plant is delayed, the more likely it will be that Arizona-American will actually need to build this $6 million pipeline project. Our first option to avoid this construction is to complete the White Tanks Plant on schedule. If the Plant were delayed or cancelled in favor of another treatment option, then we would carefully evaluate actual trends in supplies and demands to be sure that we will have the facilities in service that we need to continue to be able to satisfy our customers' needs.

Q. DOES THIS CONCLUDE YOUR TESTIMONY IN THIS CASE?

A. Yes.

EXHIBIT
A-6
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT	DOCKET NO. W-01303A-05-0718

TESTIMONY
OF
THOMAS M. BRODERICK
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 21, 2007

TESTIMONY
OF
THOMAS M. BRODERICK
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 21, 2007

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EXECUTIVE SUMMARY

Thomas M. Broderick first sponsors the following sections of the Revised Application.

- Page 1, line 1 – Page 3, line 14;
- Page 8, line 14 – Page 13 line 18;
- Exhibit C;
- Exhibit D; and
- Exhibit E.

Mr. Broderick next discusses Arizona-American's requests in this case. We ask that the Commission:

1. Increase the Water Facilities Hook-Up Fees applicable in the Company's Agua Fria Water District in accordance with one of two options.
2. Issue an Accounting Order to keep Arizona-American whole on the excess of capital expenses above hook-up fees.
3. Order Arizona-American to file, as part of its 2008 Agua Fria Rate Filing, a revised Water Facilities Hook-Up Fee proposal based on the best information known at that time.
4. Order Arizona-American to file, as part of its 2008 Agua Fria Rate Filing, for approval of a proposed mechanism, similar to the Commission's ACRM procedure, to defer and subsequently recover operation and maintenance expense for the White Tanks Plant incurred until such expenses can be placed in base rates.

In response to intervenor testimony in this case, we are now also asking the Commission to:

5. Approve a formula to reduce the Water Facilities Hook-Up Fees in the event Arizona-American is able to either:
   a. Sell a share of the White Tanks Plant to a third party; and/or
   b. Execute a long-term contract with a third party for a share of the White Tanks Plant.

Mr. Broderick next discusses hook-up fees. In its Agua Fria District, Arizona-American is currently charging homebuilders a Water Facilities Hook-Up Fee of only $1,150 for 5/8 x 3/4-inch meters, $1,750 for 3/4-inch meters, $2,875 for one-inch meters, and so forth for larger meters. This is substantially less than builders are now paying in similarly growing areas in Maricopa County

For Option 1, Arizona-American proposes to increase its hook-up fee to the same level as the rate-base reduction fee in effect for its Anthem Water District, which begins at $3,000 for a 5/8 x ¾ inch meter. At these levels, the White Tanks Plant would be fully funded in late 2013 based on current forecasts.

For Option 2 Arizona-American proposes to reset the Water Facilities Hook-Up Fees to levels anticipated to be sufficient to fund the White Tanks Plant in the year it enters service – 2009. This hook-up fee would start at $4,700 for a 5/8 x 3/4-inch meter.

Mr. Broderick next discusses what the Company is asking for in an accounting order. First, the order should provide Arizona-American the ability to accrue post-in-service AFUDC on the unfunded balance of the White Tanks Plant investment. This will keep Arizona-American whole on its investment until accumulated hook-up fees are sufficient to fund the entire Plant balance. Even with Option 2, there is an expected shortage at plant completion between capital expenses and accumulated hook-up fees. And if growth is less than expected, this shortage would be larger and last longer. The additional post-in-service AFUDC would later be completely offset by hook up fees.

Second, the order should provide that collected hook-up fees will not be considered to be contributions for ratemaking purposes until some corresponding eligible plant enters service. Because CWIP is not typically included in rate base, the contribution balance would otherwise grow far faster than rate base, thereby causing rate base to decline significantly in the next rate case, only to then bounce back as the plant entered service.

Mr. Broderick next discusses two other things that Arizona-American is asking the Commission to order concerning its planned May 2008 rate filing.

First, order Arizona-American to propose to adjust the Water Facilities Hook-Up Fees based on information known to that date including:

- Actual to-date and remaining plant costs;
- The effects of any third-party treatment contracts;
- Actual hook-up fee collections;
- Revised projected customer additions and meter preferences; and
- Future Agua Fria district capital requirements.

Second, order Arizona-American to propose a mechanism, similar to the Commission's ACRM procedure, to defer and subsequently recover operation and maintenance costs associated with the White Tanks Plant until such expenses can be included in base rates. The Company estimates that these O&M costs will be approximately $1.5 million per year, based on current media, electricity, and other costs.

At the end of this section of his testimony, Mr. Broderick discusses Arizona-American's new fifth request – that the Commission approve a formula to reduce the water facilities hook-up fees if the Company sells or otherwise commits White Tanks Capacity. Mr. Broderick explains the formula and provides a numerical example.

Mr. Broderick next discusses the October 27, 2006, Staff Report in this docket and states that Arizona-American accepts the recommendations made by Staff.

In the next section of his testimony, Mr. Broderick responds to the testimony of MWD witness James Sweeney.

First, he assures the Commission that Arizona-American, as part of the largest private water company in the United States will be able to obtain financing for the White Tanks Plant, despite recent disappointing Arizona financial results. However, this will require reducing regulatory lags by funding the project with hook-up fees. The Commission has approved similar mechanisms at lease three other times for Arizona-American in the recent past.

Arizona-American's proposal would not require a rate increase, in contrast to purchasing capacity from an MWD-owned facility, which would cause a rate increase. Purchasing capacity from MWD would also further degrade Arizona-American's financial health.

Mr. Broderick next turns to MWD's idea of a landowner credit through Arizona-American's bills. He explained that MWD would have to provide much more detail before he could adequately respond to it.

In the next section of his testimony Mr. Broderick provides details of Arizona-American's offer to sell up to 10 mgd of plant capacity to MGD or another party, such as an investor-owned utility or a municipal water utility.

The White Tanks Plant is designed to easily accommodate an additional 6.5 mgd filter train, which would bring total, firm capacity to 20 mgd. Capital costs, whether sunk or ongoing, would be shared in proportion to ownership shares. Fixed O&M costs would also be split in proportion to ownership shares. Variable O&M costs would be split in proportion to monthly usage. Arizona-American will operate the White Tanks Plant in coordination with Arizona-American's other water production, transmission, and distribution facilities.

Mr. Broderick concludes by addressing various concerns raised by developers in their testimony

Developers were concerned with plant delay. Arizona-American should be able to put the White Tanks Plant into service in mid 2009, most likely two years before MWD could put a treatment plant into service.

Developers also expressed concern with the size of the proposed hook-up fees. As demonstrated in Arizona-American's Revised Application and in Mr. Brilz' testimony on behalf of Pulte Homes, this fee would not be out of line with hook-up or impact fees charged by West Valley municipal water providers. Further, the Commission recently approved a rate-base reduction tariff for Arizona-American's Anthem Water District, which applies to all new connections and starts at $3,000 for 5/8 x 3/4-inch meters. The Anthem rate-base reduction tariff is on top of a $765 per equivalent residential unit capacity reservation charge. Further, the hook-up fee could go down in two circumstances. First, as discussed above, Arizona-American is asking the Commission to approve a formula to automatically reduce the Agua Fria Water Facilities Hook-Up Fee when a party irrevocably commits to purchase capacity or signs a long-term, take-or-pay treatment contract that allows Arizona-American to recover its capital costs associated with the associated capacity. This formula would be incorporated into the tariff and be applied shortly after a filing providing the details of the sale/commitment. Second, Arizona-American has agreed to update the hook-up fee assumptions as part of its 2008 rate filing, so that the Commission can make any necessary adjustments to the hook-up fee amounts.

Developers were also concerned about when the hook-up fee increase should be applied. Arizona-American believes that the new hook-up fee should be applicable if the tariff is effective prior to operational acceptance under the terms of line extension agreements. This is equivalent to the meter-set date. This is exactly how a similar tariff in Anthem is applied.

I INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Thomas M. Broderick. My business address is 19820 N. 7th Street, Suite 201, Phoenix, Arizona 85024, and my business phone is 623-445-2420.

Q. IN WHAT CAPACITY AND BY WHOM ARE YOU EMPLOYED?

A. I am Manager, Rates & Regulatory Affairs for American Water, Western Region. Arizona-American Water Company ("Arizona-American" or the "Company") is a wholly-owned subsidiary of American Water.

Q. PLEASE DESCRIBE YOUR PRIMARY RESPONSIBILITIES FOR THE COMPANY.

A. I manage water and wastewater rate cases in Arizona and Texas including overall responsibility for interactions with the Arizona Corporation Commission ("Commission") and I co-manage community relations in Arizona.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND EDUCATION.

A. For more than 20 years before joining the Company in 2004, I held various management positions in the electric-utility industry with responsibilities for regulatory and government affairs, corporate economics, planning, load forecasting, finance and budgeting with Arizona Public Service Company, PG&E National Energy Group and Energy Services, and the United States Agency for International Development. I was employed at APS for nearly 14 years as Supervisor, Regulatory Affairs, then Supervisor, Forecasting, and then Manager, Planning. I was designated APS' Chief Economist in the early 1990's. For PG&E National Energy Group, I was Director, Western Region - External Relations. For USAID, I was Senior Energy Advisor to Ukraine.

I have a Masters Degree in Economics from the University of Wisconsin – Madison and a Bachelors Degree in Economics from Arizona State University.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, on many occasions.

II PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. I will first sponsor certain portions of Arizona-American's Revised Application in this docket. I will then summarize Arizona-American's request. Next, I will discuss the Staff Report in this docket. I will next respond to certain portions to the Direct Testimony of James R. Sweeney on behalf of the Maricopa Water District. I will also discuss a new offer that Arizona-American is making to sell MWD a portion of the White Tanks Water Treatment Plant ("White Tanks Plant"). Finally, I will respond to certain portions of testimony filed by developer intervenors.

III REVISED APPLICATION

Q. WHICH PORTIONS OF ARIZONA-AMERICAN'S REVISED APPLICATION ARE YOU SPONSORING?

A. On September 1, 2006, Arizona-American filed its Revised Application in this docket. I am sponsoring the following sections of the Revised Application.

- Page 1, line 1 – Page 3, line 14;
- Page 8, line 14 – Page 13 line 18;
- Exhibit C;
- Exhibit D; and
- Exhibit E.

IV SUMMARY OF ARIZONA-AMERICAN'S REQUEST

Q. WHAT IS ARIZONA-AMERICAN REQUESTING IN THIS CASE?

A. Arizona-American's requests are straightforward. We ask that the Commission:

1. Increase the Water Facilities Hook-Up Fees applicable in the Company's Agua Fria Water District in accordance with one of two options.
2. Issue an Accounting Order to keep Arizona-American whole on the excess of capital expenses above hook-up fees.
3. Order Arizona-American to file, as part of its 2008 Agua Fria Rate Filing, a revised Water Facilities Hook-Up Fee proposal based on the best information known at that time.
4. Order Arizona-American to file, as part of its 2008 Agua Fria Rate Filing, for approval of a proposed mechanism, similar to the Commission's ACRM procedure, to defer and subsequently recover operation and maintenance expense for the White Tanks Plant incurred until such expenses can be placed in base rates.

In response to intervenor testimony in this case, we are now also asking the Commission to:

5. Approve a formula to reduce the Water Facilities Hook-Up Fees in the event Arizona-American is able to either:
   a. Sell a share of the White Tanks Plant to a third party; and/or
   b. Execute a long-term contract with a third party for a share of the White Tanks Plant.

Q. HOW DO ARIZONA-AMERICAN'S CURRENT AGUA FRIA HOOK-UP FEES COMPARE TO THOSE PAID IN OTHER AREAS?

A. In its Agua Fria District, Arizona-American is currently charging homebuilders a Water Facilities Hook-Up Fee of only $1,150 for 5/8 x 3/4-inch meters, $1,750 for 3/4-inch meters, $2,875 for one-inch meters, and so forth for larger meters. This is substantially

less than builders are now paying in similarly growing areas in Maricopa County. For example, in the City of Peoria, the current water hook-up fee for 3/4 and one-inch meters is $3,497. The City of Surprise is proposing new development fees for Water Resources ($3,447) and Drinking Water System ($3,500) totaling $6,955 for new-home residential water customers with 3/4-inch meters. Finally, in Decision No. 68857, the Commission approved a rate-base reduction tariff for Arizona-American's Anthem Water District. This tariff applies to all new connections and starts at $3,000 for 5/8 x 3/4-inch meters. The rate-base reduction tariff is on top of a $765 per equivalent residential unit capacity reservation charge.

Q. PLEASE DESCRIBE OPTION 1 TO INCREASE HOOK-UP FEES.

A. For Option 1, Arizona-American proposes to increase its hook-up fee to the same level as the rate-base reduction fee in effect for its Anthem Water District. Exhibit B lists by year each capital project that is currently eligible for recovery through funds generated by the Agua Fria Water Facilities Hook-Up Fee. The 13.5 MGD White Tanks Plant is listed in the first row, with the total cost equal to the $67,325,000 estimated at that time in Exhibit A. Total projected capital expenditures for eligible projects, including the White Tanks Plant, equals $132,892,655.

Exhibit C is a spreadsheet that projects Water Facilities Hook-Up Fee collections and offsets collections against the eligible water projects listed in Exhibit B. Essentially, anticipated hook-up fee collections at existing tariffs will only be enough to fund existing projects. If the White Tanks Plant is built with no increase in hook-up fees, there will be a financing requirement in excess of $70,000,000, which consequentially would have to be funded through increased rates.

Option 1 is shown on Exhibit D. It resets the Water Facilities Hook-Up Fees to the level recently approved by the Commission for Arizona-American's Anthem Water District.

At these levels, the White Tanks Plant would be fully funded in late 2013 based on current forecasts.

Q. WHAT IS OPTION 2 FOR HOOK UP FEES?

A. Option 2 is shown on Exhibit E. It resets the Water Facilities Hook-Up Fees to levels anticipated to be sufficient to fund the White Tanks Plant in the year it enters service – 2009. This hook-up fee would start at $4,700 for a 5/8 x 3/4-inch meter.

Q. WHAT IS ARIZONA-AMERICAN ASKING FOR IN AN ACCOUNTING ORDER?

A. First, the order should provide Arizona-American the ability to accrue post-in-service AFUDC on the *un*funded balance of the White Tanks Plant investment. This will keep Arizona-American whole on its investment until accumulated hook-up fees are sufficient to fund the entire Plant balance. Even with Option 2, there is an expected shortage at plant completion between capital expenses and accumulated hook-up fees. And if growth is less than expected, this shortage would be larger and last longer.

The additional post-in-service AFUDC would later be completely offset by hook up fees.

Second, the order should provide that collected hook-up fees will not be considered to be contributions for ratemaking purposes until some corresponding eligible plant enters service. Because CWIP is not typically included in rate base, the contribution balance would otherwise grow far faster than rate base, thereby causing rate base to decline significantly in the next rate case, only to then bounce back as the plant entered service.

Q. WHAT ARE THE TWO THINGS THAT ARIZONA-AMERICAN IS ASKING THE COMMISSION TO ORDER CONCERNING THE COMPANY'S PLANNED MAY 2008 RATE FILING?

A. First, order Arizona-American to propose to adjust the Water Facilities Hook-Up Fees based on information known to that date including:

- Actual to-date and remaining plant costs;
- The effects of any third-party treatment contracts;
- Actual hook-up fee collections;
- Revised projected customer additions and meter preferences; and
- Future Agua Fria district capital requirements.

Second, order Arizona-American to propose a mechanism, similar to the Commission's ACRM procedure, to defer and subsequently recover operation and maintenance costs associated with the White Tanks Plant until such expenses can be included in base rates. The Company estimates that these O&M costs will be approximately $1.5 million per year, based on current media, electricity, and other costs.

While it is Arizona-American's plan to entirely fund the capital cost portion of this project with hook-up fees, we do reserve the right in a future rate case to update our plan to include a portion of the project in base rates. If for some reason hook-up fee receipts are disappointingly low – perhaps due to slow growth – we may seek to have a portion of the project funded in base rates or funded as part of an ACRM-like surcharge.

Q. PLEASE DISCUSS ARIZONA-AMERICAN'S NEW FIFTH REQUEST – THAT THE COMMISSION APPROVE A FORMULA TO REDUCE THE WATER FACILITIES HOOK-UP FEES IF IT SELLS OR OTHERWISE COMMITS WHITE TANKS CAPACITY.

A. As discussed below, Arizona-American is offering to sell up to 10 mgd of White Tanks capacity to MWD or to any other party. This would reduce the amount of capital that Arizona-American would need to commit to the plant for this phase and thereby enable a reduction in the otherwise required level of hook-up fees.

Q. WHEN WOULD THE FORMULA BE APPLIED?

A. The formula would be applied immediately to reduce hook-up fees when a party irrevocably commits to purchase capacity or signs a long-term, take-or-pay treatment contract that allows Arizona-American to recover its associated capital costs.

Q. WHAT IS THE FORMULA?

A. The formula follows:

Adjusted HUF = New HUF – 0.75 [(New HUF – Current HUF) * (1 – AAW Cap/Plant Cap)]

Where:

Adjusted HUF = Reduced Agua Fria Water Facilities Hook-up Fee

New HUF = Agua Fria Water Facilities Hook-up Fee approved by the ACC as per this application

Current HUF = Current Agua Fria Water Facilities Hook-up Fee

AAW Cap = Arizona-American's share of total White Tanks Plant capacity

Plant Cap = Total White Tanks Plant capacity

0.75 = AAW Incentive Adjustment

Q. COULD YOU PROVIDE A NUMERICAL EXAMPLE?

A. Certainly. Let's assume that the White Tanks Plant is constructed with a capacity of 20 mgd. Assume also that MWD buys 9 MGD and Arizona Water signs a long-term 1-mgd treatment agreement. The current hook-up fee for a 5/8-inch meter is $1150. Finally we will assume that the Commission has set the new hook-up fee for a 5/8-inch meter at $3200. In this example the adjusted hook-up fee for a 5/8-inch meter would be calculated as follows:

Adjusted HUF = $3200 – 0.75[($3200- $1150) * (1 – 0.5)]

= $3200 – 0.75[$2050 * 0.5]

= $3200 - $768.25

= **$2431.25**

Q. WHAT IS THE AAW INCENTIVE ADJUSTMENT?

A. It's a component of the proposed formula intended to provide Arizona-American an incentive to secure capacity agreements so that the amount and duration of shortage in capital expenses as compared to hook-up fees is reduced. Even though the accounting order would keep Arizona-American whole, AFUDC is nevertheless lesser quality non-cash earnings. By applying the incentive adjustment, Arizona-American would recover its capital costs somewhat earlier than if the Adjusted Hook-Up Fee reflected the entire amount of the capacity sale or commitment.

Q. HAVE YOU REVIEWED THE OCTOBER 3, 2006, STAFF REPORT IN THIS DOCKET?

A. Yes.

Q. PLEASE SUMMARIZE THE STAFF REPORT?

A. Staff recommended approval of a new Agua Fria Water Facilities Hook-Up Fee for a 5/8-inch meter of $3,280, with increasing fees for larger meters as set forth in Schedule JJD-1. Staff also recommended that the Commission approve post-in-service AFUDC on the unfunded balance of the White Tanks Plant capital costs and hook-up fees not be treated as contributions until the Plant enters service. Finally, Staff recommended that Arizona-American update the hook-up fee assumptions as part of its 2008 rate filing so that the Commission could make any necessary adjustments to the hook-up fee amounts.

Q. WHAT IS ARIZONA-AMERICAN'S REACTION TO THE STAFF REPORT?

A. Arizona-American accepts the recommendations made by Staff.

Q. DID STAFF EVALUATE ARIZONA-AMERICAN'S PROPOSED FORMULA TO REDUCE HOOK-UP FEES IF IT SUCCESSFULLY SELLS OR OBTAINS LONG-TERM COMMITMENTS FOR WHITE TANKS CAPACITY?

A. No. This proposal is new with this testimony. I ask Staff to also recommend approval of the adjustment formula, which can be directly incorporated into the tariff. In other words, to change the hook-up fee pursuant to a capacity sale or commitment would merely require a filing by Arizona-American of the sale/commitment followed by a short period for Staff/intervenor review without further action by the Commission, except, of course, if it had a concern with some aspect of the sale/commitment.

V <u>TESTIMONY OF JAMES R. SWEENEY</u>

Q. HAVE YOU REVIEWED THE TESTIMONY OF JAMES SWEENEY?

A. Yes.

Q. DO YOU HAVE ANY RESPONSES TO HIS TESTIMONY?

A. Yes. I would like to address two issues raised in various MWD pleadings or in Mr. Sweeney's testimony. First, I would like to assure the Commission that Arizona-American can secure the funds to construct the White Tanks Plant. We borrow from our financing affiliate, American Water Capital Corporation. Second, I would like to address the likely rate impact of MWD's proposal to construct a treatment plant and sell treatment services to Arizona-American. Third, I address MWD's Landowner Credit concept.

A <u>ARIZONA-AMERICAN CAN FUND THE WHITE TANKS PLANT</u>

Q. CAN ARIZONA-AMERICAN OBTAIN FUNDING FOR THE WHITE TANKS PLANT?

A. Yes. It is certainly true, as I have stated in many forums, that Arizona-American's financial results have been very disappointing for the past three years. Arizona's

regulatory construct often creates multi-year regulatory lag which is a significant disincentive toward making discretionary investments, especially when a company is unprofitable at the time of starting a large project.

Fortunately, Arizona-American is part of the largest private water company in the United States, American Water. It is my understanding that American Water prefers we either fund this project quickly through contributions as we have proposed or obtain CWIP in rate base from the onset. Given that the Commission re-opened the previous rate case for the Agua Fria district and recently approved a surcharge related rate increase associated with completion of arsenic plant, we concluded that a request for CWIP in rate base would probably not be well received by the Commission.

American Water prefers we not undertake this project on a traditional basis as there would be significant financing requirements during construction at a time when the Commission requests we bring our equity ratio to at least 40% and there would likely be multi-year regulatory lag after the plant is placed in service.

By funding the White Tanks Plant with hook-up fee funds and obtaining the requested accounting orders, Arizona-American can reduce downward pressure on its equity ratio and minimize regulatory lag and successfully fund the White Tanks Plant. I think its commendable that an Arizona utility is willing to build such a significant facility on a contributed plant basis – essentially foregoing the profit potential.

Arizona-American's overall cost of capital remains the lowest of all major Arizona utilities.

Q. HAS THE COMMISSION PREVIOUSLY APPROVED REQUESTS BY ARIZONA-AMERICAN THAT HAVE REDUCED REGULATORY LAG?

A. Yes. I can think of at least three major examples:

1. The present Agua Fria Water Facilities Hook-Up Fees were approved in 2003 and have been used to fund $12.2 million in new plant in the Agua Fria Water District as of the end of 2006.
2. Arizona-American has successfully utilized the Commission's ACRM procedure to begin earlier the recovery of over $ 45 million in new arsenic-treatment facilities, all of which have entered service within the last 11 months.
3. In its Paradise Valley Water District, the Commission included post-test-year plant in rate base and approved innovative conservation and public safety surcharges to fund approximately $15 million in new investment to increase system pressure and capacity, and thereby upgrade the system's ability to respond to fire emergencies with water from fire hydrants.

Q. HOW CAN CUSTOMERS BE SURE THAT HOOK-UP FEE FUNDS WILL BE USED TO FUND CAPITAL IMPROVEMENTS AND NOT FOR SOME OTHER PURPOSE?

A. In Decision No. 66512, dated November 10, 2003, the Commission ordered that Arizona-American would continue "to maintain all water and wastewater hook-up fees in a separate interest bearing account, and to file annual reports" on the collection and uses of the funds. Arizona-American recently filed its compliance report for 2006 just like for years 2003, 2004, and 2005. These filings show the details behind the receipts and application of the funds to projects. The Commission would have another opportunity to review this information in our January 2008 filing for the year 2007. We are not asking to change that requirement.

B <u>MWD'S PROPOSAL WOULD CAUSE A MAJOR RATE INCREASE</u>

Q. WHY WOULD MWD'S PROPOSAL CAUSE A RATE INCREASE?

A. If MWD were to build a treatment plant and Arizona-American were to contract for treatment from MWD, there would be an on-going revenue requirement associated with the capital cost recovery component of MWD's treatment charge based on the reasonable assumption that the hook-up fee would not be increased to establish a long-term fund to pay future contract expenses.

By contrast, because the plan is for White Tanks Plant's capital costs to be entirely funded by hook-up fees under the Company's proposal, the plant cost would be offset by an equal contribution balance and the intent is there would be no associated revenue requirement on the capital portion.

Q. HOW MUCH WOULD RATES HAVE TO INCREASE IF ARIZONA-AMERICAN WERE TO PURCHASE TREATMENT SERVICES FROM MWD?

A. I don't know exactly as MWD has not provided any pricing and while I have their plant cost estimate, I don't have a handle on their cost of capital or depreciation expense. I hope MWD will provide this information very soon. MWD also has provided us no information on its proposed Landowner Credit concept.

Q. WOULDN'T THERE BE A RATE INCREASE REQUIRED TO RECOVER ASSOCIATED O&M EXPENSES?

A. Yes, but that is common to both MWD's and Arizona-American's proposals.

Q. IN ADDITION TO AVOIDING/MINIMIZING A RATE INCREASE FOR AGUA FRIA WATER CUSTOMERS, ARE THERE ANY OTHER REASONS WHY THE MWD PROPOSAL IS LESS DESIRABLE?

A. Yes. There would very likely be significant regulatory lag associated with obtaining rate recovery of the costs associated with purchasing treatment services from MWD which Arizona-American and its parent prefers to avoid or minimize. To obtain this rate

increase, Arizona-American would have to prepare, file, and successfully prosecute a rate case. We would have to demonstrate that the capital recovery charge is known and measurable and so there is a risk that the Commission might not accept these charges as a post test year adjustment or even allow annualization of charges contained in a portion of a test year with the result that the Company's shareholder would end up funding these treatment charges for a period of time just like we have with so many other charges in recent years. Finally, without knowing more about MWD's proposal and undertaking a great deal of analysis, Arizona-American cannot be certain that a transaction with MWD would not be treated as a capital lease.

C MWD'S LANDOWNER CREDIT SUGGESTION REQUIRES MORE DETAIL

Q. WHAT IS THE COMPANY'S POSITION CONCERNING MWD'S PROPOSED LANDOWNER CREDIT?

A. I presently do not have enough information to assess this proposal and do not consider this an active request in this proceeding. Our silence should not be interpreted as acceptance. I presently do not have any information on how this credit would be calculated, administered or how it would interface with Arizona-American's billing systems. I have a vague understanding that MWD would like to provide financial benefits from MWD's undertakings as approved by MWD's Board to its landowners via a line item in Arizona-American's water bills. It is my understanding that the financial benefits might be in excess of MWD's margin on this water treatment project. If MWD is seriously interested in buying/committing to a portion of our proposed facility, I recommend they provide much more detail on their Landowner Credit concept in the course of this proceeding as I also have not analyzed the requirements, if any, for Commission approval for such a credit on my customers' bills.

VI OFFER TO SELL WHITE TANKS PLANT SHARE

Q. IS ARIZONA-AMERICAN WILLING TO SELL A SHARE OF THE WHITE TANKS TO MWD?

A. Yes; Arizona-American is willing to sell up to 10 mgd of plant capacity to MGD or another party, such as an investor-owned utility or a municipal water utility.

Q. HOW WOULD ARIZONA-AMERICAN SHARE WHITE TANKS PLANT CAPACITY WITH ANOTHER ENTITY?

A. The purchaser(s) and Arizona-American would each own an undivided percentage interest in the plant and the plant site. Conceptually, this would be no different than how Arizona electric utilities own percentage shares of power plants, such as the Palo Verde and Four Corners generating stations.

Q. ARIZONA-AMERICAN IS CURRENTLY PLANNING TO BUILD A 13.5 MGD TREATMENT FACILITY. IS ARIZONA-AMERICAN WILLING TO INCREASE THE SIZE OF THE FACILITY TO ACCOMMODATE THE NEEDS OF A PURCHASER?

A. Yes. As Mr. Gross testifies, the White Tanks Plant is designed to easily accommodate an additional 6.5 mgd filter train, which would bring total, firm capacity to 20 mgd. This needs to occur through a change order before the end of 2007.

Q. HOW WOULD PLANT COSTS BE SHARED?

A. Capital costs, whether sunk or ongoing, would be shared in proportion to ownership shares. Fixed O&M costs would also be split in proportion to ownership shares. Variable O&M costs would be split in proportion to monthly usage.

Q. WHO WOULD OPERATE THE WHITE TANKS PLANT?

A. As Mr. Gross testifies, Arizona-American will operate the White Tanks Plant in coordination with Arizona-American's other water production, transmission, and distribution facilities.

Q. WOULD ARIZONA-AMERICAN BE WILLING TO WHEEL TREATED WATER FOR OR ON BEHALF OF A CO-OWNER?

A. Arizona-American can presently provide some capacity on its main north-south trunkline. However, a major co-owner will need to begin planning to design, permit, and build its own trunkline. The co-owners will also need to execute some kind of coordination/usage agreement covering the operation of the two trunklines.

VII <u>RESPONSE TO DEVELOPER TESTIMONY</u>

Q. WHAT SORT OF CONCERNS DID THE DEVELOPERS RAISE IN THEIR TESTIMONY?

A. Generally the developers were concerned with four things:

1. Prompt construction of a regional water treatment facility;
2. The magnitude of the proposed hook-up fee increase;
3. Retroactive application of any hook-up fee increase; and
4. Avoiding a possible future hook-up "moratorium."

I will discuss the first three concerns. Mr. Troy Day discusses the fourth concern in his testimony.

Q. WILL ARIZONA-AMERICAN BE ABLE TO PROMPTLY BUILD THE WHITE TANKS PLANT?

A. Mr. Gross testifies that Arizona-American should be able to put the White Tanks Plant into service in mid 2009, most likely two years before MWD could put a treatment plant into service.

Q. IS THE AMOUNT OF THE PROPOSED HOOK-UP FEE EXCESSIVE?

A. No. So that my answer is clear, I am referring to the Staff's proposed Agua Fria Water Facilities Hook-Up Fee for a 5/8-inch meter of $3,280, with increasing fees for larger meters as set forth in Schedule JJD-1. As demonstrated in Arizona-American's Revised Application and in Mr. Brilz' testimony on behalf of Pulte Homes, this fee would not be out of line with hook-up or impact fees charged by West Valley municipal water providers. Further, the Commission recently approved a rate-base reduction tariff for Arizona-American's Anthem Water District, which applies to all new connections and starts at $3,000 for 5/8 x 3/4-inch meters. The Anthem rate-base reduction tariff is on top of a $765 per equivalent residential unit capacity reservation charge.

Q. COULD THE HOOK-UP FEE GO DOWN?

A. Yes, in two circumstances. First, as discussed above, Arizona-American is asking the Commission to approve a formula to automatically reduce the Agua Fria Water Facilities Hook-Up Fee when a party irrevocably commits to purchase capacity or signs a long-term, take-or-pay treatment contract that allows Arizona-American to recover its capital costs associated with the associated capacity. This formula would be incorporated into the tariff and be applied shortly after a filing providing the details of the sale/commitment. Second, Arizona-American has agreed to update the hook-up fee assumptions as part of its 2008 rate filing, so that the Commission can make any necessary adjustments to the hook-up fee amounts.

Q. WHEN SHOULD THE HOOK-UP FEE BE APPLIED?

A. The hook-up fee is applicable if the tariff is effective prior to operational acceptance under the terms of line extension agreements. This is equivalent to the meter-set date. This is exactly how a similar tariff in Anthem is applied.

VIII CONCLUSION

Q. DO YOU HAVE ANY CONCLUDING REMARKS?

A. Yes. Arizona-American's requested relief is reasonable, in the public interest, and should be approved. Approval will allow construction of a regional surface water treatment plant, which will allow much of the future demand in Arizona-American's service territory to be served by renewable surface water, thereby reducing future groundwater usage. Our offer to sell capacity to MWD should meet its needs, and will allow MWD to market treatment capacity two years earlier than if it were to construct its own facility. Developers should be pleased because Arizona-American is:

- Accepting Staff's hook-up fee levels;
- Providing a formula to automatically reduce hook-up fee levels;
- Agreeing that the hook-up fee increases should apply at the time of meter set; and
- Proceeding toward putting a regional water treatment plant in service by 2009.

This is a proposal that works for customers, developers, MWD, and Arizona-American.

Q. DOES THIS CONCLUDE YOUR TESTIMONY IN THIS CASE?

A. Yes.

EXHIBIT
A-7
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT	DOCKET NO. W-01303A-05-0718

SURREBUTTAL TESTIMONY
OF
THOMAS M. BRODERICK
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
MARCH 12, 2007

TESTIMONY
OF
THOMAS M. BRODERICK
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
MARCH 12, 2007

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EXHIBIT TMB-S1

EXHIBIT TMB-S2

EXECUTIVE SUMMARY

Mr. Broderick testifies as follows:

MWD did not estimate the rate impact of its proposal. However, Arizona-American was able to obtain through a data request the majority of the information that was needed to complete an analysis. Based on his analysis, Mr. Broderick concluded that the average Agua Fria Water District customer would pay an additional $21.07 per month if Arizona-American were to purchase treatment services from MWD.

The average residential customer bill in Arizona-American's Agua Fria Water District is presently $26.64/month, including the ACRM surcharge. Based on this rate, the average residential increase would be 79 percent.

MWD's proposal would require all customers, existing and future to pay for the cost of the treatment plant. Because it is customer growth that largely drives the need for the plant, it is more equitable for these new customers to pay for the plant through increased hook-up fees for new construction, than for existing customers to be saddled with a large rate increase.

Purchasing capacity from MWD would also erode Arizona-American's financial strength. If Arizona-American were to purchase capacity from MWD and construct additional facilities needed to make the purchase possible, it would have to file a rate application in order to recover the increased costs. Because of normal regulatory lag, Arizona-American would incur at least a year's worth of costs, without compensation. As shown on Exhibit TMB-S1, that would reduce operating income by over $7 million. Arizona-American is not in a position to incur costs of this magnitude without recovery.

It is quite possible that a capacity commitment for a large portion of the MWD plant would require that the agreement be treated as a capital lease. This would require that a lease asset also be included in rate base, with rates set to recover the asset.

For these reasons, it seems unlikely that Arizona-American could obtain approval for purchasing treatment capacity from MWD.

I INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Thomas M. Broderick. My business address is 19820 N. 7th Street, Suite 201, Phoenix, Arizona 85024, and my business phone is 623-445-2420.

Q. ARE YOU THE SAME THOMAS M. BRODERICK WHO PREVIOUSLY SUBMITTED TESTIMONY IN THIS CASE?

A. Yes.

II PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. I will discuss the rate impact and other consequences if Arizona-American were to purchase capacity directly from MWD instead of funding plant construction with increased hook-up fees.

III THE MWD ALTERNATIVE WOULD REQUIRE A SIGNIFICANT RATE INCREASE

Q. HAVE YOU ANALYZED THE RATE IMPACT IF ARIZONA-AMERICAN WERE TO PURCHASE CAPACITY DIRECTLY FROM MWD INSTEAD OF FUNDING PLANT CONSTRUCTION WITH INCREASED HOOK-UP FEES?

A. Yes.

Q. HOW MUCH WOULD RATES HAVE TO INCREASE IF ARIZONA-AMERICAN WERE TO PURCHASE CAPACITY FROM MWD?

A. I have attached Exhibit TMB-S1, which analyses the potential rate increase that would be required if Arizona-American were to purchase capacity from MWD. I will discuss it in greater detail, but, based on my analysis, the MWD-purchase option would require a rate

increase of approximately $21 per month for every Agua Fria Water District customer, including existing customers.

Q. WHERE DID YOU OBTAIN THE DATA REQUIRED TO COMPLETE YOUR ANALYSIS?

A. Unfortunately, MWD chose not provide its projected cost of treatment services as part of its direct testimony. MWD also did not estimate the rate impact of its proposal. However, Arizona-American was able to obtain through a data request the majority of the information that I needed to complete my analysis. I have attached as Exhibit TMB-S2 a copy of MWD's attachment to its response to Arizona-American's DR 1-24. I obtained the balance of the information that I needed from other documents in this case.

Q. WHAT SIZE ARE YOU ASSUMING THE MWD TREATMENT PLANT WOULD BE?

A. On line one of Exhibit TMB-S1, I assume that the plant would be 20 mgd. This is from page four of Exhibit TMB-S2. This is also the same size plant discussed in their testimony by Messrs. Sweeney and Albu on behalf of MWD.

Q. WHAT WOULD THE MWD PLANT COST?

A. On line 2 of Exhibit TMB-S1, I start with MWD's estimated plant cost of $57,700,000. I want to first point out that, as shown by Mr. Gross in his direct testimony, Arizona-American seriously doubts that MWD could build a plant that provides 20 mgd of firm capacity for that figure. However, to reduce controversy, I started with that figure, which is in 2008 dollars.

Q. WHAT WAS YOUR FIRST STEP?

A. Because my goal was to determine the rate impact of purchasing capacity, I needed to determine not only what the plant would cost MWD to build, but, more importantly, what

MWD would charge a take-or-pay treatment customer. Fortunately, I had an MWD estimate for the City of Goodyear to work with. Based on page 4 of TMB-S2, MWD will need to recover not only the plant cost, but debt reserves, debt interest cost, and debt-service coverage. Overall, as shown on page 3 of TMB-S2, MWD calculated an amortized annual capital cost of $6,289,648 for the 20 mgd plant. I carried this over to line 3 of Exhibit TMB-S1. Next, I calculated a dollar/mgd amortized annual capital cost of $0.109 million/mgd by dividing $6,289,648/20 and entering the result on line 4.

Q. YOU STATED THAT THE MWD PLANT COST WAS IN 2008 DOLLARS; WHAT DID YOU DO NEXT?

A. Next, I had to adjust the 2008 plant cost for inflation. On line 5, I used the 4% annual cost-escalation rate MWD provided on page 4 of TMB-S2. Based on Mr. Gross' testimony, I assumed that the earliest the MWD plant would come on line would be 2011. That figure appears on line 6 of TMB-S1. Finally, on line 7 I applied three years of 4% annual inflation to calculate a 2011 MWD plant cost of $64.9 million.

Q. WOULD THAT BE THE TOTAL PLANT COST?

A. No. On page 4 of TMB-S2, MWD indicated that it would need to include the cost of land in the plant capital costs "as they become available." In the Preliminary Engineering Study previously provided by MWD (page 3-3), MWD stated that the preferred plant site totaled 170 acres. In its response to AAW DR 2-7, MWD estimated that the most recent appraised value of its land was $87,100 per acre. For 2011, I conservatively escalated that value to $100,000 per acre. Based on 170 acres at $100,000 per acre, I estimated the plant's land cost at $17 million. I entered this figure on line 8.

Q. WHAT DO YOU ESTIMATE THE TOTAL MWD PLANT COST WOULD BE IN 2011?

A. I estimated on line 9 that the total MWD Plant cost in 2011 would be $81.9 million. This is the sum of $64,904.653 and $17,000,000 from the previous two lines.

Q. WHAT WOULD THE TOTAL ANNUALIZED CAPITAL COST BE FOR THE MWD PLANT IN 2011?

A. This is simply the 2011 plant cost of $81.9 million multiplied by the $0.109 annual capital cost per million dollars, or $8,904,653. I entered this figure on line 10.

Q. HOW MUCH CAPACITY DID YOU ASSUME THAT ARIZONA-AMERICAN WOULD PURCHASE FROM MWD IN THIS OPTION?

A. To keep the options comparable, I assumed that Arizona-American would purchase 13.5 mgd of firm treatment capacity from MWD—the same amount assumed to be built in Arizona-American's revised application. This figure appears on line 11 of TMB-S1.

Q. ARE YOU RECOMMENDING THAT ARIZONA-AMERICAN PURCHASE 13.5 MGD OF TREATMENT CAPACITY FROM MWD?

A. Certainly not. The sole purpose of assuming a 13.5 mgd capacity purchase was to allow an apples-to-apples comparison of the rate impact of building the White Tanks Plant, versus purchasing an equivalent amount of capacity from MWD.

Q. WHAT WOULD BE ARIZONA-AMERICAN'S ANNUALIZED CAPITAL COST ASSOCIATED WITH THAT PURCHASE?

A. On line 12, I calculate Arizona-American's annualized capital cost to be $6.03 million. This is simply 13/20 of the total annualized plant cost of $8,904,653.

Q. WOULD ARIZONA-AMERICAN INCUR ANY OTHER COSTS IF IT WERE TO PURCHASE CAPACITY FROM MWD?

A. Yes. Mr. Gross identified two other costs. In his direct testimony, Mr. Gross estimated that Arizona-American would have to construct $6 million in additional facilities to

interconnect with MWD's treatment plant. I entered this figure on line 13. Mr. Gross also estimated that, because of the delay in acquiring treatment services, Arizona-American would have to construct another $6 million in pipeline facilities to ensure that customers would have adequate water supplies during the delay. I entered this figure on line 14.

Q. DID YOU CALCULATE THE REVENUE REQUIREMENT ASSOCIATED WITH A $6.03 MILLION ANNUAL CAPITAL CHARGE AND $12 MILLION IN NEW FACILITIES?

A. Yes. In the second part of Exhibit TMB-S1, I calculated this annual revenue requirement. First, on lines 16-18, I calculated that the required annual return on the $12 million in plant would be $1.008 million. Adding this to the $6.026 million required capital charge, I arrived at a total operating income deficiency of $7.034 million. After applying the gross revenue conversion factor, the total new revenue requirement would be $11.457 million, as shown on line 22 of Exhibit TMB-S1.

Q. HOW CONFIDENT ARE YOU IN THIS ESTIMATE?

A. By necessity, this is a rough estimate. First, it is based on a cost estimate that Mr. Gross concluded was "seriously flawed." Second, the figures I used from Exhibit TMB-S2 were also estimates provided by MWD. These are, at best, MWD's educated guesses. Third, I am not sure how MWD calculated its amortized annual capital cost. If it includes a depreciation component, then land would not be depreciated, and the amortized annual capital cost associated with the land would be somewhat less. However, I believe that my estimate is a reasonable approximation of what the revenue requirement would be if Arizona-American were to purchase treatment capacity from MWD.

Q. WHAT WOULD BE THE ADDITIONAL REVENUE REQUIREMENT PER CUSTOMER?

A. I show this on line 24. I divided $11.457 million by total estimated customers of 45,311, to calculate a $253 per customer annual rate increase.

Q. HOW MUCH WOULD THE RATE INCREASE PER MONTH BE?

A. The average customer would pay an additional $21.07 per month.

Q. WHAT WOULD THE PERCENTAGE RATE INCREASE BE?

A. The average residential customer bill in our Agua Fria Water District is presently $26.64/month including the ACRM surcharge. Based on this rate, the average residential increase would be 79 percent. This calculation ignores the result of our planned 2008 rate filing.

Q. WHAT DOES ARIZONA-AMERICAN ESTIMATE THE AVERAGE RATE INCREASE TO BE IF ITS PROPOSAL IS APPROVED IN THIS CASE?

A. If the Agua Fria Water Facilities Hook-up Fee is set at the level proposed by Staff and the Commission provides the necessary accounting approvals, then Arizona-American does not presently intend to ask for a rate increase for capital costs associated with building the White Tanks Plant. This intention will be re-examined based on information known at the time of the next rate cases for the Agua Fria Water District.

Q. YOU STATED THAT YOU WOULD NOT EXPECT ANY RATE INCREASE FOR CAPITAL COSTS IF ARIZONA-AMERICAN BUILDS THE WHITE TANKS PLANT; ARE YOU SAYING THAT NO RATE INCREASES WOULD BE NECESSARY?

A. No. Regardless of who builds a treatment plant, Arizona-American would incur operating and maintenance costs and possibly other non-capital costs. We would not expect these costs to vary significantly between the two options, so I have not discussed these so far in my testimony. The purpose of my testimony is to show the additional rate

increase that would be required if MWD were to build its plant and Arizona-American were to contract for long-term treatment capacity. Arizona-American presently estimates that annual O&M costs would be on the order of $1.5 million annually, but this is only a rough guess at this time, that will depend on the actual costs of electricity, chemicals, labor, and other variable costs.

IV OTHER CONSEQUENCES OF PURCHASING TREATMENT SERVICES FROM MWD

Q. IN ADDITION TO THE LARGE REQUIRED RATE INCREASE, ARE THERE ANY OTHER REASONS THAT PURCHASING TREATMENT SERVICES FROM MWD WOULD NOT BE IN THE CUSTOMERS' BEST INTEREST?

A. Yes. MWD's proposal would require all customers, existing and future to pay for the cost of the treatment plant. Although the plant will benefit all customers by reducing ground water consumption, the primary driver for the plant is to serve future customers. If Arizona-American were experiencing little or no growth in the Agua Fria Water District, it is unlikely that we would participate in a new surface-water treatment plant, either by building it ourselves or by buying treatment capacity from a third party. Because it is customer growth that largely drives the need for the plant, it is more equitable for these new customers to pay for the plant through increased hook-up fees for new construction than for existing customers to be saddled with a large rate increase.

Q. ARE THERE ANY OTHER REASONS THAT ARIZONA-AMERICAN SHOULD NOT PURCHASE CAPACITY FROM MWD?

A. I can think of two more reasons. First, if Arizona-American were to purchase capacity from MWD and construct additional facilities needed to make the purchase possible, we would have to file a rate application in order to recover the increased costs. Because of normal regulatory lag, Arizona-American would incur at least a year's worth of costs,

without compensation. As shown on Exhibit TMB-S1, that would reduce operating income by over $7 million. As I have repeatedly testified, Arizona-American is not in a position to incur costs of this magnitude without recovery. Second, although we have not done the analysis, it is quite possible that a capacity commitment for a large portion of the MWD plant would require that the agreement be treated as a capital lease. This would require that a lease asset also be included in rate base, with rates set to recover the asset. Consequentially, it seems unlikely that Arizona-American could obtain approval for purchasing treatment capacity from MWD.

Q. DOES THIS CONCLUDE YOUR TESTIMONY IN THIS CASE?

A. Yes.

Docket No. W-01303A-05-0718
Arizona-American Water Company
Surrebuttal Testimony of Thomas M. Broderick
Exhibit TMB-S1

Rate Analysis – Purchase of 13.5 mgd treatment capacity from MWD

1	Plant Size	20 mgd	MWD 1-24 Attachment
2	Plant Cost (2008 $)	$57,700,000	MWD 1-24 Attachment
3	Amortized Annual Capital Cost	$6,289,648	MWD 1-24 Attachment
4	Annual Capital Cost per $ Million Plant (	0.109006031	(Line 3)/(Line 2)
5	Annual Inflation	4%/year	MWD 1-24 Attachment
6	Assumed On-line Date	2011	Testimony of Joe Gross
7	2011 Plant Cost	$64,904,653	(Line 2) * $(1.04)^3$
8	Land Cost	$17,000,000	Preliminary Engineering Study, p. 3-3; 170 acres at $100,000/acre
9	2011 Total Plant Cost	$81,904,653	(Line 7) + (Line 8)
10	2011 Total Annual Capital Cost	$8,928,101	(Line9) * (Line 4)
11	AAW Purchase	13.5 mgd	Revised Application
12	AAW Annual Capital Cost	$6,026,468	(13.5/20) * (Line 10)
13	AAW Interconnection Capital Cost	$6,000,000	Testimony of Joe Gross
14	AAW Additional Capital Costs (2009-11)	$6,000,000	Rebuttal Testimony of Joe Gross
15	Customer Count in 2011	45,311	Revised Application, Ex. C

MWD Purchase - Test Year 2011 Revenue Requirement:

16	Additional Plant	$12,000,000
17	Required Rate of Return	0.084
18	Return on Plant	$1,008,000
19	Annual Plant Capital Cost	$6,026,468
20	Operating Income Deficiency	($7,034,468)
21	Gross Revenue Conversion Factor	1.62863
22	Revenue Deficiency/Revenue Requirement	($11,456,546)
23	Projected Customers	45,311
24	Annual Per Customer	$ 253
25	Per Month	$ 21.07

ATTACHMENT

DATA REQUEST #24

PRELIMINARY Wholesale Rate Estimate
Between the Maricopa Water District and the City of Goodyear

Anticipated Wholesale Water Treatment Cost (Year 1): $1.32 - $1.84 per 1,000 gal

Assumptions:

- The agreement will be a take-or-pay agreement with a maximum daily or weekly peak demand provision. It was assumed that Goodyear will subscribe to approximately 15 mgd of capacity beginning in the first year of plant operation. The first year of operation was assumed to be in 2008. The term of the contract will be at least equal to the financing amortization period, assumed to be 20 years.

- The anticipated wholesale water rate in Year 1 is based on a range of facility design and construction costs, operation and maintenance cost, as well as other variables and assumptions. It was assumed that construction of the water treatment facility will cost between $38.6 million and $69.6 million in 2008 dollars, including the cost of design and construction management. These costs exclude the cost of a pipeline to serve the City of Goodyear and the value of the land associated with the water treatment plant. The value of the land is currently unknown, but should be included as part of the wholesale water rate as the estimate is refined in the future.

- The 2008 operation and maintenance cost was assumed to be approximately $4.2 million, including labor, chemicals, utilities, and other operation, maintenance and administration costs.

- The anticipated range of wholesale water rates was estimated assuming Goodyear's actual annual demand is 90 percent of the total Goodyear contracted capacity. A higher load factor would result in a lower average rate while lower load factors would have the opposite effect.

- The estimated amount charged to Goodyear (the average rate or cost per 1,000 gallons) will reflect three components: a capital charge (fixed capital costs expressed as a $/year charge), a variable O&M charge assessed based on the actual volume of water provided (i.e., $/1,000 gallons), and a peak demand charge if Goodyear's actual peak water usage exceeds the contracted peak daily or weekly demand. The actual formulas for determining these charges will be developed in the future with input from Goodyear.

  The capital charge, assuming Goodyear receives a 75 percent share of the capacity of the plant, is estimated to be $4.7 million per year (assuming a plant cost of $51.5 million). Converting the annual capital charge to a unitized capital cost results in a unitized capital cost of approximately $0.86 per 1,000 gallons. The variable O&M charge is estimated to be $0.67 per 1,000 gallons. This results in a total estimated unit cost to Goodyear of approximately $1.54 per 1,000 gallons. Details of this estimate are provided attached.

Goodyear Wholesale Rate Estimate

Contract Terms:	
Capital Costs	Take or Pay Arrangement
O&M Cost	Uniform Rate

Estimated 2008 Capital and O&M Costs:

Capital Costs:		
Plant	$ 42,939,520	Average Estimate
Design & Construction	8,587,904	
Land	-	
Pipeline	-	
Capitalized DS Reserve	5,031,718	
Issuance Cost	1,154,268	
Total	$ 57,713,410	
Amortized Annual Capital Cost	5,031,718	
Debt Service Coverage Req	1,257,930	
Total Amortized Annual Capital Cost	$ 6,289,648	
O&M Costs:		
2008 O&M Cost	4,104,672	
Amortized Working Capital Requirement	102,617	
Total Annual O&M Cost	$ 4,207,289	

Estimated Cost Attributable to Goodyear (2008):

Goodyear Share of Amortized Capital Costs		
Goodyear Capacity Share	75.0%	
Goodyear Cost Share	$ 4,717,236	
Goodyear Unit Capital Cost		$0.86 per 1,000 gallons
Goodyear Unit O&M Cost		$0.67 per 1,000 gallons
Total Goodyear Unit Cost		$1.54 per 1,000 gallons

Goodyear Wholesale Rate Estimate Assumptions

Description	Assumption	Notes
Cost Estimate Year	2006	
Year Facilities Constructed	2008	
Cost Escalation	4.0%	per year
Plant Size	20	mgd
Design Alternative:	Alt 12	Raw Water Impoundment, Actiflo, Deep Bed GAC, Centrifuge
Maximum Usage Factor	90.0%	
Water Loss	5.0%	
Goodyear Portion	15	mgd
Capital Cost:		
Plant Construction Estimate	39,700,000	
Low (-25%)	29,775,000	
High (+35%)	53,595,000	
Land	-	Land costs should be included as they become available
Pipeline	-	Will be paid for and owned by Goodyear
Design Cost (10%)	10.0%	
Construction Oversight Cost (10%)	10.0%	
O&M Cost:		
Power & Chemicals	1,972,043	Estimate provided by Laural Passintino
Labor	827,957	Estimate provided by Laural Passintino
Other O&M Expense	500,000	Vehicles, laboratory, communications, supplies, equipment maintenance
Admin (15% of O&M)	495,000	Assumed
Working Capital Requirement	3	months of O&M expense amortized over 10 years
Plant Financing Terms:		
Amortization Period	20	yrs
Interest Rate	6.0%	
Debt Issuance Costs	2.0%	
Debt Service Reserve	1	Year of Debt Service
DS Coverage Requirement	1.25	

EXHIBIT
A-8
admitted

Maricopa Water District's Responses to
Arizona-American Water Company
Docket No. WS-01303A-05-0718
January 19, 2007

24. What price is MWD offering for treatment service at its proposed plant to potential customers such as Arizona-American? Please provide its proposed rate design for treatment services.

Response: MWD has not offered a firm price for treatment services at its proposed plant to any potential customers because capital and operating cost estimates have not been developed by MWD. MWD has not yet developed its proposed rate design for treatment services. However, as part of past discussions with the City of Goodyear, MWD provided Goodyear with a preliminary wholesale rate estimate for providing treated water to Goodyear on a take-or-pay basis. This preliminary rate estimate is attached. This preliminary wholesale rate estimate, and associated cost estimates and assumptions may not be directly applicable to the water treatment facility that MWD is now considering, and may not be directly applicable to Arizona-American.

Respondent: John M. Mastracchio, PE, CFA
Associate
Malcolm Pirnie, Inc.

ATTACHMENT

DATA REQUEST #24

PRELIMINARY Wholesale Rate Estimate
Between the Maricopa Water District and the City of Goodyear

Anticipated Wholesale Water Treatment Cost (Year 1): $1.32 - $1.84 per 1,000 gal

Assumptions:

- The agreement will be a take-or-pay agreement with a maximum daily or weekly peak demand provision. It was assumed that Goodyear will subscribe to approximately 15 mgd of capacity beginning in the first year of plant operation. The first year of operation was assumed to be in 2008. The term of the contract will be at least equal to the financing amortization period, assumed to be 20 years.

- The anticipated wholesale water rate in Year 1 is based on a range of facility design and construction costs, operation and maintenance cost, as well as other variables and assumptions. It was assumed that construction of the water treatment facility will cost between $38.6 million and $69.6 million in 2008 dollars, including the cost of design and construction management. These costs exclude the cost of a pipeline to serve the City of Goodyear and the value of the land associated with the water treatment plant. The value of the land is currently unknown, but should be included as part of the wholesale water rate as the estimate is refined in the future.

- The 2008 operation and maintenance cost was assumed to be approximately $4.2 million, including labor, chemicals, utilities, and other operation, maintenance and administration costs.

- The anticipated range of wholesale water rates was estimated assuming Goodyear's actual annual demand is 90 percent of the total Goodyear contracted capacity. A higher load factor would result in a lower average rate while lower load factors would have the opposite effect.

- The estimated amount charged to Goodyear (the average rate or cost per 1,000 gallons) will reflect three components: a capital charge (fixed capital costs expressed as a $/year charge), a variable O&M charge assessed based on the actual volume of water provided (i.e., $/1,000 gallons), and a peak demand charge if Goodyear's actual peak water usage exceeds the contracted peak daily or weekly demand. The actual formulas for determining these charges will be developed in the future with input from Goodyear.

  The capital charge, assuming Goodyear receives a 75 percent share of the capacity of the plant, is estimated to be $4.7 million per year (assuming a plant cost of $51.5 million). Converting the annual capital charge to a unitized capital cost results in a unitized capital cost of approximately $0.86 per 1,000 gallons. The variable O&M charge is estimated to be $0.67 per 1,000 gallons. This results in a total estimated unit cost to Goodyear of approximately $1.54 per 1,000 gallons. Details of this estimate are provided attached.

Goodyear Wholesale Rate Estimate

Contract Terms:

Capital Costs	Take or Pay Arrangement
O&M Cost	Uniform Rate

Estimated 2008 Capital and O&M Costs:

Capital Costs:		
Plant	$ 42,939,520	Average Estimate
Design & Construction	8,587,904	
Land	-	
Pipeline	-	
Capitalized DS Reserve	5,031,718	
Issuance Cost	1,154,268	
Total	$ 57,713,410	
Amortized Annual Capital Cost	5,031,718	
Debt Service Coverage Req	1,257,930	
Total Amortized Annual Capital Cost	$ 6,289,648	
O&M Costs:		
2008 O&M Cost	4,104,672	
Amortized Working Capital Requirement	102,617	
Total Annual O&M Cost	$ 4,207,289	

Estimated Cost Attributable to Goodyear (2008):

Goodyear Share of Amortized Capital Costs		
Goodyear Capacity Share	75.0%	
Goodyear Cost Share	$ 4,717,236	
Goodyear Unit Capital Cost		$0.86 per 1,000 gallons
Goodyear Unit O&M Cost		$0.67 per 1,000 gallons
Total Goodyear Unit Cost		$1.54 per 1,000 gallons

Goodyear Wholesale Rate Estimate Assumptions

Description	Assumption	Notes
Cost Estimate Year	2006	
Year Facilities Constructed	2008	
Cost Escalation	4.0%	per year
Plant Size	20	mgd
Design Alternative:	Alt 12	Raw Water Impoundment, Actiflo, Deep Bed GAC, Centrifuge
Maximum Usage Factor	90.0%	
Water Loss	5.0%	
Goodyear Portion	15	mgd
Capital Cost:		
Plant Construction Estimate	39,700,000	
Low (-25%)	29,775,000	
High (+35%)	53,595,000	
Land	-	Land costs should be included as they become available
Pipeline	-	Will be paid for and owned by Goodyear
Design Cost (10%)	10.0%	
Construction Oversight Cost (10%)	10.0%	
O&M Cost:		
Power & Chemicals	1,972,043	Estimate provided by Laural Passintino
Labor	827,957	Estimate provided by Laural Passintino
Other O&M Expense	500,000	Vehicles, laboratory, communications, supplies, equipment maintenance
Admin (15% of O&M)	495,000	Assumed
Working Capital Requirement	3	months of O&M expense amortized over 10 years
Plant Financing Terms:		
Amortization Period	20	yrs
Interest Rate	6.0%	
Debt Issuance Costs	2.0%	
Debt Service Reserve	1	Year of Debt Service
DS Coverage Requirement	1.25	

EXHIBIT
A-9
admitted

Maricopa Water District's Responses to
Arizona-American Water Company
Fourth Set of Data Requests
Docket No. WS-01303A-05-0718
February 16, 2007

15. Please specify, for each of the 10 MGD and 20 MGD options, how many treatment trains are planned and the capacity of each train?

RESPONSE: To date, only a conceptual design has been completed for the 20 MGD option. The following components were included in the 20 MGD Facility:

- Raw Water Impoundment: 2 trains
- Sand ballasted flocculation: 2 trains
- Deep-bed GAC filters: 9 filters (allows for two out of service at any given time)
- Gravity thickeners: 2
- Centrifuges: 2 (1 out of service)

RESPONDENT: James P. Albu, P.E., BCEE
Senior Associate
Malcolm Pirnie, Inc.

EXHIBIT
tabbies
A-10
admitted

Malcolm Pirnie Single Point Preliminary Cost Estimate = $39,600,000

Level 4 estimate accuracy range, best case – minus 15 to plus 20%

Level 4 estimate accuracy rannge, worst case - minus 30 to plus 50%

Design and Permitting Engineering = $4,000,000
Engineering During Construction = $4,000,000

Single Point Estimate

Plant Construction	$39,600,000
Design and Permitting Engineering	$4,000,000
Engineering and Construction	$4,000,000
Total	**$47,600,000**

"Best Case" Low Estimate (-15%)

Plant Construction	$33,660,000
Design and Permitting Engineering	$4,000,000
Engineering and Construction	$4,000,000
Total	**$41,660,000**

"Best Case" High Estimate (+20%)

Plant Construction	$47,520,000
Design and Permitting Engineering	$4,000,000
Engineering and Construction	$4,000,000
Total	**$55,520,000**

Worst Case" Low Estimate (-30%)

Plant Construction	$27,720,000
Design and Permitting Engineering	$4,000,000
Engineering and Construction	$4,000,000
Total	**$35,720,000**

"Worst Case" High Estimate (+50%)

Plant Construction	$59,400,000
Design and Permitting Engineering	$4,000,000
Engineering and Construction	$4,000,000
Total	**$67,400,000**

Note: All figures in 2006 dollars

EXHIBIT
A-11
admitted

Maricopa Water District's Responses to
Arizona-American Water Company
Docket No. WS-01303A-05-0718
January 19, 2007

2. Please provide the name of each individual or entity among the top 10 landowners within MWD. Please indicate the share of total land within the District owned by each of the top 10 landowners.

Response:

Landowner Name	Acreage	District Acreage Percentage Share
1. Property Reserve, Inc.	3,907.27 Acres	10%
2. Arizona Dept. of Corrections	1,852.46 Acres	5%
3. Robert C. Allen III	888.54 Acres	2%
4. Surprise Village Company	824.88 Acres	2%
5. Sun City Grand Homeowners Assoc.	797.76 Acres	2%
6. Stonebridge Capital Prop.	632.01 Acres	2%
7. Woolf Living Trust	630.83 Acres	2%
8. SunCor Development	593.38 Acres	1%
9. NBA Enterprises LP	563.21 Acres	1%
10. Citrus & Northern	419.78 Acres	1%

Respondent: James R. Sweeney General Manager
Maricopa Water District

EXHIBIT
A-12
admitted

Maricopa Water District's Responses to
Arizona-American Water Company
Docket No. WS-01303A-05-0718
January 19, 2007

5. Please identify by name each MWD board director that is a landowner within MWD and the amount of land owned in acres.

Response:

Leyton Woolf	630.83 Acres
Michael Moore	139.28 Acres
David J. Schofield	33.21 Acres
Samuel C. Colgan	220.67 Acres
Henry Conklin	111.80 Acres

Respondent: James R. Sweeney
General Manager
Maricopa Water District

EXHIBIT
A-13
admitted

Maricopa Water District's Responses to
Arizona-American Water Company
Docket No. WS-01303A-05-0718
January 19, 2007

35. When is MWD going to provide Arizona-American a complete offer and proposed contract of water treatment capacity at its proposed plant including interim water supply? Is MWD willing to make firm offers, including a starting date and price for such services by the conclusion of this hearing?

Response: Please see requests to data requests 13 and 19. Conditioned upon the successful negotiation of a contract for water treatment capacity, MWD will make an interim water supply available to Arizona-American prior to plant completion, and for that reason will not otherwise commit to a firm start date.

Respondent: James R. Sweeney
General Manager
Maricopa Water District

EXHIBIT
A-14
admitted

Maricopa Water District's Responses to
Arizona-American Water Company
Second Set of Data Requests
Docket No. WS-01303A-05-0718
February 1, 2007

7. What is the most recent appraised value that MWD is aware of for unimproved land within the MWD?

RESPONSE:

The most recent appraised value that MWD is aware of for unimproved land within the district is $87,100 per acre. It should be noted this was for a relatively small parcel. Unimproved land within the district is not all the same value due to a variety of factors, such as size, location and proximity to facilities.

RESPONDENT: James R. Sweeney
General Manager
Maricopa Water District

EXHIBIT
A-15
admitted

Maricopa Water District's Responses to
Arizona-American Water Company
Second Set of Data Requests
Docket No. WS-01303A-05-0718
February 1, 2007

8. How many acres of land does MWD own for future development? What is the most recent appraised value for this acreage?

RESPONSE: The final disposition of all district lands has not been determined and will not be for the foreseeable future. However, the District notes that it owns approximately 3,000 acres of land. With respect to appraised value, see our response to your question 2-7. Note that this implies that the District's landholdings are worth at least $260 to $300 million. This is a sign of the District's superior financial strength.

RESPONDENT: James R. Sweeney
General Manager
Maricopa Water District

EXHIBIT
A-16
admitted

Maricopa Water District's Responses to
Arizona-American Water Company
Fourth Set of Data Requests
Docket No. WS-01303A-05-0718
February 16, 2007

6. Mr. Albu states that MWD already owns this site:

a. What is the appraised value of the site?
b. Does MWD intend to recover the site's value in its water treatment charge or otherwise from treatment customers?

RESPONSE:

a. The site has not been appraised.

b. Some value will be assigned to the site for inclusion in the water treatment rate. The value has not been determined yet but will not necessarily be a current appraised value.

RESPONDENT: James R. Sweeney
General Manager
Maricopa Water District

EXHIBIT
A-17
admitted

Maricopa Water District's Responses to
Arizona-American Water Company
Fourth Set of Data Requests
Docket No. WS-01303A-05-0718
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20. Follow-up to DR 1-11 – Counsel states that "MWD may engage in wide range of activities to benefit the district lands."

a. Other than obtaining its board's approval, are there any constraints on the types of otherwise legal activities that MWD could engage in to benefit the district lands?
b. Could MWD engage in activities outside the District, as long as the activities benefited the district lands?
c. Please provide examples of legal activities that MWD could not engage in.

RESPONSE:

a. No, so long as the activities are incidental to and in furtherance of the primary purpose of the District. See, Hohokam Irrigation and Drainage District v. Arizona Public Service Corporation, 204 Ariz. 394, 64 P3d 836 (2003); Maricopa County v. Maricopa County Municipal Water Conservation District No. 1, 171 Ariz. 325 at 329, 830 P2d 846, at 850 (1991).

b. Yes. See, Hohokam Irrigation and Drainage District v. Arizona Public Service Corporation, 204 Ariz. 394, 64 P3d 836 (2003).

c. We are not aware of any specific legal activity which has been determined by law to be an activity in which MWD could not engage.

RESPONDENT: Counsel

EXHIBIT
A-18
admitted

Maricopa Water District's Responses to
Arizona-American Water Company
Fifth Set of Data Requests
Docket No. WS-01303A-05-0718
March 6, 2007

3. Follow-up (MWD to DR 2-8). Mr. Sweeney admits that the District owns approximately 3,000 acres of land for future development with a value of at least $260 to $300 million. Mr. Sweeney claims that "This is a sign of the District's superior financial strength."

a. Please admit or deny that real estate development is an inherently risky business. If the answer is "deny," please explain your answer with particularity.
b. How much of this land is in Maricopa County?
c. How much of this land is located with Arizona-American's Agua Fria Water Certificate of Convenience and Necessity?
d. Please discuss in detail the District's real estate development plans, including identification, location, and description of developments. Please attach all descriptive sales brochures, maps, and MWD Board briefing documents.
e. Will MWD be the developer of these land holdings or will they be sold to other developers?
f. How many equivalent residential units does MWD expect to be built on its lands in each of the next five years? Please break this down by development, by, year, whether on a planned MWD development or on land that MWD expects to sell to another developer.
g. How does MWD expect to satisfy the Certificate of Assured Water Supply requirements for the lands it is holding for future development?

RESPONSE:

a. Objection – the term "inherently risky" is ambiguous.

b. With the exception of a 20 acre parcel in Yavapai County, all of the land is in Maricopa County.

c. It is MWD's understanding that approximately 2,700 acres of the land is located within Arizona-American's Agua Fria division.

d. Currently, MWD has two real estate developments, Zanjero Trails and Zanjero Pass, which are in various stages of entitlement. A portion of the smaller development, Zanjero Pass, has been sold and the remaining portion is in escrow and scheduled to close on

August 15, 2007. Attached is a copy of the current Land Use Plan for the larger development, Zanjero Trails.

e. Those plans have not been finalized. MWD may use both or a combination of these alternatives.

f. Current estimates are as follows:

Zanjero Trails	Zanjero Pass
2007 – 0	2007 - 0
2008 – 0	2008 – 5
2009 – 20	2009 – 40
2010 – 400	2010 – 50
2011 – 600	2011 – 50

g. The Arizona Department of Water Resources has issued an Analysis of Assured Water Supply (effective April 4, 2005) for MWD's land, determining that 5770 acre feet per year of groundwater will be physically and continuously available to meet the projected demands of the development. The manner in which the remaining assured water supply requirements will be met will be determined at such time, and from time to time, as preliminary plats and applications for Certificates of Assured Water Supply are prepared for the property.

RESPONDENT: James R. Sweeney
General Manager
Maricopa Water District

EXHIBIT
A-19
admitted

Maricopa Water District's Responses to
Arizona-American Water Company
Fifth Set of Data Requests
Docket No. WS-01303A-05-0718
March 6, 2007

5. In its Motion to Intervene in this docket, MWD asserts that it is considered to be a "municipal corporation" under the Arizona Corporation: Is MWD aware of other Arizona municipal corporations that are holding land for future development? If the answer to the preceding question is "yes," please support this answer by listing and describing in detail, to MWD's knowledge, each such municipal corporation, its land holdings, and its development activities.

RESPONSE: No

RESPONDENT: James R. Sweeney
General Manager
Maricopa Water District

EXHIBIT
A-21
admitted

Maricopa Water District's Responses to
Arizona-American Water Company
Fourth Set of Data Requests
Docket No. WS-01303A-05-0718
February 16, 2007

5. Would this site require rezoning or obtaining a special use permit for the plant?

RESPONSE: No. As a municipal corporation and political subdivision of the State of Arizona, the District is not subject to the zoning requirements of other jurisdictions.

RESPONDENT: Counsel

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 for Approvals Associated with a Transaction with the Maricopa County Municipal Water Conservation District Number One

DOCKET NO. W-01303A-05-0718

DIRECT TESTIMONY OF
DAVID PRESCOTT
ON BEHALF OF
TREND HOMES, INC.
JANUARY 22, 2007

DIRECT TESTIMONY OF
DAVID PRESCOTT
ON BEHALF OF TREND HOMES, INC.
JANUARY 22, 2007

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GREENBERG TRAURIG
2375 EAST CAMELBACK ROAD, SUITE 700
PHOENIX, A ONA 85016
(602) -8000

EXECUTIVE SUMMARY

David Prescott testifies that:

Pursuant to the Water Facilities Line Extension Agreement between Stardust Development, Inc. and Arizona American Water Company, Trend has made approximately $227,000.00 in payments to Arizona American Water Company ("Arizona American") for both Central Arizona Project ("CAP") Hook Up Fees and Water Facilities Hook Up Fees ("WFHUFs"). In exchange for the payments of the hook up fees, Trend anticipates receiving the necessary water service for the Cortessa development within Arizona American Water Company's Agua Fria Water District.

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A: My name is David Prescott, and my business address is Trend Homes, 890 West Elliot Road, Gilbert, Arizona. My telephone number is (480) 782-7323.

Q: HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS DOCKET?

A: No.

Q: BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A: I have been employed since 2005 by Siena Development, LLC, an affiliated company of Trend Homes, Inc. and, at present, by Trend Homes, Inc. (collectively, "Trend") as Vice President of Forward Planning. As part of my responsibilities, I am involved in land acquisition, development, and project agreements for services.

Q: WHAT ARE YOUR RESPONSIBILITIES AS VICE PRESIDENT OF FORWARD PLANNING FOR TREND?

A: As Vice President of Forward Planning for Trend, I am responsible for the following:

(1) Tracking and conducting due diligence related to potential real estate projects offered for acquisition;

(2) Tracking competitors' housing projects and products to gauge market comparisons to Trend projects and products;

(3) Preparing, managing, and directing the land entitlements process, including general planning, zoning, site plan and preliminary plat;

(4) Managing Trend's Architecture Division to ensure that the design review, house permits, model home complexes, sales trailers, and sales offices are prepared and submitted to the applicable municipalities;

(5) Managing Trend's Architecture Division to ensure that sales facilities have access, parking, and temporary necessary utilities; and

(6) Managing forward communications to mitigate issues and ensure consistency between the development and production phases.

Q: BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND?

A: I earned a Bachelor's Degree in Industrial Education from Indiana State University and a Master's Degree in Geography from Arizona State University.

Q: HAVE YOU TESTIFIED BEFORE ANY STATE UTILITY REGULATORY AGENCIES?

A: Yes, a preliminary hearing with the Arizona Corporation Commission for Certificate of Needs and Necessity for Global Water Resources.

Q: WHAT IS THE SUBJECT OF YOUR TESTIMONY?

A. I testify that:

- Trend has previously paid approximately Two Hundred Twenty Seven Thousand Dollars ($227,000) to Arizona American for WFHUFs and CAP Hook Up Fees for water service necessary for Trend's development at Cortessa which is located within Arizona American's Agua Fria Water District.
- Trend made these payments under that certain Water Facilities Line Extension Agreement ("Water Agreement") between Arizona American and Stardust Development, Inc.

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(602) - 8000

("Stardust") and that certain Joint Development Agreement and Escrow Instructions ("JDA") between Stardust and Trend, among other parties. The Water Agreement and JDA are attached hereto as Exhibit A and Exhibit B, respectively.

Q: PLEASE SUMMARIZE YOUR TESTIMONY.

A: Pursuant to the Water Agreement between Stardust Development, Inc. and Arizona American Water Company, Trend has made approximately $227,000.00 in payments to Arizona American for both CAP Hook Up Fees and WFHUFs. In exchange for the payments of the hook up fees, Trend anticipates receiving the necessary water service for the Cortessa development within Arizona American's Water Company's Agua Fria Water District.

II. COURSE OF DEALINGS

Q: DOES TREND HAVE ANY DEVELOPMENTS IN CONSTRUCTION WITHIN ARIZONA AMERICAN'S AGUA FRIA WATER DISTRICT?

A: Currently, Trend is in the process of building homes on lots in the Cortessa development. This project is located within Arizona American's Agua Fria Water District.

Q: PLEASE DESCRIBE THE CURRENT STAGE OF DEVELOPMENT FOR THE CORTESSA DEVELOPMENT?

A: The Cortessa development is fully developed with approximately 1,700 finished lots, approximately 20% of which have new homes constructed upon them and 345 lots of which are prepared for the construction of new homes.

Q: DURING THE COURSE OF DEVELOPMENT, HAVE YOU HAD FIRST HAND EXPERIENCE WITH THE WATER AGREEMENT?

A: Yes. I am aware of the provisions and requirements contained in the Water Agreement.

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III. PREVIOUS PAYMENTS MADE AND PLANS FOR DEVELOPMENT

Q: HAS TREND MADE ANY PAYMENTS FOR WFHUFS FOR THE CORTESSA DEVELOPMENT?

A: Yes. Trend made payments in the amount of $58,650.00 to Arizona American on or about March 13, 2006 for the meters to be installed in Parcel 7 of the Cortessa development. Trend also made payments to Arizona American in the amount of $64,975.00 on or about March 13, 2006 for the meters to be installed in Parcel 8 of the Cortessa development. Additionally, Trend made payments to Arizona American in the amount of $80,500.00 on or about March 13, 2006 for the meters to be installed in Parcel 11 of the Cortessa development.

Q: OF THE TOTAL METERS REQUESTED BY TREND OR ANTICIPATED TO BE REQUESTED BY TREND FOR THE ENTIRE CORTESSA DEVELOPMENT, HOW MANY ARE 5/8" METERS?

A: None.

Q: OF THE TOTAL METERS REQUESTED BY TREND OR ANTICIPATED TO BE REQUESTED BY TREND FOR THE ENTIRE CORTESSA DEVELOPMENT, HOW MANY ARE 3/4" METERS?

A: Trend anticipates requesting 345 meters, approximately one-half (173) of which will be ¾" meters.

Q: OF THE TOTAL 3/4" METERS NECESSARY FOR THE CORTESSA DEVELOPMENT, HOW MANY HAVE YET TO BE REQUESTED BY TREND?

A: Approximately 138.

Q: OF THE TOTAL METERS REQUESTED BY TREND OR ANTICIPATED TO BE REQUESTED BY TREND FOR THE ENTIRE CORTESSA DEVELOPMENT, HOW MANY ARE 1" METERS?

A: Trend anticipates requesting 345 meters, approximately one-half (173) of which will be 1" meters.

Q: OF THE TOTAL 1" METERS NECESSARY FOR THE CORTESSA DEVELOPMENT, HOW MANY HAVE YET TO BE REQUESTED BY TREND?

A: Approximately 137.

Q: WHAT PERCENTAGE OF THE TOTAL WFHUFS NECESSARY FOR CORTESSA HAVE BEEN PRE-PAID BY TREND?

A: Trend has pre-paid 100% of the total WPHUFs necessary for the Cortessa development.

Q: HAS TREND MADE ANY PAYMENTS FOR CAP HOOK UP FEES FOR THE CORTESSA DEVELOPMENT?

A: Yes. Trend made payments in the amount of $5,654.00 to Arizona American on or about March 13, 2006 for the CAP Hook Up Fees assessed in Parcel 7 of the Cortessa development. Trend also made payments to Arizona American in the amount of $7,967.00 on or about March 13, 2006 for the CAP Hook Up Fees assessed in Parcel 8 of the Cortessa development. Additionally, Trend made payments to Arizona American in the amount of $9,252.00 on or about March 13, 2006 for the CAP Hook Up Fees assessed in Parcel 11 of the Cortessa development.

Q: WHAT PERCENTAGE OF THE TOTAL CAP HOOK UP FEES NECESSARY FOR CORTESSA HAVE BEEN PRE-PAID BY TREND?

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A: Trend has pre-paid 100% of the total CAP hook up fees necessary for the Cortessa development.

Q: WHAT DOES TREND ANTICIPATE TO RECEIVE IN RETURN FOR PRE-PAYING THOSE CERTAIN WFHUFS AND CAP HOOK UP FEES?

A: We expect to receive water meters to each house and water service to each house we build in the Cortessa development as each house is completed in Trend's normal course of construction.

Q: WHAT TYPE OF WATER SERVICE DO YOU NEED FOR THE CORTESSA DEVELOPMENT?

A: Trend requires domestic water meters and domestic water service for each house completed and to be constructed in the Cortessa development.

Q: WHEN DO YOU ANTICIPATE NEEDING CONTINUOUS WATER SUPPLY FOR THE CORTESSA DEVELOPMENT?

A. We currently need continuous water supply for the construction of homes in the Cortessa development. Additionally, Trend's need for such continuous water supply will continue until the construction of homes is completed, which is anticipated to be in two (2) years.

Q: IF WATER SERVICE IS NOT RECEIVED WITHIN THE ANTICIPATED TIMEFRAME, WHAT ARE THE POSSIBLE OUTCOMES?

A: Trend will not be able to continue selling or building homes in the Cortessa development if the water meter and domestic water service is not provided.

IV. <u>FUTURE DEVELOPMENT WITHIN THE AGUA FRIA DISTRICT</u>

Q: DOES TREND HAVE ANY FURTHER DEVELOPMENT(S) PLANNED WITHIN THE AGUA FRIA DISTRICT?

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A: Trend is currently building new homes on finished lots and may enter into an agreement(s) to purchase additional finished lots in the Surprise Farms development.

Q: WHAT IS THE AMOUNT BUDGETED BY TREND FOR THE REMAINING WFHUFS AND CAP HOOK UP FEES FOR THE CORTESSA DEVELOPMENT WHICH HAVE NOT BEEN PRE-PAID BY TREND?

A: None as all budgeted amounts have been expended.

Q: DOES THIS CONCLUDE YOUR TESTIMONY?

A: Yes.

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ORIGINAL and thirteen (13) copies filed with Docket Control January 22, 2007.

COPY of the foregoing hand-delivered January 22, 2007, to:

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COPY of the foregoing sent via first class mail and electronic mail December 13, 2006, to:

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ARIZONA-AMERICAN WATER COMPANY, INC.

DOCKET NO. W-01303A-05-0718

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

EXHIBIT

tabbies

RUCO 1

admitted

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

January 24, 2007

1 **INTRODUCTION** **1**

2 **RUCO'S COMMENTS** **3**

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state your educational background and your qualifications in the field of utilities regulation.

A. Appendix I, which is attached to this testimony, describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to provide RUCO's comments on Arizona-American Water Company's ("Arizona-American" or "Company") Revised Application filed with the Arizona Corporation Commission ("ACC" or "Commission") on September 1, 2006.

Q. Please summarize Arizona-American's Revised Application.

A. Arizona-American's Revised Application presents Arizona-American's plan to construct a Central Arizona Project ("CAP") water treatment facility for the Company's Agua Fria District. According to the Company, the water

treatment facility, referred to as the White Tanks Plant, will eventually be capable of treating 80 million gallons of water per day.

Q. What is Arizona-American requesting in the Company's Revised Application?

A. In addition to an accounting order, which I will describe later, Arizona-American is requesting that the Commission approve increases to the Agua Fria District's existing Water Facilities Hook-Up Fee ("Hook-Up Fee") that will be used to finance construction of the White Tanks Plant. The Hook-Up Fee is currently being charged to builders that are operating in the Agua Fria District and is currently set at $1,150 for 5/8 x 3/4-inch meters. Arizona-American presents two different options for increasing the existing Hook-Up Fee.

Option 1 would increase the existing Hook-Up Fee to the same level as the rate-base reduction fee that is now in effect in the Company's Anthem Water District. Under Option 1 the Hook-Up fee would start at $3,000 for 5/8 x 3/4-inch meters. The Company states that if Option 1 is approved the White Tanks plant would be fully funded by late 2013. However without an accounting order, the approval of Option 1 would not allow Arizona-American to recover carrying costs on any unrecovered balance on the White Tanks Plant and the Company would not be made whole on its investment in the project.

Option 2 resets the Hook-Up Fee to levels that are roughly sufficient to fund the White Tanks Plant at the time that it enters service in 2009. The Company states that, under Option 2, the Hook-Up Fee would start at $4,700 for a 5/8 x 3/4-inch meter.

According to the Revised Application, the Company-requested accounting order, noted earlier, would cover two matters. First, it should provide Arizona-American with the ability to accrue post-in-service allowance for funds used during construction ("AFUDC") on the unfunded balance of the White Tanks Plant and allow the Company to be made whole on Arizona-American's investment until the Hook-Up Fee collections are sufficient to fund the entire plant balance. Second, the Company-requested accounting order should provide that the collected Hook-Up Fee will not be treated as a contribution in aid of construction ("CIAC") until some corresponding eligible plant is placed into service.

RUCO'S COMMENTS

Q. What are RUCO's comments?

A. RUCO has no objection to the hook-up fees as proposed in the Revised application, and notes that Option 2 will result in less AFUDC accruals than will Option 1, and therefore is preferable. RUCO also does not object to the requested accounting order.

Q. Are there certain aspects of the Revised Application that RUCO believes need clarification?

A. Yes. The Application indicates that a third party may potentially purchase capacity in the treatment plant. The Company needs to clarify how the hook-up fee would be modified in the event that this actually happened. Further, RUCO requests that the Commission indicate in its Decision on this Application that it is not predetermining the appropriateness of any such modifications to the hook-up fee or the appropriateness of any request for a mechanism to recover operation and maintenance costs.

Q. Does this conclude you testimony on Arizona-American's Revised Application?

A. Yes.

Appendix 1

Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 &1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
Phoenix, Arizona
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

Utility Company	Docket No.	Type of Proceeding
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

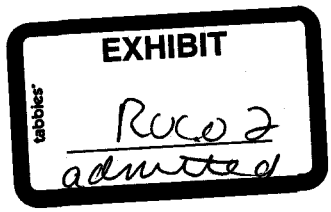
Utility Company	Docket No.	Type of Proceeding
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-06-0014	Rate Increase

ARIZONA-AMERICAN WATER COMPANY, INC.

DOCKET NO. W-01303A-05-0718



REBUTTAL TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

February 21, 2007

INTRODUCTION **1**

RUCO'S REBUTTAL COMMENTS **3**

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. Yes, on January 24, 2007, I filed direct testimony with the Arizona Corporation Commission ("ACC" or "Commission") on Arizona-American Water Company's ("Arizona-American" or "Company") Revised Application filed with the Commission on September 1, 2006.

Q. Please state the purpose of your rebuttal testimony.

A. The purpose of my rebuttal testimony is to provide additional comments on Arizona-American's Revised Application which seeks an accounting order and an increase in existing hook-up fees to finance the construction of a surface water treatment facility, known as the White Tanks Plant, for the Company's Agua Fria District.

...

Q. Has RUCO changed its original position on the Company's request for an accounting order and an increase in the existing hook-up fees to finance the construction of the White Tanks Plant?

A. No. RUCO has not changed its original position on either the Company-requested accounting order or the hook-up fees as proposed in the Revised Application. RUCO still believes that the Company's Option 2 will result in less AFUDC accruals than will Option 1, and is therefore still preferable.

Q. Does RUCO still believe that certain aspects of the Revised Application need clarification?

A. Yes. RUCO still believes that Arizona-American needs to clarify how the hook-up fee would be modified in the event that a third party purchases capacity in the treatment plant. Further, RUCO is still requesting that the Commission indicate in its decision on the Revised Application that it is not predetermining the appropriateness of any such modifications to the hook-up fee or the appropriateness of any request for a mechanism to recover operation and maintenance costs.

...

RUCO'S REBUTTAL COMMENTS

Q. Have you had an opportunity to review the direct testimony of the other intervenors that have filed direct testimony in this filing?

A. Yes. I have had the opportunity to read the direct testimony filed by Maricopa County Municipal Water District Number One ("MWD") and various developers who have intervened in the case.

Q. Please summarize your rebuttal comments.

A. My rebuttal comments center on the issue of imprudence that has been raised by MWD in this case.

Q. Please describe the issue of imprudence that has been raised by MWD.

A. MWD apparently believes that it would be impudent for Arizona-American, the ACC regulated utility that has the obligation to provide service, to construct the White Tanks Plant. This belief is rooted in MWD's cost estimates for the construction of a water treatment facility that is similar to the Company-proposed White Tanks Plant. Consequently, MWD is requesting that the Commission deny Arizona-American's requests, for an accounting order and for increases in the Company's existing hook-up fees, because of MWD's claims that it can build a similar facility at a lower cost.

...

Q. Does RUCO believe that the Commission should deny Arizona-American's requests, for an accounting order and for increases in the Company's existing hook-up fees, because of MWD's claims that it can build a similar facility at a lower cost?

A. No. At the end of the day it is Arizona-American, and not MWD, that has the obligation to provide service. For this reason Arizona-American should not be denied an increase for an existing hook-up fee which is the source of cost-free funds that will be used to construct the new plant needed to provide potable water to future customers.

Q. What is RUCO's position on the issue of imprudence that MWD has raised in its direct testimony?

A. RUCO believes that it is premature for the Commission to consider whether the costs presented in Arizona-American's Revised Application represent an imprudent expenditure at this point in time.

Q. Why does RUCO believe that it is premature for the Commission to consider whether the costs that have been estimated by Arizona-American in the Company's Revised Application represent an imprudent expenditure at this point in time?

A. Because at this point in time the only thing being presented in Arizona-American's Revised Application are cost estimates. No one party, including MWD or any other intervenors to the case, can say with absolute

certainty that the estimates presented by Arizona-American are what the final cost of the White Tanks Plant will actually be or whether or not those estimates represent imprudent expenditures. The Commission generally makes judgments regarding impudence after expenses are incurred – specifically during a rate case proceeding when a determination has to be made on whether or not a utility's requested level of plant should be placed into rate base. In this way, customers are protected from having to pay rates that would allow a utility to recover costs that were incurred imprudently. In this particular case, it has to be remembered that the water treatment facility is going to be financed by hook-up fees that will be booked as contributions in aid of construction ("CIAC"), which has the effect of decreasing rate base and lowering rates.

Q. Would customers who pay the hook-up fees, either directly or indirectly (e.g. through the final price of a home purchased from a developer) be protected if the Commission were to determine that costs were incurred imprudently during a future rate case proceeding?

A. Yes. The Commission, which has regulatory oversight over Arizona-American and not MWD, can make hook-up fees refundable to the owner of record (i.e. the developer or homeowner who paid the hook-up fees either directly or indirectly) for any portions of the White Tanks Plant that may be deemed imprudent.

Q. Why does RUCO believe that any refunds associated with imprudent costs should be returned only to the owners of record?

A. Because the owners of record are the ones who will have actually paid the hook-up fees (either directly or indirectly) that will have financed the White Tanks Plant. RUCO does not believe that it would be fair to distribute the refunds to all of the Company's Agua Fria District's customers since not all of them would have paid the hook-up fees. This position is consistent with RUCO's long-standing belief that hook-up fees should be implemented so that growth pays for growth and that current customers should not have to pay for plant that is built to serve new growth. Thus, if anticipated growth doesn't materialize, the current customers are not saddled with increased rates. Conversely, current customers should not be entitled to a refund for imprudent plant that was built to serve new customers (i.e. owners of record) who paid for the plant through the hook-up fees that were strictly charged to them.

Q. What would RUCO recommend the Commission do at this point in time to insure that owners of record are protected from imprudent expenditures and receive any refunds they might be entitled to if a finding of imprudence is made in a future rate case proceeding?

A. RUCO believes that the Commission should order Arizona-American to maintain a list of owners of record so that any future refunds can be made to them in the event of a finding of imprudence.

Q. Does this conclude you testimony on Arizona-American's Revised Application?

A. Yes.

ARIZONA-AMERICAN WATER COMPANY, INC.

DOCKET NO. W-01303A-05-0718

EXHIBIT

RUCO-3

admitted

SURREBUTTAL TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

March 12, 2007

1 **INTRODUCTION** 1

2 **RUCO'S SURREBUTTAL COMMENTS** 2

3

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. Yes, on January 24, 2007, I filed direct testimony with the Arizona Corporation Commission ("ACC" or "Commission") on Arizona-American Water Company's ("Arizona-American," "AAW" or the "Company") Revised Application filed with the Commission on September 1, 2006. On February 21, 2007 I filed rebuttal testimony on behalf of RUCO.

Q. Please state the purpose of your surrebuttal testimony.

A. The purpose of my surrebuttal testimony is to comment on Arizona-American's rebuttal testimony filed on February 21, 2007.

Q. Has RUCO changed any of its original positions on the Company's request for an accounting order and an increase in the existing hook-up fees ("hook-up fees" or "HUF") to finance the construction of the White Tanks Plant?

A. No. RUCO has not changed its original position on either the Company-requested accounting order or the hook-up fees as proposed in the

Revised Application. RUCO still believes that the Company's Option 2 will result in less AFUDC accruals than will Option 1, and is therefore still preferable.

Q. Does RUCO still believe that certain aspects of the Revised Application need clarification?

A. Yes. This issue is the subject of my surrebuttal testimony.

RUCO'S SURREBUTTAL COMMENTS

Q. Have you had an opportunity to read the Company's rebuttal testimony?

A. Yes. I have read the rebuttal testimony of Company witnesses Thomas M. Broderick, G. Troy Day and Joseph E. Gross.

Q. Please summarize your surrebuttal comments.

A. My surrebuttal comments will focus on the Company-proposed formula that will reduce the water facilities hook-up fees if Arizona-American sells or otherwise commits capacity in the planned White Tank Plant. The formula is discussed on pages 6 through 8 in the rebuttal testimony of Company witness Broderick.

...

Q. What was RUCO's position on this issue prior to filing surrebuttal testimony?

A. RUCO's position was that Arizona-American needed to clarify how the hook-up fee would be modified in the event that a third party purchases capacity in the treatment plant. The Company-proposed formula was intended to satisfy RUCO's concerns. RUCO also requested that the Commission indicate in its decision on the Revised Application that it was not predetermining the appropriateness of any such modifications to the hook-up fee or the appropriateness of any request for a mechanism to recover operation and maintenance costs.

Q. Please describe the Company-proposed formula.

A. The Company-proposed formula is as follows:

Adjusted HUF = New HUF - 0.75 [(New HUF - Current HUF) * (1 - AAW Cap/Plant Cap)]

Where:

Adjusted HUF = Reduced Agua Fria Water Facilities Hook-up Fee

New HUF = Agua Fria Water Facilities Hook-up Fee approved by the ACC as per this application

Current HUF = Current Agua Fria Water Facilities Hook-up Fee

AAW Cap = Arizona-American's share of total White Tanks Plant Capacity

Plant Cap = Total White Tanks Plant Capacity

0.75 = AAW Incentive Adjustment

Q. What is RUCO's position on the Company-proposed formula?

A. RUCO is opposed to the 0.75 AAW incentive adjustment included in the Company-proposed formula. RUCO believes that there is no need for this adjustment because the accounting order being requested by the Company would keep Arizona-American whole. The proposed incentive adjustment would simply keep the hook-up fee at a higher level than what it needs to be.

Q. Can you provide an example of this?

A. Yes. I will use the same numbers and hypothetical situation used by Mr. Broderick on page 7 of his rebuttal testimony. The following is an example of what the adjusted hook-up fee would be with the Company-proposed 0.75 AAW incentive adjustment:

$$\begin{aligned} \text{Adjusted HUF} &= \$3{,}200 - 0.75\,[\,(\,\$3{,}200 - \$1{,}150\,) * (\,1 - 0.5\,)\,] \\ &= \$3{,}200 - 0.75\,[\,\$2{,}050 * 0.5\,] \\ &= \$3{,}200 - \$768.25 \\ &= \underline{\$2{,}431.75} \end{aligned}$$

Without the 0.75 AAW incentive adjustment, the adjusted hook-up fee would be as follows:

$$\begin{aligned} \text{Adjusted HUF} &= \$3{,}200 - [\,(\,\$3{,}200 - \$1{,}150\,) * (\,1 - 0.5\,)\,] \\ &= \$3{,}200 - [\,\$2{,}050 * 0.5\,] \\ &= \$3{,}200 - \$1{,}025 \\ &= \underline{\$2{,}175} \end{aligned}$$

As can be seen above, the formula containing the Company-proposed 0.75 AAW incentive adjustment results in an adjusted hook-up fee that is $256.75 higher than what the formula without it produces.

Q. What is the Company's rationale for the 0.75 AAW incentive adjustment?

A. Mr. Broderick states that the 0.75 AAW incentive adjustment would provide the Company with an incentive to secure capacity agreements by reducing the amount and duration of shortage in capital expenses as compared to hook-up fees.

Q. Do you agree with this rationale?

A. No. I believe that the adage "if you build it, they will come" is applicable in this instance and that the Company does not need any such incentive. The very fact that this proceeding revolves around two competing interests that are trying to build the same type of facility is proof that a demand for surface water treatment capacity already exists in the White Tanks area.

Q. Can you provide any support for your belief that a demand for surface water treatment capacity already exists in the White Tanks area?

A. Yes. On December 29, 2006, Arizona Water Company ("AWC") filed a water use plan (as required under Decision No. 68302, dated November 14, 2005), which addresses how CAP water will be used within its White Tank water system. On page 8 of its water use plan filing, AWC stated that it has been "actively pursuing alternatives for obtaining delivery and treatment of its White Tank water system CAP water allocation." AWC went on to state that in 2005, AWC representatives met with Arizona-American representatives regarding AWC securing treatment capacity in the Company-proposed White Tank Plant. AWC also stated that it was investigating the possibility of obtaining treatment capacity from MWD. AWC's filing also supported MWD's statement on page 5 of its direct testimony that MWD is open to providing service to other water providers in the White Tanks area. It is clear from AWC's filing that buyers for surface water treatment capacity are already interested in negotiating a deal with Arizona-American.

...

Q. Does RUCO's recommendation to reject the Company-proposed 0.75 AAW incentive adjustment conflict with its position that the Company's Option 2 is more preferable because it will result in less AFUDC accruals than will Option 1?

A. No. RUCO simply believes that the owners of record who are subject to the hook-up fee should not have to pay more than what is necessary. If the Commission adopts the Company-proposed accounting order, as RUCO is recommending, Arizona-American will be made whole and will recover whatever shortages it incurs.

Q. Does this conclude your surrebuttal testimony on Arizona-American's rebuttal testimony?

A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER – Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

EXHIBIT
SLR
Westcor-1
admitted

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, FOR APPROVALS ASSOCIATED WITH A TRANSACTION WITH THE MARICOPA COUNTY WATER CONSERVATION DISTRICT NUMBER ONE.

DOCKET NO. W-01303A-05-0718

PRE-FILED DIRECT TESTIMONY OF SCOTT WAGNER

ON BEHALF OF SUBURBAN LAND RESERVE, INC., and WESTCOR/SURPRISE, LLC

JANUARY 24, 2007

1 Q. **PLEASE STATE YOUR NAME AND EMPLOYER.**

2 A. My name is Scott Wagner. I am employed as Development Manager for RED
3 Development, LLC, a Missouri limited liability company.

4 Q. **PLEASE STATE YOUR BUSINESS ADDRESS.**

5 A. My business address is 6263 North Scottsdale Road, Suite 330, Scottsdale,
6 Arizona, 85250.

7 Q. **PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **WORK EXPERIENCE.**

9 A. I received a bachelor's degree in civil engineering from the University of Nebraska
10 and a master's degree in engineering from Arizona State University. I am a
11 Professional Engineer registered with the State of Arizona. Before joining RED
12 Development in 2006, I spent nearly 13 years as a consulting civil engineer with
13 two engineering firms in Phoenix.

14 Q. **ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

15 A. I am testifying on behalf of intervenors Suburban Land Reserve, Inc. and
16 Westcor/Surprise LLC, which I will refer to collectively as the "Prasada
17 Commercial Group".

18 Q. **ARE YOU AUTHORIZED TO TESTIFY ON BEHALF OF THE PRASADA**
19 **COMMERCIAL GROUP?**

20 A. Yes. I have been authorized by the Vice President and General Manager of
21 Suburban Land Reserve, Inc. and the managing member of Westcor/Surprise LLC
22 to testify on behalf of the Prasada Commercial Group.

23 Q. **HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA**
24 **CORPORATION COMMISSION ("COMMISSION")?**

25 A. No. This is my first time.

26 Q. **WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**

CASE?

A. The purpose of my direct testimony is two-fold. First, I urge the Commission to utilize its authority and good offices to ensure that the surface water treatment plant, which is the subject of this docket, is constructed at the earliest possible moment and at the least cost to the landowners and consumers it will serve. Second, I urge the Commission to utilize its authority and good offices to ensure that prior to completion of the surface water treatment plant, alternative sources of potable water supply and efficient delivery methods are made available to the land owners and consumers who will eventually be served by the water treatment plant, so that development of the land controlled by the Prasada Commercial Group can continue as scheduled and the Prasada Commercial Group can honor the commitments it has made to the City of Surprise as well as to numerous retail operators and end users.

Q. PLEASE DESCRIBE SUBURBAN LAND RESERVE INC. AND ITS BUSINESS.

A. Suburban Land Reserve, Inc. is a for-profit Utah corporation, commonly referred to as "SLR". SLR is a wholly owned subsidiary of Property Reserve, Inc., a Utah non-profit public benefit corporation. Property Reserve Arizona, LLC, an Arizona limited liability company, another wholly owned subsidiary of Property Reserve, Inc., holds title to approximately seven sections of land in the western portion of Maricopa County. Property Reserve Arizona has optioned all seven sections to SLR, which is authorized to sell the optioned land to various end-user parties that will develop it. Six of the seven sections are included in a residential and commercial development called "Prasada."

Q. PLEASE DESCRIBE WESTCOR/SURPRISE LLC AND ITS BUSINESS.

A. Westcor/Surprise LLC is an Arizona limited liability company, the members of

which include entities owned or controlled by the Macerich Company, WDP Partners and RED Development. All of these entities are involved in real estate development and operations and have a long history of successful projects in Arizona and throughout the nation. The primary purpose of Westcor/Surprise is to develop certain projects on approximately 500 acres of Prasada.

Q. PLEASE DESCRIBE THE RELATIONSHIP BETWEEN SLR AND WESTCOR/SURPRISE.

A. SLR and Westcor/Surprise have entered into five separate option agreements for the development of the 500 acres.

Q. PLEASE DESCRIBE THE PRASADA PROJECT.

A. Prasada is comprised of six of the seven sections controlled by SLR. Fulton Homes, Inc. is developing three of the sections (Sections 15, 22 and 23 of Township 3 North, Range 2 West, Gila and Salt River Base and Meridian) primarily for residential purposes. Fulton Homes has also intervened in this docket and will provide its own direct testimony. The Prasada Commercial Group will develop Sections 12 and 13 in the same Township and Range as the Fulton Parcels and Section 18 of Township 3 North, Range 1 West. I will refer to these Sections as "Prasada Commercial Lands". The Prasada Commercial Lands will include a mix of retail centers, a regional shopping center, office complexes, medical facilities, auto related areas, neighborhood grocery and service retail centers, and some medium- to high-density residential components. Westcor/Surprise is developing some of the first projects in the Prasada Commercial Lands including an auto mall, a regional shopping center, at least two power centers and several neighborhood centers. SLR has also optioned or is in the process of optioning other portions of the Prasada Commercial Lands to other end users for a grocery-anchored center, medical facilities and a major retirement community.

Q. IS PRASADA WITHIN THE EXISTING CC&N FOR WATER OF ANY PUBLIC SERVICE CORPORATION?

A. Yes; Arizona-American Water Company, Inc.

Q. IS PRASADA WITHIN THE BOUNDARIES OF ANY MUNICIPALITY?

A. Yes. The City of Surprise annexed Prasada in November 2006. Prasada is also within the boundaries of Maricopa County Water Conservation District Number One or MWD, which currently provides irrigation water to Property Reserve Arizona LLC for farming operations on Prasada lands.

Q. WHEN WILL PRASADA COMMERCIAL GROUP NEED WATER SERVICE?

A. Almost immediately. The City is very anxious to see development commence as soon as possible. To meet the City's wishes, the Prasada Commercial Group is committing to early implementation of a number of projects, the first of which will be the auto mall and two of the power centers. To meet the needs of the committed auto dealers and retailers, Westcor/Surprise will need to start the process to construct ground water wells in April 2007.

Q. DOES THE PRASADA COMMERCIAL GROUP HAVE A PLAN FOR THE PROVISION OF WATER SERVICE FOR PRASADA COMMERCIAL LANDS?

A. Yes. The Prasada Commercial Group has developed a comprehensive strategy for the provision of integrated water service for Prasada Commercial Lands based upon initial use of locally available ground water with eventual reliance on water from the proposed regional surface water treatment plant for ultimate build out. A Master Water Report for the development of potable water at Prasada was completed by CMX in May 2006 and submitted to Arizona-American, which has reviewed and approved it.

Q. HAS THE PRASADA COMMERCIAL GROUP ESTIMATED THE TOTAL WATER DEMAND FOR PRASADA COMMERCIAL LANDS AT FULL BUILD OUT?

A. Yes. As is typical with large master planned projects, it is anticipated that the project will be constructed in phases. Currently the plan is to build out in three phases with the potential for sub-phases as the market dictates. According to the approved Master Water Plan, the build-out water demand is estimated to be:

- Six or more wells producing 6,100 gallons per minute
- 3.5 Million Gallons of storage (with Arizona-American adding an additional 0.8 Million Gallons for future use beyond the Prasada project limits)
- Fire flow protection of up to 4,000 gallons per minute
- Booster Station capacity of 8,800 gallons per minute (with Arizona-American adding an additional 1,000 gallons per minute for future use beyond the Prasada project limits).

The booster station site is planned to accommodate additional Arizona-American facilities.

Q. HOW DOES PRASADA COMMERCIAL GROUP PROPOSE TO MEET THIS DEMAND?

A. Prasada Commercial Group proposes to meet this demand by constructing the water supply system in two primary phases (with Arizona-American's improvements to be added in a later or third phase of construction by them). The first phase will be comprised of water distribution pipelines, three wells and the first portion of the booster station consisting of a 1.8 Million Gallon tank. Phase 2 would include additional distribution pipelines, the build-out of the remaining three water wells and the second phase of the booster station, consisting of an

approximately 1.7 Million Gallon tank. Ultimately, potable water for the project is expected to be provided via the new planned surface water treatment plant.

Q. IS THERE ADEQUATE WELL CAPACITY WITHIN PRASADA COMMERCIAL LANDS TO PROVIDE THE REQUIRED GROUNDWATER?

A. Prasada Commercial Group believes there is sufficient groundwater, as demonstrated by the hydrologic investigation completed by Southwest Groundwater Consultants dated February 2004, which concluded that there is sufficient groundwater to sustain the planned development for the next 100 years. However, the study raises the issue of water quantity and quality and the surrounding well locations. Generally, it is becoming more difficult to locate groundwater in sufficient quantity that meets the Arizona Department of Environmental Quality drinking water requirements without the need for costly treatment. Wells in the general surrounding area have been found to require treatment for nitrates, arsenic and/or fluorides. Wells in the area of Prasada have typically experienced lower production rates than those located farther north or east. Consequently more wells are needed to meet the same water demands. With the surrounding private irrigation wells and Maricopa Water District wells, finding a well location that produces sufficient water quantity and quality that also does not adversely impact the existing MWD and private wells is becoming more difficult and costly. Developing an economically feasible supply of water for Prasada is a concern for the Prasada Commercial Group. In order to meet the water supply of the Prasada Commercial Lands, approximately six potable wells will be needed. In addition, MWD has three wells within the Prasada Commercial Lands, and is requiring that they be replaced with potable water wells.

The Prasada Commercial Group is concerned about the conflicting requirements of MWD and Arizona-American for two reasons. The first is the number of wells and water quality of those wells may be mutually exclusive. Nine wells located in this area may not be able to meet the potable water standards and not impact each other or other adjacent property wells. Second, building nine potable wells for the area would exceed Prasada Commercial Lands' water demand by about 50% as compared with what the water demand model estimates. Prasada Commercial Group believes that there should only be six potable water wells (or the number that eventually are required based on actual withdrawal and quality testing) required to serve potable water to the Prasada Commercial Lands.

Q. HOW DOES PRASADA COMMERCIAL GROUP EXPECT TO OVERCOME THIS WELL IMPACT AND CAPACITY ISSUE WITHIN PRASADA COMMERCIAL LANDS?

A. Prasada Commercial Group expects to meet the demand through a series of solutions. The initial water supply will be provided by three new potable wells that are in the design process. The Prasada Commercial Group has approached both Arizona-American and MWD about the possibility of using the three MWD replacement wells for additional potable supply under an arrangement in which MWD would wholesale groundwater to Arizona-American. These six wells would provide the required project demands until a long term surface water supply is constructed. Upon completion of the surface water treatment plant the wells would be used as a back-up water supply during larger summer month peaks.

Q. HAVE THESE APPROACHES BEEN SUCCESSFUL?

A. Not yet. The Prasada Commercial Group is still in discussions with Arizona-American and MWD concerning their respective development agreements and required facilities. It is hoped that agreements with both parties can be reached in

the next few months. Both Arizona-American and MWD need to focus on regional ground water issues as well as the issue of which entity will build the regional surface water treatment plant.

Q. IS THE PRASADA COMMERCIAL GROUP UNDER PRESSURE TO FIND A SOLUTION TO THE WATER SUPPLY PROBLEMS?

A. Yes. The City of Surprise has not only annexed Prasada but also has fully zoned it. The City is working closely with Fulton Homes and the Prasada Commercial Group to initiate development at the earliest possible moment. As a result many projects are moving rapidly toward implementation. For example, six auto dealers have contracted to purchase sites within the Auto Mall. These dealers need to commence construction during the summer of 2007 to accommodate openings near the end of 2008. In addition, Westcor/Surprise has also negotiated agreements with various retail operators to develop stores that will be critical to the viability of other projects within the Prasada Commercial Lands. Similarly, SLR's direct optionees are moving rapidly to implement their projects within Prasada Commercial Lands. Resolution of the groundwater and surface water issues between Arizona-American and MWD are critical to the completion of assured water supply certificates, recordation of plats and the construction sequencing for the water supply system. Decisions on these issues and corresponding development agreements need to be completed in April 2007 in order for the planned projects to remain on schedule.

Q. IN SUMMARY, WHAT IS PRASADA COMMERCIAL GROUP ASKING THE COMMISSION TO DO IN THIS DOCKET?

A. In order to meet the Prasada Commercial Group's commitments to the retail and business communities and the City, it needs the surface water treatment plant developed as soon as possible and an arrangement for potable water in the interim. Therefore, Prasada Commercial Group asks that the Commission use its authority

and good offices to answer the immediate groundwater supply questions at the earliest possible moment. It also asks the Commission to decide which entity, AAWC or MWD, can construct the regional surface water treatment plant at the earliest possible moment and at the least cost for both land owners and water consumers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, thank you.

SLR-2

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON – Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

EXHIBIT
SLR
Westcor-2
admitted

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, FOR APPROVALS ASSOCIATED WITH A TRANSACTION WITH THE MARICOPA COUNTY WATER CONSERVATION DISTRICT NUMBER ONE.

DOCKET NO. W-01303A-05-0718

PRE-FILED SURREBUTTAL TESTIMONY OF SCOTT WAGNER

ON BEHALF OF SUBURBAN LAND RESERVE, INC., and

WESTCOR/SURPRISE, LLC

MARCH 12, 2007

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

Q. **PLEASE STATE YOUR NAME AND EMPLOYER.**

A. My name is Scott Wagner. I am employed as Development Manager for RED Development, LLC, a Missouri limited liability company.

Q. **HAVE YOU TESTIFIED PREVIOUSLY IN THIS DOCKET?**

A. Yes. I presented Prefiled Direct Testimony on behalf of Suburban Land Reserve, Inc. and Westcor/Surprise LLC, which is cumulatively identified in my testimony as the Prasada Commercial Group, on January 24, 2007.

Q. **WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

A. The Prasada Commercial Group is concerned that testimony presented by Arizona American Water Company ("AAWC") and Maricopa Water District Number One ("MWD") does not recognize the need to develop a coordinated potable groundwater procurement program in the Agua Fria District. Instead, each organization is demanding that the landowners develop competing procurement programs, which the groundwater basin is not likely to support. The development of an integrated groundwater procurement program is critical to Prasada Commercial Group not only because it is the only way to avoid a moratorium on connections while the surface water treatment plan is being built, but also a reliable groundwater supply will be needed even after the surface water treatment plant is built.

Q. **WHAT SPECIFIC AAWC TESTIMONY GIVES YOU CONCERN?**

A. At page 15, lines 17 through 19, Mr. Thomas Broderick of AAWC, says that developers' concerns about a moratorium during construction of the proposed surface water treatment plant will be discussed by Mr. Troy Day in his testimony for AAWC. Yet at page 4, lines 4 through 13, of Mr. Day's testimony, he says he can understand why the developers are concerned about a moratorium but does not offer any constructive suggestions as to how such an event can be avoided. Instead, Mr. Joseph Gross in his testimony for AAWC at pages 15, lines 9 through 25 and page 16, lines 1 through 12 describes the difficulties in

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"converting" an MWD irrigation well to a potable well and connecting it to a potable water delivery system.

Q. WHY DOES THE QUOTED AAWC TESTIMONY GIVE YOU CONCERN?

A. It doesn't address the realities of the situation on the ground. For example, development of the Prasada Commercial Lands will require six new potable wells and the relocation of three MWD irrigation wells, which MWD is requiring be constructed to potable standards. There may be sufficient groundwater underlying the three sections comprising the Prasada Commercial Lands to support nine potable wells, but spacing and quality requirements are likely to limit the number of potable wells to less than that number. Therefore, development can only progress if AAWC and MWD agree on development of the groundwater underlying these sections. Further, Mr. Gross' testimony concerning the cost of "converting" irrigation wells to potable standards and connecting those wells to the potable delivery system overlooks the obvious: it is the developers who will have to pay the costs associated with constructing new potable wells and new connecting facilities, not AAWC, and it would be less costly for the developers and the public to fund one integrated system than two competing systems.

Q. DOES MWD'S TESTIMONY ADDRESS YOUR GROUNDWATER DEVELOPMENT CONCERNS?

A. No. At page 13, lines 24 through 27, and page 14, lines 1 through 12, of his direct testimony, MWD General Manager Jim Sweeney talks about providing "interim" water supplies to AAWC if the construction of the treatment plant is extended for a year or to "temporarily" swap poor quality landowner wells for potable MWD wells, under conditions to be determined in the indefinite future. Similarly, James Albu of Malcolm Pirnie, Inc., testifying on behalf of MWD at page 6, lines 7 through 10, of his direct testimony, says that MWD has the ability to provide a "temporary supply" of groundwater if the construction of the

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treatment plant is delayed.

Q. WHY DOES MWD'S TESTIMONY GIVE YOU CONCERN?

A. Like AAWC, MWD doesn't address the realities on the ground. To the best of my knowledge, the three MWD wells located within Prasada Commercial Lands are not capable of providing potable water and even if they do, all three MWD wells will have to be relocated in order to provide for construction of the Loop 303 and major arterials. Further, successful completion of nine potable wells within the Prasada Commercial Lands, three for MWD and six for AAWC, is impractical if not impossible. It will be difficult enough to bring in six potable wells required to meet the water requirements for the currently planned improvements on the Prasada Commercial Lands and once those wells are constructed and connected to the potable water delivery system, it is unlikely that they will ever be disconnected from the system and therefore, they will not be "temporary". I want to re-emphasize that only six potable wells are required for the Prasada Commercial Lands. It will be not only unnecessary, by physically and economically unviable to attempt to develop nine potable wells on the Prasada Commercial Lands.

Q. WHAT IS PRASADA COMMERCIAL GROUP ASKING THE COMMISSION TO DO IN THIS DOCKET?

A. Prasada Commercial Group is asking the Commission to use its authority and good offices to address the realities on the ground by requiring AAWC to work cooperatively with the developers of Prasada and MWD to maximize the local potable groundwater supply and dedicate it to permanent use within the Prasada Project.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, thank you.

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EXHIBIT
P-1
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

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

Direct Testimony of

Mike Brilz

on Behalf of

Pulte Home Corporation

January 23, 2007

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Mike Brilz. My business address is 15111 North Pima Road, Suite 100, Scottsdale, Arizona 85260.

Q. By whom are you employed and what is your position?

A. I am Vice-President of Planning and Development for the West Valley Division of Pulte Home Corporation's Arizona Territory.

Q. Please describe your education and experience.

A. I hold a Bachelor of Science in engineering, and am a registered professional civil engineer. I have 15 years of consulting engineering experience followed by 8 years of development experience.

Q. What are the purposes of your direct testimony in this proceeding?

A. The purposes of my direct testimony are to provide a summary of Pulte's interest and requests in this proceeding, respond to several issues that have arisen in the filings to date, and provide testimony on area hook-up fees.

II. PULTE HOME CORPORATION'S INTEREST IN THIS PROCEEDING

Q. Why is Pulte interested in this proceeding?

A. Pulte is interested in this proceeding because Arizona-American Water Company requested increased hook-up fees in its Agua Fria Division that directly impact Pulte's development costs, which are ultimately included in the purchase price paid by our homebuyers.

Currently, Pulte is developing or building homes in several locations within Arizona-American's Agua Fria Division, including the Sienna Hills (a/k/a Tesota Hills) community with approximately 1100 homes, the White Tanks Foothills community with 579 homes, and Cortessa with 126 homes.

III. SURFACE WATER TREATMENT FACILITY FINANCING OPTIONS

Q. Does Pulte support the construction of a new surface water treatment facility in the West Valley?

A. Pulte supports expedited construction of a new surface water treatment facility in the West Valley. A surface water treatment facility will provide a renewable water supply for the West Valley.

Q. Does Pulte support financing a new surface water treatment facility in the West Valley as initially proposed by Arizona-American Water Company in this case through an agreement with the Maricopa Water District?

A. The initial financing concept proposed by Arizona-American Water Company in this case is acceptable to Pulte.

Q. Does Pulte support financing a new surface water treatment facility in the West Valley with hook-up fees?

A. Absent a cooperative agreement between MWD and AAWC, Pulte supports reasonable, Commission-approved hook-up fees as an acceptable alternative means of financing a new surface water treatment facility in the West Valley.

Q. If the surface water treatment facility is financed through hook-up fees, how should the Commission determine the hook-up fee amount?

A. Pulte's primary concern in intervening in this action is to ensure the Commission is taking a close look at the proposed construction costs and hook-up fees in the application, as amended, and carefully evaluating the assumptions upon which the requests were made. The proposed hook-up fees are significantly higher than previous fees. Hook-up fees should be an approximation of the reasonable projected construction costs for the facility, but should be fairly similar to impact fees charged by other municipalities in the region.

Further, as was noted in the October 27, 2006 Staff Report in this matter, the hook-up fee estimates depend on a variety of present-day assumptions, including customer growth rates, meter sizes, new third party contracts, inflation, and construction cost increases. Because of the amount of the requested fees, and the potential variability in these assumed factors, it is important that the Commission re-evaluate the accuracy of its assumptions from time-to-time in order to ensure the appropriate amount is being collected.

Q. **What hook-up fees are charged by other cities, towns, and providers in the area?**

A. In order to assist the Commission in evaluating similar fees charged in the area, I am submitting as Exhibit A to this testimony a spreadsheet I prepared of existing fee amounts in several West Valley cities. I obtained this information directly from the municipalities in the normal course of my work. The hook-up fee amounts recommended in the Staff's October 27, 2006 Staff Report appear acceptable if supported by evidence presented at the upcoming hearing.

IV. RESPONSES TO STATEMENTS MADE BY ARIZONA-AMERICAN WATER COMPANY

Q. **On November 13, 2006, Arizona-American Water Company filed its "Response to Pulte Home Corporation's Response to Staff Report and Staff Recommended Order." In that Response, AAWC stated the following: "Further, it makes no sense to process new CC&N-expansion requests for Agua Fria Water, if there may not be sufficient water for new development. For that reason, Arizona-American will ask to adjourn – until this docket is concluded – the November 20, 2006, hearing scheduled in Docket No. WS-01303A-06-0242 where Arizona-American is asking to extend its CC&N to**

include Pulte's planned Sienna Hills community." Does the Sienna Hills development depend on Arizona-American's new surface water treatment facility?

A. No. The Sienna Hills community can be served with groundwater to be replenished by the Central Arizona Groundwater Replenishment District consistent with the Department of Water Resources' assured water supply rules. Pulte and Arizona-American Water Company executed a line extension agreement in April 2006 that requires Pulte to drill a well or wells and provide the necessary infrastructure. Pulte, in cooperation with the developers of Verrado, is extending water supply infrastructure to Sienna Hills. To date, Pulte and the developers of Verrado, pursuant to a joint development agreement, have worked together to extend both water and sewer service to the Sienna Hills project. In fact, these extensions are for the most part completed as of this testimony. Further, as a function of the executed Water Facilities Line Extension Agreement with Arizona-American Water Company, Pulte was obligated to financially participate in a water storage reservoir within the Verrado project. Pulte has fulfilled its financial obligation related to this requirement by advancing approximately $570,000 toward the cost of constructing this facility. Pulte submitted an Application for a Certificate of Assured Water Supply to the Department of Water Resources on October 5, 2006 that is currently under review. The application demonstrates that Sienna Hills has a 100-year supply of groundwater available, and is not depending on surface water. The Corporation Commission staff, in docket number WS-01303A-06-0242, reviewed the proposed CC&N extension and issued a favorable staff report on October 20, 2006. In that report, Staff concluded that Arizona-American's water and wastewater systems "have adequate production, storage, and treatment capacity

to serve the existed certificated area and the proposed CC&N extension area." Staff Report, October 20, 2006, Executive Summary, Docket No. WS-01303A-06-0242. I understand Arizona-American Water Company agrees with this conclusion and has requested the Commission move forward with the Sienna Hills CC&N extension review.

V. PULTE HOME CORPORATION'S REQUESTED RELIEF

Q. What relief is Pulte Home Corporation requesting in this proceeding?

A. Pulte asks the Commission to investigate the alternatives for construction and financing of a West Valley surface water treatment facility and support a solution that ensures the surface water treatment facility will be constructed in a timely manner and at a reasonable cost. If the Commission approves hook-up fees as a financing method for the facility, Pulte requests that the approved fees be a reasonable amount supported by evidence presented at the hearing and in line with similar fees charged in the area.

In addition, the Commission should require that the new fees not be charged retroactively, but instead the tariff should provide that the increased fees are only applicable to new requests for placements of meters for which hook-up fees have not previously been paid, and that are requested after the Commission's tariff approval date.

Further, any approved hook-up fee tariff should require that Arizona-American Water Company credit against hook-up fees otherwise payable the cost of off-site facilities contributed to Arizona-American Water Company as a contribution in aid of construction.

DATED this **23rd day of January, 2007.**

RYLEY CARLOCK & APPLEWHITE

By Michele L. Van Quathem

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Attorneys for Pulte Home Corporation

I hereby certify that I have this **23rd day of January, 2006,** served the foregoing documents on all parties of record in this proceeding by hand delivering an original and thirteen copies to:

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

I hereby certify that I have this **23rd day of January, 2006,** served the foregoing documents on all parties of record in this proceeding by mailing a copy, properly addressed with first class postage prepaid to:

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Attorneys for Suburban Land Reserve, Inc.

By: Joyce Hesick

EXHIBIT A
TO
TESTIMONY OF MIKE BRILZ

West Valley Impact Fees

Meter Size	Surprise		Goodyear		Avondale		Buckeye		Peoria	
	Water Resource	Water System	Water Resource	Water System	Water Resource	Water System	Water Resource	Water System	Water Resource	Water System
3/4"	456	2879/**2100	2183/**1277	1620/**2210	NA	3289/**5251	NA	2302	616	3289
1"	580	3665/**2673	3711/**2171	2268/**3757	NA	5563/**8833	NA	3869	-	-

Reference or Website Links

Surprise http://www.surpriseaz.com/common/modules/documentcenter2/documentview.asp?DID=283
**Proposed 2007 plan: http://www.surpriseaz.com/DocumentView.asp?DID=2008

Goodyear http://www.ci.goodyear.az.us/index.asp?NID=1074#newfees
** Fees are effective as of 4/1/07

Avondale http://www.ci.avondale.az.us/documents/City%20Departments/Finance%20&%20Budget/Fee%20Schedule/3073-DevelopmentFees.pdf
** Fees were approved in December 2006 and will be effective for 2007; not posted on website yet

Buckeye http://www.buckeyeaz.gov/documents/Community%20Development/New%20Submittal%20Requirements.pdf

Exhibit A

EXHIBIT
P-2
admitted

West Valley Impact Fees (Amended)

Meter Size	Surprise - SPA-1		Goodyear		Avondale		Buckeye		Peoria	
	Water Resource	Water System	Water Resource	Water System	Water Resource	Water System	Water Resource	Water System	Water Resource	Water System
3/4"	456/**2100	2879	2183/**1277	1620/**2210	-	3289/**5251	NA	2302	616	3289
1"	580/**2673	3665	3711/**2171	2268/**3757	-	5563/**8833	NA	3869	616	3289

Reference or Website Links

Surprise http://www.surpriseaz.com/common/modules/documentcenter2/documentview.asp?DID=283
**Proposed 2007 plan: http://www.surpriseaz.com/DocumentView.asp?DID=2008;
New fees approved by city council on 2/22/2007, to be effective on 7/1/2007: http://www.surpriseaz.com/Archive.asp?ADID=2360

Goodyear http://www.ci.goodyear.az.us/index.asp?NID=1074#newfees
** New fees are effective on 4/1/07

Avondale http://www.ci.avondale.az.us/documents/City%20Departments/Finance%20&%20Budget/Fee%20Schedule/3073-DevelopmentFees.pdf
** Fees were approved in December 2006 and will be effective on 3/18/2007:
http://www.avondale.org/documents/Codes%20&%20Ordinances/Ordinances%20to%20be%20codified/ORD%201227-1206%20-%20DEV%20FEES.pdf

Buckeye http://www.buckeyeaz.gov/documents/Community%20Development/New%20Submittal%20Requirements.pdf

Peoria http://www.peoriaaz.com/building/Docs/pdf/100_Res_Imp_07.pdf

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

Arizona Corporation Commission
DOCKETED
MAR 12 2007
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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

Surrebuttal Testimony of

Mike Brilz

on Behalf of

Pulte Home Corporation

March 12, 2007

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III. HOOK-UP FEES AND METER SIZES 3

IV. TARIFF TIMING PROVISIONS 3

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Mike Brilz. My business address is 15111 North Pima Road, Suite 100, Scottsdale, Arizona 85260.

Q. Have you previously provided testimony in this proceeding?

A. Yes, I provided direct testimony that was submitted to the Commission on January 23, 2007.

Q. What are the purposes of your surrebuttal testimony in this proceeding?

A. The purposes of my surrebuttal testimony are to: (1) request additional clarification from Arizona-American Water Company ("Arizona-American") regarding Thomas Broderick's explanation of funding options for the water treatment plant; (2) emphasize the importance of meter size when comparing hook-up fees to impact fees, and (3) propose that tariff revisions incorporating any increased or additional hook-up fees contain certain transition provisions applicable to developments that are currently underway.

II. FUNDING OPTIONS FOR ARIZONA-AMERICAN WATER COMPANY WATER TREATMENT PLANT

Q. What are your questions regarding Arizona-American's funding alternatives for its water treatment plant?

A. On pages 9 through 10 of Thomas Broderick's direct testimony, he describes Arizona-American's options to obtain funding for a treatment plant through either hook-up fees or financing from American Water Capital Corporation, which he believes is readily available. If hook-up fee collections fall short of projections by Arizona-American in its Revised Application, or the projections of Staff in the Staff Report, would Arizona-American finance the shortfall through American Water Capital Corporation? What challenges to plant construction

would less than expected hook-up fee revenue generate?

III. HOOK-UP FEES AND METER SIZES

Q. Do you have a response to Thomas Broderick's testimony regarding the amount of hook-up fees for each meter size?

A. Yes. On pages 3 and 4 of his direct testimony, Mr. Broderick explained the current hook-up fees for 5/8 x 3/4-inch meters, 3/4-inch meters, and 1-inch meters. Mr. Broderick subsequently focuses the proposed hook-up fee comparisons and revenue models based on hook-up fees starting at a 5/8 x 3/4-inch meter size. It would be helpful to compare hook-up fees to development fees based on similar meter sizes. Also, what is the installation frequency of a 5/8 x 3/4-inch meter? If infrequent, it would be beneficial to use the hook-up fee for the next highest meter size for such baseline comparisons and other references such as those in Mr. Broderick's testimony.

IV. TARIFF TIMING PROVISIONS

Q. Do you have a response to Thomas Broderick's testimony regarding the timing and applicability of hook-up fees?

A. Yes. On page 16 of his direct testimony, Mr. Broderick explained that the proposed hook-up fees will be "applicable if the tariff is effective prior to operational acceptance under the terms of line extension agreements," which he equates to the meter-set date. In order to avoid misunderstandings, the tariff revisions should contain transition language clarifying that the new or increased tariff fees are not applicable to any hook-ups for which (1) hook-up fees were already paid pursuant to executed line extension agreements (even if operational acceptance has not occurred) or (2) meter-set fees and requests were already paid and made (even if meters have not yet been set).

DATED this **12th day of March, 2007.**

RYLEY CARLOCK & APPLEWHITE

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I hereby certify that I have this **12th day of March, 2007,** served the foregoing documents on all parties of record in this proceeding by hand delivering an original and thirteen copies to:

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

I hereby certify that I have this **12th day of March, 2007,** served the foregoing documents on all parties of record in this proceeding by mailing a copy, properly addressed with first class postage prepaid to:

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By: Joyce Heinick

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER – Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

EXHIBIT
Fulton-1
admitted

In the Matter of the Application of Arizona Water Company for Approvals Associated with a Transaction with the Maricopa County Municipal Water Conservation District Number One

DOCKET NO. W-01303A-05-0718

PRE-FILED DIRECT TESTIMONY
OF CHRIS J. JANSON
ON BEHALF OF FULTON HOMES CORPORATION
JANUARY 24, 2006

Q. **PLEASE STATE YOUR NAME AND EMPLOYER.**

A. My name is Chris J. Janson. I am employed as a Project Manager for Fulton Homes Corporation, an Arizona corporation.

Q. **PLEASE STATE YOUR BUSINESS ADDRESS.**

A. My business address is 9140 South Kyrene, Suite 202, Tempe, Arizona, 85284.

Q. **PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.**

A. I am a graduate of the Oregon State University with a Bachelor of Science in Civil Engineering. I have previously worked as a Project Manager for Morrison Maierle where I was responsible for engineering design and project management of master planned communities, residential developments, public facilities and commercial projects. Prior to that, I was a Project Engineer for Stantec Consulting where I was responsible for utility and roadway infrastructure design, engineering studies, cost estimates and construction plan preparation.

Q. **ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

A. I am testifying on behalf of Fulton Homes Corporation ("Fulton").

Q. **ARE YOU AUTHORIZED TO TESTIFY ON BEHALF OF FULTON?**

A. Yes. I have been authorized by Fulton to testify on its behalf.

Q. **HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA CORPORATION COMMISSION ("COMMISSION")?**

A. No. This is my first time.

Q. **HAS FULTON BEEN GRANTED INTERVENOR STATUS IN THIS CASE?**

A. Yes. The Commission granted Fulton's Application for Intervention on December 21, 2006.

Q. **PLEASE DESCRIBE FULTON AND ITS BUSINESS.**

A. Fulton Homes is a privately held local homebuilder that has been building residential homes and developing master planned communities in Arizona since 1975.

Q. WHY HAS FULTON INTERVENED IN THIS PROCEEDING?

A. Fulton is currently developing a portion of a 3,355 acre master-planned community known as Prasada. It is composed of 1,225 acres of Gateway Village, 530 acres of Urban Village and 1,600 acres of a Lake Village. Fulton is developing 1,470 acres within the Lake Village which will be developed in three major phases and will include 5,870 single family homes. The remaining 130 acres in the Lake Village will be developed as commercial and high density homes by others. The Fulton first phase will be at the northwest corner of Cactus and Citrus and will include 1,250 single family homes, a large community park and an elementary school. We plan to break ground on the major infrastructure this spring. The remainder of the property will be developed over the coming years. Consequently, Fulton is directly and substantially impacted by the proposed increase in the water facility hook-up fees ("Hook-Up Fees"), the proposed construction of a regional surface water treatment plant ("Plant"), the need for its customers to have an assured water supply, as well by the other issues that have subsequently been raised in this proceeding.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. Given that Fulton is directly and substantially impacted by the issues that have been raised in this proceeding, the purpose of my direct testimony is to set forth Fulton's position with respect to some of those issues for the Commission to take into consideration in determining this matter.

Q. WHAT ARE THE ISSUES THAT YOU WILL DISCUSS IN YOUR

TESTIMONY?

A. The issues that I will discuss herein are as follows:

1. The need for the immediate construction of a cost effective plant and the provision of assured potable water supply during construction which can offset the cost of the higher Hook-Up Fees.

2. Arizona-American and MWD's direction to create mutually exclusive water systems by requiring new wells or replacement wells to meet potable standards which is ultimately forcing Fulton to construct a redundant water system with excessive costs.

3. The possibility of a moratorium by Arizona-American if there is a delay in the construction of the Plant.

Q. PLEASE DISCUSS FULTON'S POSITION REGARDING THE PROPOSED HOOK-UP FEES.

A. Although the proposed increase of the Hook-Up Fees is substantial, Fulton understands the importance of the expeditious construction of the Plant in the Agua Fria Water District. Therefore, it is not opposing the increased Hook-Up Fees if the Commission determines that it is the only way to finance expeditious construction of the Plant and provides an interim water solution at the least cost.

Q. IN ITS FILED COMMENTS, MARICOPA WATER DISTRICT ("MWD") HAS ARGUED THAT IF IT BUILDS THE PLANT, IT WOULD NOT BE NECESSARY FOR ARIZONA-AMERICAN TO CHARGE THE HIGHER HOOK-UP FEES. WHAT IS FULTON'S POSITION ON THIS?

A. Fulton is not taking a position on which entity should build the Plant. What Fulton is primarily concerned with is that the Plant be built as expeditiously as possible in the most cost effective manner and that there is an assured water

supply for Arizona-American's customers until such time that the Plant is built.[1] Fulton believes that as the customer, since it has been put in the middle of this dispute between Arizona-American and MWD, both parties should be willing to address this important issue as part of this proceeding. Additionally, the Plant should be built at the least cost and financed in a way that makes the most sense under the totality of circumstances.

Q. IF THE COMMISSION WAS TO GRANT ARIZONA-AMERICAN'S APPLICATION AND ALLOW THE HIGHER HOOK-UP FEES IN ORDER TO FUND CONSTRUCTION OF THE PLANT, WHAT ARE YOUR RECOMMENDATIONS?

A. If the Commission determines that Arizona-American should build the plant and use the Hook-Up Fees as essentially the financing vehicle to do this, the Commission should: 1) require Arizona-American to construct the Plant as expeditiously as possible so as to address the anticipated future water needs of its customers in the Agua Fria Water District and to monitor such construction through Commission-mandated compliance filings; 2) carefully monitor the collection of the increased Hook-Up Fees to ensure that Arizona-American does not collect such increased fees any longer than is necessary to finance construction of the Plant; 3) make any necessary adjustments to Arizona-American's rates and charges in subsequent filed rate-cases; 4) order Arizona-American to negotiate and enter into interim water supply agreements with MWD or others (to the extent such counterparties agree) to ensure that there is an adequate water supply in the Agua Fria District until such time as the Plant is constructed and on-line; 5) to the extent that an assured water supply has been

[1] As discussed more fully below, this will help mitigate for developers the financial impact of increased Hook-Up Fees.

procured either through an interim water supply agreement or developer provided wells, order Arizona-American to set meters upon customer request; and 6) to the extent Arizona-American can enter into an interim water supply agreement while charging the higher Hook-Up Fees, order Arizona-American to suspend its requirement that developers must also spend additional money to drill wells as a condition of receiving service.

Q. WOULD YOU PLEASE ELABORATE ON THIS LAST POINT?

A. Yes. Currently, Arizona-American does not have an adequate supply of water in the Agua Fria District to meet customer demand for new developments. This is the primary reason it is seeking authority to build the Plant so it can use surface water to meet customer demand. In the meantime, because of the lack of water in the Agua Fria District, Arizona-American has imposed what is essentially a moratorium on new development unless the developer is willing to bring the wet water to Arizona-American by drilling wells that meet potable water standards. Developers have had no choice but to bear these additional costs if they want to have water for their projects. These costs are in addition to other backbone infrastructure and Hook-Fees that developers are already obligated to pay. I believe that if Arizona-American is going to charge the higher Hook-Up Fees in order to build the Plant which will provide a water supply for the future and, if Arizona-American can secure an interim source of water while the Plant is under construction, there would not be a need for these additional wells and developers should not have to bear the cost of drilling wells to provide a water source *and* pay the much higher Hook-Up Fees to fund construction of the Plant.

Q. IF THE COMMISSION WAS TO DENY ARIZONA-AMERICAN'S APPLICATION IN FAVOR OF MWD BUILDING THE PLANT, WHAT ARE YOUR RECOMMENDATIONS?

A. If the Commission determines that Arizona-American should not build the Plant and that MWD should, since the Commission does not have jurisdiction over MWD, the Commission should condition its decision to deny Arizona-American's application on MWD's agreement to enter into interim water supply agreement(s) with Arizona-American within 60 days of the decision whereby MWD should agree to be available to supply water until it brings the Plant on line. Moreover, should MWD subsequently not build the Plant, it should be obligated pursuant to these agreements to continue to supply water until such time that Arizona-American (or some other entity) builds the Plant. Additionally, MWD should agree that it be permitted to allow Arizona-American to use any wells that it is currently requiring developers to replace (as a result of development impacts to its existing wells) as a water supply source for the development in lieu of drilling new wells for Arizona-American.

Q. WOULD YOU PLEASE COMMENT ON THE ISSUE OF A THREATENED MORATORIUM IN THE AGUA FRIA DISTRICT IF THERE IS A DELAY IN THE CONSTRUCTION OF THE PLANT?

A. Yes. First, as I stated above, given Arizona American's constrained water resources, it has, in effect, already imposed a moratorium on water service for new developments if the developer does not provide the wet water to Arizona-American at its expense. As discussed more fully above, Fulton believes that it is within Arizona-American and MWD's power to remove this threat for future projects by simply entering into an interim bulk sale water agreement on a project by project basis whereby MWD will supply Arizona-American potable water until such time that the Plant is built.

If however, the parties are unable or unwilling to do this, Arizona-American should not be permitted to institute a moratorium with respect to new

water service for a customer who has supplied the water source to Arizona-American and otherwise pays all applicable tariffs. Moreover, to the extent a developer provides the water source to Arizona-American, Arizona-American should be required to use such source to supply the needs of that development before being permitted to use such supply for other customers.

Q. WHAT WOULD BE THE IMPACT IF A MORATORIUM WAS INSTITUTED?

A. If a new service moratorium was imposed in the Agua Fria District, it would have a crippling effect on development until such time as the problem was resolved. Moreover, even after the moratorium was lifted, the negative implication of such a moratorium would linger well beyond that point. There are millions of dollars that have already been invested and millions more planned to be invested to develop areas within the Agua Fria District and a moratorium would impact existing and future development activity and contractual relationships, as well as the money that has already been invested and is planned to be invested in the future in this area.

Q. DO YOU HAVE ANY CLOSING REMARKS?

A. Yes. It is important to understand that in reality, there is no "water shortage" in the Agua Fria District as there is an adequate water supply. Prasada has completed an Analysis of Assured Water Supply for its entire development which has been approved by Arizona Department of Water Resources. Arizona-American holds the CC&N to provide water to its utility customers. However, Arizona-American does not currently have the necessary water resources to meet the future demand of its customers in this area. To address this deficiency in current capacity, it has required developers to provide it with new wells. Yet, Arizona-American is seeking authority from this Commission to build the Plant in

order to utilize surface water as an additional water source to meet future demand. MWD has wells that can provide potable water. However, MWD is not authorized to provide public utility water service within Arizona-American's certificated area. Therefore, what we have here is one party that is obligated to provide utility water service to the public but has a current shortage of wells, and another party that has the wells and water resources but cannot directly use those resources to supply potable water to the public.

If Arizona-American and MWD would work together to address the water issue in the Agua Fria District, there would be sufficient water to meet demand while the Plant is being constructed. Moreover, developers would not have to bear the redundant expense of being required to drill additional wells for Arizona-American and replace existing irrigation wells for MWD with potable wells while also paying higher Hook-Up Fees to finance construction of the Plant. Fulton, therefore, encourages the Commission to do whatever it can through this proceeding to facilitate a resolution of this problem.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, thank you.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON – Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

EXHIBIT
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Fulton-2
admitted

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, FOR APPROVALS ASSOCIATED WITH A TRANSACTION WITH THE MARICOPA COUNTY WATER CONSERVATION DISTRICT NUMBER ONE.

DOCKET NO. W-01303A-05-0718

PRE-FILED SURREBUTTAL TESTIMONY OF CHRIS JANSON

ON BEHALF OF FULTON HOMES CORPORATION

MARCH 12, 2007

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

1964199

Q. PLEASE STATE YOUR NAME AND EMPLOYER.

A. My name is Chris J. Janson. I am employed as a Project Manager for Fulton Homes Corporation, an Arizona corporation ("Fulton").

Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS DOCKET?

A. Yes. I filed direct testimony in this docket on January 24, 2006.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMON?

A. The purpose of my surrebuttal testimony is to respond to one issue addressed by Arizona-American set forth in its direct testimony.

Q. PLEASE SUMMARIZE THE ISSUE THAT YOU WILL ADDRESS IN YOUR SURREBUTTAL TESTIMONY.

A. My surrebuttal testimony will address the following:

- The testimony of G. Troy Day relating to the need for developer provided wells.

Q. WHAT ARE YOUR COMMENTS IN RESPONSE TO MR. DAY'S TESTIMONY?

A. In my direct testimony, I took the position that there is no "water shortage" in the Agua Fria District as there is an adequate water supply. Although Arizona-American holds the CC&N to provide water to its utility customers, it does not currently have the necessary water resources to meet the future demand of its customers in this area. With the exception of its efforts to obtain additional resources from the surface water treatment plant, Arizona-American does not appear to be investing in other water resources to meet its future demand. Instead, Arizona-American has taken the position that if a developer needs water to serve a proposed project, it is the developer's obligation and not the water company's obligation to provide new wells. However, it is my understanding from discussions with MWD that there are potable ground resources and existing potable wells in the area that are owned by MWD. In my direct testimony, I suggested that if Arizona-American and MWD would work together to address the water issue in the Agua Fria District, there would be sufficient water to meet

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demand which would negate (or at the very least minimize) the need for additional developer provided wells. Therefore, developers would not have to bear the redundant expense of being required to drill additional wells for Arizona-American and replace existing irrigation wells for MWD with potable wells while also paying higher Hook-Up Fees to finance construction of the treatment plant.

In its testimony, Arizona-American did not address this issue. Mr. Day testified that developers will still need to supply wells even after the plant is built, although there may be a need for fewer wells. *(See page 4, line 14.)* He also indicated that so long as the "developer can provide the required water, Arizona-American will continue to set meters and take on new customers in the development. However, if the water supplies are not delivered, Arizona-American will continue to *refuse* to set meters until the supplies are delivered." *(See page 4, line10, emphasis added.)*

Fulton submits that if Arizona-American is not going to invest the money to drill its own wells, the Commission should require Arizona-American to use its best efforts to enter into bulk water supply agreements with MWD, not only during the construction of the plant (which it has done so in at least one instance for a project), but also thereafter, to minimize the need and expense of the requirement that developers must provide wells in order to receive water utility service.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

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Courtland-1

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER – Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

In the Matter of the Application of Arizona Water Company for Approvals Associated with a Transaction with the Maricopa County Municipal Water Conservation District Number One	**DOCKET NO. W-01303A-05-0718**

PRE-FILED DIRECT TESTIMONY

OF JOHN WITTROCK

ON BEHALF OF INTERVENOR COURTLAND HOMES, INC.

JANUARY 24, 2006

1 Q. **PLEASE STATE YOUR NAME AND EMPLOYER.**

2 A. My name is John Wittrock. I am President of Courtland Land, LLC., the real
3 estate arm of Courtland Homes, Inc., an Arizona corporation.

4 Q. **PLEASE STATE YOUR BUSINESS ADDRESS.**

5 A. My business address is 5333 North 7th Street, Suite 300, Phoenix, Arizona, 85014.

6 Q. **PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
7 **WORK EXPERIENCE.**

8 A. I am a graduate of the University of Oklahoma. I have previously worked for
9 large homebuilders such as UDC Homes and Shea Homes before becoming
10 President of Courtland Land, Inc.

11 Q. **ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

12 A. I am testifying on behalf of Courtland Homes, Inc. ("Courtland").

13 Q. **ARE YOU AUTHORIZED TO TESTIFY ON BEHALF OF COURTLAND?**

14 A. Yes. I am authorized as an officer of Courtland to testify on its behalf.

15 Q. **HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA**
16 **CORPORATION COMMISSION ("COMMISSION")?**

17 A. No. This is my first time.

18 Q. **HAS COURTLAND BEEN GRANTED INTERVENOR STATUS IN THIS**
19 **CASE?**

20 A. Yes. The Commission granted Courtland's Application for Intervention on
21 December 13, 2006.

22 Q. **PLEASE DESCRIBE COURTLAND AND ITS BUSINESS.**

23 A. Courtland is a private homebuilder which has been building homes in the valley
24 since 1983. Courtland builds approximately 400 to 500 homes per year.

25 Q. **WHY HAS COURTLAND INTERVENED IN THIS PROCEEDING?**

26 A, Courtland is currently developing a master-planned community known as the

Greer Ranch North Development ("Greer Ranch") which has approximately 280 acres and contains 878 lots. Greer Ranch is located in the Certificate of Convenience and Necessity ("CC&N") of Arizona-American Water Company, Inc.'s ("Arizona-American") Agua Fria Water District and has entered into agreements with Arizona-American with respect to the provision of water service to Greer Ranch. Additionally, Courtland is looking into the potential development of other master planned communities in the Agua Fria District and will be dependent upon Arizona-American to provide water service. Courtland has already spent $5 million on onsite water facilities, offsite backbone infrastructure, and hook up fees and expects to spend an additional approximately $1.5 million related to wet water development to provide water service to our 878 lots in Greer Ranch. Courtland's estimated cost in providing water to this development is $6.5 million, or roughly $7,400 per lot. Therefore, Courtland is directly and substantially impacted by the proposed increase in the water facility hook-up fees ("Hook-Up Fees"), as well by the other issues that have subsequently been raised in this proceeding.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. Given that Courtland is directly and substantially impacted by the issues that have been raised in this proceeding, the purpose of my direct testimony is to set forth Courtland's position with respect to some of those issues for the Commission to take into consideration in determining this matter.

Q. WHAT ARE THE ISSUES THAT YOU WILL DISCUSS IN YOUR TESTIMONY?

A. The issues that I will discuss herein are as follows:

1. Hook-Up Fees that have already been paid under Arizona-

American's existing tariff.

2. The need for the construction of a surface water treatment plant ("Plant") and the provision of assured water supply during construction which can also offset the cost of the higher Hook-Up Fees.

3. The possibility of a moratorium by Arizona-American if there is a delay in the construction of the Plant.

Q. PLEASE DISCUSS COURTLAND'S POSITION REGARDING THE PROPOSED HOOK-UP FEES.

A. Courtland has already paid to Arizona-American $1,009,700 for Hook-Up Fees pursuant to the existing Commission-approved Arizona-American tariff. Additionally, Courtland has spent over $5 million towards the construction of other back-bone infrastructure and wet water development necessary for water service to Greer Ranch that will also provide regional benefits to Arizona-American.

Courtland does not object to the recommended increases in the Hook-Up Fees set forth in the October 27, 2006 Staff Report so long as the final order of the Commission expressly states that to the extent Arizona-American has received payment for Hook-Up Fees under the existing tariff, if and when a new tariff becomes effective, Arizona-American may not charge the difference between the existing Hook-Up Fee and the new Hook-Up Fee as a condition of receiving service, regardless of whether Arizona-American has provided a meter.[1] Further, Arizona-American should be precluded from unilaterally refunding Hook-Up Fees paid by an applicant for water service under the existing tariff in order to later charge the higher Hook-Up Fees under the new tariff.

[1] Although Courtland has already paid to Arizona-American its Hook-Up Fees, Arizona-American has not as yet "set" meters.

Q. HAS ARIZONA-AMERICAN RESPONDED TO THIS POSITION?

A. Yes. On November 6, 2006, Courtland filed comments in this docket that set forth this position. On November 13, 2006, Arizona-American filed a response indicating that it did not object to inclusion of express language in the final order with regard to this issue.

Q. HAS ANY OTHER PARTY IN THIS PROCEEDING EXPRESSED AN OPINION ON THIS ISSUE?

A. Yes. CHI Construction Company, Taylor Woodrow/Arizona, Inc. and Trend Homes, Inc. have also filed comments and testimony in this docket essentially requesting that the same clarification regarding the pre-payment of Hook-Up Fees be included in any final order of the Commission.

Q. IN ITS FILED COMMENTS, MARICOPA WATER DISTRICT ("MWD") HAS ARGUED THAT IF IT BUILDS THE PLANT, IT WOULD NOT BE NECESSARY FOR ARIZONA-AMERICAN TO CHARGE THE HIGHER HOOK-UP FEES. WHAT IS COURTLAND'S POSITION ON THIS?

A. Courtland is not taking a position on which entity should build the Plant because the plant construction only benefits future development by relieving future developers of the cost of developing potable wet water. Current developments such as Greer Ranch have been required by agreements with Arizona-American to provide for potable water to serve their respective developments.

Q. IF THE COMMISSION WAS TO GRANT ARIZONA-AMERICAN'S APPLICATION AND ALLOW THE HIGHER HOOK-UP FEES IN ORDER TO FUND CONSTRUCTION OF THE PLANT, WHAT ARE YOUR RECOMMENDATIONS?

A. If the Commission determines that Arizona-American should build the plant and use the Hook-Up Fees as essentially the financing vehicle to do this, the

Commission should: 1) require Arizona-American to construct the Plant as expeditiously as possible so as to address the anticipated future water needs of its customers in the Agua Fria Water District and to monitor such construction through Commission-mandated compliance filings; 2) carefully monitor the collection of the increased Hook-Up Fees to ensure that Arizona-American does not collect such increased fees any longer than is necessary to finance construction of the Plant; 3) make any necessary adjustments to Arizona-American's rates and charges in subsequent filed rate-cases; 4) to the extent that an assured water supply has been procured either through an interim water supply agreement or developer provided wells, order Arizona-American to set meters upon customer request; and 5) to the extent Arizona-American can enter into an interim water supply agreement with MWD, order Arizona-American to suspend its requirement that developers must also spend additional money to drill wells as a condition of receiving service.

Q. **WOULD YOU PLEASE ELABORATE ON THIS LAST POINT?**

A. Yes. Currently, Arizona-American does not have an adequate supply of water in the Agua Fria District to meet future customer demand for new developments which have not provided potable water supply facilities to Arizona-American. This is the primary reason it is seeking authority to build the Plant so it can use surface water to meet future customer demand. In the meantime, because of the lack of water in the Agua Fria District, Arizona-American has imposed what is essentially a moratorium on new development unless the developer is willing to bring the wet water to Arizona-American by drilling wells that meet potable water standards. Developers have had no choice but to bear these additional costs if they want to have water for their projects. These costs are in addition to other backbone infrastructure and Hook-Fees that developers are already obligated to

pay. I believe that if Arizona-American is going to charge the higher Hook-Up Fees in order to build the Plant which will provide a water supply for the future, and Arizona-American has secured an interim source of water while the Plant is under construction, there would not be a need for these additional wells and developers should not have to bear the cost of drilling wells to provide a water source.

Q. IF THE COMMISSION WAS TO DENY ARIZONA-AMERICAN'S APPLICATION IN FAVOR OF MWD BUILDING THE PLANT, WHAT ARE YOUR RECOMMENDATIONS?

A. If the Commission determines that Arizona-American should not build the Plant and that MWD should, since the Commission does not have jurisdiction over MWD, the Commission should condition its decision to deny Arizona-American's application on MWD's agreement to enter into interim water supply agreement(s) with Arizona-American on an as-needed basis for individual project needs as technically possible and commercially reasonable, for the period of time from Arizona-American's proposed time to have the American plant online (2009) until MWD is able to bring the MWD Plant on line. Moreover, should MWD subsequently not build the Plant, it would still be obligated pursuant to these agreements to continue to supply water until such time that Arizona-American (or some other entity) builds the Plant.

Q. WITH RESPECT TO YOUR SUGGESTION THAT ARIZONA-AMERICAN BE ORDERED TO ENTER INTO AN INTERIM WATER SUPPLY AGREEMENT AND SET METERS, HASN'T COURTLAND RECENTLY ENTERED INTO SUCH AN AGREEMENT WITH ARIZONA-AMERICAN?

A. Yes. And we very much appreciate Arizona-American's and MWD's willingness

to do this. However, at this point in time, this is a five year agreement whereby we are still obligated by the end of the five years to provide potable water wells to Arizona-American.

Q. WOULD YOU PLEASE COMMENT ON THE ISSUE OF A THREATENED MORATORIUM IN THE AGUA FRIA DISTRICT IF THERE IS A DELAY IN THE CONSTRUCTION OF THE PLANT?

A. Yes. First, as I stated above, given Arizona-American's constrained water resources, it has, in effect, already imposed a moratorium on water service for new developments if the developer does not provide the wet water to Arizona-American at its expense. As discussed more fully above, Courtland believes that it is within Arizona-American and MWD's power to remedy this problem and to remove this threat for future projects by simply entering into an interim bulk sale water agreement on a project by project basis whereby MWD will supply Arizona-American potable water until such time that the Plant is built.

If however, the parties are unable or unwilling to do this, Arizona-American should not be permitted to institute a moratorium with respect to new water service for a customer who has supplied the water source to Arizona-American and otherwise pays all applicable tariffs. Moreover, to the extent a developer provides the water source to Arizona-American, Arizona-American should be required to use such source to supply the needs of that development before being permitted to use such supply for other customers.

Q. WHAT WOULD BE THE IMPACT IF A MORATORIUM WAS INSTITUTED?

A. If a new service moratorium was imposed in the Agua Fria District, it would have a chilling effect on development until such time as the problem was resolved. Moreover, even after the moratorium was lifted, the negative implication of such

through this proceeding to facilitate a resolution of this problem.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, thank you.

Courtland-2

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON - Chairman
JEFF HATCH-MILLER
WILLIAM A. MUNDELL
KRISTIN K. MAYES
GARY PIERCE

EXHIBIT
Courtland
2
admitted

In the Matter of the Application of Arizona Water Company for Approvals Associated with a Transaction with the Maricopa County Municipal Water Conservation District Number One	DOCKET NO. W-01303A-05-0718 **SURREBUTTAL TESTIMONY**

PRE-FILED SURREBUTTAL TESTIMONY

OF JOHN WITTROCK

ON BEHALF OF COURTLAND HOMES, INC.

MARCH 12, 2006

Snell & Wilmer
L.L.P.
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Q. PLEASE STATE YOUR NAME AND EMPLOYER.

A. My name is John Wittrock. I am employed as President of Courtland Land, LLC, the real estate arm of Courtland Homes, Inc., an Arizona corporation.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS DOCKET?

A. Yes. I filed direct testimony in this docket on January 24, 2006.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMON?

A. The purpose of my surrebuttal testimony is to respond to two issues addressed by Arizona-American set forth in its direct testimony.

Q. PLEASE SUMMARIZE THE ISSUES THAT YOU WILL ADDRESS IN YOUR SURREBUTTAL TESTIMONY.

A. My surrebuttal testimony will address the following:

- The testimony of Thomas Broderick relating to when the increase in the hook-up fee will be applied; and
- The testimony of G. Troy Day relating to the need for developer provided wells.

Q. WOULD YOU PLEASE STATE YOUR CONCERNS REGARDING THE POSITION THAT ARIZONA-AMERICAN HAS STATED WITH RESPECT TO THE PAYMENT OF HOOK-UP FEES UNDER THE CURRENT TARIFF?

A. Yes. Courtland has not objected to the recommended increases in the Hook-Up Fees set forth in the October 27, 2006, Staff Report so long as the final order of the Commission expressly states that to the extent Arizona-American has received payment for Hook-Up Fees under the existing tariff, if and when a new tariff becomes effective, Arizona-American may not charge the difference between the existing Hook-Up Fee and the new Hook-Up Fee as a condition of receiving service, regardless of whether Arizona-American has provided a meter.[1] Further, Arizona-American should be precluded from unilaterally refunding Hook-Up Fees paid by an applicant for water service under the existing

[1] Although Courtland has already paid to Arizona-American its Hook-Up Fees, Arizona-American has not as yet "set" meters.

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tariff in order to later charge the higher Hook-Up Fees under the new tariff.

Q. **DID ARIZONA-AMERICAN AGREE WITH THIS POSITION?**

A. Yes. On November 6, 2006, Courtland filed comments in this docket that set forth this position. On November 13, 2006, Arizona-American filed a response indicating that it did not object to inclusion of express language in the final order with regard to this issue.

Q. **HAS ARIZONA-AMERICAN SINCE MODIFIED ITS POSITION ON THIS ISSUE?**

A. It is not clear. On page 16, line 21, in his pre-filed testimony Mr. Broderick was asked the question: "When should the Hook-Up Fee be applied?" In response, Mr. Broderick testified that "the hook-up fee is applicable if the tariff is effective prior to the operational acceptance under the terms of the line extension agreements. This is equivalent to the meter set date. This is exactly how a similar tariff in Anthem is applied."

Q. **DO YOU AGREE WITH THIS POSITION?**

A. Conceptually, yes, but I believe there needs to be further clarification. First, operational acceptance pursuant to the line extension agreements is not the same date as when meters are requested to be set. Operational acceptance is Arizona-American's acceptance of the developer's on-site distribution and transmission facilities. Meters are usually set sometime after operational acceptance. Therefore, there should be no linkage between the payment of the Hook-Up Fee and when meters are set. This is evident by the fact that Courtland has been issued letters of operational acceptance, and has paid our hook-up fee tariffs, but Arizona-American has not set meters. Pursuant to the terms of Arizona-American's line extension agreement, developers are required to pay hook-up fees upon operational acceptance *or request requesting water service to any phase*, whichever is first. Therefore, to the extent developers have paid hook-up fees pursuant to the terms of the line extension agreement prior to the effective

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date of any new hook-up fee tariff, Arizona-American should be precluded from charging the higher tariff.

Q. HAVE YOU SPOKEN TO ARIZONA-AMERICAN ABOUT THIS?

A. Yes. After I read Mr. Broderick's testimony, I spoke to him and asked for a clarification of his position. He agreed that the meter-set date is not applicable and that Arizona-American's position with respect to the pre-payment of Hook-Up Fees is that so long as the fees have been paid under the existing tariff and onsite facilities have been installed, Arizona-American would not seek from developers the higher hook-up fees. Therefore, Arizona-American does consider Greer Ranch North Phase I and Greer Ranch North Phase II Developments to have satisfied this requirement relating to the payment of the Hook-Up Fees.

Q. WITH THAT CLARIFICATION FROM MR. BRODERICK, DOES THAT SATISFY YOUR CONCERN?

A. Yes, with one additional comment. In practice, developers often pay Hook-Up and meter fees to Arizona-American based upon the anticipated need of the individual lot or home size. Once construction of homes begins, sometimes a decision is made that either a larger or smaller meter is needed. Therefore, when a request for a change in the meter size is made to Arizona-American, it will true-up the amount(s) and refund the difference to the extent a smaller meter is requested or charge the difference if a larger meter is requested at the end of a project. Courtland submits that to the extent that this occurs after the effective date of a new higher Hook-Up fee tariff, any true-up adjustments, whether they be higher or lower, should be based on the existing tariff for which the Hook-Up Fees were initially paid. I therefore request that this also be made clear in the final order that the Commission adopts approving any increase in the Hook-Up Fees.

Q. DO YOU HAVE ANY COMMENTS IN RESPONSE TO MR. DAY'S TESTIMONY?

A. Yes. In my direct testimony, I stated that Arizona-American should enter into

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interim bulk sale agreements with MWD to ensure an adequate water supply until the plant is built. Mr. Day testified that developers will still need to supply wells even after the plant is built, although there may be a need for fewer wells. (*See page 4, line 14.*)

Q. HAVE YOU SPOKEN TO ARIZONA-AMERICAN ABOUT THIS?

A. Yes. After I read Mr. Day's testimony, I called him to discuss. Mr. Day stated that due to the dry-up of the MWD canal for 30 days or more each year, groundwater pumping is still critical to Arizona-American. Furthermore, wells will be used during the dry-up of the canal and for summer peaking factors in excess of plant capacity. Courtland submits that the Commission should require Arizona-American to use its best efforts not only during the construction of the plant, but also thereafter, to minimize the need and expense of the requirement that developers must provide wells in order to receive water utility service. Given that MWD has potable wells in the Agua Fria District already, Arizona-American and MWD should be encouraged to work together to utilize these wells before requiring new wells on a going forward basis before new wells are required to be drilled.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

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S-1

EXHIBIT
S-1
admitted

UPDATED ILLUSTRATION OF COST IMPACT ON A CUSTOMER WITH A 5/8" SERVICE METER

1	**MWD Water Treatment Plant**	
2		
3	*Assumptions:*	
5	WTP Size	20 MGD
6	WTP Cost (2006)	$47,600,000
7	Assumed Annual Escalation	4%
8	WTP Cost (2010)	$55,685,267
9	Maximum WTP Usage Factor	90%
10	Water Loss	5%
11	Financing	100% Debt
12	Interst Rate	5%
13	Amortization Period	30
14	Debt Issuance Cost	2%
15	Debt Service Coverage Requirement	125%
16		
17	*Annualized MWD Capital Cost:*	
18	Amortized Annual Capital Cost	$ 3,694,855
19	Debt Service Coverage Requirement	923,714
20	Annual Capital-Related Reveune Requirement	$ 4,618,568
21		
22	*AAW Revenue Requirement:*	
23	AAW Purchase	13.5
24	AAW Annual Capital Cost	$3,117,534
25	AAW Interconnection Capital Cost	$ 6,000,000
26	AAW Additional Capital Costs (2009-11)	6,000,000
27	Total AAW Additional Capital Cost	$12,000,000
28	AAW Required Rate of Return	0.084
29	Return on Plant	$1,008,000
30	Total Annual Plant Capital Cost	$4,125,534
31	Gross Revenue Conversion Factor	1.62863
32	AAW Revenue Requirement	$6,718,968
33		
34	Projected Annual Customer Impact	
35	AAW Customer Count in 2011	45,331
36	Annual Per Customer	$148.22
37	Less: Landowner Credit[1]	Variable[1]
38	Net Annual Per Customer	$148.22
39		
40	Net Customer Cost Over 30 Yrs	**$4,447**

1	**Arizona-American Water Treatment Plant**	
2		
3	*Assumptions:*	
5	WTP Size	13 MGD
6	WTP Cost (2009)	$59,400,000
7		
8	Proposed Hook-Up Fee per 5/8" Meter	$3,280
9	Existing Hook-Up Fee per 5/8" Meter	$1,150
10	Incremental Hook-up Fee per 5/8" Meter	$2,130
11		
12	Assume Hook-Up Fee is Included in Homeowners Mortgage	
13	Homeowner Mortgage Rate	5.80%
14	Homeowner Mortgage Term	30
15	Homeowner Tax Rate	30%
16		
17		
18	*Incremental AAW Revenue Requirement:*	
19	Depreciation[2] (2.5%)	$1,469,925
20	Gross Revenue Conversion Factor	1.62863
21	Total Incremental Revenue Requirement	$2,393,964
22	AAW Customer Count in 2011	45,331
23	Annual Per Customer	$52.81
24		
25	*Water Customer Cost Impact*	
26	Annual Hook-up Fee Cost per 5/8" Meter Customer	$149.97
27	Annual Incremental Revenue Requirement Per Customer	$52.81
28	Net Annual Customer Cost	$202.78
29		
30	Incremental Customer Cost Over 30 Yrs	$6,084
31	Less: Cumulative Homeowner Income Tax Savings	($711)
32		
33	Net Customer Cost Over 30 Yrs[3]	**$5,373**
34		
35		
36		
37		
38		
39		
40		

[1]Revenues generated to meet debt service coverage requirements could be used to provide a credit to District landowners, fund capital replacement reserves, or retire debt. The amount of the landowner credit would be at the District's discretion and the amount may vary over time. Therefore, the amount of the landowner credit was not included in this illustration.

[2]Under the cash needs approach, annual debt service and debt coverage comprise the capital-related revenue requirement, which can be compared to the revenue requirements associated with the return on rate base and asset depreciation under the utility basis approach. Since there is no revenue requirement for depreciation of MWD's plant in the analysis at the left, the incremental revenue requirement associated with depreciation of AAW's proposed plant was included in the analysis at the right.

[3]Assumes Arizona-American does not ask to the ACC to include any potential unfunded balance of the Plant in rate base in some future rate case.

S-2

L Keith

MEMORANDUM

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2006 OCT 27 P 1: 22

AZ CORP COMMISSION
DOCUMENT CONTROL

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: October 27, 2006

RE: STAFF REPORT FOR ARIZONA-AMERICAN WATER COMPANY, INC. REVISED APPLICATION FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY DOCKET NO. W-01303A-05-0718

Attached is the Staff Report for the Arizona-American Water Company, Inc. ("Company") revised application for approvals associated with a proposed White Tanks surface water treatment facility. The Company requests approval of an adjustment to its existing water facilities hook-up fee and an accounting order related to its construction of a water treatment facility. Staff recommends approval of its hook-up fee and accounting order.

Also enclosed as Attachment 1 is Staff's Recommended Order.

EGJ:JJD:red

Originator: James J. Dorf

Attachment: Original and sixteen copies

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OCT 27 2006

LEGAL DIV.
ARIZ. CORPORATION COMMISSION

EXHIBIT
S-2
admitted

Service List for: Arizona-American Water Company, Inc.
Docket No. W-01303A-05-0718

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Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

ARIZONA-AMERICAN WATER COMPANY, INC.

DOCKET NO. W-01303A-05-0718

ARIZONA-AMERICAN WATER COMPANY, INC. REVISED APPLICATION FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY

OCTOBER 27, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Arizona-American Water Company, Inc. ("Company"), Docket No. W-01303A-05-0718, was the responsibility of the Staff members listed below. James J. Dorf was responsible for the review and analysis of the Company's application. Jian Liu was responsible for the engineering and technical analysis.

James J. Dorf
Chief Accountant

Jian Liu
Staff Engineer

EXECUTIVE SUMMARY
ARIZONA-AMERICAN WATER COMPANY, INC.
DOCKET NO. W-01303A-05-0718

Arizona-American Water Company ("Company") is a public service corporation engaged in providing water and wastewater services in portions of Maricopa, Mohave, and Santa Cruz Counties, Arizona. The Company currently serves approximately 100,000 water customers and 50,000 wastewater customers. The Company is the largest investor-owned water and wastewater utility in Arizona.

The Company previously requested certain approvals associated with a proposed transaction with Maricopa County Municipal Water Conservation District Number One ("MWD"). The Company and MWD had executed a Memorandum of Understanding ("MOU") that outlined the framework under which MWD would finance, build, and own a White Tanks surface water treatment facility. The facility would treat Central Arizona Project ("CAP") surface water for three or more entities, one of which is the Company.

On September 1, 2006, the Company revised its application and requested approval of an adjustment to its existing water facility hook-up fee ("WFHUF") and an accounting order related to its construction of a water treatment plant and a Commission Order that the Company make certain associated filings as part of its previously ordered 2008 rate case filing for its Agua Fria District.

Staff recommends approval of its WFHUF of $3,280 for a 5/8 x ¾ inch meter and graduated for other meter sizes as indicated on Schedule JJD-1.

In recognition of the potential public benefits in developing a regional water treatment facility that utilizes CAP and other surface water supplies, Staff further also recommends approval of an accounting order that permits the Company to record post-in service allowance for funds used in construction on the unfunded balance, if any, associated with the White Tanks treatment facilities.

Also in recognition of the potential public benefits, Staff further recommends that any cumulative over collections of WFHUFs will not be considered contributions until the corresponding eligible plant enters service.

Staff recommends that the Company be required, in its 2008 rate case, to include an update of the assumptions used to develop the WFHUFs in order for the Commission to make any necessary adjustments to the hook-up fee amounts.

Staff further recommends that the Company prepare continuing evaluations of the WFHUF in any subsequent rate application to determine if the WFHUFs are appropriate.

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Introduction

Arizona-American Water Company, Inc. ("Arizona-American" or "Company") is a public service corporation engaged in providing water and wastewater services in portions of Maricopa, Mohave, and Santa Cruz Counties, Arizona pursuant to various certificates of public convenience and necessity granted by the Arizona Corporation Commission ("Commission"). The Company currently serves approximately 100,000 water customers and 50,000 wastewater customers. The Company is Arizona's largest investor owned water and wastewater utility.

The Company previously requested certain approvals associated with a proposed transaction with Maricopa County Municipal Water Conservation District Number One ("MWD"). The Company and MWD had executed a Memorandum of Understanding ("MOU") that outlines the framework under which MWD would finance, build, and own a White Tanks surface water treatment facility. The facility will treat Central Arizona Project ("CAP") surface water.

However, circumstances have changed and MWD no longer wishes to finance, build, and own the White Tanks Plant. Most of the approvals originally requested are no longer needed.

Arizona-American can construct, own and operate the White Tanks Plant. However, the Company asserts that it cannot do so using conventional rate making treatment. The Company's revised application indicates that its "current financial situation will not allow it to attract the funds needed for a project of this size."

Arizona-American's Revised Application

The Company is proposing to significantly increase its current hook-up fee tariff charged for new connections in its Agua Fria District. The treated surface water will be used by the Company to serve its Agua Fria Water District which is located in the West Phoenix suburbs (north of I-10, between the White Tank Mountains and the 101 Expressway). The Company's Agua Fria Water District currently has approximately 30,000 customers and is adding about 3,500 new water customers each year.

The Company is also requesting an accounting order to permit a post-in-service allowance for funds used in construction ("AFUDC") on the unfunded balance of the treatment plant. Additionally, the accounting order should provide that collected hook-up fees will not be considered to be contributions until some corresponding eligible plant enters service.

Project Overview

The plant will be located at Cactus and Perryville Roads, will be constructed in phases, and is capable of expanding its capacity to treat up to 80 million gallons per day ("mgd"). The plant may ultimately treat water for other municipal and private water companies in the region.

Although the initial phase would treat approximately 6.7 mgd, the Company is proposing to construct a plant which can treat 13.4 mgd. The Company estimates that it will cost $64,815,000 for a treatment plant to process 6.7 mgd. However, by adding one additional treatment train, the plant could treat a total of 13.4 mgd with an estimated cost increase of $2,510,000. Given the relative small cost difference for twice the treatment capacity, the Company asserts that it would not be prudent to initially build the smaller plant capacity and then add the additional treatment train later. The Company also points out that the operating and maintenance costs will be the same until such time as the additional capacity is actually utilized.

Other entities have approached the Company concerning the purchase of treatment services at the plant. If additional capacity is immediately available, this will make the treatment plant more attractive to other purchasers. In turn, third-party purchasers would reduce the future revenue requirement or hook-up fees paid by Agua Fria customers to recover the cost of the treatment facility.

Three additional phases of 20 mgd each can eventually be added, for a total treatment capacity of 80 mgd at the current facility site. The Company estimates that at full capacity the plant can service approximately 160,000 customers.

The Company has a Central Arizona Project ("CAP") allocation of 11,093 acre-feet per year, which will require treatment before it can be delivered to its Agua Fria District. In addition, the Company has an agreement with MWD whereby MWD will provide Agua Fria River Water it now controls. MWD will provide an additional 21,000 acre-feet available for treatment and delivery at build out of the treatment facility.

Project Benefits

The Company proposes that the project is in the public interest by providing the following benefits to the White Tanks region:

1. The transaction will make it possible to construct a regional surface water treatment facility that can satisfy the demands of it rapidly growing Agua Fria District.

2. A regional treatment plant utilized by several water providers is a least cost solution for treating CAP water.

3. The Company can utilize its CAP allocation.

4. The transaction will also preserve groundwater resources throughout the Company's Agua Fria District.

5. The proposed hook-up fees will minimize rate increases to customers.

Project Schedule

The Company anticipates that additional water production will be needed by the summer of 2009 and that construction will take approximately 24 months. An abbreviated schedule of significant milestones follows:

1. Commission approval in the fourth quarter of 2006.
2. Requests for proposals for the construction contract in the fourth quarter of 2006.
3. Construction begins in the second quarter of 2007.
4. Construction completed by the second quarter of 2009.

Requested Approvals

The Company is requesting Commission approval of either Option 1 or Option 2 of the proposed increases in its current hook-up fee tariff and approval of an accounting order related to the recovery of the treatment plant operating and maintenance costs.

The Company is currently collecting hook-up fees in the Agua Fria District. The Water Facilities Hook-up Fee is $1,150 for a 5/8 x ¾ inch meter and intended to offset the costs of new water facilities needed to serve new customers. The amount is graduated for larger meters. See Schedule JJD-1. The funds collected are treated as contributions in aid of construction ("CIAC") and are non-refundable.

The Company indicated that its hook-up fee is substantially less than that charged in other areas in Maricopa County. For example, the City of Peoria's current water hook-up fee for ¾ and one inch meters is $3,497.

The Company has estimated its construction expenditures for back-bone plant (including the cost of the 13.5 mgd water treatment facility) will total $132.9 million through 2012.

Option 1

The Company proposes to increase the hook-up fee to the same level as that charged in its Anthem District and would start at $3,000 for the 5/8 x ¾ inch meter. The fee would also be graduated for larger meters. See Schedule JJD-1.

The Company estimates that this level of hook-up fee will collect approximately $70.8 million through the end of 2009, when the treatment plant will be completed, versus cumulative construction cost of $104.4 million for the same time period.

Option 2

The Company proposes an increase in the hook-up fee to $4,700 for the 5/8 x ¾ inch meter. At this level, the Company estimates that it would recover a total of $103.9 million through the end of 2009 versus the cumulative construction expenditures of $104.4 million.

However, continuation through 2012 of this level of hook-up fee would result in cumulative hook-up fees of $184.9 million versus cumulative capital expenditures of $132.9 million.

Staff Analysis

Water Facilities Hook-up Fee ("WFHUF")

Staff has evaluated the Company's proposed hook-up fee based upon total cumulative construction expenditures through 2012 totaling $132.9 million (which includes the White Tanks Treatment Plant) and determined that the service capacity of the treatment plant and other back-bone plant support an increase of the current hook-up fee. Staff also notes that based on the Company's customer increase estimates, a $4,700 hook-up fee will result in collections exceeding cumulative construction expenditures starting in 2010. See Schedule JJD-1, line 4.

In order to more closely align hook-up fee collections with construction expenditures through 2012, Staff recommends a graduated hook-up starting at $3,280. This will produce cumulative collection of $132.8 million versus $132.9 in cumulative construction costs. See Schedule JJD-1, line 5, and JJD-2.

Therefore, Staff recommends that Company's existing non-refundable water facilities hook-up fee be increased from $1,150 to $3,280 and continue to be used for funding facilities as described in the Company's current tariff. The current tariff includes water treatment plant as an eligible facility expenditure.

At this level of hook-up fee, the Company will collect a total of $76.3 million in hook-up fees through 2009 versus construction expenditures of $104.4 million. Staff addresses this disparity in establishing an accounting order below.

Possible Remedial Actions

Each of the Company's proposed and Staff recommended hook-up fees are the result of numerous assumptions. There could be many inaccurate assumptions such as customer growth rates and meter size, new third party contracts, inflation, construction costs increases, etc. The Company has indicated that when it files its 2008 rate case for Agua Fria using a 2007 test period, it agrees to update its assumptions and propose adjustments to the hook-up fee as appropriate.

Staff also recommends that the hook-up fee collections and expenditures continue to be monitored in each of the Company's subsequent Agua Fria rate cases to determine if intergenerational disparities exist. Staff recommends that the Company provide a reevaluation of the appropriateness of its WFHUF in its 2008 and subsequent rate cases.

Financial Effects

Staff recently completed an evaluation of the Company's request to secure new debt financing to replace maturing obligations and fund new capital projects.[1] The Company's capital structure as of December 31, 2005, is summarized on Exhibit A and indicates that the Company's pro forma total capital is $371.2 million, including $126.9 million of equity (34.2 percent ratio).

The Company has also submitted an equity improvement plan which includes its estimate of exceeding an equity ratio of 40 percent by December 31, 2010.[2]

The Company asserts that approval of the proposed Option 1 or Option 2 hook-up fees will not have an effect on its capital structure, at least through 2012 in the case of Option 1 and 2009 in the case of Option 2. At the end of each of those years, the cumulative hook-up fees meet or are close to exceeding cumulative construction expenditures. Once the hook-up fees exceed construction expenditures, the Company's rate base will begin to decline significantly and ultimately erode the capital structure.

The Company also indicates that if the accounting order, as proposed, is not approved, plant operating expenses may not be timely recovered and will erode both earnings and ultimately its capital structure. Therefore, the Company states that it will request, in its 2008 rate case, a surcharge mechanism approved to recover such costs as discussed below.

Accounting Order

The Company requests an accounting order that addresses two issues. First, the Company requests the ability to accrue post-in-service allowance for funds used during construction on any unfunded balance of the White Tank Plant. This will allow the Company to be made whole on its investment until the hook-up fees are sufficient to fund the plant.

Second, should cumulative collected hook-up fees exceed cumulative related construction expenditures, the collected hook-up fees should not be considered to be contributions until some corresponding eligible plant enters service.

An accounting order is the rate-making mechanism whereby the Commission provides specific authorization, as permitted under the National Association of Regulatory Utility

[1] Docket No. W-01303A-06-0283.
[2] Docket Nos. W-01303A-05-0280, WS-01303A-02-0867 & W-01303A-02-0869.

Commissioners' ("NARUC") Uniform System of Accounts ("USoA"), to treat costs in a manner that is different than under generally accepted accounting principles. The purpose of any authorized accounting order would be to allow the Company to record an allowance for funds used during construction on its in-service White Tank water treatment facility for future consideration by the Commission to authorize possible recovery, not guarantee future recovery.

Staff acknowledges this unique opportunity to develop a regional water treatment that will utilize significant quantities of surface water. The project can also achieve significant economies of scale as it approaches full build out. This will not only benefit the Company's Aqua Fria District customers, but also other potential customers throughout the White Tanks area.

It is also prudent to immediately size the project to accommodate the Company's and third party growth opportunities. Because of these factors, Staff recommends approval of an accounting order to permit recovery of post-in-service plant AFUDC as an appropriate regulatory tool to prevent possible financial harm to the Company. Therefore, to the extent the Company has cumulative construction expenditures that exceed cumulative hook-up fee collections, the Company is allowed to record post-in-service AFUDC related to the White Tanks water treatment facilities.

Staff also recommends as part of its accounting order that all funds collected be deposited into a separate interest bearing bank account and interest earned on any cumulative hook-up fee collections in excess of cumulative construction expenditures be retained in said account.

With respect to any operating and maintenance costs associated with the treatment facilities, the Company plans to propose a mechanism, similar to the Commission's arsenic cost recovery mechanism procedure, in its 2008 rate filing. Staff will review and evaluate the proposed mechanism at that time.

Engineering Analysis

Staff has reviewed the application and concluded that the estimated capital expenditures are reasonable. However, no "used and useful" determination of the proposed project has been made. See attached Engineering Report.

Staff Recommendations

Staff recommends approval of its WFHUF of $3,280 for a 5/8 x ¾ inch meter and graduated for other meter sizes as indicated on Schedule JJD-1.

In recognition of the potential public benefits in developing a regional water treatment facility that utilizes CAP and other surface water supplies, Staff further recommends approval of an accounting order that permits the Company to record post-in-service AFUDC on the unfunded balance, if any, associated with the White Tanks treatment facilities.

Also in recognition of the potential public benefits, Staff further recommends that any cumulative over collections of WFHUF will not be considered contributions until the corresponding eligible plant enters service.

Staff recommends that the Company be required, in its 2008 rate case, to include an update of the assumptions used to develop the WFHUFs.

Staff further recommends that the Company prepare continuing evaluations of the WFHUF in any subsequent rate application to determine if the WFHUFs are appropriate.

Staff further recommends that the Company be required to submit a calendar year status report each January 31st to Docket Control, as a compliance item in this case, beginning January 31, 2008, until the WFHUF Tariff is no longer in effect. This report should contain a list of all customers that have paid the WFHUF Tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the WFHUF Tariff account, and a list of all facilities that have been installed with the WFHUF Tariff funds.

Arizona-America Water Company, Inc.
Docket No. W-01303A-05-0718
In Thousands

Schedule JJD-1

SUMMARY OF PROJECTED CAPITAL EXPENDITURES AND HOOK-UP FEES

Line No.	CAPITAL EXPENDITURES	2005	2006	2007	2008	2009	2010	2011	2012
1	Cummulative Capital Expenditures*	15,853	18,685	38,822	74,990	104,397	109,922	114,700	132,893
2									
3	**HOOK-UP FEES**								
4	Existing Cummulative HUF	3,988	12,397	19,905	27,468	34,794	42,000	48,151	54,611
5	Cummulative Option 1 HUF	3,988	12,397	31,983	51,712	70,824	89,620	105,667	122,520
6	Cummulative Option 2 HUF	3,988	12,397	43,081	73,991	103,932	133,380	158,520	184,923
7	**Staff Cummulative HUF**	3,988	12,397	33,810	55,382	***76,277***	96,828	114,373	***132,803***
8	Cummulative White Tank Treatment Plant					67,325			67,325
9	Cummulative Other Back-bone Plant					37,072			65,568
						104,397			***132,893***

PROPOSED HOOK-UP FEES

	Meter Size	Existing WFHUF	Company Proposed Option 1	Company Proposed Option 2	Staff Proposed
10	5/8 x 3/4 Inch	$1,150	$3,000	$4,700	$3,280
11	3/4 Inch	$1,725	$4,500	$7,050	$4,920
12	1 Inch	$2,875	$7,500	$11,750	$8,200
13	1.5 Inch	$5,750	$15,000	$23,500	$16,400
14	2 Inch	$9,200	$24,000	$37,600	$26,240
15	3 Inch	$18,400	$48,000	$75,200	$52,480
16	4 inch	$28,750	$75,000	$117,500	$82,000
17	6 inch or higher	$57,500	$150,000	$235,000	$164,000

Arizona-American Water Company. Inc.
Docket No. W01303A-05-0718

Schedule JJD-2

CUMULATIVE HOOK-UP FEE COLLECTIONS - STAFF RECOMMENDED

Meter	Factor	2005	2006	2007	2008	2009	2010	2011	2012
5/8"	1.0			706	711	689	677	579	607
3/4"	1.5			1508	1518	1471	1446	1235	1297
1"	2.5			1157	1165	1128	1109	947	995
1.5"	5.0			36	36	35	35	30	31
2"	8.0			61	62	60	59	50	53
5/8"	3,280			2,315,680	2,332,080	2,259,920	2,220,560	1,899,120	1,990,960
3/4"	4,920			7,419,360	7,468,560	7,237,320	7,114,320	6,076,200	6,381,240
1.5"	8,200			9,487,400	9,553,000	9,249,600	9,093,800	7,765,400	8,159,000
1"	16,400			590,400	590,400	574,000	574,000	492,000	508,400
2"	26,240			1,600,640	1,626,880	1,574,400	1,548,160	1,312,000	1,390,720
	Year	3,988,010	8,409,375	21,413,480	21,570,920	20,895,240	20,550,840	17,544,720	18,430,320
	Cumulative		12,397,385	33,810,865	55,381,785	76,277,025	96,827,865	114,372,585	132,802,905

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, INC., AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF A SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT	DOCKET NO. W-01303A-05-0718 DECISION NO. _____ ORDER

BY THE COMMISSION:

FINDINGS OF FACT

1. On October 11, 2005, Arizona-American Water Company, Inc. ("Arizona-American" or "Company") filed the above-captioned application.

2. The Company's application requested Commission approval of several actions related to a proposed joint project with Maricopa County Municipal Water Conservation District Number One ("MWD") to build a surface water treatment facility known as the White Tanks Regional Water Treatment Facility. The facility would initially serve the Company's customers in its Agua Fria District.

3. The Company provides water and wastewater services in portions of Maricopa, Mohave, and Santa Cruz Counties, Arizona pursuant to various certificates of public convenience and necessity granted by the Arizona Corporation Commission ("Commission"). The Company presently serves approximately 100,000 water and 50,000 wastewater customers in Arizona and is Arizona's largest investor owned utility.

4. The Company's Agua Fria District is located in the rapidly developing western Phoenix suburbs, generally between the White Tank Mountains and the 101 Expressway. The Company currently serves 30,000 water customers and is adding approximately 3,500 new water customers per

year.

5. The initial application indicated that the Company and MWD had entered into a Memorandum of Understanding ("MOU") under which the treatment plant was to be financed, built and owned by MWD. The Company was to obtain treatment services under a long-term capital lease with MWD and the Company was to operate the facility under a Operation and Maintenance Agreement with MWD.

6. The application proposed to increase certain water facility hook-up fees ("WFHUF"), requested authorization to sell certain assets of the Company to MWD, requested authorization to incur debt in the form of a capital lease, and various other regulatory approvals.

7. By Procedural Order issued on December 19, 2005, a procedural schedule was set for the processing of the application, which included a hearing, public notice requirements, and intervention deadlines.

8. Intervention was granted to the Residential Utility Consumer Office ("RUCO") by Procedural Order issued January 10, 2006.

9. On January 23, the Company filed a Confirmation of Mailing and Affidavit of Publication indicating that public notice of the application was accomplished in accordance with the requirements set forth in the December 19, 2005, Procedural Order.

10. On February 10, 2006, Commission Staff filed a Staff Report in this case.

11. By Procedural Order issued March 2, 2006, the Company's request that the procedural schedule be suspended in the matter was granted.

12. On September 1, 2006, the Company filed a Revised Application in this docket, in which the Company stated that it believes no evidentiary hearing is required to process the Revised Application.

13. The Revised Application requests, for its Agua Fria District, relief in the form of an adjustment to its existing WFHUFs for new home construction, an Accounting Order, and a Commission Order that the Company make certain associated filings as part of its previously-ordered 2008 rate case filing for its Agua Fria District.

14. The Company has estimated that its back-bone plant construction expenditures (related to

its existing WFHUF) will approximate $65.6 million and the cost to construct the treatment facility (scheduled for completion in 2009) at a cost of $67.3 million will result in total construction cost of $132.9 million through the end of 2012. Construction expenditures through 2009 will total approximately $104.4 million.

15. The Company proposed two options regarding the increase in its WFHUF. Option 1 proposes a $3,000 per residential unit, 5/8 x ¾ inch meter and graduated for larger meter sizes. The Company estimates that this will result in WFHUF collections of $122.5 through 2012.

16. Option 2 proposes a $4,700 per residential unit, 5/8 x ¾ inch meter and graduated for larger meter sizes. The Company estimates that this will result in WFHUF collections of $132.8 through 2012.

17. The Company requests an accounting order that addresses two issues:

a) First, the Company requests the ability to accrue post-in-service allowance for funds used during construction on any unfunded balance of the White Tank Plant. This will allow the Company to be made whole on its investment until the hook-up fees are sufficient to fund the plant.
b) Second, should cumulative collected hook-up fees exceed cumulative related construction expenditures, the collected hook-up fees should not be considered to be contributions until some corresponding eligible plant enters service.

18. On September 14, a Telephonic Procedural Conference was held for the purpose of discussing the appropriate process for a Commission determination in this docket. The Company, RUCO and Staff attended.

19. On September 25, Staff filed a Joint Request for a Procedural Order ("Joint Request"), which stated that the parties do not believe that an evidentiary hearing is necessary. The Joint Request proposed that Staff file a Staff Report and Staff Recommended Order by October 27, 2006, and that the Company and RUCO file their responses to the filing by November 6, 2006. The Joint Request also recommends that if the responses demonstrate that there are issues in dispute, the Hearing Division would prepare a Recommended Opinion and Order. Regarding the possible need for an evidentiary hearing, the Joint Request included a recommendation that a procedural conference be held if it appears that there is such a need. The Joint Request asked that a Procedural Order be issued adopting its recommendations.

20. On October 5, 2006, a Procedural Order was issued that adopted the Joint Request party's request as being reasonable.

21. On October 23, 2006, Pulte Home Corporation ("Pulte"), through its counsel, applied for an order granting it leave to intervene in these proceedings. Pulte owns several development properties in the Agua Fria District and currently has 1,800 lots under development. Pulte asserts that it will be directly and substantially affected by the proposed hook-up fee. Pulte requests the opportunity to provide evidence supporting Arizona-Americans lower hook-up fee options.

22. On October 27, 2006, Staff filed its Staff Report and included the following recommendations:

a) Staff recommends approval of its WFHUF of $3,280 for a 5/8 x ¾ inch meter and graduated for other meter sizes as indicated on Exhibit A. This would result in WFHUF collections of approximately $76.3 million through 2009 versus $104.4 in construction expenditures and through 2012 it will collect a total of $132.8 million versus cumulative construction expenditures of $132.9 million.

b) In recognition of the potential public benefits in developing a regional water treatment facility that utilizes CAP and other surface water supplies, Staff further recommends approval of an accounting order that permits the Company to record post-in service allowance for funds used in construction on the unfunded balance, if any, associated with the White Tanks treatment facilities.

c) Also in recognition of the potential public benefits, Staff further recommends that any cumulative over collections of WFHUFs will not be considered contributions until the corresponding eligible plant enters service.

d) Staff recommends that the Company be required, in its 2008 rate case, to include an update of the assumptions used to develop the WFHUFs and propose, if necessary, adjustments to the hook-up fee amounts.

e) Staff further recommends that the Company prepare continuing evaluations of the WFHUFs in any subsequent rate application to determine if the WFHUFs are appropriate.

f) Staff further recommends that the Company be required to submit a calendar year status report each January 31st to Docket Control, as a compliance item in this case, beginning January 31, 2008, until the WFHUF Tariff is no longer in effect. This report should contain a list of all customers that have paid the WFHUF Tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the WFHUF Tariff account, and a list of all facilities that have been installed with the WFHUF Tariff funds.

CONCLUSIONS OF LAW

1. The Company is a public service corporation within the meaning of Article 15 of the Arizona Constitution and Title 40 of the Arizona Revised Statutes.

2. The Commission has jurisdiction over the Company and over the subject matter of the application.

3. The Commission having reviewed the application and Staff's Report of October 27, 2006, concludes that Staff's recommendations are reasonable, in the public interest, and should be adopted.

4. The Company will adopt Staff's recommended WFHUF as depicted on Exhibit A attached hereto.

5. In recognition of the potential public benefits in developing a regional water treatment facility that utilizes CAP and other surface water supplies, the Commission approves an accounting order that permits the Company to record post-in service allowance for funds used in construction on the unfunded balance, if any, associated with the White Tanks treatment facilities.

6. Also in recognition of the potential public benefits, the Commission approves an accounting order that allows for any cumulative over collections of WFHUFs as not being considered contributions until the corresponding eligible plant enters service.

7. The Commission requires that the Company, in its 2008 rate case, shall include an update of the assumptions used to develop the WFHUFs and propose, if necessary, adjustments to the hook-up fee amounts.

8. The Commission requires that the Company prepare continuing evaluations of the WFHUFs in any subsequent rate application to determine if the WFHUFs continue to be appropriate.

ORDER

IT IS THEREFORE ORDERED that the Company will adopt Staff's recommended WFHUF as depicted on Exhibit A attached hereto and file a conforming tariff in Docket Control within 30 days of this Order as a compliance item.

IT IS FURTHER ORDERED that the Commission approves an accounting order that permits the Company to record post-in service allowance for funds used in construction on the unfunded

balance, if any, associated with the White Tanks treatment facilities.

IT IS FURTHER ORDERED that the Commission approves an accounting order that allows for any cumulative over collections of WFHUFs as not being considered contributions until the corresponding eligible plant enters service.

IT IS FURTHER ORDERED that the Company be required, in its 2008 rate case, to include an update of the assumptions used to develop the WFHUFs and propose adjustments to the hook-up fee amounts.

IT IS FURTHER ORDERED that the Company prepare continuing evaluations of the WFHUFs in any subsequent rate application to determine if the WFHUFs continue to be appropriate.

IT IS FURTHER ORDERED that the Company be required to submit a calendar year status report each January 31st to Docket Control, as a compliance item in this case, beginning January 31, 2008, until the WFHUF Tariff is no longer in effect. This report should contain a list of all customers that have paid the WFHUF Tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the WFHUF Tariff account, and a list of all facilities that have been installed with the WFHUF Tariff funds.

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IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN COMMISSIONER COMMISSIONER

COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2006.

_____
BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

EGJ:JJD:red/KL

SERVICE LIST FOR: ARIZONA-AMERICAN WATER COMPANY, INC.
DOCKET NO. W-01303A-05-0718

Mr. Scott Wakefield
1110 West Washington Street, Suite 220
Phoenix, Arizona 85007

Mr. Craig Marks
Arizona-American Water Company, Inc.
101 Corporate Center
Phoenix, Arizona 85024

Sheryl A. Sweeney
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Mr. Christopher C. Kempley
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona-America Water Company, Inc.
Docket No. W-01303A-05-0718

EXHIBIT A

PROPOSED HOOK-UP FEES

Meter Size	Existing WFHUF	Company Proposed Option 1	Company Proposed Option 2	Staff Proposed
5/8 x 3/4 Inch	$1,150	$3,000	$4,700	$3,280
3/4 Inch	$1,725	$4,500	$7,050	$4,920
1 Inch	$2,875	$7,500	$11,750	$8,200
1.5 Inch	$5,750	$15,000	$23,500	$16,400
2 Inch	$9,200	$24,000	$37,600	$26,240
3 Inch	$18,400	$48,000	$75,200	$52,480
4 inch	$28,750	$75,000	$117,500	$82,000
6 inch or higher	$57,500	$150,000	$235,000	$164,000

Arizona-American Water Company
Docket No. WS-01303A-06-0283
Application For Financing

Schedule PMC-1

FINANCIAL ANALYSIS

2005 Income Statement, Capital Structure and Pro Forma
Including Immediate Effects of the Proposed Debt

		[A] 12/31/2005		[B] Pro Forma	
1	Operating Income	$ 6,906,330		$ 6,906,330	
2	Depreciation & Amort.	14,695,302		14,695,302	
3	Income Tax Expense	(1,898,318)		(1,898,318)	
4					
5	Interest Expense	9,576,937		10,844,061	
6	Repayment of Principal	14,857		14,857	
7					
8					
9	**TIER**				
10	[1+3] ÷ [5]	0.52		0.46	
11	**DSC**				
12	[1+2+3] ÷ [5+6]	2.05		1.81	
13	**Cash Coverage Ratio**				
14	[1+2+3] ÷ [5]	2.06		1.82	
15					
16					
17					
18	Short-term Debt	$30,017,995	8.5%	$30,017,995	8.1%
19					
20	Long-term Debt	$207,317,395	58.6%	$214,317,395	57.7%
21					
22	Common Equity	$116,249,739	32.9%	$126,884,955	34.2%
23					
24	Total Capital	$353,585,129	100.0%	$371,220,345	100.0%
25					
26	[A]: Based on 2005 financial statements.				
27	[B]: Column [A] inclusive of the proposed financing.				

MEMORANDUM

DATE: October 24, 2006

TO: James Dorf
Chief Accountant
Utilities Division

FROM: Jian W. Liu
Utilities Engineer
Utilities Division

RE: Arizona–American Water Company
Docket No. W-01303A-05-0718 (White Tanks Hook-up Fees)

Introduction

Arizona–American Water Company ("Arizona–American" or "Company") presently provides utility service to approximately 100,000 water customers and 50,000 sewer customers in Arizona. The Company's Agua Fria District is located in the rapidly developing western Phoenix suburbs, where Arizona–American currently has about 30,000 water customers and is adding approximately 3,500 new water customers per year.

Revised Application

The Company now projects that the White Tanks Plant will be needed in May 2009 to meet customer demands expected for that summer. The White Tanks Plant is designed to be constructed in phases. The capacity of the Phase I(a) plant is 13.4 million gallons per day ("MGD") and is expandable to 20 MGD with the addition of one more treatment-unit train. Three additional phases (20 MGD each) can eventually be added for a total treatment capacity of 80 MGD.

Staff's Hook-up Fee Calculation

The revised application summarizes the latest cost estimates for the White Tanks Plant. For a 13.4 MGD plant the estimated cost is approximately $67,325,000. Arizona–American has estimated that total capital expenditures related to the treatment plant would be $132.89 million through 2012. The 13.4 MGD plant can serve 27,917 potential units assuming 480 gpd per dwelling unit.

Conclusion

Staff has reviewed the list of plant items and costs that comprise the totals above 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.

S-3

Becker

BEFORE THE ARIZONA CORPORATION COMMISSION

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MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

AZ CORP COMMISSION MAR 1 2 2007
DOCUMENT CONTROL

AZ CORP COMM
Director Utilities

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

Staff of the Arizona Corporation Commission hereby files the Rebuttal Testimony of Gerald Becker of the Utilities Division, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 12th day of March, 2007.

Kevin O. Torrey, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007
(602) 542-3402

The original and thirteen (13) copies of the foregoing filed this 12th day of March, 2007, with:

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

EXHIBIT
S-3
admitted

COPIES of the foregoing mailed this 12th day of March, 2007 to:

Craig A. Marks
Arizona-American Water Company
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Phoenix, Arizona 85024

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Residential Utility Consumers Office
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Monica A. Martinez

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE (REVISED) APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR APPROVALS ASSOCIATED WITH A PROPOSED TRANSACTION WITH MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE TO ALLOW THE CONSTRUCTION OF SURFACE WATER TREATMENT FACILITY KNOWN AS THE WHITE TANKS PROJECT	)	DOCKET NO. W-01303A-05-0718

REBUTTAL

TESTIMONY

OF

GERALD BECKER

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 12, 2007

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Excerpt from the Audit Financials of Arizona-American Water Company Year Ended December 31, 2005 ..... Appendix A

EXECUTIVE SUMMARY
ARIZONA-AMERICAN WATER COMPANY
DOCKET NO. W-01303A-05-0718

Arizona-American Water Company ("Arizona-American" or "Company") is a public service corporation engaged in providing water and wastewater services in portions of Maricopa, Mohave, and Santa Cruz Counties, Arizona pursuant to various certificates of public convenience and necessity granted by the Arizona Corporation Commission ("Commission"). The Company currently serves approximately 100,000 water customers and 50,000 wastewater customers. The Company is Arizona's largest investor owned water and wastewater utility. Arizona-American Water Company is wholly owned by RWE. The Company's Agua Fria Water District serves approximately 30,000 water customers.

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 discussed in further detail in this testimony.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Gerald Becker. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst V.

A. I am responsible for the examination and verification of financial and statistical information included in utility rate applications and other financial matters before the Commission. In addition, I develop revenue requirements, prepare written reports, testimonies, and schedules that include Staff recommendations to the Commission. I am also responsible for testifying at formal hearings on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Masters of Business Administration with an emphasis in Accounting from Pace University. I am a Certified Public Accountant and a Certified Internal Auditor.

I have participated in multiple rate, financing and other regulatory proceedings. I attended the National Association of Regulatory Utility Commissioners Utilities Rate School.

I began employment with the Commission as a utilities regulatory analyst in April 2006. Prior to joining the Commission, I worked as an Auditor at the Department of Economic Security and Department of Revenue in the Taxpayer Assistance Section. Prior to those jobs, I worked for 15 years as an Auditor, Analyst, Financial Analyst, and Budget Manager at United Illuminating, an investor owned electric company in New Haven, CT.

Q. What is the scope of your testimony in this case?

A. Arizona-American Water Company's (Arizona-American" or "Company") revised application, dated September 1, 2006, seeks (1) approval to increase its hook-up fee for the purpose of financing the building of the White Tanks Water Treatment facility solely through hook-up fees, and (2) an accounting order allowing Arizona-American to variances from established rate-making principles. Intervenors[1] have filed testimonies in response to the Staff Report, dated October 26, 2006, and/or in response to filings by other parties. I am presenting Staff's response to the financial and accounting issues presented in those testimonies.

BACKGROUND

Q. Please review the background of this application.

A. Arizona-American is a public service corporation engaged in providing water and wastewater services in portions of Maricopa, Mohave, and Santa Cruz Counties, Arizona pursuant to various certificates of public convenience and necessity granted by the Commission. The Company currently serves approximately 100,000 water customers and 50,000 wastewater customers in ten districts: Agua Fria Water, Anthem/AF Wastewater, Tubac, Sun City Water, Sun City West Water, Sun City Wastewater, Sun City West Wastewater, Anthem Water, Mohave, and Havasu. The Company is Arizona's largest investor owned water and wastewater utility. Arizona-American Water Company is wholly owned by RWE. Arizona-American proposes to build the White Tanks Water Treatment facility ("White Tanks Project") in the Company's Agua Fria Water District.

[1] The Residential Utility Consumer Office, Maricopa Water District, Trend Homes, Fulton Homes Corporation, Suburban Land Reserve, Westcor /Surprise LLC, CHI Construction Co., Courtland Homes Inc., Taylor Woodrow/Arizona Inc., Pulte Home Corporation.

In its original application, the Company proposed to collaborate with the Maricopa Water District ("MWD") but negotiations have failed and the parties are at an impasse. On October 27, 2006, Staff issued a report that stated that MWD was no longer interested in the project. More accurately, according to MWD, MWD is no longer interested in continuing negotiations with the Arizona-American but MWD continues its desire to build, own, and operate the treatment plant commonly known as the White Tanks facility.

ISSUES

Q. What are the primary accounting and operational issues brought forth by the intervenors related to Arizona-American's proposal (1) to increase its hook-up fee for the purpose of financing the building of the White Tanks Water Treatment facility solely through hook-up fees, and (2) for an accounting order allowing Arizona-American to variances from established rate-making principles?

A. Staff has identified the following primary issues.

1. MWD's claimed alternative cost.
2. MWD's claim that hook-up fees as avoidable costs.
3. MWD's claim that adjustments to hook-up fees may require a rate proceeding.
4. The in-service date of the White Tanks Project.
5. Honoring main extension agreements.
6. Treatment of capacity sales to third parties.
7. Arizona-American's financial condition.
8. Departure from established rate-making principles.

MWD's Claimed Alternative Cost

Q. What is MWD's claim regarding the cost of the White Tanks Project?

A. MWD states that it can build the plant for lower costs and operate it for lower costs than Arizona-American due to its access to lower cost power and not having to pay property taxes. MWD also states that it can fund the project without the hook-up fees on which Arizona-America would rely. MWD also asserts that its cost of capital is less than that of Arizona-American.

Q. What is Staff's assessment of the MWD's assertion regarding costs?

A. Since MWD does not propose to use equity in its capital structure, the absence of what is normally the most costly component of capital should be a cost advantage for MWD over Arizona-American. However, MWD does not offer any commitments that any reduced costs will ultimately be passed to the end consumers. Municipal operations such as MWD enjoy not paying property taxes but this means that local and other taxpayers have to pay higher taxes to compensate for the amounts not assessed to a municipality. In effect, the ability to not pay property taxes does not represent a real gain to society as a whole. MWD has not presented support for its assertion that it has access to lower cost power. MWD's proposal has no provision for the collection of hook-up fees to defray the cost of the project. By not collecting hook-up fees, MWD would allow developers to circumvent paying an appropriate share of the capital cost, thus, placing upward pressure on rates.

The water treatment process is an integral part of the water supply process. If MWD builds the water treatment facility, it would not be under the auspices of a regulated entity and its activities would not be subject to examination by the Commission. MWD's response to Staff Data Request 1.4 states that it will charge rates based on contractual negotiations. This means that customers have no assurances that rates will not escalate

due to MWD charging market based rates and earning profits that could be considered excessive in a regulatory environment. Exposing regulated customers to the risk of market based pricing of water treatment is unnecessary and ill-advised.

MWD's claim that hook-up fees are avoidable

Q. What is MWD's claim regarding the financing of the White Tanks Project?

A. MWD states that it can fund the project without the hook-up fees on which Arizona-America would rely. In response to Staff Data Request 1.6, MWD indicates that it will finance the construction of the plant through a combination of cash, tax exempt loans from the Water Infrastructure Finance Authority of Arizona ("WIFA"), or tax exempt project revenue bonds secured by one or a combination of net water treatment facility revenue, or bank letter of credit.

Q. What is Staff's assessment of the MWD's assertion regarding hook-up fees as unnecessary?

A. Hook-up fees help to ensure that developers contribute an appropriate amount toward the construction of new facilities necessitated by development and to prevent harm to present ratepayers. MWD has neither the ability nor the intention to collect hook-up fees to cover capital investment in the White Tanks Project. This means that when capital recovery is to occur at a future date, capital recovery costs will be included in the treatment costs and reflected in the rates ultimately charged to ratepayers.

MWD's claim that adjustments to Hook Up Fees require a rate proceeding

Q. Does any intervenor say that adjustments to hook-up fees may require a rate proceeding?

A. Yes. MWD states, "...the District is prepared to move quickly with this project. However, Arizona-American may not be able to move as quickly, because it may face legal challenges to the validity of hook-up fees upon which it relies. The Commission considers hook up fees to be rates.[2] .... Arizona-American's proposals violate the Commissions findings that hook-up fees cannot be imposed outside of a rate cases unless the fee is: (1) revenue-neutral; and (2) is recorded as CIAC.[3] The special treatment for AFUDC and CIAC requested by Arizona-American violates these findings."

Q. What is Staff's comment on MWD's statement?

A. The comments of MWD are incomplete. MWD supports its position by reference to certain components of Decision No. 66512, but MWD does not state that the Commission ultimately approved the request to impose certain hook-up fees as part of Decision No. 66512, a non-rate proceeding. Paragraph 5 of the Conclusions of Law in Decision No. 66512 which immediately follows the one cited above by MWD states, "Under the circumstances of this case, and pursuant to Article XV, Sections 3 and 14 of the Arizona Constitution, Arizona-American's proposed hook-up fee tariffs, which will be booked as contributions in aid of construction, do not constitute rates that require a fair value determination prior to approval."[4]

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[2] Footnote 24 in the Comments of the Maricopa Water District, November 16, 2006, which references "Decision No. 66512 (Nov. 10, 2003) at Conclusion of Law No. 4.
[3] Footnote 25 in the Comments of the Maricopa Water District, November 16, 2006, which references "Decision No. 66512 (Nov. 10, 2003) at Finding of Fact No. 10.
[4] Decision No. 66512, Page 5, lines 20-23.

The In-Service Date of the White Tanks Facility

Q. Are Arizona-American and MWD ready to proceed to bring treated surface water to its customers in 2009?

A. Arizona-American has a plan in place with a completion date of 2009[5] but has subsequently qualified its response. In response to Staff Data Request 3.2, the Company states, "As a result of the recent procedural schedule in this case, this updated schedule needs further revision." Staff recommends that the Company file an updated completion date prior to the hearing for this case.

MWD has a plan in place with a completion date of April 1, 2010.[6] However, as Arizona-American states, "By contrast, MWD offers only a preliminary design, but has no site; no permits; no canal improvement; no pipeline; no duty to serve; no customers; and no experience."[7] The District claims to already own land but has yet to finalize and disclose the selected site. Furthermore, MWD is unregulated and in the absence of contractual obligations, MWD could decide to cancel, postpone, sell, or condemn the facility without regulatory approval.

MWD's later completion date than Arizona-American's is relevant due to projected customer demand and the potential to avoid the costs to provide interim supply. Furthermore, MWD could decide to cancel, postpone, sell, or condemn the facility without consulting the Commission.

[5] Company filing of November 22, 2006, Page 1, lines 12-13
[6] MWD response to Staff Data Request 1.2
[7] Company filing of November 22, 2006, Page 1, lines 13-14 and Page 2, 1-6

Honoring Main Extension Agreements

Q. Are there existing Main Line Extension Agreements ("MXA") in place in the White Tanks area?

A Yes.

Q. What is Staff's comment on the concerns expressed by intervenors regarding MXAs such as the following statement by Trend Homes, "On December 13, 2006, Trend filed comments requesting that it be made clear that to the extent that an applicant has already paid the WFHUF (Water Facility Hook Up Fee) under the existing tariff, that the Company be precluded from charging the difference between the existing WFHUF and the new WFHUF and that the Company be further precluded from unilaterally refunding WFHUF's paid under the existing tariff (so that the new higher rate is required)"[8]?

A. Staff notes that Arizona-American must adhere to its authorized tariffs and honor the main extension agreements that have been submitted to and approved by the Commission. The Company must charge according to the tariffs that are in effect at that time. If the authorized tariffs are changed, the Company must charge the new tariffs upon their effective date and not retroactively.

Sale of Treatment Capacity to Third Parties

Q. Has any intervenor noted concern regarding the sale of water treatment capacity to other parties?

A Yes, RUCO has expressed concerns about the treatment of any sale of capacity to third parties and states, "The application indicates that a third party may potentially purchase

[8] Comments of Trend Homes, Inc., December 13, 2006, Page 2, lines 206

capacity in the treatment plant. The Company needs to clarify how the hook-up fee will be modified in the event that this actually happened"[9].

Q. Does Staff also have concerns regarding the impact of sales of capacity of the White Tanks Plant and treatment services to third parties?

A. Yes.

Q. Has the Company presented a proposal to address the accounting/ratemaking treatment for all components of White Tanks Plant capacity sales?

A. No, the Company has proposed a formula to adjust its hook-up fees to account for such transactions,[10] but the Company does not propose treatment for the proceeds from any sale of capacity in the plant.

Q. Does Staff have concerns regarding absence of proposed treatment of the proceeds from the sale or other commitment of the White Tanks Project capacity?

A. Yes. The potential revenues from capacity sales are large relative to the size of the White Tanks Project, the rate base of the Agua Fria division and Arizona-American's capital. Accordingly, the rate-making treatment of capacity sales is significant. For example, assume that the sales of capacity to third parties, hook-up fee collections and the cost of the White Tanks Project all equal $132 million. In this circumstance, if revenues from capacity sales are treated as operating income for Arizona-American and these sales are not recognized in setting rates, the Company would experience a great windfall. Similarly, if the capacity sales revenue was used to refund hook-up fees offsetting CIAC, Arizona-American would gain the full value of the plant cost as an increase to rate base. The potential inequities that could result from not specifying how to treat capacity sales

[9] RUCO Notice of Filing, January 24, 2007.
[10] February 21, 2007, Testimony of Thomas M. Broderick, Page 7, Lines 7-25 and Page 8, Line1.

demand that the issue be addressed in conjunction with the hook-up fee increase and accounting/rate-making variances requested by the Company in this proceeding. However, the rate-making treatment of capacity sales is best considered in a rate case proceeding.

Q. Does Staff have concerns regarding absence of proposed treatment of revenues generated by the provision of service to third parties?

A. Yes. The concern over the rate-making treatment of revenues generated by the White Tanks Project to provide service to third parties is similar to the concern over the absence of a specified treatment for the sales of the White Tanks Project capacity. Revenue from treatment service to third parties is potentially significant and is best considered in a rate case proceeding.

Q. Does Staff have a concern with the Company's proposal to adjust hook-up fees?

A. Yes. Staff's understanding of the Company's testimony[11] is that it proposes to reduce hook-up fees prospectively from the date of sale of White Tanks Project capacity to a third party. The Company's proposal is to reduce the hook-up fee by the amount calculated as 75 percent of the difference between the hook-up fee approved in this proceeding and the existing hook-up fee multiplied by a factor that recognizes the relationship between Arizona-American's capacity use to the combined Arizona-American and third party capacity use. The latter factor also recognizes the relationship of Arizona-American and third party capacity use to total capacity. The Company asserts that the 75 percent factor is an incentive for it to secure capacity agreements with third parties. Proper assessment of the appropriateness of any incentive is predicated on knowing other factors such as the treatment of the proceeds and profit on sales of capacity and from providing third party

[11] February 21, 2007, Testimony of Thomas M. Broderick, Page 6, Lines 18-25 and Page, Lines 1-4.

treatment. Since these other factors are unknown, the Company's proposal cannot be properly assessed.

According to the Company's application, construction costs do not occur evenly as capacity increases. In its revised application, dated September 1, 2007, the Company describes, "...the latest cost estimates for the White Tanks Plant. For a 6.7 MGD plant, Arizona-American estimates a total cost of $64,815,000. For the 13.5 MGD plant the estimated cost increases by just $2,510,000 to $67,325,000."[12] This means that the average cost for the first 6.7 MGD is approximately $9.67 million per MGD. However, the average cost falls to $4.99 million per MGD when the additional 6.8 MGD is included in the calculation. Thus, the projected average cost varies significantly with capacity. These factors complicate consideration of hook-up fee adjustment and are best considered in a rate case proceeding.

Q. What does Staff conclude regarding the treatment of sales of capacity to third parties?

A. First, Staff concludes that it is premature to establish methodologies for the treatment of capacity sales for a plant that is yet to be built, since important relevant factors are yet to be determined such as: (1) the proposed price and amount of the capacity being sold; (2) the gross total expenditures to date; (3) total additional planned expenditures; (4) total hook-up fees collected; (5) projected future hook-up fees to be collected; and (6) treatment of any gain on the sales. Second, Staff concludes that a rate case proceeding is the best forum for considering the rate-making treatment of the sales of capacity of the White Tanks Project to third parties. Third, Staff concludes that a rate case proceeding is the best forum for considering the rate-making treatment of revenue generated by the White

[12] Arizona-American Revised Application, September 1, 2006, Page 7, Lines 3-4.

Tanks Project to provide service to third parties. Fourth, Staff concludes that a rate case proceeding is the best forum for considering adjustments to hook-up fees. Fifth, Staff concludes that to facilitate consideration of sales of capacity, which may be considered a sale of utility assets under § 40-285, approvals of the Company's requests for an increase in its hook-up fee and variances from established rate-making treatment should be conditioned on Arizona-American's agreement that the Commission has complete authority to prescribe both the rate-making treatment of sales proceeds and the applicability of § 40-285 to any sale of capacity. Sixth, Staff concludes that gains on any sales of capacity of the White Tanks Project should be deferred to a rate case for disposition as authorized by the Commission. Finally, Staff concludes that consideration of the aforementioned items is necessary to protect ratepayers from potentially unjust enrichment for Arizona-American if the Company's requests for an increase in its hook-up fee and variances from established rate-making treatment are granted.

Arizona American's Financial Condition

Q. MWD states "Arizona-American's plan will only result in more financial weakness".[13] Please describe Staff's view.

A. Staff agrees with MWD's statement that funding a major project entirely through hook-up fees could have a detrimental effect on the Company's capital structure. An excerpt from the Company's audited financial statements is attached as Appendix A. As of December 31, 2005, the Company's audited financials indicate the following balances on which Staff has calculated the percentages shown:

	(000's)	Percentage
Common Stock Equity	$ 93,854	28.51%
Short Term Debt	$ 27,987	8.50%
Current Portion of Long Term Debt	$162,964	49.51%
Long Term Debt	$ 44,369	13.48%
Total Capitalization	$329,174	100.0%

[13] Company filing of November 22, 2006, Page 6, lines 8

Subsequent to December 31, 2005, the Company wrote-off Goodwill of $24,364,784 and its parent company infused $35,000,000 of equity into the Company. Both of these transactions affected Common Equity and the Total Capitalization. The adjusted pro-forma results are shown below:

	(000's)	Percentage
Common Stock Equity	$104,489	30.75%
Short Term Debt	$ 27,987	8.24%
Current Portion of Long Term Debt	$162,964	47.95%
Long Term Debt	$ 44,369	13.06%
Total Capitalization	$339,809	100.0%

Although the Company increased its equity percentage from 28.51 percent to 30.75 percent, the resulting equity level is below Staff's minimum recommended percentage of 40 percent.

In addition to the above data, the Company's financial statements indicate Contributions in Aid of Construction ("CIAC") and Advances in Aid of Construction ("AIAC") in the amounts of $20,460,000 and $160,475,000, respectively. Staff issued a Staff Report on October 6, 2006, in Docket No. W-00000C-06-0149 with regard to a generic evaluation of the regulatory impacts of non-traditional financing arrangements. That Staff Report recommended that CIAC and AIAC be limited to 30 percent of the total capital inclusive of CIAC and AIAC. A review of the Company's position, inclusive of the 2006 pro forma adjustments discussed above, indicates that the Company's combined AIAC and CIAC is 34.75 percent for the total. The data is shown below:

	(000's)	Percentage
Common Stock Equity	$104,489	20.06%
Short Term Debt	$ 27,987	5.38%
Current Portion of Long Term Debt	$162,964	31.29%
Long Term Debt	$ 44,369	8.52%

Total Capitalization	$339,809	65.25%
AIAC & CIAC	$180,945	34.75%
Total Capitalization plus AIAC/CIAC	$520,744	100.0%

As indicated in this table, the combined, existing levels of AIAC and CIAC already exceed the recommended threshold of 30 percent. Also, the recalculation of Common Stock Equity as a percentage of the total capitalization inclusive of AIAC and CIAC further underscores the equity shortage.

Arizona-American's plan is to fund $132.9 million White Tanks facility solely through hook-up fees, i.e., CIAC. The pro-forma effect of an additional $132.9 million of CIAC on Arizona-American's capitalization plus AIAC and CIAC is shown below:

PRO FORMA $132.9 M CIAC:	(000's)	Percentage
Common Stock Equity	$104,489	15.99%
Short Term Debt	$ 27,987	4.28%
Current Portion of Long Term Debt	$162,964	24.93%
Long Term Debt	$ 44,369	6.79%
Total Capitalization`	$339,809	51.99%
AIAC & CIAC	$313,835	48.01%
Total Capitalization plus AIAC/CIAC	$653,644	100.0%

Other factors not reflected in this data such as the results of operations and additional equity infusions and/or distributions will also affect the Company's future capital structure. However, this data shows the detrimental impact of financing capital improvements exclusively with hook-up fees. Accordingly, Staff concludes that the hook-up fees authorized in this proceeding should be re-examined in the Company's Agua Fria division 2008 rate case to consider a proper balance of long-term capital structure components.

Departure from Traditional Rate-making

Q. What departure from traditional rate-making principles is MWD referring to in its statement, "The Commission need not abandon its rate-making principles to encourage surface water use-it can have the best of both worlds."[14]?

A. Arizona-American proposes to finance the White Tanks Project entirely through hook-up fees and states that it needs special accounting treatment in order to be made whole. The Company's application 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 Tanks Project, i.e., until the plant is fully funded by hook-up fees. Accepted rate-making practices required that AFUDC cease when plant enters service. 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. The Company supports the latter request by stating that while the plant is being built, the amounts expended will be in Construction Work in Progress ("CWIP"). Since CWIP is not in rate base, the Company seeks to exclude related CIAC, which reduces rate base according to established rate-making principles, from the rate base calculation until corresponding plant is in service.

Q. What are some considerations related to the Company's requested accounting treatment?

A. The reasonableness of a variance request should be evaluated on a case-by-case basis. Established rate-making practices have become accepted for good reason – essentially, in normal circumstances the normally recognized treatment is considered equitable.

[14] Comment of the Maricopa Water District, November 16, 2005, Page 3, lines 23-24

However, some instances are unusual and call for a variance. As noted above, the projected capital required to finance the White Tanks Plant is relatively large in comparison to Arizona-American's existing capitalization. Typically, the advantages and disadvantages of the various leads and lags pertaining to the rate-making process tend to provide a balance that is equitable to investors and ratepayers. However, any imbalance is magnified by large variances from the normal activity. Accordingly, the White Tanks Project has the potential to introduce a significant imbalance due to its relatively large size.

Arizona-American's first variance request addresses the potential that the Company may have a significant investment of its own capital invested in plant that is not earning a return. If such a scenario materializes, the Company's carrying cost for the lag between the time construction costs are paid and the time hook-up fees are collected may never be offset or recovered by future beneficial regulatory leads and lags. The Company's potential carrying cost must be weighed against other potential benefits. For example, Arizona-American would benefit from its application of AFUDC to CWIP balances to the extent the construction costs are financed by hook-up fees. Application of AFUDC to CWIP financed by non-investor funds has significant potential to offset any carrying costs that may occur on investor provided funds. However, AFUDC does not provide any direct source of cash to fund carrying costs such as interest expense and dividends.

Arizona-American's second variance request addresses the potential for a rate base mismatch as a consequence of the hook-up fees it collects exceeding the plant that is completed and placed in service. Normally, hook-up fees recognized as CIAC are a deduction in the calculation of rate base, plant-in-service is an addition in the calculation of rate base and CWIP is not a component of the rate base calculation. Therefore, if a

portion of the hook-up fees is invested in CWIP and not yet transferred to plant-in-service at the time a rate case is processed, rate base is reduced by the excess of the CIAC over the plant additions. This rate base reduction is not harmful to the Company until the CWIP is transferred to plant-in-service since the Company can apply AFUDC to CWIP. However, when CWIP is transferred to plant-in-service, application of AFUDC terminates. Therefore, when rate base is reduced by CIAC that is funding CWIP and the CWIP is subsequently transferred to plant-in-service, the Company is no longer whole. A potentially offsetting benefit can occur to the extent that the Company collects hook-up fees and holds the fees as an investment before funding capital improvements.

Another consideration is the Company's potential to benefit indirectly by the extensive use of hook-up fees to fund the White Tanks Project. This potential benefit comes from changing the mix of capital used to finance plant. An example can be used to illustrate this benefit. Assume that the Commission processes a rate case and determines that a utility's revenue requirement is composed of the following:

Item	Description	Percent
1	O&M Expenses	50%
2	Depreciation Expense	10%
3	Income Taxes	20%
4	Operating Income/ROR	30%
5	Total	100%

In this example each revenue dollar is composed of 50 cents for O&M, 10 cents for depreciation expense, 20 cents for income taxes and 30 cents for operating income. Now assume the Company builds an identical expansion plant using only hook-up fees to serve

an anticipated doubling of customers. A similar calculation of the revenue requirement exclusively for the expansion plant could be calculated as follows:

Item	Description	Percent
1	O&M Expenses	100%
2	Depreciation Expense	0%
3	Income Taxes	0%
4	Operating Income/ROR	0%
5	Total	100%

The revenue requirement for the expansion plant includes no depreciation expense, income tax, or operating income. Since the expansion plant is built entirely with hook-up fees which are CIAC, there is no rate base upon which to earn resulting in no operating income. The absence of income eliminates income tax expense, and the depreciation expense is entirely offset by the amortization of CIAC. Arizona-American, by building the White Tanks Plant entirely with hook-up fees, is effectively eliminating from the revenue requirement components for depreciation expense and operating income to the extent the plant provides for expansion. However, since the Company will charge new customers the same rates as existing customers, it will collect the depreciation expense and operating income portions of the revenue requirement in those rates despite the absence of those components in its revenue requirement. Since Arizona-American's rates include recovery of all the revenue requirement components, its rates are not an accurate reflection of the White Tanks Project activity and may contribute to additional profits. Whether the operating costs for the White Tanks Plant will offset or negate these profits is unknown.

Q. What does Staff conclude regarding the Company's request for variances in accounting/rate-making treatment?

A. As previously discussed, the magnitude of the White Tanks Project has the potential to introduce a significant imbalance to the normal rate-making process due to its relatively large size. Staff concludes that this circumstance warrants granting of an accounting order authorizing the requested variances from established rate-making practices to provide some protection to the Company from potentially detrimental financial consequences. Staff comes to this conclusion with caution and some trepidation because the circumstances also present some benefits. Accordingly, authorization of variances should come with appropriate conditions to ensure a reasonable balance is maintained between the Company and ratepayer interests, as discussed below.

STAFF RECOMMENDATIONS

Q. Please summarize Staff's recommendations.

A. Staff recommends the following:

1. Approval of the hook-up fee increase as recommended in the Staff Report, dated October 27, 2006, to provide adequate funds to Arizona-America to build the White Tanks Plant.

2. Re-examination of the hook-up fee in the Company's Agua Fria District 2008 rate case to consider, among other items, a proper balance of long-term capital structure components.

3. That the Company file, prior to the hearing in this docket, updated information of the target in-service date of the White Tanks Plant based on the most recent information.

4. Granting approval of a variance to record post-in-service allowance for funds used during construction on the excess of the paid 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.

5. Granting approval 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 used to calculate rate base until December 31, 2012.

6. Finding that the rate-making treatment of capacity sales of the White Tanks Project to third parties should be determined in a future rate case.

7. Finding that the rate-making treatment of revenue generated by the White Tanks Project to provide service to third parties should be determined in a future rate case.

8. Finding that adjustments to the hook-up fee established in this proceeding should be determined in a future rate case.

9. Conditioning approvals of the Company's requests for an increase in its hook-up fee and variances from established rate-making treatment on Arizona-American's agreement 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.

In addition, in the event that Arizona-American sells or leases, for any reason, any capacity of the purposed plant, to include any future capacity enhancements, the Company agrees that any such transaction shall be predicated upon a filing of an application pursuant to A.R.S. 40-285.

10. Requiring deferral to a rate case of the gains on any sales of capacity of the White Tanks Project for disposition as authorized by the Commission.

Q. Does this conclude your direct testimony?

A. Yes, it does.

ARIZONA-AMERICAN WATER COMPANY
Balance Sheets
For Years Ended December 31, 2005 and 2004
(Dollars in thousands)

Capital and Liabilities

	2005	2004
Capitalization		
Common stockholder's equity	$ 93,854	$ 95,258
Long-term debt (excluding current portion)	44,369	202,832
Total capitalization	138,223	298,090
Current liabilities		
Notes payable - associated companies	27,987	-
Current portion of long-term debt	162,964	4,524
Accounts payable	8,647	7,483
Accounts payable - associated companies	2,373	1,386
Accrued interest	1,281	1,295
Accrued taxes	1,844	941
Other	5,204	2,885
	210,300	18,514
Long-term liabilities		
Customer advances for construction	160,475	131,428
Deferred investment tax credits	68	71
Deferred revenue	3,865	4,034
Accrued pension expense	3,260	2,503
Accrued postretirement benefit expense	31	29
Other	332	378
	168,031	138,443
Contributions in aid of construction	20,460	16,474
Commitments and contingencies	-	-
	$ 537,014	$ 471,521

The accompanying notes are an integral part of these financial statements.

Taylor Woodrow-1

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER – Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

EXHIBIT
TW-1
admitted

In the Matter of the Application of Arizona Water Company for Approvals Associated with a Transaction with the Maricopa County Municipal Water Conservation District Number One

DOCKET NO. W-01303A-05-0718

PRE-FILED DIRECT TESTIMONY

OF JUSTIN IANNACONE

ON BEHALF OF TAYLOR WOODROW/ARIZONA, INC.

JANUARY 24, 2006

1 **Q. PLEASE STATE YOUR NAME AND EMPLOYER.**

2 A. My name is Justin Iannacone. I am Vice President of Land Acquisitions for
3 Taylor Woodrow/Arizona, Inc., an Arizona corporation ("Taylor Woodrow").

4 **Q. PLEASE STATE YOUR BUSINESS ADDRESS.**

5 A. My business address is 6720 North Scottsdale Road, Suite 390, Scottsdale,
6 Arizona, 85253.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **WORK EXPERIENCE.**

9 A. I have a Bachelor of Science in Business Administration with a major in Finance
10 and Accounting from the University of Arizona. I am also a Certified Public
11 Account and hold an Arizona Real Estate License. Prior to joining Taylor
12 Woodrow's Arizona Division, I was a senior supervising auditor for KPMG LLP.

13 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

14 A. I am testifying on behalf of Taylor Woodrow.

15 **Q. ARE YOU AUTHORIZED TO TESTIFY ON BEHALF OF TAYLOR**
16 **WOODROW?**

17 A. Yes. I am authorized as an agent of Taylor Woodrow to testify on behalf of that
18 entity.

19 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA**
20 **CORPORATION COMMISSION ("COMMISSION")?**

21 A. No. This is my first time.

22 **Q. HAS TAYLOR WOODROW BEEN GRANTED INTERVENOR STATUS**
23 **IN THIS CASE?**

24 Yes. The Commission granted Taylor Woodrow's Application for Intervention
25 on December 13, 2006.

26 **Q. PLEASE DESCRIBE TAYLOR WOODROW AND ITS BUSINESS.**

A. Taylor Woodrow is a public homebuilder and construction company based in the United Kingdom with operations in North America, the United Kingdom, and Spain. Specifically, Taylor Woodrow has been operating as a homebuilding and land development company in the Phoenix metro area since 2000 (formerly as Journey Homes). In 2006, Taylor Woodrow constructed over 1,200 homes and developed several thousand lots in the Phoenix area.

Q. WHY HAS TAYLOR WOODROW INTERVENED IN THIS PROCEEDING?

A. Taylor Woodrow is developing a master-planned community known as the Sycamore Farms Development ("Sycamore Farms") which has approximately 120 acres and will contain approximately 610 lots (parcels 12 and 13 with the Sycamore Farms PAD). Sycamore Farms is located in the Certificate of Convenience and Necessity ("CC&N") of Arizona-American Water Company, Inc.'s ("Arizona-American") Agua Fria Water District and has entered into agreements with Arizona-American with respect to the provision of water service to Sycamore Farms. Additionally, Taylor Woodrow is looking into the potential development of other master planned communities in the Agua Fria District and will be dependent upon Arizona-American to provide water service. Taylor Woodrow (or other builders that have purchased some of the 610 lots from Taylor Woodrow) expects to spend approximately $5.2 million related to the provisioning of water service for Sycamore Farms (hook-up fees, onsite distribution lines, offsite infrastructure – wells, lines, etc.). Therefore, Taylor Woodrow is directly and substantially impacted by the proposed increase in the water facility hook-up fees ("Hook-Up Fees"), as well by the other issues that have subsequently been raised in this proceeding.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS

PROCEEDING?

A. Given that Taylor Woodrow is directly and substantially impacted by the issues that have been raised in this proceeding, the purpose of my direct testimony is to set forth Taylor Woodrow's position with respect to some of those issues for the Commission to take into consideration in determining this matter.

Q. WHAT ARE THE ISSUES THAT YOU WILL DISCUSS IN YOUR TESTIMONY?

A. The issues that I will discuss herein are as follows:

1. Hook-Up Fees that have already been paid under Arizona-American's existing tariff.

2. The need for the construction of a surface water treatment plant ("Plant") and the provision of assured water supply during construction which can also offset the cost of the higher Hook-Up Fees.

3. The possibility of a moratorium by Arizona-American if there is a delay in the construction of the Plant.

Q. PLEASE DISCUSS TAYLOR WOODROW'S POSITION REGARDING THE PROPOSED HOOK-UP FEES.

A. Although the proposed increase of the Hook-Up Fees is substantial, Taylor Woodrow understands the importance of the expeditious construction of the Plant in the Agua Fria Water District in order to serve future developments other than Sycamore Farms. However, Taylor Woodrow has already paid to Arizona-American over $500,000 for Hook-Up Fees pursuant to the existing Commission-approved Arizona-American tariff (for 250 of the 610 lots). Additionally, Taylor Woodrow (or other builders that have purchased some of the 610 lots from Taylor Woodrow) has spent (or will spend) over $4.7 million towards the construction of other back-bone infrastructure and onsite improvements necessary for water

service to Sycamore Farms that will also provide regional benefits to Arizona-American.

Taylor Woodrow does not object to the recommended increases in the Hook-Up Fees set forth in the October 27, 2006 Staff Report so long as the final order of the Commission expressly states that to the extent Arizona-American has received payment for Hook-Up Fees under the existing tariff, if and when a new tariff becomes effective, Arizona-American may not charge the difference between the existing Hook-Up Fee and the new Hook-Up Fee as a condition of receiving service, regardless of whether Arizona-American has provided a meter.[1] Further, Arizona-American should be precluded from unilaterally refunding Hook-Up Fees paid by an applicant for water service under the existing tariff in order to later charge the higher Hook-Up Fees under the new tariff.

Q. HAS ARIZONA-AMERICAN RESPONDED TO THIS POSITION?

A. Yes. On November 6, 2006, Taylor Woodrow filed comments in this docket that set forth this position. On November 13, 2006, Arizona-American filed a response indicating that it did not object to inclusion of express language in the final order with regard to this issue.

Q. HAS ANY OTHER PARTY IN THIS PROCEEDING EXPRESSED AN OPINION ON THIS ISSUE?

A. Yes. CHI Construction Company, Courtland Homes, Inc. and Trend Homes, Inc. have also filed comments and testimony in this docket essentially requesting that the same clarification regarding the pre-payment of Hook-Up Fees be included in any final order of the Commission.

Q. IN ITS FILED COMMENTS, MARICOPA WATER DISTRICT ("MWD")

[1] Although Taylor Woodrow has already paid to Arizona-American its Hook-Up Fees Arizona-American has only "set" 20 meters to date.

HAS ARGUED THAT IF IT BUILDS THE PLANT, IT WOULD NOT BE NECESSARY FOR ARIZONA-AMERICAN TO CHARGE THE HIGHER HOOK-UP FEES. WHAT IS TAYLOR WOODROW'S POSITION ON THIS?

A. Taylor Woodrow is not taking a position on which entity should build the Plant. For Sycamore Farms, Taylor Woodrow has been required to provide potable water to serve the needs of our development and, therefore, the construction of the Plant will only benefit future developments.

Q. IF THE COMMISSION WAS TO GRANT ARIZONA-AMERICAN'S APPLICATION AND ALLOW THE HIGHER HOOK-UP FEES IN ORDER TO FUND CONSTRUCTION OF THE PLANT, WHAT ARE YOUR RECOMMENDATIONS?

A. If the Commission determines that Arizona-American should build the plant and use the Hook-Up Fees as essentially the financing vehicle to do this, the Commission should: 1) require Arizona-American to construct the Plant as expeditiously as possible so as to address the anticipated future water needs of its customers in the Agua Fria Water District and to monitor such construction through Commission-mandated compliance filings; 2) carefully monitor the collection of the increased Hook-Up Fees to ensure that Arizona-American does not collect such increased fees any longer than is necessary to finance construction of the Plant; 3) make any necessary adjustments to Arizona-American's rates and charges in subsequent filed rate cases; 4) order Arizona-American to identify an interim water supply to ensure that there is an adequate water supply in the Agua Fria District until such time as the Plant is constructed and on-line; 5) to the extent that an assured water supply has been procured either through an interim water supply agreement or developer provided wells, order

Arizona-American to set meters upon customer request; and 6) to the extent Arizona-American can identify an interim water supply, order Arizona-American to suspend its requirement that developers must also spend additional money to drill additional wells as a condition of receiving service.

Q. WOULD YOU PLEASE ELABORATE ON THIS LAST POINT?

A. Yes. Currently, Arizona-American does not have an adequate supply of water in the Agua Fria District to meet customer demand for new developments. This is the primary reason it is seeking authority to build the Plant so it can use surface water to meet customer demand. In the meantime, because of the lack of water in the Agua Fria District, Arizona-American has imposed what is essentially a moratorium on new development unless the developer is willing to bring the wet water to Arizona-American by drilling wells that meet potable water standards. Developers have had no choice but to bear these additional costs if they want to have water for their projects. These costs are in addition to other backbone infrastructure and Hook-Fees that developers are already obligated to pay. I believe that if Arizona-American is going to charge the higher Hook-Up Fees in order to build the Plant which will provide a water supply for the future, and Arizona-American has secured an interim source of water while the Plant is under construction, there would not be a need for these additional wells and developers would not have to bear the cost of drilling wells to provide a water source.

Q. IF THE COMMISSION WAS TO DENY ARIZONA-AMERICAN'S APPLICATION IN FAVOR OF MWD BUILDING THE PLANT, WHAT ARE YOUR RECOMMENDATIONS?

A. If the Commission determines that Arizona-American should not build the Plant and that MWD should, since the Commission does not have jurisdiction over MWD, the Commission should condition its decision to deny Arizona-

American's application on MWD's agreement to enter into interim water supply agreement(s) with Arizona-American within 30 days of the decision whereby MWD would agree to be available to supply water until it brings the Plant on line. Moreover, should MWD subsequently not build the Plant, it would still be obligated pursuant to these agreements to continue to supply water until such time that Arizona-American (or some other entity) builds the Plant.

Q. WITH RESPECT TO YOUR SUGGESTION THAT ARIZONA-AMERICAN BE ORDERED TO ENTER INTO AN INTERIM WATER SUPPLY AGREEMENT AND SET METERS, HASN'T TAYLOR WOODROW RECENTLY ENTERED INTO SUCH AN AGREEMENT WITH ARIZONA-AMERICAN?

A. Yes. And we very much appreciate Arizona-American's and MWD's willingness to do this. However, at this point in time, this is a five year agreement whereby we are still obligated by the end of the five years to provide potable wells to meet the demand of our developments.

Q. WOULD YOU PLEASE COMMENT ON THE ISSUE OF A THREATENED MORATORIUM IN THE AGUA FRIA DISTRICT IF THERE IS A DELAY IN THE CONSTRUCTION OF THE PLANT?

A. Yes. First, as I stated above, given Arizona-American's constrained water resources, it has, in effect, already imposed a moratorium on water service for new developments if the developer does not provide the wet water to Arizona-American at its expense. As discussed more fully above, Taylor Woodrow believes that it is within Arizona-American and MWD's power to remedy this problem and to remove this threat by simply entering into an interim bulk sale water agreement whereby MWD will supply Arizona-American potable water until such time that the Plant is built.

If however, the parties are unable or unwilling to do this, Arizona-American should not be permitted to institute a moratorium with respect to new water service for a customer who has supplied the water source to Arizona-American and otherwise pays all applicable tariffs. Moreover, to the extent a developer provides the water source to Arizona-American, Arizona-American should be required to use such source to supply the needs of that development before being permitted to use such supply for other customers.

Q. WHAT WOULD BE THE IMPACT IF A MORATORIUM WAS INSTITUTED?

A. If a new service moratorium was imposed in the Agua Fria District, it would have a chilling effect on development until such time as problem was resolved. Moreover, even after the moratorium was lifted, the negative implication of such a moratorium would linger well beyond that point. There are millions of dollars that have already been invested to develop areas within the Agua Fria District and a moratorium would impact existing development activity and contractual relationships, as well as the money that has already been invested and is planned to be invested in the future in this area.

Q. DO YOU HAVE ANY CLOSING REMARKS?

A. Yes. It is important to understand that that in reality, there is no "water shortage" in the Agua Fria District as there is an adequate water supply. Arizona-American holds the CC&N to provide water to its utility customers. However, Arizona-American does not currently have the necessary water resources to meet the future demand of its customers in this area. To address this deficiency in current capacity, it has required developers to provide it with new wells. Yet, Arizona-American is seeking authority from this Commission to build the Plant in order to utilize surface water as an additional water source to meet future demand. MWD

has wells that can provide potable water. However, MWD is not authorized to provide public utility water service within Arizona-American's certificated area. Therefore, what we have here is one party that is obligated to provide utility water service to the public but has a current shortage of wells and another party that has the wells and water resources but cannot directly use those resources to supply potable water to the public.

If Arizona-American and MWD would work together to address the water issue in the Agua Fria District, there would be sufficient water to meet demand while the Plant is being constructed. Moreover, developers would not have to bear the redundant expense of being required to drill additional wells for Arizona-American while also paying higher Hook-Up Fees to finance construction of the Plant. Taylor Woodrow, therefore, encourages the Commission to do whatever it can through this proceeding to facilitate a resolution of this problem.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, thank you.

Taylor Woodrow-2

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON - Chairman
JEFF HATCH-MILLER
WILLIAM A. MUNDELL
KRISTIN K. MAYES
GARY PIERCE

EXHIBIT
TW-2
admitted

In the Matter of the Application of Arizona Water Company for Approvals Associated with a Transaction with the Maricopa County Municipal Water Conservation District Number One	DOCKET NO. W-01303A-05-0718 **SURREBUTTAL TESTIMONY**

PRE-FILED SURREBUTTAL TESTIMONY

JUSTIN IANNACONE

ON BEHALF OF TAYLOR WOODROW/ARIZONA, INC.

MARCH 12, 2006

Snell & Wilmer
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Q. **PLEASE STATE YOUR NAME AND EMPLOYER.**

A. My name is Justin Iannacone. I am Vice President of Land Acquisitions for Taylor Woodrow/Arizona, Inc. ("Taylor Woodrow"), an Arizona corporation.

Q. **HAVE YOU PREVIOUSLY TESTIFIED IN THIS DOCKET?**

A. Yes. I filed direct testimony in this docket on January 24, 2006.

Q. **WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

A. The purpose of my surrebuttal testimony is to respond to two issues addressed by Arizona-American set forth in its direct testimony.

Q. **PLEASE SUMMARIZE THE ISSUES THAT YOU WILL ADDRESS IN YOUR SURREBUTTAL TESTIMONY.**

A. My surrebuttal testimony will address the following:

- The testimony of Thomas Broderick relating to when the increase in the hook-up fee will be applied; and
- The testimony of G. Troy Day relating to the need for developer provided wells.

Q. **WOULD YOU PLEASE STATE YOUR CONCERNS REGARDING THE POSITION THAT ARIZONA-AMERICAN HAS STATED WITH RESPECT TO THE PAYMENT OF HOOK-UP FEES UNDER THE CURRENT TARIFF?**

A. Yes. First, by way of background, as I stated in my direct testimony, Taylor Woodrow does not object to the recommended increases in the Hook-Up Fees set forth in the October 27, 2006, Staff Report so long as the final order of the Commission expressly states that to the extent Arizona-American has received payment for Hook-Up Fees under the existing tariff, if and when a new tariff becomes effective, Arizona-American may not charge the difference between the existing Hook-Up Fee and the new Hook-Up Fee as a condition of receiving service, regardless of whether Arizona-American has provided a meter.[1] Further, Arizona-American should be precluded from unilaterally refunding Hook-Up

[1] Although Taylor Woodrow has already paid to Arizona-American its Hook-Up Fees Arizona-American has only "set" approximately 35 meters to date.

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Fees paid by an applicant for water service under the existing tariff in order to later charge the higher Hook-Up Fees under the new tariff.

Q. DID ARIZONA-AMERICAN AGREE WITH THIS POSITION?

A. Yes. On November 6, 2006, Taylor Woodrow filed comments in this docket that set forth this position. On November 13, 2006, Arizona-American filed a response indicating that it did not object to inclusion of express language in the final order with regard to this issue.

Q. HAS ARIZONA-AMERICAN SINCE MODIFIED ITS POSITION ON THIS ISSUE?

A. It is not clear. On page 16, line 21, in his pre-filed testimony Mr. Broderick was asked the question: "When should the Hook-Up Fee be applied?" In response, Mr. Broderick testified that "the hook-up fee is applicable if the tariff is effective prior to the operational acceptance under the terms of the line extension agreements. This is equivalent to the meter set date. This is exactly how a similar tariff in Anthem is applied."

Q. DO YOU AGREE WITH THIS POSITION?

A. I believe there needs to be further clarification. First, operational acceptance pursuant to the line extension agreements is not the date when the meters are set. Operational acceptance is Arizona-American's acceptance of the developer's on-site distribution and transmission facilities. Meters are usually set sometime after operational acceptance. Therefore, there should be no linkage to the payment of the Hook-Up Fee and meter sets. This is evident by the fact that Taylor Woodrow has not been issued letters of operational acceptance but Arizona-American has already set meters because the on-site infrastructure is in place. Second, the line extension agreements specifically require written notification from Arizona-American of confirmation of operational acceptance. However, in practice, and as indicated above, a project may be at the operational acceptance stage but Arizona-American has not administratively issued the formal written

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acknowledgement of such. In fact, as in Taylor Woodrow's case, because the on-site facilities have been installed and ready for use, Arizona-American will often install meters because it considers the project to be at operational acceptance, even though it has not issued the formal acknowledgement letter. Finally, pursuant to the terms Arizona-American's line extension agreement, developers are required to pay hook-up fees upon operational acceptance *or request requesting water service to any phase*, whichever is first. Therefore, under the existing circumstances, to the extent Taylor Woodrow has already paid Hook-Up Fees pursuant to the terms of the line extension agreement prior to the effective date of any new hook-up fee tariff for Sycamore Farms, Arizona-American should be precluded from charging the higher tariff.

Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING THE PAYMENT OF HOOK-UP FEES UNDER THE EXISTING TARIFF?

A. Yes. In practice, developers often pay Hook-Up and meter fees to Arizona-American based upon the anticipated need of the individual lot or home size. Once construction begins, sometimes a decision is made that either a larger or smaller meter is needed. Therefore, when a request for a change in the meter size is made to Arizona-American, it will true-up the amount(s) and refund the difference to the extent a smaller meter is requested or charge the difference if a larger meter is requested. Taylor Woodrow submits that to the extent that this occurs after the effective date of a new higher Hook-Up fee tariff, any true-up adjustments, whether they be higher or lower, should be based on the existing tariff for which the Hook-Up Fees were initially paid. I therefore request that this also be made clear in the final order that the Commission adopts approving any increase in the Hook-Up Fees.

Q. DO YOU HAVE ANY COMMENTS IN RESPONSE TO MR. DAY'S TESTIMONY?

A. Yes. In my direct testimony, I stated that Arizona-American should enter into interim bulk sale agreements with MWD to ensure an adequate water supply until

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the plant is built. Mr. Day testified that developers will still need to supply wells even after the plant is built, although there may be a need for fewer wells. (*See page 4, line 14.)* Taylor Woodrow submits that the Commission should require Arizona-American to use its best efforts not only during the construction of the plant, but also thereafter, to minimize the need and expense of the requirement that developers must provide wells in order to receive water utility service. Given that MWD has potable wells in the Agua Fria District already, Arizona-American and MWD should be encouraged to work together to utilize these wells before requiring new wells on a going forward basis before new wells are required to be drilled.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

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CHI-1

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER – Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

EXHIBIT
CHI-1
admitted

In the Matter of the Application of Arizona Water Company for Approvals Associated with a Transaction with the Maricopa County Municipal Water Conservation District Number One

DOCKET NO. W-01303A-05-0718

PRE-FILED DIRECT TESTIMONY
OF BRETT HOPPER
ON BEHALF OF CHI CONSTRUCTION COMPANY
JANUARY 24, 2006

Q. PLEASE STATE YOUR NAME AND EMPLOYER.

A. My name is Brett Hopper. I am employed as Vice President of Continental Homes, Inc., doing business as D.R. Horton-Continental Series, one of the family of companies owned and/or controlled by D.R. Horton, Inc. ("D.R. Horton"). I am also Vice President of CHI Construction Company ("CHI"), the land acquisition and construction entity for DR Horton-Continental Series in Arizona.

Q. PLEASE STATE YOUR BUSINESS ADDRESS.

A. My business address is 16430 North Scottsdale Road, Suite 200, Scottsdale, Arizona, 85254.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I earned a Bachelor's Degree in Business Management and a Juris Doctorate Degree from Brigham Young University. I was a real estate attorney at Jennings, Strouss and Salmon as well as Fennemore Craig before joining D.R. Horton, where I have been responsible for land acquisition and entitlement for over eight years.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A. I am testifying on behalf of CHI.

Q. ARE YOU AUTHORIZED TO TESTIFY ON BEHALF OF CHI?

A. Yes. I am authorized as an officer of CHI to testify on its behalf.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA CORPORATION COMMISSION ("COMMISSION")?

A. No. This is my first time.

Q. HAS CHI BEEN GRANTED INTERVENOR STATUS IN THIS CASE?

A. Yes. The Commission granted CHI's Application for Intervention on December 13, 2006.

Q. **PLEASE DESCRIBE CHI AND ITS BUSINESS.**

A. D.R. Horton is the largest homebuilder in the United States, based on annual sales and closings. D.R. Horton is a Fortune 200 company which is publicly traded on the New York Stock Exchange. Donald R. Horton began the construction business in 1978 in the Dallas-Fort Worth metroplex. In 1987, D.R. Horton began expanding its operations by seeking out the nation's most active homebuilding markets. Today, the company has geographically diversified into approximately 83 markets and 27 states across the United States. In Arizona, the D.R. Horton companies are building homes in Buckeye, Casa Grande, Chandler, Coolidge, Gilbert, Glendale, Goodyear, Maricopa, Mesa, Queen Creek, Phoenix, Scottsdale, Sun City, Surprise, Tempe, Tucson and Vail, as well as unincorporated areas in Maricopa and Pinal Counties.

Q. **WHAT IS THE RELATIONSHIP BETWEEN CHI AND D.R. HORTON?**

A. CHI is a wholly-owned subsidiary of D.R. Horton. CHI acquires, entitles and develops land for the construction of single family homes which are marketed and sold by its D.R. Horton-Continental Series affiliate.

Q. **WHY HAS CHI INTERVENED IN THIS PROCEEDING?**

A, CHI is currently developing a master-planned community known as Sarah Ann Ranch in Surprise, Arizona. CHI's portion of the project is approximately 290 acres and includes 838 lots. Sarah Ann Ranch is located in the Certificate of Convenience and Necessity ("CC&N") of Arizona-American Water Company, Inc.'s ("Arizona-American") Agua Fria Water District and CHI has entered into agreements with Arizona-American with respect to the provision of water service to Sarah Ann Ranch. CHI has already spent approximately $5.9 million on onsite water facilities, offsite water facilities, and hook-up fees, and expects to spend an additional approximately $1.3 million related to wet water development to provide water service to our 838 lots in Sarah Ann Ranch. CHI's

total estimated cost to provide water service to this development is $7.2 million, or approximately $8,592 per lot. Therefore, CHI is directly and substantially impacted by the proposed increase in the water facility hook-up fees ("Hook-Up Fees").

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. Given that CHI is directly and substantially impacted by the issues that have been raised in this proceeding, the purpose of my direct testimony is to set forth CHI's position with respect to the treatment of Hook-Up Fees that have already been paid to Arizona-American.

Q. WHAT ARE THE ISSUES THAT YOU WILL DISCUSS IN YOUR TESTIMONY?

A. The only issue that I will address herein relates the treatment of Hook-Up Fees that have already been paid to Arizona-American.

Q. PLEASE DISCUSS CHI'S POSITION REGARDING THE PROPOSED HOOK-UP FEES.

A. CHI has already paid to Arizona-American $1,717,900 for Hook-Up Fees pursuant to the existing Commission-approved Arizona-American tariff. Additionally, CHI has spent over $4.1 million towards the construction of other back-bone infrastructure and wet water development necessary for water service to Sarah Ann Ranch that will also provide regional benefits to Arizona-American.

CHI does not object to the recommended increases in the Hook-Up Fees set forth in the October 27, 2006 Staff Report so long as the final order of the Commission expressly states that to the extent Arizona-American has received payment for Hook-Up Fees under the existing tariff, if and when a new tariff becomes effective, Arizona-American may not charge the difference between the existing Hook-Up Fee and the new Hook-Up Fee as a condition of receiving service, regardless of whether Arizona-

American has provided a meter.[1] Further, Arizona-American should be precluded from unilaterally refunding Hook-Up Fees paid by an applicant for water service under the existing tariff in order to later charge the higher Hook-Up Fees under the new tariff.

Q. HAS ARIZONA-AMERICAN RESPONDED TO THIS POSITION?

A. Yes. On November 6, 2006, CHI filed comments in this docket that set forth this position. On November 13, 2006, Arizona-American filed a response indicating that it did not object to inclusion of express language in the final order with regard to this issue.

Q. HAS ANY OTHER PARTY IN THIS PROCEEDING EXPRESSED AN OPINION ON THIS ISSUE?

A. Yes. Courtland Homes Inc., Taylor Woodrow/Arizona, Inc. and Trend Homes, Inc. have also filed comments and testimony in this docket essentially requesting that the same clarification regarding the pre-payment of Hook-Up Fees be included in any final order of the Commission.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, thank you.

[1] Although CHI has already paid to Arizona-American its Hook-Up Fees, Arizona-American has not as yet "set" all of the water meters.

CHI-2

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON - Chairman
JEFF HATCH-MILLER
WILLIAM A. MUNDELL
KRISTIN K. MAYES
GARY PIERCE

EXHIBIT
CHI-2
admitted

In the Matter of the Application of Arizona Water Company for Approvals Associated with a Transaction with the Maricopa County Municipal Water Conservation District Number One

DOCKET NO. W-01303A-05-0718

SURREBUTTAL TESTIMONY

PRE-FILED SURREBUTTAL TESTIMONY

OF BRETT HOPPER ON BEHALF OF

CHI CONSTRUCTION COMPANY

MARCH 12, 2006

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

Q. **PLEASE STATE YOUR NAME AND EMPLOYER.**

A. My name is Brett Hopper. I am employed as Vice President of Continental Homes, Inc., doing business as D.R. Horton – Continental Series, one of the family of companies owned and/or controlled by D.R. Horton, Inc. ("D.R. Horton"). I am also Vice President of CHI Construction Company ("CHI"), the land acquisition and construction entity for DR Horton – Continental Series in Arizona.

Q. **HAVE YOU PREVIOUSLY TESTIFIED IN THIS DOCKET?**

A. Yes. I filed direct testimony in this docket on January 24, 2006.

Q. **WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMON?**

A. The purpose of my surrebuttal testimony is to respond to one issue addressed by Arizona-American set forth in its direct testimony.

Q. **PLEASE SUMMARIZE THE ISSUES THAT YOU WILL ADDRESS IN YOUR SURREBUTTAL TESTIMONY.**

A. My surrebuttal testimony will address the following:

- The testimony of Thomas Broderick relating to when the increase in the hook-up fee will be applied.

Q. **WOULD YOU PLEASE ADDRESS YOUR CONCERNS REGARDING THE POSITION THAT ARIZONA-AMERICAN HAS STATED WITH RESPECT TO THE PAYMENT OF HOOK-UP FEES UNDER THE CURRENT TARIFF?**

A. Yes. First, by way of background, as I stated in my direct testimony, CHI has already paid to Arizona-American $1,717,900 for Hook-Up Fees pursuant to the existing Commission-approved Arizona-American tariff. Additionally, CHI has spent over $4.1 million towards the construction of other back-bone infrastructure and wet water development necessary for water service to Sarah Ann Ranch that will also provide regional benefits to Arizona-American.

CHI does not object to the recommended increases in the Hook-Up Fees set forth in the October 27, 2006 Staff Report so long as the final order of the Commission expressly states that to the extent Arizona-American has received

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payment for Hook-Up Fees under the existing tariff, if and when a new tariff becomes effective, Arizona-American may not charge the difference between the existing Hook-Up Fee and the new Hook-Up Fee as a condition of receiving service, regardless of whether Arizona-American has provided a meter.[1] Further, Arizona-American should be precluded from unilaterally refunding Hook-Up Fees paid by an applicant for water service under the existing tariff in order to later charge the higher Hook-Up Fees under the new tariff.

Q. DID ARIZONA-AMERICAN AGREE WITH THIS POSITION?

A. Yes. On November 6, 2006, CHI filed comments in this docket that set forth this position. On November 13, 2006, Arizona-American filed a response indicating that it did not object to inclusion of express language in the final order with regard to this issue.

Q. HAS ARIZONA-AMERICAN SINCE MODIFIED ITS POSITION ON THIS ISSUE?

A. It is not clear. On page 16, line 21, in his pre-filed testimony Mr. Broderick was asked the question: "When should the Hook-Up Fee be applied?" In response, Mr. Broderick testified that "the hook-up fee is applicable if the tariff is effective prior to the operational acceptance under the terms of the line extension agreements. This is equivalent to the meter set date. This is exactly how a similar tariff in Anthem is applied."

Q. **DO YOU AGREE WITH THIS POSITION?**

A. I believe there needs to be further clarification. First, operational acceptance pursuant to the line extension agreements is not the meter set dates. Operational acceptance is Arizona-American's acceptance of the developer's on-site distribution and transmission facilities. Meters are usually set sometime after operational acceptance. Therefore, there should be no linkage between the payment of the Hook-Up Fee and when meters are set. Second, the line extension

[1] Although CHI has already paid to Arizona-American its Hook-Up Fees, Arizona-American has not as yet "set" all of the water meters.

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agreements specifically require written notification from Arizona-American of confirmation of operational acceptance. However, in practice, a project may be at the operational acceptance stage, but Arizona-American has not administratively issued the formal written acknowledgement of such. In fact, I am aware of situations where on-site facilities have been installed and are ready for use, Arizona-American will often install meters because it considers the project to be at operational acceptance, even though it has not issued the formal acknowledgement letter. Finally, pursuant to the terms of Arizona-American's line extension agreement, developers are required to pay hook-up fees upon operational acceptance *or request requesting water service to any phase*, whichever is first. Therefore, under the existing circumstances, to the extent CHI has already paid Hook-Up Fees pursuant to the terms of the line extension agreement prior to the effective date of any new hook-up fee tariff for Sarah Ann Ranch, Arizona-American should be precluded from charging the higher tariff.

Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING THE PAYMENT OF HOOK-UP FEES UNDER THE EXISTING TARIFF?

A. Yes. In practice, developers often pay Hook-Up and meter fees to Arizona-American based upon the anticipated need of the individual lot or home size. Once construction begins, sometimes a decision is made that either a larger or smaller meter is needed. Therefore, when a request for a change in the meter size is made to Arizona-American, it will true-up the amount(s) and refund the difference to the extent a smaller meter is requested or charge the difference if a larger meter is requested. CHI submits that to the extent that this occurs after the effective date of a new higher Hook-Up fee tariff, any true-up adjustments, whether they be higher or lower, should be based on the existing tariff for which the Hook-Up Fees were initially paid. I therefore request that this also be made clear in the final order that the Commission adopts approving any increase in the Hook-Up Fees.

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Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

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