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BEFORE THE ARIZONA CORPORATION COMMISSION

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8 IN THE MATTER OF THE APPLICATION OF
 9 ARIZONA-AMERICAN WATER COMPANY,
 10 AN ARIZONA CORPORATION, FOR A
 11 DETERMINATION OF THE CURRENT FAIR
 12 VALUE OF ITS UTILITY PLANT AND
 PROPERTY AND FOR INCREASES IN ITS
 RATES AND CHARGES BASED THEREON
 FOR UTILITY SERVICE BY ITS SUN CITY
 WATER DISTRICT.

Docket No. W-01303A-07-0209

Arizona Corporation Commission
DOCKETED

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NOTICE OF FILING

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15 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the

16 Testimony Summaries of Marylee Diaz Cortez, CPA, William A. Rigsby, CRRA, and Timothy

17 J. Coley in the above-referenced matter.

18
19 RESPECTFULLY SUBMITTED this 3rd day of January 2008.

Daniel W. Pozefsky
Attorney

1 AN ORIGINAL AND THIRTEEN COPIES
of the foregoing filed this 3rd day
2 of January 2008 with:

3 Docket Control
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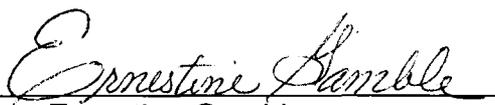
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12 By 
13 Ernestine Gamble
14 Secretary to Daniel Pozefsky

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**Arizona-American Water Company
Sun City Water District
Docket No. W-01303A-07-0209
Rate Application**

**SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

The following is a summary of the issues set forth in the direct and surrebuttal testimonies of Ms. Diaz Cortez. A full discussion of these issues and the underlying theory and rationales for her recommendations are contained in the referenced documents.

The testimony of Ms. Diaz Cortez addresses the Company's request for a Public Safety Surcharge designed to recover the cost of up-sizing its system to increase fire flow.

RUCO recommends that the request for a Public Safety Surcharge be denied. In support of this recommendation, Ms. Diaz Cortez discusses the lack of a regulatory standard and Commission requirement for fire flow, and the discretionary nature of the proposed projects. She also discusses the dangers inherent in the Company proposed step rate increases, where there would be no finding of fair value, and any resultant changes in rates would reflect only increases related to additional fire flow infrastructure and give no consideration to any other ratemaking elements (single issue ratemaking).

**Arizona-American Water Company
Sun City Water District
Docket No. WS-01303A-07-0209
Rate Case**

**SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness William A. Rigsby, CRRA, on Arizona-American Water Company's ("Arizona-American" or "Company") application for a permanent rate increase for the Company's Sun City Water District, located in Maricopa County. A full discussion of the cost of capital issues associated with Arizona-American's request for revenue relief and the underlying theory and rationales for Mr. Rigsby's recommendations are contained in the above referenced documents. The significant issues associated with the case are as follows:

Weighted Cost of Capital – Mr. Rigsby is recommending a 7.36 percent weighted cost of capital. Mr. Rigsby's 7.36 percent figure is the result of his recommended capital structure, his recommended cost of debt, and his recommended cost of equity.

Capital Structure – Mr. Rigsby is recommending that the Commission adopt a capital structure comprised of 57.7 percent debt and 42.3 percent common equity. His revised capital structure reflects information obtained in Arizona-American's response to ACC Staff Data Request SPI 7.1 dated December 10,

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

2007 which contained information on the Company's capital structure as of October 31, 2007.

Cost of Debt – Mr. Rigsby is recommending a 5.50 percent cost of debt which was also derived from information obtained in Arizona-American's response to ACC Staff Data Request SPI 7.1 dated December 10, 2007 which contained information on the Company's capital structure and weighted cost of debt (based on the Company's most recent debt refinancing) as of October 31, 2007.

Cost of Common Equity – Mr. Rigsby is recommending a revised 9.89 percent cost of common equity. Mr. Rigsby's 9.89 percent figure is based on the results of his updated cost of equity analysis, which used both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies. Mr. Rigsby's 9.89 percent cost of equity figure was calculated using the same method used by ACC Staff, and is a mean average of the results derived from his DCF and CAPM models. Mr. Rigsby's recommended 9.89 percent cost of equity figure contains a 50 basis point upward adjustment which takes into consideration the Company's debt leveraged capital structure.

**Arizona-American Water Company
Sun City Water District
Docket No. WS-01303A-07-0209
Rate Application**

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

The following is a summary of the issues set forth in both the direct and the surrebuttal testimony of RUCO witness Timothy J. Coley, for Arizona-American Water Company’s application for a permanent rate increase for Sun City Water District (“Sun City” or the “Company”), located in Maricopa County. A complete discussion of the rate base, operating income, and rate design issues are contained in the referenced documents. The issues associated with the case are as follows:

Issues Resolved:

Rate Base Adjustment #1 - Plant and Accumulated Depreciation – This adjustment reflects RUCO’s recommended Sun City Water District Utility Plant in Service (“UPIS”) and Accumulated Depreciation balances since the District’s last rate case (Decision No. 67093). Any difference between RUCO’s UPIS and the Company’s rejoinder position is immaterial.

Operating Adjustment #1 – Labor Expense – After the Company’s response to RUCO data request 6.1, RUCO is now in agreement with the Company’s test-year-end hourly pay rates.

Operating Adjustment #4 - Late Charges on Power Bills – The Company accepted this adjustment in its rebuttal testimony.

Operating Adjustment #6 – Revenue & Expense Annualization – The Company appears to accept RUCO's adjustment with the addition of an annualization for all related expenses. RUCO has provided an expense annualization in surrebuttal testimony.

Operating Adjustment #7 – Miscellaneous Expense - The Company accepted this adjustment in its rebuttal testimony. However, a clarification needs to be made that the Company failed to record the adjustment in its rejoinder testimony schedules.

Operating Adjustment #9 – Rate Case Expense – The Company agrees with this adjustment in its rebuttal testimony with the exception that the Company is now proposing a 4-year amortization period. RUCO continues to support a 3-year amortization period.

Operating Adjustment #10 - Depreciation and Amortization Expense – Since RUCO accepts the Company's rejoinder position for UPIS, RUCO accepts the Company's level of depreciation & amortization expense.

Operating Adjustment #11 – Waste Disposal Expense – The Company accepted this adjustment in its rebuttal testimony.

Operating Adjustment #12 – Low-Income Program – RUCO accepts the Low-Income Program (“LIP”) and the rate design treatment to properly fund the LIP as proposed by the Company.

Operating Adjustment #13 – Income Tax Expense – This adjustment is a function of RUCO’s recommended level of operating income.

Issues Unresolved:

Rate Base Adjustment #2 – Allowance for Working Capital – This adjustment calculates cash working capital based on an AZ-AM lead/lag study as applied to RUCO’s recommended level of operating expenses.

Operating Adjustment #2 – Remove Eastern Division Allocated Labor Expense – This adjustment removes all Eastern Division allocated labor expense that was transferred “strictly” to the Mohave District.

Operating Adjustment #3 – Remove All Other Eastern Division Allocated Expenses - This adjustment removes all other non-recurring Eastern Division expenses to Sun City Water District that was transferred “strictly” to the Mohave District.

Operating Adjustment #5 – Property Tax Expense – This adjustment reduces property tax expense by adjusting three factors: 1) the three years of revenue used, 2) the tax rate, and 3) the inclusion of net book value of transportation equipment.

Operating Adjustment #8 – Management Achievement Incentive Pay (“AIP”) – This adjustment reduces the level of AIP expenses to be borne exclusively by ratepayers and shares the expense more appropriately with the shareholders.