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BEFORE THE ARIZONA CORPORATION COMM

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AZ CORP COMMISSION
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SANDRA D. KENNEDY
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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, ANTHEM WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT AND TUBAC WATER DISTRICT	DOCKET NO. W-01303A-08-0227
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WASTEWATER DISTRICT, ANTHEM WASTEWATER DISTRICT, AND MOHAVE WASTEWATER DISTRICT	DOCKET NO. SW-01303A-08-0227 **NOTICE OF FILING REBUTTAL TESTIMONY AND REBUTTAL SCHEDULES**

Arizona-American Water Company ("Arizona-American") hereby files testimony in the above-captioned case from the following 11 witnesses:

- Paul G. Townsley
- Christopher C. Buls
- Thomas M. Broderick

Arizona Corporation Commission
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- Linda J. Gutowski
- Sheryl L. Hubbard
- Joseph E. Gross
- G. Troy Day
- Jeffrey W. Stuck
- Bradley J. Cole
- Bente Villadsen
- Paul R. Herbert

Arizona-American also files the following rebuttal schedules:

- Schedule A-1 Rebuttal - Computation of Increase in Gross Revenue Requirement
- Schedule B-2 Rebuttal - Original Cost Rate Base *Pro Forma* Adjustments
- Schedule B-5 Rebuttal - Computation of Working Capital
- Schedule B-6 Rebuttal - Computation of Cash Working Capital
- Schedule C-2 Rebuttal - Income Statement *Pro Forma* Adjustments
- Schedule C-3 Rebuttal - Computation of Gross Revenue Conversion Factor

RESPECTFULLY SUBMITTED on February 11, 2009.

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Courtney Appelhans

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT	DOCKET NO. W-01303A-08-0227
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REBUTTAL TESTIMONY
OF
PAUL G. TOWNSLEY
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 11, 2009

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EXECUTIVE SUMMARY

Paul G. Townsley testifies that:

Arizona-American's current financial condition continues to be poor - timely and adequate rate relief from the Commission is necessary. In addition, management at Arizona-American is undertaking a number of actions to improve Arizona-American's financial performance by reducing costs, staffing, and capital expenditures.

Arizona-American's request to establish a deferral account for O&M costs for the White Tanks plant is reasonable. In addition, Arizona-American's request to extend the expiration date of the Agua Fria hook-up fees and to include construction work in progress in rate base is appropriate.

Staff and RUCO recommendations regarding the White Tanks Water Treatment Plant and the Wishing Well Wastewater Treatment Plant will cause harm to Arizona-American and should be rejected.

There are long-term benefits to customers of consolidation for ratemaking purposes between Arizona-American districts. Arizona-American supports consolidation of its districts but needs to insure that the consolidation process does not cause further financial harm to Arizona-American through delays in this case.

I INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Paul G. Townsley. My business address is 19820 N. 7th Street, Suite 201, Phoenix, AZ 85024.

Q. ARE YOU THE SAME PAUL TOWNSLEY WHO PROVIDED DIRECT TESTIMONY IN THIS CASE?

A. Yes.

II PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. Please see the executive summary of my rebuttal testimony.

III ARIZONA-AMERICAN'S FINANCIAL CONDITION

Q. WHAT IS ARIZONA-AMERICAN'S CURRENT FINANCIAL CONDITION?

A. Unfortunately, there is still no way to sugarcoat Arizona-American's poor financial condition. Most of Arizona-American's operating districts have under-earned for several years and Arizona-American, as a whole, has lost over $31 million since American Water purchased the assets of Citizens Water Resources in 2002. This unfortunate trend continues. Arizona-American had a net loss of $1.8 million in 2008, which was an improvement over its $4.6 million loss in 2007. Further, I expect that Arizona-American's losses will continue through at least 2009, until new rates are implemented. However, if the parties' various recommendations to deny Arizona-American's requested rate treatments and accounting approvals for the White Tanks Plant prevail, then financial losses will escalate and continue into 2010 and beyond. I described the contributing factors to this poor financial condition in my Direct Testimony so I will not repeat them here, however I will describe actions that management at Arizona-American has undertaken to improve financial performance.

Q. WHAT STEPS HAS ARIZONA-AMERICAN TAKEN TO PREVENT FURTHER DETERIORATION OF ITS FINANCIAL CONDITION?

A. It is important to note that the continuing financial losses and resulting actions by management impact not only Arizona-American's shareholder, but also its customers. Because of diminished returns to the shareholder, there is diminished investment in Arizona-American, diminished staffing, diminished spending, and as a result diminished service to Arizona-American's customers.

In my Direct Testimony, I described one very important step we already took. In 2003, Arizona-American suspended dividend payments to its corporate parent – American Water. Suspending dividends has helped reduce Arizona-American's the rate of equity erosion, but continuing losses are still eroding equity. 2008 adds another year to Arizona-American's string. This is now the sixth straight year that Arizona-American's corporate parent has received no return on its Arizona investment.

During the entire period that dividends have been suspended, American Water has still invested new equity into Arizona-American. However, because American Water continues to lose money in Arizona, there are no current plans for American Water to invest any more equity in Arizona.

Q. HAS ARIZONA-AMERICAN TAKEN OTHER STEPS TO PREVENT FURTHER DETERIORATION OF ITS FINANCIAL CONDITION?

A. Yes. Arizona-American has cut its planned capital expenditures over the next five years by almost fifty percent. Over $92.5 million of specific Company-funded capital projects have been either deferred or eliminated, which represents a 46% reduction from Arizona-American's previous capital plan. In addition, almost $3 million of recurring project capital funding has been deferred or eliminated in 2009 and 2010, which represents a 10% reduction in capital from Arizona-American's most recent plan. Excluding the

capital expenditures for the White Tanks Water Treatment Plant ("White Tanks Plant"), Arizona-American must rely solely on internally generated funds. As I stated, there are no further planned equity investments from American Water.

Q. WHAT ELSE IS ARIZONA-AMERICAN DOING TO REDUCE COSTS?

A. For 2009 and beyond, Arizona-American is reducing staff positions by 25, which represent $1.1 million in gross salary dollar savings. These position reductions come from the deferral or elimination of planned positions and the consolidation of existing positions as vacancies occur. Management has also examined all costs in the business and has reduced its budget for controllable costs compared to its previous plan including a variety of measures including reductions in office expenses, reductions in telecommunication expenses, reductions in training and travel expenses, elimination of all business-development costs, reductions or deferral of certain maintenance expenses, and other items.

Q. HOW ELSE CAN ARIZONA-AMERICAN PREVENT FURTHER DETERIORATION OF ITS FINANCIAL CONDITION?

A. Rate relief is critical. The current rate application seeks timely and adequate rate relief. This is the most critical part of our strategy to restore Arizona-American's long-term financial health.

In order to be a financially viable and stable water and wastewater utility for our customers and investors, Arizona-American must earn a return on and return of the investment made by our parent shareholder. As described in my Direct Testimony, only $210 million of Arizona-American's investment is in rate base. In other word, although our customers in Arizona are enjoying the benefit of $355.3 million worth of Arizona-American's capital investment, they are only paying for approximately 59% of the assets.

In this case, we are seeking to put additional $189 million of our capital investment in rate base.

It is also important that the Commission timely approve the requested rate relief. Given the magnitude of the rate relief sought in this case, and the continued expected operating loss in 2009, Arizona-American cannot bear any delays in obtaining timely Commission approval of the rate increases requested in this application.

IV WHITE TANKS PLANT

Q. WHAT IS CURRENT STATUS OF THE WHITE TANKS PLANT?

A. The White Tanks Plant is a regional water treatment facility, designed to treat Colorado River Water delivered through facilities owned by the Central Arizona Project ("CAP"). The White Tanks Plant is presently under construction and is scheduled to be in service in late 2009. Currently it is over 50% complete and testing is expected to commence in October of this year.

Q. DO YOU AGREE WITH COMMISSION STAFF AND RUCO POSITIONS ON THE WHITE TANKS PLANT?

A. Yes and no. I do agree with the Arizona Corporation Commission Staff ("Staff") and the Residential Utility Consumer Office ("RUCO") positions to extend the sunset for the expiration of hook-up fees for the White Tanks Plant. However I disagree with Staff's positions on the exclusion of CWIP in ratebase for the White Tanks Plant, and I also disagree with the Staff position on denial of an accounting order to defer certain operating expenses for the White Tanks Plant until a future rate case.

Q. WHY DO YOU DISAGREE WITH STAFF'S AND RUCO'S POSITIONS ON THE EXCLUSION OF CWIP IN RATEBASE FOR THE WHITE TANKS PLANT?

A. First of all, Arizona-American is not requesting all CWIP to be placed in ratebase. Arizona-American is only requesting that $25 million of the White Tanks Plant's CWIP be placed in ratebase which is less than half of the total project cost. The White Tanks Plant is Arizona-American's single largest and most expensive project ever. As described in the rebuttal testimony of Chris Buls, the exclusion of a portion of CWIP in ratebase will cause Arizona-American to suffer further financial damage and use up much of its short-term debt due to the unprecedented slowdown in the collection of new customer hook-up fees in its Agua Fria District. As I have pointed out in my Direct Testimony and again here in my Rebuttal Testimony, Arizona-American is a company in deep financial trouble. Management is doing all it can to improve the financial condition of Arizona-American, while continuing to provide adequate service to its customers. However the damage done if the Commission were to adopt Staff's and RUCO's proposals would be a serious blow to our financial condition and further put off the time when Arizona-American can return to some modicum of profitability. It will also inevitably affect our ability to invest capital in the State and into improved service to customers.

Q. WHY DO YOU DISAGREE WITH THE STAFF AND RUCO REJECTION OF THE WHITE TANK PLANT O&M EXPENSE DEFERRAL ACCOUNT?

A. If adopted by the Commission, Staff's and RUCO's positions would cause even further financial harm to Arizona-American if it has no opportunity to recover the O&M costs of a plant providing service to its customers until Arizona-American's next rate case. Arizona-American anticipates approximately $1.1 million in net annual costs to operate the White Tanks Plant, after considering the approximately $800,000 in reduced well-production costs (electricity and chemicals) discussed by Mr. Cole in his rebuttal testimony. Using the following assumptions; (i) the plant goes into service November 1, 2009, (ii) annual operating costs are $1.1 million per year, and (iii) Arizona-American's next Agua Fria Water District test year ends December 31, 2009 and the Commission

orders rates effective August 31, 2011, Arizona-American will have operated the plant for 22 months at a cost of $91,167 per month, which is equal to a total loss of over $2.0 million. For any company the size of Arizona-American this is a sizeable impact; for a company which is already hemorrhaging money it is truly devastating.

Moreover, as discussed in the White Tanks Plant proceedings before the Commission (Docket W-01303A-05-0718), our request to establish an accounting order to defer these costs was recognized as being in the public interest by the Commission in its Opinion and Order (Findings of Fact 35, 36, 37). Furthermore, neither Staff nor RUCO opposed Arizona-American's request for such an accounting order in the White Tanks Plant proceeding and RUCO actually supported Arizona-American's request.

Q. WHY IS ARIZONA-AMERICAN SO CONCERNED WITH STAFF'S AND RUCO'S PROPOSALS ON THE WHITE TANKS PLANT?

A. I cannot overemphasize the huge financial impact to Arizona-American and its resulting ability to continue to effectively operate as a utility in Arizona if the Commission were to adopt Staff's and RUCO's positions on this issue. Projects like the White Tanks Plant take a long time to implement and a longer time to be paid off. As the Commission is aware, Arizona-American has been working on this since the mid 1990s and deferred the project as long as possible without risking running out of water given the projected customer growth rates at the time. Arizona-American also sought out innovative ratemaking for the project so as to minimize the impact on current customers. Unfortunately, no one could have foreseen the implosion of the new housing market in our Agua Fria Water District at the time we committed to construction. The hook-up fees for new construction, which were to pay for the project and its carrying costs, have all but disappeared. As described in Mr. Buls' rebuttal testimony, two years ago Arizona-American projected that the entire $60 million plant could be paid for by hook up fees by

the end of 2013. In direct testimony for this case filed nine months ago, Arizona-American revised its estimate of hook-up fees downwards for the five year period 2009 – 2013 to approximately $23 million. Mr. Buls now testifies that hook-up fees may only amount to $8 million over this period. At this hook-up fee rate, we could never even pay off any of the original investment. All of the hook-up fees would go toward AFUDC.

The White Tanks Plant was initiated based on sound water resource planning, engineering, and forecasting methods. It provides benefit to both current and future customers by utilizing renewable surface water supplies and reducing reliance on diminishing groundwater in the west valley. Recognizing the precarious financial position of Arizona-American, we have gone to great lengths to minimize the impact of this large project on Arizona-American, while still working to provide benefits to our customers. Unfortunately in spite of all of this we are still facing serious harm to Arizona-American and we cannot simply absorb the financial hit without impacting the business and its customers.

Q. IF THE COMMISSION WERE TO REJECT THE REQUEST TO INCLUDE A PORTION OF CWIP IN RATEBASE AND TO DEFER O&M EXPENSES, WHAT WOULD ARIZONA-AMERICAN DO?

A. I am not prepared to say at this time what measures that Arizona-American management might need to undertake if the Commission rejects Arizona-American's proposal to include a portion of CWIP in ratebase and to defer and later recover legitimate operating and maintenance expenses. Because of the large magnitude of the expected $1.1 million in net White Tanks Plant annual operating costs, and the inability under GAAP to recognize all the post-in-service AFUDC and deferred depreciation, Arizona-American will find itself in a very difficult position indeed. Our earnings, that have slowly improved from large annual losses to smaller annual losses, will reverse downwards

immediately. Management will need to evaluate and act on all available options to offset the impacts to earnings. We will forthwith critically review further reductions in spending in other parts of the business, further staff reductions, and further reductions in capital expenditures. We will also take a very hard look at the shut-down or sale of the White Tanks Plant. These options can't help but have a negative impact on customer service.

The ability to place a portion of CWIP in ratebase and to defer the O&M expenses for the White Tanks Plant onto Arizona-American's balance sheet until it has the opportunity to recover them in a future rate case is vitally important to Arizona-American. I strongly encourage the Commission to grant these requests.

Q. IS THE MARICOPA WATER DISTRICT STILL A POTENTIAL PARTNER FOR THE WHITE TANKS PLANT?

A. Yes. Because the White Tanks Plant has long been planned to be a regional water treatment plant—serving not only customers of Arizona-American, but also residents from other West Valley communities—Arizona-American entered into a Joint Development Agreement ("JDA") with the Maricopa Water District ("MWD") in November 2007. Under the JDA, Arizona-American proceeded with the construction of its 13.5 MGD treatment capacity ("Phase 1A"). MWD originally had the option until November 15, 2008, to participate in and fund the construction of 6.5 MGD of additional capacity ("Phase 1B"). MWD has been in negotiations with the City of Goodyear ("Goodyear") to utilize its capacity to treat Goodyear's CAP allocation and deliver it to Goodyear. As I understand it, negotiations have taken longer than expected, and in November MWD requested an extension to the deadline to exercise its option under the JDA. Arizona-American agreed to extend the option deadline until January 15, 2009, but

MWD still was unable to come to suitable terms with Goodyear by that date. As a result, the deadline for the option exercise expired.

Q. DOES THIS MEAN THAT MWD WILL NO LONGER PARTICIPATE IN THE WHITE TANKS PLANT?

A. The answer to that question is unclear. Arizona-American has told MWD that while the deadline for the exercise option has expired and that it has no contractual obligation to partner with MWD, it would still consider an agreement to partner with MWD in the future, if the timing and terms of the agreement were beneficial to Arizona-American. It is my understanding that MWD and Goodyear may still be discussing some sort of arrangement but that no deal is pending.

Q. IF MWD'S EXERCISE OPTION EXPIRED, WHY WOULD ARIZONA-AMERICAN STILL CONSIDER PARTNERING WITH MWD?

A. Arizona-American would only consider partnering with MWD if it made sense to do so. Having said that, there are a number of compelling reasons for Arizona-American and MWD to team up on the project.

During the Commission's Open Meeting in September 2007 concerning Arizona-American's White Tanks application, Arizona-American and MWD were encouraged to work together to find ways in which to partner on a regional surface water supply project rather than pursuing competing projects.

If MWD were to participate in the project, it would provide Arizona-American with capital in the form of a Contribution in Aid of Construction. This would reduce Arizona-American's investment in the project. Also, because of economies of scale, once both Phase 1A and 1B of the project are completed, the investment-cost-per MGD of capacity would be reduced. Finally, Arizona-American would be able to swap the land under the

plant for another MWD parcel of equal value, further reducing rate base by the cost of the land.

The potential partnership would also reduce operating costs. First, MWD would be able to provide low-cost preference power from federal hydropower projects to the White Tanks Plant. Second, with its share of plant capacity, MWD would be paying a corresponding share of fixed O&M costs that do not vary with usage.

If MWD were to participate in the White Tanks Plant, it would be less likely to construct its own competing treatment facility. Also as a quasi-municipal water provider, MWD's participation could make other municipal water providers more willing to serve as customers being served by future expansions, providing even greater economies of scale for the White Tanks Plant.

MWD participation also provides water-supply benefits. First, owning the underlying land and a share of the White Tanks Plant would let MWD use a future phase of the plant to treat up to 80 million gallons of renewable treated Agua Fria River water for delivery to Arizona-American's Agua Fria customers within the MWD service territory, in lieu of additional groundwater pumping. This water will become available to residential customers as the Agua Fria Water District builds out and residential and commercial uses replace irrigation uses within MWD's service area. In addition MWD would work with Arizona-American to develop a regional solution, including the use of existing MWD irrigation wells, to meet potable groundwater demands, further reducing the need to drill additional wells.

All of these reasons would reduce costs to customers and increase the use of renewable surface water, as compared to Arizona-American completing and operating the White

Tanks Plant alone, so it is for these reasons that we have left the possibility of MWD's participation open, subject to acceptable timing and terms of an agreement.

V WISHING WELL WASTEWATER TREATMENT PLANT

Q. DO YOU AGREE WITH STAFF'S RECOMMENDATION TO EXCLUDE THE WISHING WELL WASTEWATER TREATMENT PLANT FROM RATEBASE?

A. No. I do not. Staff's recommendation to exclude the Wishing Well Wastewater Treatment Plant expansion from ratebase is inconsistent with the testimony of Staff engineering expert Dorothy Hains that the expansion is used and useful. It is also inconsistent with Staff witness McMurray's inclusion of depreciation expense for the plant in revenue calculations. The Commission should reject Staff's unsubstantiated position.

Q. WERE ARIZONA-AMERICAN'S INVESTMENTS IN THE WISHING WELL UPGRADES AND EXPANSION PRUDENT?

A. Yes. Mr. Joseph Gross extensively discusses the need for the investment upgrades and expansion and concludes that it was prudent.

Q. WHAT IS YOUR RECOMMENDATION CONCERNING THE APPROPRIATE RATEMAKING TREATMENT FOR THE WISHING WELL PLANT?

A. I recommend that the Commission include the Wishing Well plant in ratebase as is appropriate for a utility investment of this type. This would be consistent with ratemaking principles previously applied by the Commission.

VI DISTRICT CONSOLIDATION FOR RATEMAKING PURPOSES

Q. CHAIRMAN MAYES ASKED ARIZONA-AMERICAN TO DISCUSS CONSOLIDATION OF DISTRICTS IN THIS CASE? DOES ARIZONA-AMERICAN SUPPORT CONSOLIDATING DISTRCTS IN THIS RATE CASE

A. I need to answer this question with a conditional "yes." There are a number of reasons that I will discuss below, including improved rate case efficiency, improved ability to make needed capital investments in smaller districts without imposing burdensome rate increases, improved ability to acquire small troubled water systems, and a desire to bring the tariff structure of water and wastewater utilities more in line with those of other regulated utilities in Arizona, that all support consolidation on a philosophical basis.

Rate consolidation of water and wastewater utilities is a topic being addressed by a number of public utility commissions in the country. Historically water company districts in Arizona have tended to have separate tariffs for each district based on the unique history of each district, and because each district is likely to be physically disconnected from other districts. Yet this historic approach overlooks important aspects of how (at least our) water company districts operate and has created consequences that if left unchecked can cause customer harm in the long term.

While it is true that the physical distribution infrastructure (piping, wells, tanks, etc.) of each Arizona-American water district is in most cases separate from other districts, the water supply (that is the underground water source or the surface water source) is clearly not separate between districts. So in this important sense, many of our districts are connected. Other major utilities including electric utilities (Arizona Public Service and Tucson Electric Power), natural gas utilities (Southwest Gas and Unisource) and phone utilities (QWEST and Citizens Communications), tend to have unified tariff structures across Arizona (or in some cases a few separate tariff structures) even though they serve many different communities. Their physical distribution infrastructures rely on common supply (electric power plants, natural gas transmission lines, or backbone communication network, respectively) not unlike our common water supplies, so the justification as to why water companies should be on unique tariffs for each district, and the other utility

segments not being on unique district-based tariffs based only on physical infrastructure is not compelling.

Q. TURNING SPECIFICALLY TO ARIZONA-AMERICAN, HOW COULD RATE CONSOLIDATION BENEFIT ARIZONA-AMERICAN?

A. There are many challenges and problems associated with having numerous rate-making districts within Arizona-American. One challenge of having multiple rate-making districts (Arizona-American has 13) is that it is more costly to prepare and prosecute rate cases for all parties involved. Currently, Arizona-American is required to file an application with separate costs identified and tariffs established for each district, the Commission is required to issue separate findings, separate rate-base schedules, separate cost-of-service studies, separate sets of tariffs, etc. This is not efficient. Commission Staff and RUCO also have larger workloads due to their involvement in multiple district rate cases rather than participating in fewer rate cases with consolidated districts.

Another large challenge with having multiple districts for rate making purposes is the imbalance of district-based capital needs and the number of customers. Small districts tend to face disproportionally larger rate increases due to necessary capital investments than larger districts do.

Rate consolidation would lessen each of these areas of concern.

Q. CAN YOU PROVIDE ANY EXAMPLES OF SMALLER DISTRICTS BEARING DISPROPORTIONATELY LARGER RATE INCREASES DUE TO CAPITAL INVESTMENTS?

Let me provide a couple of examples within Arizona-American. In our Mohave Wastewater District, Arizona-American's customers are potentially facing a very large rate increase because of the severely needed multi-million dollar Wishing Well

Wastewater Treatment Plant upgrade and expansion. If this investment had been spread across a larger customer base, the per-customer rate increase would be much lower.

In our Tubac Water District, an arsenic treatment facility needed to comply with EPA requirements will probably cost over $2 million and could lead to a very large rate increase, just for this one item. Spreading investment costs among a larger number of customers typically provides for lower cost increases on a per-customer basis. This would lead to greater rate stability in the smaller districts, but potentially among larger districts as well.

Q. ARE THERE ANY OTHER CONSEQUENCES OF OPERATING MULTIPLE WATER DISTRICTS?

Yes. Multiple rate making districts inhibits a company's ability to take on small troubled water systems. Many of these systems today are not meeting state and federal standards and do not have the financial, technical, and managerial capability to do so. In most cases, if a larger water or wastewater utility were to acquire one or more of these systems, significant capital investments would be needed to bring them up to current standards. However, because these necessary capital improvements would be borne by only the customers in those systems, the resulting rate increases could be extremely high. This leads to customer opposition and disappointing results at the Commission. As a consequence, the acquisition is not made, the system remains inadequate, and its customers are at risk

Q. CAN YOU PROVIDE AN EXAMPLE OF AN ACQUISITION THAT WAS NOT MADE BECAUSE OF THE CURRENT MULTI-DISTRICT MODEL?

Yes. Sabrosa Water is a small troubled water system located near Arizona-American's Anthem Water District. The owner of Sabrosa Water walked away from the system and the State of Arizona was faced with the unenviable task of cleaning up the legal and

financial mess left by the owner. Arizona-American operated this system for a number of years on behalf of the Arizona Corporation Commission and made hundreds of thousands of dollars in investments to the system to enable it to deliver water more reliably. Other custodial operators of Sabrosa Water after Arizona-American may have also made investments. However, the system still requires a huge investment to bring it up to current standards.

If Arizona-American were to acquire Sabrosa Water and make the hundreds of thousands of dollars in necessary capital investments, customer rates for the few hundred accounts there would increase by well over 100%. On the other hand, if Sabrosa were consolidated into Arizona-American's other water districts, statewide rates in both districts would only have to go up a small amount to recover the necessary investments in the Sabrosa Water system.

Sabrosa Water is far from the only small troubled water system in this State. The Commission is aware of many other systems that are candidates for acquisition, but haven't been taken on because of the issues I have described above (along with disappointing overall returns on Arizona investments). Rate consolidation would certainly encourage larger well-run utilities to address these small troubled systems.

Rate consolidation as a public policy matter should be debated, but my strong personal philosophical opinion is that the old multiple-district tariff model does not work as well as it could, will not allow Arizona to address the numerous small troubled systems that exist in the state, tends to retard administrative efficiency for water utilities and the Commission, and will perpetuate the current climate of high customer costs and/or insufficient investments in smaller water and wastewater districts.

Q. DO YOU HAVE CONCERNS ABOUT RATE CONSOLIDATION AMONG ARIZONA-AMERICAN'S DISTRICTS?

A. Yes. I answered a previous question about my support for rate consolidation as a conditional "yes". I have significant concerns about rate consolidation impacts in the short term and cannot support it if it further damages the financial condition of Arizona-American. While I strongly support rate consolidation from a philosophical perspective, the practicalities of district consolidation present significant challenges to both the Commission and Arizona-American. For instance, average customer water bills across Arizona-American's systems range from about $12 per month in Sun City to about $70 per month in Paradise Valley. While some of this disparity is due to differences in customer consumption levels, it is also due to differences in net-plant investment per customer between districts. Proposals for rate consolidation in the short term are likely to cause significant public and political consternation with a likely result being an extension to the rate case schedule, a delay in Arizona-American receiving a reasonable return on its investments, and further financial harm to the business. Arizona-American simply cannot tolerate any delays in this case and resulting further financial damage.

Q. GIVEN YOUR CONCERNS, DO YOU HAVE A RECOMMENDATION ON HOW THE COMMISSION CAN BEGIN CONSOLIDATION BETWEEN DISTRICTS?

A. Yes. There is one step the Commission could take toward consolidation. The key to being able to ultimately consolidate Arizona-American's districts, is to begin to levelize the net-plant-investment per customer across districts. If the net-plant-investment per customer were more aligned, then the primary remaining differences between districts would be a function of differences in production costs, i.e. the cost of treating surface water vs. the cost of treating groundwater.

To begin to levelize the net-plant investment costs per customer, the Commission could consider implementing a surcharge across all districts to pay down the investment levels in higher level districts over time. The proceeds from this surcharge would be used as Contributions in Aid of Construction ("CIAC") and credited to Arizona-American thereby reducing its net-plant (ratebase) in these districts. The proposal for this surcharge would be similar in concept to what has been used by electric utilities as systems-benefit charges in certain circumstances. I provide this as an idea that Staff and RUCO may want to respond to in their surrebuttal testimony, rather than a firm proposal from Arizona-American.

Normally a utility is not in favor of reducing its ratebase, because it is only on ratebase that it has the opportunity to earn a return on investment. Arizona-American is no different – we do not support reducing ratebase under normal circumstances. However in this particular circumstance, for a limited period of time and with certain protections, Arizona-American could support a systems-benefit charge. The surcharge would be reviewed in Arizona-American's next rate case and adjusted accordingly based on the CIAC received, the resulting net-plant investment per customer, and the desired timing for rate consolidation. In future rate cases, as net-plant-investment-per-customer between districts begins to converge, the Commission could order rate consolidation without as much concern of disparity in rates across districts.

Q. HOW COULD THIS SYSTEMS-BENEFIT CHARGE WORK?

A. Under this approach, the Commission would order that a systems-benefit charge be assessed on the variable usage rate per gallon. The same charge would be applied to usage in every district. Water-usage charges would be used for the benefit of crediting net plant in water districts and wastewater usage charges would be used for the benefit of crediting net plant in wastewater districts. Funds generated by the systems-benefit

charges would be accounted for separately by Arizona-American and would be credited as an offset against ratebase in those districts with high net-plant-investment per customer. The funds would be applied first against each water and wastewater district, respectively, with the highest net-plant investment per customer until they reached an equivalent level as the second highest district's net-plant investment per customer. At that point the surcharge proceeds would be credited as an offset to ratebase in both the highest district and the second highest district respectively until their net-plant investment per customer reached an equivalent level with the third highest district, as applicable. This process would be reviewed in Arizona-American's next rate case and adjustments or suspension of the surcharge would be made as appropriate. At the time of the appropriate rate case, the districts would be consolidated for rate making purposes. Arizona-American would be required to file annual reports on the status of the program.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY IN THIS CASE?

A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF ARIZONA -AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT	DOCKET NO. W-01303A-08-0227
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WASTEWATER DISTRICT	DOCKET NO. SW-01303A-08-0227

REBUTTAL TESTIMONY
OF
CHRISTOPHER C. BULS
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
DATED FEBRUARY 11, 2009

REBUTTAL TESTIMONY
OF
CHRISTOPHER C. BULS
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
DATED FEBRUARY 11, 2009

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EXECUTIVE SUMMARY

Christopher C. Buls testifies as follows:

To Reduce Future Rate Impacts, Arizona-American Proposed Using Hook-Up Fees to Finance the Plant

Arizona-American carefully considered a number of factors in making this decision. First, Company leadership realized that this plant needed to be built sooner rather than later, as it improves the overall groundwater situation and provides a benefit to our existing customers. A second consideration was the high cost of constructing a "Greenfield" facility such as the White Tanks Plant. $60 Million for the initial phase while the second increment of 6.5 MGD is expected to cost less than $5 Million. Another consideration was an attempt by Arizona-American to minimize the rate impact of this project on our current customers. Finally, because of the dire financial condition of Arizona-American, Arizona-American needed to minimize the negative financial impacts associated with a project of this size.

The use of hook-up fees would potentially reduce the financial impacts to current customer without further exacerbating the already difficult financial situation Arizona-American was in.

Hook-Up Fee Receipts Have Declined Precipitously

Our projection of these fees has dropped precipitously. In Case W-01303A-05-0718, which was filed roughly two years ago, Arizona-American projected that the entire $60 million plant could be paid for by hook-up fees by the end of 2013. Current projections now show that we will only collect about $8 million over that same time frame.

The decline in cash flow from the hook-up fees will impact our ability to rely on hook-up fees in numerous ways. To deal with this state of events, Arizona-American proposed including $25 million of CWIP in rate base.

The Decline in Hook-Up Fees Will Seriously Hurt Arizona-American

Without some mitigation, the impact of this decline will have serious consequences for Arizona-American. An immediate impact is that Arizona-American is experiencing a sharp increase in short-term debt levels. Another impact is that the cost of the plant which includes AFUDC, is growing at a faster pace than the original projections. Additionally, shortly after the plant goes in service in late 2009, Arizona-American will immediately begin to suffer severe, negative impacts on net income.

The driver of the growth in total costs lies in the calculation of the AFUDC. AFUDC for this project is calculated on a "net" basis meaning the base for the calculation is the construction costs to date less the applicable hook-up fees. Because the hook-up fees have been and will be much lower than originally estimated, the "net" amount is greater, and consequently the AFUDC is higher. This creates a situation where the amounts available to pay down the plant are lower, while the amount to pay down is growing.

Authorizing $25 million of CWIP in rate base will mitigate the problem, but will not provide a full solution. It will however allow for some additional time and, most importantly, slow down the growth of the balance related to the plant. Without placing CWIP into rate base Arizona-American will be forced to try to carry a large asset with no cost recovery. From a GAAP

perspective, even with the existing authorization, Arizona-American will still suffer from diminished earnings in the near term as hook-up fees are inadequate.

Excluding all O&M, depreciation and other associated expenses the required return on the $60 million plant would be approximately $8.3 million annually. This compares to expected hook-up fees of roughly $1 million per year for the first two years of operation. This difference, less taxes, represents the lost net income or financial harm to Arizona-American.

Based on the current assumptions it is doubtful this project will ever get paid off. By 2029 the net unfunded balance is $58 million, roughly equal to the total of the original 2009 construction cost. Over that time-period, Arizona-American would have recovered a total of $68 million in post in-service AFUDC, without paying down a single dollar of the White Tanks Plant.

Other Options Could Mitigate the Financial Harm

Putting $25 million of CWIP into rate base is an important first step. The revenue requirement effect of including $25 million of White Tanks construction costs in rate base assuming Arizona-American's requested rate of return of 8.4% is approximately $3.476 million per year. If this were recovered via a customer charge to the Agua Fria district customers, the resulting charge would be $9.09 per month based on the average test year customer count of 31,882.

As an alternative, it would be acceptable to the Company to set the revenue requirement equal to that of putting CWIP in rate base using the White Tanks Plant Surcharge Mechanism that Mr. Broderick proposed in his Direct Testimony. This would be a temporary surcharge that would be in place only until completion of the next rate case.

Arizona-American would consider a variety of helpful options in addition to or alternatively to avoid further financial harm to Arizona-American. Creating some form of renewable-water-supply surcharge that would be added to customer bills is one such option. If the surcharge was expanded to cover all of our Valley water districts still on groundwater, that would lessen the amount of the surcharge.

Arizona-American Could Be Forced to Mothball or Sell the White Tanks Plant

The White Tanks Plant is very large relative to Arizona-American's total investment. Arizona-American cannot carry the cost of this project on hook-up fees alone. If the results of this rate case are disappointing, Arizona-American must consider mothballing or selling the facility.

I INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Christopher C. Buls. My business address is 19820 N. 7th Street, Suite 201, Phoenix, Arizona 85024

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by American Water Works Service Company as Vice President of Finance.

Q. PLEASE DESCRIBE YOUR DUTIES AND RESPONSIBILITIES AS VICE PRESIDENT OF FINANCE.

A. In my capacity as Vice President of Finance, I direct the Financial Planning and Analysis, Rates & Regulatory, and Financial Controls and Compliance activities for the regulated subsidiaries in New Mexico, California, Arizona and Hawaii. I also have indirect management responsibility for the accounting services provided to these states. These services are supplied by personnel in the American Water Shared Services Center in Cherry Hill, New Jersey.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND.

A. I received a Bachelor of Arts degree in Chemistry from Indiana University – Bloomington in 1982 and a Master of Business Administration with a concentration in Finance also from Indiana University – Bloomington in 1987. Additionally, I have been a Certified Management Accountant since 1991.

Q. PLEASE OUTLINE YOUR BUSINESS EXPERIENCE.

A. Upon graduating from Indiana University in 1987 I joined Kidder, Peabody as a Registered Representative. In August 1988 I accepted employment with Air Products and Chemicals where I held numerous positions of increasing responsibility including

Financial Analyst, Plant Controller, Business Controller and various Financial Planning and Accounting Management positions at both a corporate and segment level. In 2001, I joined the Engineered Materials division of Cytec Industries as the Operations Controller, where I was responsible for Planning, Budgeting and Accounting for six manufacturing locations across the United States. In 2004 I joined American Water as the Vice President of Finance for the southeast states and early in 2007 I transferred into the same role with similar responsibility for the western states.

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS CASE?

A. No.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS CASE?

A. I am responding to the testimony of Staff and RUCO regarding Arizona-American's proposal to include $25 Million of CWIP related to the White Tanks Plant as a part of rate base. Specifically I will describe:

1. Why Arizona-American attempted to utilize hook-up fees as a financing means for the project;
2. What has happened to projected hook-up fees since the Commission approved hook-up fee financing;
3. The financial harm Arizona-American will experience if the CWIP request is denied;
4. Proposed alternatives, which would mitigate the undesirable impacts; and
5. The potential consequences if Arizona-American cannot get sufficient financial relief in this case.

II TO REDUCE FUTURE RATE IMPACTS, ARIZONA-AMERICAN PROPOSED USING HOOK-UP FEES TO FINANCE THE PLANT

Q. WHY DID ARIZONA-AMERICAN PROPOSE USING HOOK-UP FEES TO FINANCE THE WHITE TANKS PLANT?

A. Arizona-American carefully considered a number of factors in making this decision. First, Company leadership realized that this plant needed to be built sooner rather than later, because, as Mr. Gross has described, this project improves the overall groundwater situation and provides a benefit to our existing customers. A second consideration was the high cost of constructing a "Greenfield" facility such as the White Tanks Plant. With a "Greenfield" facility the first increment of capacity is routinely the most expensive. The initial increment includes not only the equipment directly linked to that particular increment of volume but also all the infrastructure and utilities for the site. This is demonstrated by the fact that for White Tanks the first 13.5 MGD increment will cost roughly $60 Million while the second increment of 6.5 MGD is expected to cost less than $5 Million. Another consideration was an attempt by Arizona-American to minimize the rate impact of this project on our current customers. Finally, because of the dire financial condition of Arizona-American, Arizona-American needed to minimize the negative financial impacts associated with a project of this size.

Arizona-American has seen hookup fees work effectively elsewhere and for other purposes. Given the explosive growth Arizona-American had already experienced in this area and projections for future growth, we viewed the hook-up fees as an efficient way to finance the plant. The use of hookup fees would potentially reduce the financial impacts to current customer without further exacerbating the already difficult financial situation Arizona-American was in.

III HOOK-UP FEE RECEIPTS HAVE DECLINED PRECIPITOUSLY

Q. HOW SEVERELY HAVE HOOK-UP FEES DECLINED?

A. Our projection of these fees has dropped precipitously. In Case W-01303A-05-0718, which was filed roughly two years ago, Arizona-American projected that the entire $60 million plant could be paid for by hook-up fees by the end of 2013. Arizona-American revised its estimate for this case which was filed roughly nine months ago. In the original testimony for this case Arizona-American estimated that for the five year period 2009 – 2013, we would collect approximately $23 million. Current projections now show that we will only collect about $8 million over that same time frame.

Q. HOW DOES ARIZONA-AMERICAN PROPOSE TO DEAL WITH THE PRECIPITOUS DROP IN HOOK-UP FEES?

A. The unprecedented decline in the housing market, which has been particularly focused in the West Valley, has virtually eliminated the possibility of relying on hook-up fees to fund the majority of the project, let alone to fully fund the project as had been earlier planned. The decline in cash flow from the hook-up fees will impact our ability to rely on hook-up fees in numerous ways. To deal with this state of events, Arizona-American proposed including $25 million of CWIP in rate base.

IV <u>THE DECLINE IN HOOK-UP FEES WILL SERIOUSLY HURT ARIZONA-AMERICAN</u>

Q. HOW WILL THE DECLINE IN HOOK-UP FEES HURT ARIZONA-AMERICAN?

A. Without some mitigation, the impact of this decline will have serious consequences for Arizona-American. An immediate impact is that Arizona-American is experiencing a sharp increase in short-term debt levels. Another impact is that the cost of the plant which includes AFUDC, is growing at a faster pace than the original projections.

Additionally, shortly after the plant goes in service in late 2009, Arizona-American will immediately begin to suffer severe, negative impacts on net income.

Q. WHY DOES THE DECLINE IN HOOK-UP FEES LEAD TO AN INCREASE IN SHORT TERM DEBT?

A. Arizona-American had planned for the cash coming in from hook-up fees to offset a significant portion of the required cash outflows needed to construct the plant. While the construction has continued, the hook-up fees have not kept pace. From year end 2007 to year end 2008 Arizona-American's short term debt balance has grown from $19.1 million to $51.2 million (unaudited). The increased reliance on short term debt makes Arizona-American vulnerable to sudden shifts in the financial markets such as those experienced over the past months and further degrades many of Arizona-American's financial ratios. Given the continued financial losses and the current state of financial measures, Arizona-American would almost certainly have faced a stark choice if it had been an independent company – either stop construction of the White Tanks Plant or head for the bankruptcy court. If our parent, American Water, runs out of patience, Arizona-American will fail. The Commission's own measure of viability, such as Debt Service Coverage Ratios and Times Interest Earned Ratios show that the status quo is not sustainable for Arizona-American.

Q. WHY IS THE COST OF THE PLANT GROWING FASTER THAN ORIGINALLY PLANNED?

A. In overall terms the cost of the plant includes the actual cash outlays, plus the AFUDC. The construction costs have not changed materially. The driver of the growth in total costs lies in the calculation of the AFUDC. AFUDC for this project is calculated on a "net" basis meaning the base for the calculation is the construction costs to date less the applicable hook-up fees. Because the hook-up fees have been and will be much lower

than originally estimated, the "net" amount is greater, and consequently the AFUDC is higher. This creates a situation where the amounts available to pay down the plant are lower, while the amount to pay down is growing.

Q. WHAT NEGATIVE FINANCIAL IMPACTS DOES ARIZONA-AMERICAN ANTICIPATE IF CWIP IS NOT ALLOWED IN RATE BASE?

A. First, we need to emphasize that given the magnitude of the housing decline; authorizing $25 million of CWIP in rate base will mitigate the problem, but will not provide a full solution. It will however allow for some additional time and, most importantly, slow down the growth of the balance related to the plant. In the original case, Arizona-American had outlined a fairly specific process on how the fees would be applied. Essentially, the fees would first go to recover any "post in-service AFUDC", they would next offset depreciation expense and finally the remainder would pay down the balance of the project. This allowed Arizona-American to build the project and avoid the negative impacts of carrying a $60 million plant. Key, however, was a level of fees sufficient to pay for each of these components. Unfortunately, under the current outlook the fees will not be sufficient to even recover the post in-service AFUDC, let alone the depreciation or paying down the plant. Without placing CWIP into rate base Arizona-American will be forced to try to carry a large asset with no cost recovery. I am not confident that we will be able to do that.

Q. DID THE COMMISSION PROVIDE AN ACCOUNTING ORDER THAT WOULD ALLOW RECOGNITION OF THE POST IN-SERVICE AFUDC?

A. Yes. While the Commission's order was helpful for rate-making purposes; GAAP does not allow Arizona-American to recognize a profit that will be earned in a future period for plant that is in-service and that is why Arizona-American proposed applying hook-up fee proceeds each month to recover the post-in-service AFUDC immediately in cash.

From a GAAP perspective, even with the existing authorization, Arizona-American will still suffer from diminished earnings in the near term as hook-up fees are inadequate. Given Arizona-American's current position, these near-term impacts would create a severe hardship.

Q. DID THE COMMISSION PROVIDE AN ACCOUNTING ORDER THAT WOULD ALLOW ARIZONA-AMERICAN TO DEFER DEPRECIATION?

A. Yes. FAS 71 specifically allows Arizona-American to defer expenses as ordered by the Commission. It is important to remember however that by deferring the depreciation the net value of the asset will stay the same. Said another way, even with various accounting orders we will still need to recover the plant and deferred depreciation in cash at some point in the future.

Q. WHAT WOULD THE REVENUE REQUIREMENT ON THE ASSET BE FIGURING ONLY THE RETURN ON THE ASSET?

A. Excluding all O&M, depreciation and other associated expenses the required return on the $60 million plant would be approximately $8.3 million annually. This compares to expected hook-up fees of roughly $1 million per year for the first two years of operation. This difference, less taxes, represents the lost net income or financial harm to Arizona-American.

Q. IF ARIZONA-AMERICAN WERE TO RELY SOLELY ON HOOK-UP FEES, CONTINUED TO RECORD POST IN-SERVICE AFUDC, AND DEFER DEPRECIATION, HOW LONG WOULD IT TAKE FOR FEES TO COMPLETELY PAY FOR THE PROJECT?

A. Based on the current assumptions it is doubtful this project will ever get paid off. Exhibit CCB-R1 shows the Annual Hook-up Fee Versus Post In-Service AFUDC and Exhibit

CCB-R2 shows the Annual Hook-up Fee versus the Unfunded Balance. These Exhibits show projections of data related to hook-up fees and project costs through 2020. We can see that by 2020 the net unfunded balance is $58 million, roughly equal to the total of the original 2009 construction cost. Over that time-period, Arizona-American would have recovered a total of $68 million in post in-service AFUDC while just beginning to pay down the White Tanks Plant.

Q. WITHOUT RECOVERY OF THE AFUDC WHAT WOULD THE RECOVERY PERIOD BE?

A. First, without the recovery of the AFUDC Arizona-American would suffer financial harm of roughly $5.4 million per year as we would be carrying a $60 million dollar asset with no return. Based on current forecasts the cumulative hook-up fees would equal the construction costs in late 2019 or early 2020.

V <u>OTHER OPTIONS COULD MITIGATE THE FINANCIAL HARM</u>

Q. WHAT OPTIONS WOULD ARIZONA-AMERICAN CONSIDER?

A. Putting $25 million of CWIP into rate base is an important first step. The revenue requirement effect of including $25 million of White Tanks construction costs in rate base assuming Arizona-American's requested rate of return of 8.4% is approximately $3.476 million per year. If this were recovered via a customer charge to the Agua Fria district customers, the resulting charge would be $9.09 per month based on the average test year customer count of 31,882.

Both Staff and RUCO have expressed concerns with putting CWIP into rate base, particularly with regard to the limited number of precedents for this type of action and questions on future reviews. As an alternative, it would be acceptable to the Company to set the revenue requirement equal to that of putting CWIP in rate base using the White

Tanks Plant Surcharge Mechanism that Mr. Broderick proposed in his Direct Testimony. This would be a temporary surcharge that would be in place only until completion of the next rate case. At the time of the next case, the plant is expected to be fully operational and, we will have an updated visibility into the housing outlook. Arizona-American would then propose a permanent solution. The permanent solution could, at that point, include a standard review of the plant as an asset that is used and useful and also incorporate an updated view of the long-term housing market and associated hook-up fees.

Q. ARE THERE ANY OTHER OPTIONS ARIZONA-AMERICAN WOULD CONSIDER?

A. Arizona-American would consider a variety of helpful options in addition to or alternatively to avoid further financial harm to Arizona-American. Creating some form of renewable-water-supply surcharge that would be added to customer bills is one such option. If the surcharge was expanded to cover all of our Valley water districts still on groundwater, that would lessen the amount of the surcharge.

Arizona-American will eventually need to request that 100% of the unrecovered plant net of contributions be put into rate base.

VI <u>THE POTENTIAL CONSEQUENCES IF ARIZONA-AMERICAN CANNOT GET SUFFICIENT FINANCIAL RELIEF IN THIS CASE</u>

Q. WHAT WILL BE THE CONSEQUENCES IF ARIZONA-AMERICAN CANNOT GET SUFFICIENT FINANCIAL RELIEF IN THIS CASE?

The White Tanks Plant is very large relative to Arizona-American's total investment. Arizona-American cannot carry the cost of this project on hook-up fees alone. If the

results of this rate case are disappointing, Arizona-American must consider mothballing or selling the White Tanks Plant.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

Exhibit CCB-R1

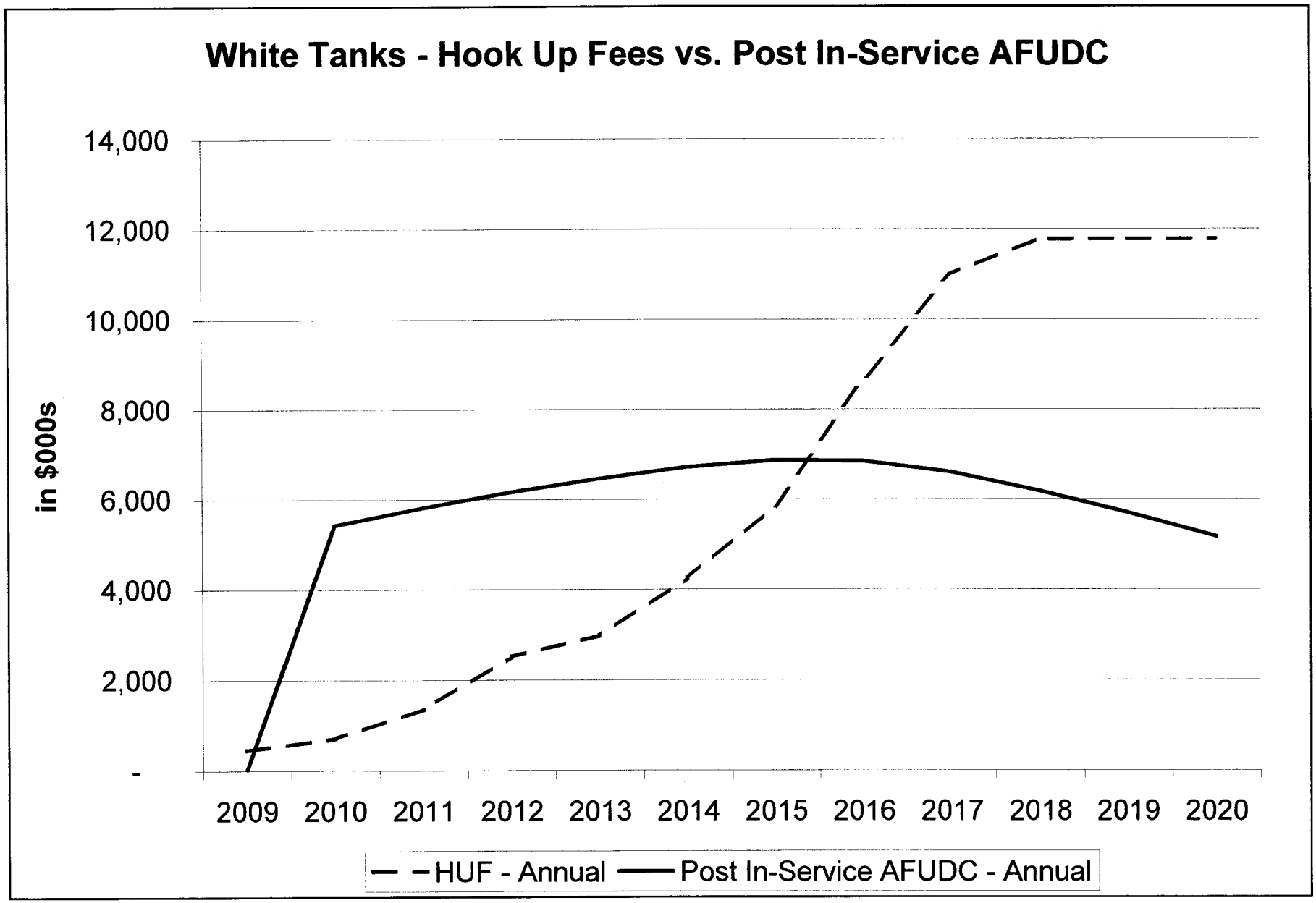
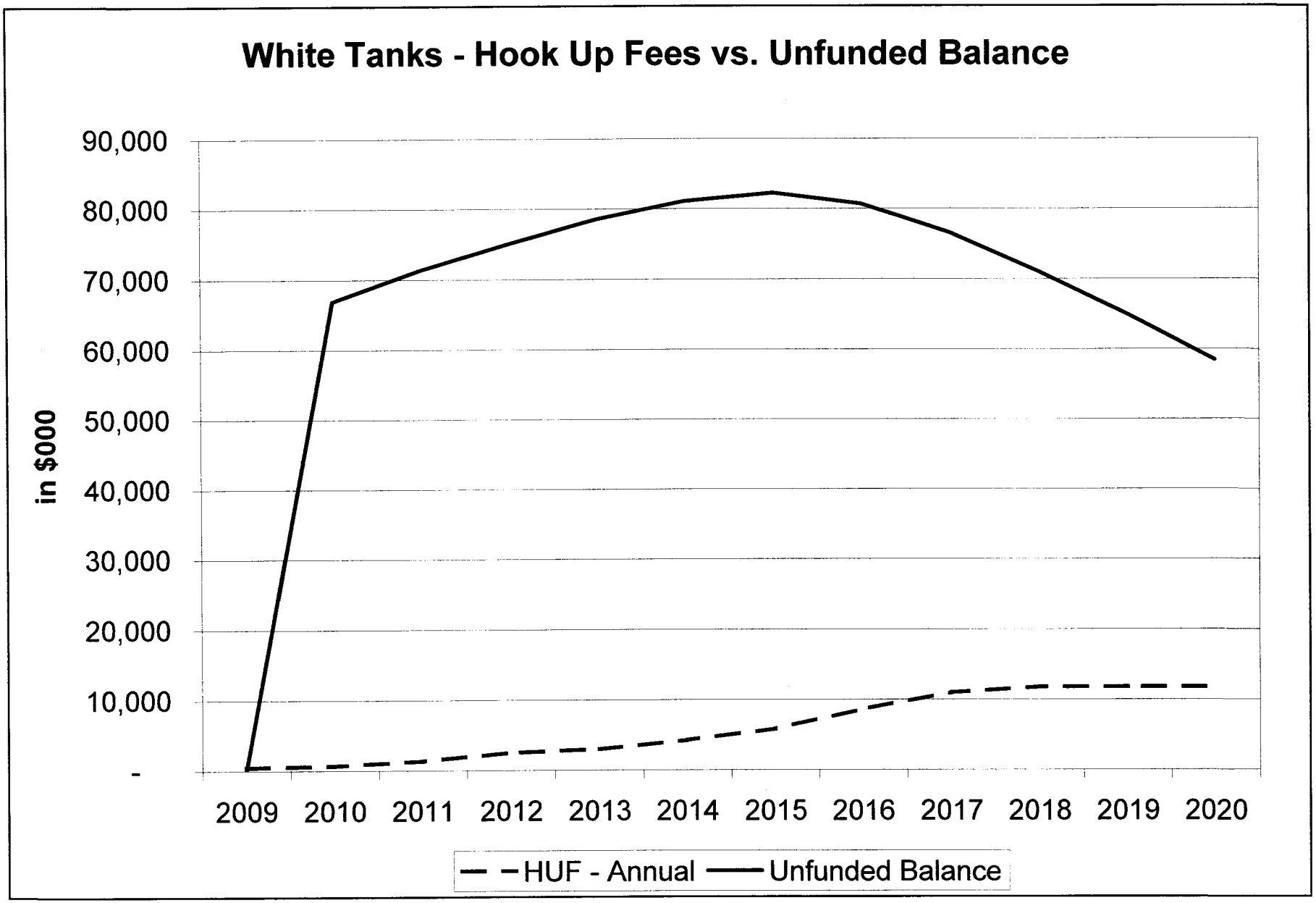

White Tanks - Hook Up Fees vs. Post In-Service AFUDC
in $000s
14,000
12,000
10,000
8,000
6,000
4,000
2,000
-
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
HUF - Annual
Post In-Service AFUDC - Annual

Exhibit CCB-R2


White Tanks - Hook Up Fees vs. Unfunded Balance
in $000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
-
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
HUF - Annual
Unfunded Balance

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT	DOCKET NO. W-01303A-08-0227
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REBUTTAL TESTIMONY
OF
JOSEPH E. GROSS
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
DATED FEBRUARY 10, 2009

REBUTTAL TESTIMONY
OF
JOSEPH E. GROSS
ON BEHALF OF
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EXHIBIT JEG-R1 – Excerpt from Commission Decision 70372

I EXECUTIVE SUMMARY

Mr. Gross testifies as follows:

Arizona-American's White Tanks Water Treatment has been under construction for over one year and is on schedule to be in service by December 2009, at a total project cost of approximately $62 million. Because of the current economy, customer growth has continued to slow. Arizona-American now projects the following number of additional customers will be subject to the Agua Fria Water District Hook-Up fee:

Year	2008	2009	2010	2011	2012	2013
Customers	48	98	154	293	545	645

Staff witness Dorothy Hains proposes disallowance of one adsorber vessel at each of three of Arizona-American's arsenic-treatment plants, Agua Fria Water Plant No. 5, Havasu Water Plant No. 4, and Sun City West Water Plant No. 2. This would be improper. Without these adsorber vessels, the plants could not treat the full output of the associated wells, which would jeopardize the water supplies in these districts.

The 2.2 million gallon Sierra Montana Reservoir was placed in service as post-test-year plant on December 8, 2008, at a cost of $1,794,728.

The Agua Fria Phase 2 distribution system improvements project was placed into service as post-test-year plant on October 6, 2008 at a cost of $1,389,895.

The .25 million gallon Big Bend Acres Reservoir was placed into service on November 26, 2008, at a cost of $643,127.

Arizona-American is currently designing an arsenic treatment facility at Water Plant No. 5, which should be in service by summer 2010. This facility is required to comply with the EPA revised arsenic standards of 10 parts per billion, issued in January 2001. Mr. Magruder's interpretation of the EPA standards is incorrect. Arizona-American is no longer planning on receiving developer funds toward the project. The arsenic facility project has been reduced in scope and designed to fit within the existing walls of Tubac Water Plant #5.

At the Mohave Wastewater Wishing Well Treatment Plant, new plant construction entered service in summer 2008 at a cost of $4,276,039. A portion of the new construction was to replace or upgrade existing plant components, with a portion designed to increase plant capacity. The decision to increase the plant capacity was based on daily flows exceeding existing capacity and significant requests for capacity assurance letters. These additional requests far exceeded existing capacity. The decision was also consistent with ADEQ and Commission standards. The decision to upgrade and expand the Wishing Well Plant was prudent.

Phase 3a of the Paradise Valley Fire Flow project was placed in service on August 14, 2008 at a cost of $1,502,882. This project installed a 24" waterline in McDonald Drive from Miller Road to Scottsdale Road. Charges for planning and design remain for the suspended Phase 3b of that project in the amount of $514,223.23. Phase 3b was to construct a 16" waterline in Lincoln Drive and an 8" waterline in Tatum Boulevard, but was cancelled just prior to construction.

II INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, 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 DIRECT TESTIMONY IN THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. First, I will report on the status of the White Tanks Water Treatment Plant. Second, I will respond to Staff and intervener testimony concerning certain water and wastewater facilities. Third, I will provide the status of several other projects that I discussed in my direct testimony.

III WHITE TANKS WATER TREATMENT PLANT

Q. WHAT IS THE STATUS OF THE WHITE TANKS WATER TREATMENT PLANT?

A. The White Tanks Water Treatment Plant has been under construction for over one year and is on schedule to be in service by December 2009, at a total project cost of approximately $62 million. Through December 2008, over $30 million has been paid to Garney Construction, the construction contractor. Maricopa Water District is constructing the water-supply intake on the Beardsley Canal, which should be completed by spring 2009. In the late spring of 2009, Arizona-American will begin construction of the $2.5 million water-transmission main to connect the White Tanks Plant to Arizona-American's existing transmission system. Construction of the transmission main should be completed by fall 2009, in time for start-up of the White Tanks Plant.

Q. HOW DOES THIS PROJECT FACILITATE THE TRANSITION TO RENEWABLE AND SUSTAINABLE SURFACE WATER?

A. Over the years, ground water levels have been declining in the West Valley. Previous regional studies recommended the construction of a regional surface water treatment facility; which is under construction by Arizona-American. Upon completion, the White Tanks Plant will immediately reduce the withdrawal of ground water by up to 13.5 million gallons per day (mgd). Arizona-American plans to utilize the capacity of the plant to meet a portion of the base-load demand in the service area and will continue to utilize existing wells to assist in meeting that base load, and for peaking during summer months.

Q. HOW WILL THIS HELP YOUR EXISTING CUSTOMERS?

A. As the water table has dropped, Arizona-American has experienced declining water quality and increasing well rehabilitation and pumping costs. New wells in this area almost always require expensive arsenic-treatment facilities to comply with federal water quality standards. Even without adding new customers, groundwater levels would continue to drop as the current demand on the aquifer outstrips groundwater replenishment. This project is necessary to insure our current customers in the Agua Fria Water District have a reliable, sustainable source of potable water, now and into the future.

Q. AS PART OF YOUR DIRECT TESTIMONY, YOU PROVIDED A CUSTOMER GROWTH FORECAST FOR ARIZONA-AMERICAN'S AGUA FRIA WATER DISTRICT. CAN YOU PROVIDE AN UPDATED FORECAST?

A. Yes. Our current growth projections are much lower, due to the deteriorating economy, and are shown below. As stated in my direct testimony, not all these customers are subject to the increased water facilities hook-up fee.

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Customers	539	455	594	720	986	1014

Q. IN YOUR DIRECT TESTIMONY, YOU ALSO DISCUSSED A HOOK-UP FEE FORECAST THAT USES YOUR CUSTOMER GROWTH FORECAST AS AN INPUT. WILL ARIZONA-AMERICAN BE UPDATING THAT FORECAST?

A. Yes. Mr. Broderick is providing a revised hook-up fee forecast as part of his Rebuttal Testimony. His forecast is based upon the number of customers actually subject to the increased hook-up fee, as shown below.

Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Customers	48	98	154	293	545	645

IV <u>RESPONSE TO COMMISSION STAFF</u>

A <u>AGUA FRIA WATER PLANT NO. 5</u>

Q. COMMISSION STAFF WITNESS DOROTHY HAINS CONTENDS THAT THE ARSENIC TREATMENT PLANT AT AGUA FRIA WATER PLANT NO. 5 ONLY REQUIRES THREE 11-FOOT DIAMETER ADSORBER VESSELS, RATHER THAN THE FOUR THAT WERE INSTALLED. AS A RESULT, STAFF RECOMMENDS A DISALLOWANCE OF THE COST OF ONE VESSEL. IS THIS PROPER?

A. No. The system was designed to treat the combined flows from Wells 5.1 and 5.2 (1,400 gpm) using either of the following two modes of operation:

1. All four vessels could operate in single-stage or parallel mode at a manufacturer's recommended surface loading rate of 5 gpm/sf; or
2. The vessels could operate in two-vessel pairs in a series or lead/lag mode at a manufacturer's recommended surface loading rate of 8 gpm/sf.

Q. HOW DOES ARIZONA-AMERICAN OPERATE THE ARSENIC TREATMENT FACILITIES AT AGUA FRIA WATER PLANT NO. 5?

A. Arizona-American operates the arsenic-treatment plant in lead/lag mode, because it results in more efficient usage of the adsorptive-iron media, and therefore a lower life-cycle cost and smaller rate impact. However, in either mode, the system must be capable of operating with one vessel out of service for an extended time because periodic replacement of the adsorptive iron media is required. This media change-out process takes several days to complete. With the vessels operating in single-stage mode with one unit out of service, the system has a reliable treatment capacity of 1,425 gpm. With the system operating in the lead/lag mode, the system has a nominal rated capacity of 1,235 gpm, assuming that the train with the vessel out of service would operate at 5 gpm/sf and the other train would operate at 8 gpm/sf. During such periods, the system could either revert to single-stage treatment to achieve full plant capacity, or a small percentage of the raw water could be by-passed and blended with effluent from the ATP.

Q. WHAT WOULD HAPPEN IF THE ARSENIC TREATMENT FACILITIES CONTAINED ONLY THREE VESSELS AS RECOMMENDED BY STAFF?

A. If only three vessels were provided as Staff suggests, treatment capacity would be limited to a maximum of 950 gpm with one vessel out of service for required repair or media replacement. Because of the high concentration of arsenic in the raw water from the two wells feeding the treatment facility, 950 gpm would be insufficient to treat the 1400 gpm capacity of Wells No. 5.1 and 5.2. Four vessels are required for reliable capacity to fully

treat the well water during media replacement or required repairs. In addition, ADEQ Bulletin 10, Guidelines for the Construction of Water Systems, states "With one unit or item out of service, the remaining units or items shall meet the design capacity of the plant." However, if Agua Fria Water Plant #5 had only three vessels, as Staff suggests, and one was out of service for maintenance or repairs, the plant could not meet capacity requirements for its service area.

B AGUA FRIA SIERRA MONTANA RESERVOIR

Q. WHAT IS THE STATUS OF AGUA FRIA'S SIERRA MONTANA RESERVOIR?

A. The 2.2 million gallon Sierra Montana Reservoir was placed in service as post-test-year plant on December 8, 2008, at a cost of $1,794,728.

C AGUA FRIA DISTRIBUTION SYSTEM IMPROVEMENTS, PHASE 2

Q. WHAT IS THE STATUS OF AGUA FRIA DISTRIBUTION SYSTEM IMPROVEMENTS, PHASE 2?

A. This project was placed into service as post-test-year plant on October 6, 2008, at a cost of $1,389,895.

D HAVASU WATER PLANT NO. 4

Q. COMMISSION STAFF WITNESS DOROTHY HAINS CONTENDS THAT THE ARSENIC TREATMENT PLANT AT LAKE HAVASU CITY WATER PLANT NO. 4 ONLY REQUIRES TWO 9-FOOT DIAMETER ADSORBER VESSELS OR ONE 14-FOOT DIAMETER VESSEL, RATHER THAN THE TWO 14-FOOT DIAMETER VESSELS THAT WERE INSTALLED. AS A RESULT, STAFF RECOMMENDS A DISALLOWANCE OF THE COST OF ONE VESSEL. IS THIS PROPER?

A. No. Staff is correct that the system is required to treat a combined total of 600 gpm from Wells 8 and 9, but Staff is wrong that the plant could operate with less than two 14-foot diameter vessels. The system was designed for two modes of operation:

1. Both vessels could operate in single-stage or parallel mode at a manufacturer's recommended surface loading rate of 5 gpm/sf; or
2. The two vessels could operate in a series or lead/lag mode at a manufacturer's recommended surface loading rate of 8 gpm/sf.

Q. HOW DOES ARIZONA-AMERICAN OPERATE THE ARSENIC TREATMENT FACILITIES AT LAKE HAVASU CITY PLANT NO. 4?

A. Arizona-American operates the arsenic-treatment plant in lead/lag mode, because it results in more efficient usage of the adsorptive-iron media, and therefore a lower life-cycle cost and smaller rate impact. However, in either mode, the system must be capable of operating with one vessel out of service for an extended time because periodic replacement of the adsorptive iron media is required. This media change-out process takes several days to complete.

Q. WHAT WOULD HAPPEN IF THE ARSENIC TREATMENT FACILITIES HAD BEEN CONSTRUCTED AS RECOMMENDED BY STAFF?

A. If only one 14-foot diameter vessel were provided as suggested by Staff for Lake Havasu City Water Plant No. 4, there would be no arsenic treatment at all when the vessel is out of service for extended periods (multiple days) during media change-outs or equipment repair. Similarly, if two 9-foot diameter vessels had been installed, reliable treatment capacity (one vessel out of service) would be limited to only 320 gpm, 280 gpm less than required to treat the output of Wells No. 8 and 9.

With one unit out of service, i.e., single-vessel operation, the existing system has a reliable rated treatment capacity of 770 gpm. Although this slightly exceeds the rated

capacity of the existing wells, no smaller standard pressure vessel size (12 feet or smaller) is available to meet the combined capacity of Wells 8 and 9 with one of the two vessels out of service. Therefore, the installed system provides the most cost-effective size and configuration available to reliably meet the arsenic treatment needs for this facility. In September 2007, a rupture of one vessel's under drain system occurred, rendering that vessel out of service for two weeks. Without the redundancy provided by the second vessel, Arizona-American would most likely have received a Notice of Violation from ADEQ for violating the Federal arsenic standard.

E <u>MOHAVE WATER DESERT FOOTHILLS WELL NO. 1</u>

Q. WHAT IS THE STATUS OF THE PLANNED MOHAVE WATER DESERT FOOTHILLS WELL NO. 1?

A. Please refer to Mr. Stuck's testimony.

F <u>MOHAVE WATER BIG BEND ACRES RESERVOIR</u>

Q. WHAT IS THE STATUS OF THE POST-TEST-YEAR MOHAVE WATER BIG BEND ACRES RESERVOIR?

A. The .25 million gallon Big Bend Acres Reservoir was placed into service on November 26, 2008, at a cost of $643,127.

G <u>SUN CITY WEST WATER PLANT NO. 2</u>

Q. COMMISSION STAFF WITNESS DOROTHY HAINS CONTENDS THAT THE ARSENIC TREATMENT PLANT AT SUN CITY WEST WATER PLANT NO. 2 ONLY REQUIRES THREE 12-FOOT DIAMETER ADSORBER VESSELS, RATHER THAN THE FOUR 12-FOOT DIAMETER VESSELS THAT WERE INSTALLED. AS A RESULT, STAFF RECOMMENDS A DISALLOWANCE OF THE COST OF ONE VESSEL IS THIS PROPER?

A. No. First, the system was designed to treat a combined capacity of 1,790 gpm from Wells 2.4 and 2.5, which is slightly greater than the 1,760 gpm value referenced in Staff's comments. Second, the system was designed for two modes of operation:

1. All four vessels could operate in single-stage or parallel mode at a manufacturer's recommended surface loading rate of 5 gpm/sf; or
2. The vessels could operate in two-vessel pairs in a series or lead/lag mode at a recommended surface loading rate of 8 gpm/sf.

Q. HOW DOES ARIZONA-AMERICAN OPERATE THE ARSENIC TREATMENT FACILITIES AT SUN CITY WEST WATER PLANT NO. 2?

A. Arizona-American operates the arsenic-treatment plant in lead/lag mode, because it results in more efficient usage of the adsorptive-iron media, and therefore a lower life-cycle cost and smaller rate impact. However, in either mode, the system must be capable of operating with one vessel out of service for an extended time because periodic replacement of the adsorptive iron media is required. This media change-out process takes several days to complete. With the vessels operating in single-stage mode with one unit out of service, the system has a reliable treatment capacity of approximately 1,700 gpm. With the system operating in the lead/lag mode, capacity would be reduced to 1,470 gpm, because the train with the vessel out of service would operate at 5 gpm/sf and the complete lead/lag train would operate at 8 gpm/sf. Since the combined capacity of the two wells exceeds both of these ratings, a percentage of the raw water must be by-passed and blended with effluent from the arsenic-treatment plant in order to allow the wells to operate at their maximum rated capacities and not exceed the manufacturer's loading rate recommendations. With by-passing about 20 percent of the raw water flow, the system can still achieve the target finished water arsenic concentration of 8 ppb with one vessel out of service for media replacement.

Q. WHAT WOULD HAPPEN IF THE ARSENIC TREATMENT FACILITIES CONTAINED ONLY THREE VESSELS AS RECOMMENDED BY STAFF?

A. If only three vessels were provided as suggested by Staff, the capacity for arsenic removal would be limited to a maximum of 1,130 gpm during periods when one vessel was out of service. Under such a scenario, the production capacity from Wells 2.4 and/or 2.5 would have to be reduced by about 375 gpm (0.5 MGD) to ensure that the arsenic concentration in the blended water exiting the ATP remained reliably below the MCL. However, these wells are relied upon as part of a MCESD-approved blending plan to control the concentration of nitrate and fluoride from the other three wells that combine at the site. Therefore, if the output from Wells 2.4 and 2.5 was reduced, a corresponding capacity reduction from the other wells would also be necessary, which would prevent the Sun City Water Treatment Plant No. 2 from being able to meet system demands on a reliable basis.

There are no alternative configurations of vessel sizes or number of units that would more cost-effectively provide the reliable capacity required for the wells that must be treated at this facility.

H <u>TUBAC WATER PLANT NO. 5</u>

Q. WHAT IS THE STATUS OF THE PLANNED ARSENIC TREATMENT FACILITIES AT THE TUBAC WATER PLANT NO. 5

A. Arizona-American is currently designing an arsenic treatment facility at Water Plant No. 5, which should be in service by summer 2010. This facility is required to comply with the EPA revised arsenic standards of 10 parts per billion, issued in January 2001.

Q. HAVE YOU READ MR. MAGRUDER'S DIRECT TESTIMONY?

A. Yes.

Q. ARE THE ARSENIC LEVELS IN TUBAC WELLS DECLINING?

A. No. Arsenic readings in Tubac Well #4 have actually increased to 41 parts per billion (ppb), which is why EPA denied the company's request for a three-year exemption. Mr. Magruder's numbers are based upon the system's running annual average, while EPA's final rule requiring 10 ppb is based upon the running annual average at each well.

Q. HAS THE TREATMENT PLANT DESIGN BEEN PRESENTED TO LOCAL RATEPAYERS?

A. No. Arizona American is working diligently to reduce the scope of the project in order to lessen the impact on ratepayers. Once the amended design is completed, it will be described to interested ratepayers. A 60% design was available to the attendees at the community meeting in Tubac; held last fall.

Q. IS THE TUBAC ARSENIC REMOVAL FACILITY INCLUDED IN THE TEST YEAR FOR THIS CASE?

A. No. The project is scheduled to be completed in the spring of 2010. Mr. Broderick discusses this topic.

Q. WILL A DEVELOPER CONTRIBUTE APPROXIMATELY $1 MILLION TO THE FACILITY?

A. No. Initial discussions with the developer of Tubac Marketplace in early 2008 involving this project envisioned a storage reservoir and a booster pump station, which would provide water service meeting arsenic standards and fire-flow protection to that development. The developer was also to provide land for those facilities. The developer subsequently decided to provide storage for fire flow protection within the development. With current economic conditions, Arizona American is unsure of the developer's time line or intent to proceed with Tubac Marketplace. Therefore, the planned arsenic facility

has been reduced in scope and designed to fit within the existing walls of Tubac Water Plant #5. This scope reduction will allow the project to proceed in a timely manner, not dependent upon further negotiations with the developer, to comply with federal arsenic standards as soon as possible.

V MOHAVE WASTEWATER TREATMENT PLANT CONSTRUCTION

Q. WHAT IS THE STATUS OF THE MOHAVE WASTEWATER TREATMENT PLANT CONSTRUCTION?

A. As noted by Staff, the new plant construction entered service in summer 2008 at a cost of $4,276,039.

Q. WHY WAS THE CONSTRUCTION NEEDED?

A. The Wishing Well Wastewater Treatment Plant was built many years ago by Sorenson Utilities. Sorenson Utilities was acquired by Citizens Utilities in March 1999. Then, in 2001 Arizona-American acquired Citizens Utilities' Arizona water and wastewater assets. By 2005, it became obvious to Arizona American that the Wishing Well Plant needed to be upgraded for two reasons. First, several of the plant's components needed to be replaced. Although the Wishing Well Plant was permitted by ADEQ at 0.500 mgd, the design capacity was only 0.250 mgd, and the operational capacity was approximately 0.200 mgd, due to degraded plant components. To restore the design capacity, many plant components needed to be replaced. Second, the plant needed to be expanded to the permitted capacity of 0.500 mgd to serve customer growth, which was projected at that time to be substantial.

Q. WHAT WAS DONE TO IMPROVE PLANT CAPACITY?

A. Arizona-American hired a consulting engineer to perform an evaluation of the existing plant, and prepare a design report to determine the most cost effective upgrades to meet

the permit requirements of 0.500 mgd. It was determined that the aeration basin, filters and chlorine contact basin could already treat 0.500 mgd. However, the clarifier and sludge holding tank were undersized. Therefore, the final design included improvements to current plant operations, as well as capacity expansion. Plant improvements are listed below:

1. New clarifiers were designed to treat up to 0.500 mgd, and the existing undersized clarifier was converted to provide additional sludge holding volume.
2. The blowers were upgraded. Existing blowers were aged and provided no redundancy.
3. The aeration system was upgraded. The existing system was aged and had many leaks in the air piping.
4. A screwpress was added to reduce the high operational costs of hauling liquid sludge. Operational savings in sludge hauling was projected to pay for the cost of the new screwpress within three years.
5. New headworks were constructed, which included a microstrainer and grit chamber. This replaces the extremely inefficient bar screen basket at the head of the existing aeration basin. This new headworks significantly reduces grit and debris accumulation in the aeration basins, which had decreased plant capacity to under 0.200 mgd.

Existing customers are currently benefitting from the improved efficiency and reduced O&M costs of the completed plant.

Q. PLEASE PROVIDE A BREAKOUT OF COSTS FOR PLANT IMPROVEMENTS AND PLANT EXPANSION.

A. Please see the table below:

NARUC Acct #	Description	Total Cost(s)	Plant Improvement	Plant Expansion
354	Structure & Improvement	$ 976,643.00	$ 627,108.29	$ 349,535.33
355	Power Generation Equipment	$ 186,696.08	$ 163,146.65	$ 23,549.43
361	Sewer Collection	$ 146,946.40	$ 73,473.20	$ 73,473.20
364	Flow Meter Device	$ 18,487.70	$ 15,964.06	$ 2,520.64
371	Pumping Equipment	$ 6,611.73	$ 3,305.86	$ 3,305.86
380	Treatment & Disposal Equip	$ 2,819,517.15	$1,922,609.24	$ 896,907.91
396	Communication Equipment	$ 110,425.89	$ 55,212.94	$ 55,212.94
397	Misc Equipment	$ 10,713.43	$ 10,713.43	$ -
	Total(s)	**$ 4,276,039.00**	**$2,871,533.66**	**$ 1,404,505.34**

Q. WHAT O&M SAVINGS RESULT FROM THE IMPROVED PLANT?

A. Please refer to Mr. Stuck's testimony. These savings have also been reflected in the calculation of the revenue increase for Mohave Wastewater Treatment Plant by Company witness Ms. Sheryl Hubbard.

Q. WHY WAS IT NECESSARY TO RESTORE THE WISHING WELL PLANT'S CAPACITY TO 0.250 MGD?

A. More than half the months of 2007 and 2008 had peak days of over 0.200 mgd, with some months reaching 0.250 mgd. To temporarily address this situation, Arizona-American brought a portable tank onsite to allow treatment when flows exceeded plant capacity. This temporary fix was required to avoid a Notice of Violation from ADEQ. Since peak flows from existing customers were exceeding plant capacity, and many of

the plant's components had deteriorated, upgrades to serve existing customers were urgently needed.

Q. WHY DID ARIZONA-AMERICAN BELIEVE THAT TREATMENT CAPACITY NEEDED TO BE EXPANDED TO 0.5 MGD AT THE WISHING WELL TREATMENT PLANT?

A. In 2005, Arizona-American began receiving numerous requests from developers for ADEQ Capacity Assurance Letters to ensure that their developments would have wastewater treatment capacity at the plant. However, based on continuing high growth rates in Mohave County, Arizona-American did not believe that the existing Wishing Well Plant design capacity would be able to satisfy the expected growth, especially given the time required for design, procuring equipment, and construction of an expansion. Projections in 2005 showed that the existing plant's capacity would be exhausted by 2008.

	PROJECTED YEARLY GROWTH & WWTP FLOW						
	Q107	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
New Connections per Year	132 ('06)	143	156	200	162	121	783
Gallons/Day/Connection	168	168	168	168	168	168	
Total Active Connections	1,189	1,332	1,488	1,689	1,851	1,972	1,972
WWTP Flow GPD	200,000	224,121	250,362	284,071	311,320	331,707	331,707

This projection was validated by peak flows in September, November, and December 2008, which have exceeded 0.250 mgd. Page 4 of Exhibit DMH-7 to Ms. Hain's testimony shows more recent growth projections, which also indicate that the plant's actual capacity of .200 mgd would be exceeded in 2008.

Arizona American subsequently signed ADEQ Capacity Assurance Forms for the following developers:

Development Name	Total Units	Design Flow (ADF, MGD)
Greens at Los Lagos	389	0.072
Brett Canyon Estates	55	0.013
Desert Lakes Estates D,E	240	0.040
Everglade Estates	154	0.039
Mesa Vista	131	0.024
Patriot Estates	119	0.030
Sage Hill A & B	99	0.037
Twin Palm Estates	144	0.036
Stetson Ranch	57	0.011
Valley Springs Estates	132	0.025
Total Units	1520	0.317
		0.134 <-- Average Daily Plant Flow
		0.442 <-- Required Future Plant Flow

ADEQ Permit Limit	0.50 mgd
- existing plant capacity	0.20 mgd
- expansion complete Aug 2008 to	0.50 mgd

In 2007-2008, while the plant was under construction, development slowed; however, the commitments to serve these developments remain in force today.

Q. COULD THE WISHING WELL PLANT EXPANSION HAVE BEEN SMALLER?

A. Even if it were possible to piecemeal plant expansion, it would not have been cost-effective, or fair to ratepayers, to increase treatment plant capacity in small .050-.100 mgd increments; since frequent design and construction contracts would be necessary, with the resulting high overhead, contractor mobilization costs, and disruption to ongoing plant operations. The plant was already permitted for 0.5 MGD and Arizona-American had committed to provide capacity for 0.442 MGD of customer needs.

Q. WHAT IS THE CURRENT DEVELOPMENT ACTIVITY IN MOHAVE COUNTY?

A. Recently, development in Mohave County has slowed considerably. However, there are several active projects in the service area and there remains the potential for rapid growth when market conditions become more favorable, because these projects are in an

advanced stage of development. The service area has the ultimate potential of developing over 3,000 homes based on the active and proposed developments.

Q. WHAT IS THE NORMAL PLANNING HORIZON FOR WASTEWATER TREATMENT PLANTS?

A. There are commonly accepted industry standards for timing of design and construction of wastewater treatment facilities. Arizona-American adheres to the standards quoted below from the Maricopa County Environmental Services Division:

> The rated capacity of a wastewater treatment plant is critical in determining when an expansion of a plant is required. Two stipulations that are normally included in a wastewater treatment plant's operating permit are based on the rated capacity of the plant. Those stipulations are:
>
> - "By the time the average day maximum month flow to the Facility reaches eighty percent (80%) of the Facility's rated capacity, the Owner shall have initiated planning and design of the next expansion of the Facility."
> - "By the time the average day maximum month flow to the Facility reaches ninety percent (90%) of the Facility's rated capacity, the Owner shall have initiated construction of the next expansion of the Facility."
>
> Besides being used in determining when an expansion of a facility is required, the rated capacity is also used as a basis of design for determining peaking factors. Since short term (instantaneous) influent flows may exceed the rated capacity of the facility, peaking factors are used during the design process to determine if flow equalization or additional equipment is required to handle the peak flows to the plant.

As mentioned above, the actual capacity of the Wishing Well plant was approximately 0.200 mgd when decisions were made to move forward with this project. Since previous flows had exceeded this capacity, and the total commitment to serve required 0.442 mgd, based on existing customers and developers' plans, the correct course was to implement plant improvements and increase capacity immediately.

The Arizona Department of Environmental Quality has also issued guidance in ADEQ Bulletin 11 on the design of wastewater treatment facilities, which appears below:

CHAPTER VI - SEWAGE TREATMENT WORKS DESIGN CONSIDERATIONS

The treatment plant should be designed to provide for the estimated population of 15 to 25 years. In general, if the growth rate and interest rates are low, a 20 to 25 year design period is recommended. When growth and interest rates are high, a 10 to 15 year design period may be more feasible.

2. Plant Upgrading - Upgrading of sewage treatment works may be required for several reasons including the following:

   a. Meet more stringent effluent quality standards.

   b. Increase hydraulic and/or organic loading capacity.

   c. Improve poor performance due to improper plant design and/or operation. It is recommended that the Engineer define the following aspects of the existing facility.

      1) Efficiency of treatment
      2) Normal operational and maintenance procedures
      3) Condition of structures
      4) Condition of equipment
      5) Staffing pattern and operator skill

Based on ADEQ's standard, in a high growth area like Mohave County we were to use a 10-15-year planning requirement.

Q. HAS THE COMMISSION PROVIDED ANY GUIDANCE CONCERNING THE APPROPRIATE PLANNING HORIZON FOR A WASTEWATER-PLANT EXPANSION?

A. Yes. I have attached as Exhibit JEG-R1, page 12 of Commission Decision 70372 in Docket Number WS-01303A-06-0403, which concerned the capacity expansion of the Northwest Valley Wastewater Treatment Plant. This decision states that a "five-year planning horizon … is the generally accepted means for utilities to make wastewater plant investment decisions."

Q. DID ARIZONA-AMERICAN COMPLY WITH A FIVE-YEAR PLANNING HORIZON?

A. Yes. Based on the commitments we made at the requests of developers, Arizona-American planned the expansion to satisfy our treatment-capacity requirements within five years of undertaking the project.

Q. WAS IT PRUDENT FOR ARIZONA-AMERICAN TO EXPAND THE WISHING WELL TREATMENT PLANT TO 0.500 MGD?

A. Absolutely. Based on the information we knew at the time, Arizona-American had no choice but to improve and expand the Wishing Well Plant. The actual plant capacity was 0.05 mgd less that its design capacity of 0.250 mgd. In turn, actual peak demands had been exceeding the design capacity, which could not be allowed to continue. Finally, in response to developer requests, we had committed to serve an additional 0.317 of future demand within the Commission's five-year planning horizon, and well within ADEQ's 10-15-year planning horizon.

A <u>PARADISE VALLEY WATER</u>

Q. WHAT IS THE STATUS OF THE PARADISE VALLEY FIRE FLOW PROJECT?

A. As reported by Staff, Phase 3a of the Paradise Valley Fire Flow project was placed in service on August 14, 2008 at a cost of $1,502,882. This project installed a 24" waterline in McDonald Drive from Miller Road to Scottsdale Road. Charges for planning and design remain for the suspended Phase 3b of that project in the amount of $514,223.23. Phase 3b was to construct a 16" waterline in Lincoln Drive and an 8" waterline in Tatum Boulevard, but was cancelled just prior to construction.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

useful prior to including it in the rate base of a regulated utility. In our consideration of whether the entire Northwest Plant expansion is used and useful, reliance on RUCO's own stated position in the Sun City West Wastewater case[7] provides support for Staff's position, based on Staff's engineering analysis expertise, that the entire Northwest Plant is 100 percent used and useful. RUCO alleges in this case that the admitted uncertainties in Staff's growth projections will lead to inequitable rates under the rate base allocation treatment of the Northwest Plant, but RUCO has not offered alternative projections or recommended any alternative percentage of the allocation. While projections are, by their nature, uncertain, Staff used a scientifically accepted method for projecting growth. A bare declaration that the uncertainty inherent to growth projections will "almost ensure" inequitable and unfair rates, is not sufficient to support excluding from rate base capacity that the Company prudently built and that Staff and the Company advocate is necessary to meet the needs of the Northeast Agua Fria service area. RUCO's position also fails to take into account both the five year planning horizon that is the generally accepted means for utilities to make wastewater plant investment decisions, and the Northwest Plant peak day flow information from Docket No. WS-01303A-02-0867 that was introduced in this case. (*See* Exh. S-23 at 4). The five year planning horizon is also used by ADEQ to analyze necessary wastewater treatment plant additions.

Credible evidence was presented, in the form of Staff's engineering expertise and RUCO's position in the Sun City West Wastewater case, that the Northwest Plant expansion was prudent under Commission rules, and that the capacity is used and useful. The weight of the evidence supports the conclusion that 32 percent of the total capacity of the Northwest Plant has been built to serve Anthem/Agua Fria Wastewater customers. Allocation of 32 percent of the costs of the Northwest Plant to the Anthem/Agua Fria Wastewater District as proposed by the Company and Staff is therefore reasonable and appropriate, and will be adopted. Appropriate adjustments to accumulated depreciation, operating expense, and depreciation expense are also necessary, as addressed in discussion below. We will order the Company to report the results of plant operations in the

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT	DOCKET NO. W-01303A-08-0227
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WASTEWATER DISTRICT	DOCKET NO. SW-01303A-08-0227

REBUTTAL TESTIMONY
OF
G. TROY DAY
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 11, 2009

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EXECUTIVE SUMMARY

Mr. Day testifies as follows:

Tank-Maintenance Program

Staff recommended that the Commission reject Arizona-American's proposed tank maintenance program. Arizona-American acknowledges that it did not propose a clear program and did not support it with enough data. Therefore, Arizona-American offers a revised program that should be more acceptable to Staff.

Tank maintenance is one of the largest single maintenance expenses for a water utility. Although it is a relatively predictable expense for the Company, a particular district might see more or less than its proportionate share during a rate case test year. For a smaller district, the expense can have a significant impact on rates. By funding tank maintenance by an annual accrual, the rate impact of the maintenance can be spread over many years, lessening the rate impact on customers.

Under the revised program Arizona-American would perform inspections, interior coating, and exterior painting every 14 years for every tank. It is more cost effective to only have to take a tank out of service once every 14 years, rather than every seven years.

Arizona-American used information from Arizona Water and data from our Missouri-American Water affiliate, which has over 100 tanks and many years of tank maintenance records. Based on this study and our experience with the Arizona climate and water-quality characteristics, we believe that 14 years is an appropriate timeframe for maintenance of both interiors and exteriors. This time period is more customer friendly for costs while still allowing us to maintain our valuable assets in a timely manner.

Maintenance costs are based on the costs used by Arizona Water. Interior coating is at $4.22/sq.ft., and exterior coating is at $1.68/sq.ft.

Arizona-American projects that it will spend approximately $4.4 million over the next 14 years. In her rebuttal Schedule C-2, Ms. Hubbard calculates the proposed revised annual tank-maintenance accrual by district. The adjustment is detailed on ADJ SLH-5 Tank Maintenance for each district.

The tank maintenance funds would be accounted for in a reserve account that could only be used for tank maintenance. Second, Arizona-American can annually report on the status of the account, including the funds collected, the maintenance performed, and the year-ending fund balance.

Small Meter Replacement Standard

Arizona-American strives to replace small meters after 15 years of usage. Meters need to be replaced over time, because meter accuracy also decreases over time. These inaccuracies are in the customers' favor, but the result is inaccurate billing, inaccurate rate calculations, and inaccurate water-loss computations. This is consistent with a study performed in 1995 by the City of Phoenix.

I INTRODUCTION

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 623-445-2422.

Q. IN WHAT CAPACITY AND BY WHOM ARE YOU EMPLOYED?

A. I am the Vice President of Operations for Arizona-American Water Company ("Arizona-American" or the "Company").

Q. PLEASE DESCRIBE YOUR PRIMARY RESPONSIBILITIES FOR THE COMPANY.

A. I lead the Operations, Water Quality and Water Resource functions of Arizona American Water. I guide the capital improvement program to ensure Arizona 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. I have worked for American Water for over eight years. Previously, I served as the Production Director for American Water, Western Region. Before that I was American Water's Director of Water Quality for its Western Region. 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. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I will discuss Arizona-American's proposed revised tank-maintenance program and also the timing of Arizona-American's small meter replacement program.

II TANK-MAINTENANCE PROGRAM

Q. DID ARIZONA-AMERICAN PROPOSE A TANK-MAINTENANCE PROGRAM IN ITS DIRECT TESTIMONY?

A. Yes, Mr. Cole proposed such a program. Mr. Cole reports to me.

Q. HOW DID STAFF REACT TO MR. COLE'S PROPOSAL?

A. Staff witness McMurray recommended that the Commission reject Arizona-American's proposal. Mr. McMurray did not believe that Arizona-American had provided sufficient support for the recommended annual expense levels. Mr. McMurray stated: "Staff recommends normalizing tank maintenance expense by using an average of the general ledger balances for the past three years."

Q. HOW DO YOU RESPOND TO STAFF?

A. I understand Staff's concerns. Arizona-American did not propose a clear program and did not support it with enough data. I would like to offer a revised program that should be more acceptable to Staff.

Q. WHY DOES ARIZONA-AMERICAN STILL WANT A TANK-MAINTENANCE ACCRUAL?

A. Tank maintenance is one of the largest single maintenance expenses for a water utility. Although it is a relatively predictable expense for the Company, a particular district might see more or less than its proportionate share during a rate case test year. For a smaller district, the expense can have a significant impact on rates. By funding tank-

maintenance by an annual accrual, the rate impact of the maintenance can be spread over many years, lessening the rate impact on customers.

Q. WHAT ARE YOU PROPOSING FOR ARIZONA-AMERICAN'S REVISED TANK MAINTENANCE PROGRAM?

A. Under the revised program Arizona-American would perform inspections, interior coating, and exterior painting every 14 years for every tank. This differs from the Tank Maintenance Program approved for Arizona Water, which is to perform interior coating every 14 years and exterior painting every seven years. Arizona-American proposes 14 years for both interior and exterior coating, because it is more cost effective to only have to take a tank out of service once every 14 years, rather than every seven years. Further, our experience is that exterior coating every seven years is more often than needed.

Q. IS THERE ANY AMERICAN WATER WORKS ASSOCIATION ("AWWA") STANDARD FOR TANK MAINTENANCE AND REPAIR?

A. No. Due to differing climates and water quality characteristics there is no standard time frame for tank maintenance. Because there is no standard we have used information from Arizona Water and data from our Missouri-American Water affiliate, which has over 100 tanks and many years of tank maintenance records. As discussed above, Arizona Water has used a tank maintenance deferral account to paint tank exteriors every seven years and coat interiors every 14 years. Missouri American Water's average schedule for painting tank exteriors is eight years, and for coating interiors every 12 years. Our experience with the Arizona climate and water-quality characteristics leads us to believe that 14 years is an appropriate timeframe for maintenance of both interiors and exteriors. This time period is more customer friendly for costs while still allowing us to maintain our valuable assets in a timely manner.

Q. WHAT IS ARIZONA-AMERICAN'S PROJECTED TANK-MAINTENANCE EXPENSE?

A. Arizona-American projects that it will spend approximately $4.4 million over the next 14 years.

Q. HOW DID YOU CALCULATE THE PROJECTED TANK-MAINTENANCE OF $4.4 MILLION?

A. Please see Exhibit GTD-R1, attached to my testimony. Page one on Exhibit GTD-R1, describes each water tank in Arizona-American's system. Page two shows the proposed scheduled maintenance for each tank on page one and calculates the expected cost of the scheduled maintenance. Finally, page three summarizes page two. The first column on page three shows the $4,400,281 estimated tank-maintenance cost over the next 14 years.

Q. WHAT ARE THE MAINTENANCE COSTS IN EXHIBIT GTD-R1 BASED ON?

A. These are based on the costs used by Arizona Water. Interior coating is at $4.22 /sq.ft., and exterior painting is at $1.68/sq.ft.

Q. WHO CALCULATES THE PROPOSED REVISED ANNUAL ACCRUAL BY DISTRICT?

A. In her rebuttal Schedule C-2, Ms. Hubbard calculates the proposed revised annual tank-maintenance accrual by district. The adjustment is detailed on ADJ SLH-5 Tank Maintenance for each district.

Q. ARE YOU PROPOSING ANY OTHER FEATURES FOR THE REVISED TANK-MAINTENANCE PROGRAM?

A. Yes. First, the tank maintenance funds would be accounted for in a reserve account that could only be used for tank maintenance. Second, Arizona-American can annually report

on the status of the account, including the funds collected, the maintenance performed, and the year-ending fund balance.

III SMALL METER REPLACEMENT STANDARD

Q. WHAT IS ARIZONA-AMERICAN'S STANDARD FOR REPLACING SMALL WATER METERS?

A. Arizona-American strives to replace small meters after 15 years of usage. Meters need to be replaced over time, because meter accuracy also decreases over time. These inaccuracies are in the customers' favor, but the result is inaccurate billing, inaccurate rate calculations, and inaccurate water-loss computations.

The AWWA standard for small meter accuracy is 96% average accuracy, and the recommended testing period for small meters is 15 years. This is consistent with a study performed in 1995 by the City of Phoenix. The City found that once a meter had registered more than 748,000 gallons, accuracy began to dip below the AWWA standard of 96%. A meter needs to register just 137 gallons per day consumption (just over 4,000 gallons per month), to register 748,000 gallons in 15 years.

Average consumption even in our Sun City Water District exceeds 8,000 gallons per month. Based on the Phoenix study, we would expect that almost 100% of small meters aged 15 years and older would not meet the AWWA standard of 96% average accuracy. This is confirmed by our experience testing small meters that have been in service 15 years or more. This is why we strive to replace all small meters after 15 years of usage.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

Arizona American Water
2008 Rate Case - Tank Inspection Schedule
All Tanks

Eastern Division

Division	Facility Name	District	Year Constructed	Last Interior Paint	Last Exterior Paint	Type	Size (Gals.)	Evaluation and Report	Washout of Tank	Disinfection of Tank	Total Estimated Cost		Comments
Eastern	16-1 (No. 1)	Bullhead City	1993	1999	1999	Steel	1,000,000	3,200	750	115	4,065		Chips in paint from rocks, some mis-matching paint from painting over graffitti
Eastern	16-1 (No. 2)	Bullhead City	unknown	unknown	1999	Steel	420,000	3,000	850	155	4,005		Needs painting/oxidized
~~Eastern~~	~~16-2 (No. 1)~~	~~Bullhead City~~	~~1975~~	~~unknown~~	~~1989~~	~~Steel~~	~~250,000~~	~~0~~	~~0~~	~~0~~	~~0~~		Out of service/ Needs demolishid
Eastern	16-2 (No. 2)	Bullhead City	1994	1980	1980	Steel	1,000,000	3,200	900	185	4,285		Oxidized, outside
Eastern	24-1	Bullhead City	1999	1999	1999	Steel	1,000,000	3,200	900	185	4,285		outside looks good/oxidized
Eastern	Arizona Gateway	Bullhead City	1995	1995	1995	Steel	300,000	3,000	850	155	4,005		outside looks good/oxidized
~~Eastern~~	~~Big Bend Acres~~	~~Bullhead City~~	~~1987~~	~~1991~~	~~1987~~	~~Steel~~	~~120,000~~	~~0~~	~~0~~	~~0~~	~~0~~		Galvanized tank/no paint/falling apart (Being Replaced in 2007 w/400,000 steel tank)
Eastern	Bullhead #4	Bullhead City	unknown	1995	1995	Steel	120,000	2,800	750	115	3,665		Galvanized tank/coated outside only
Eastern	Camp Mohave	Bullhead City	1996	1996	1996	Steel	250,000	3,000	850	155	4,005		outside looks good/oxidized
Eastern	Desert Foothills (No. 1)	Bullhead City	1997	1997	1997	Steel	500,000	3,000	850	155	4,005		Needs lightning protection cables secured, paint does not match new tank on site
Eastern	Desert Foothills (No. 2)	Bullhead City	2006	2006	2006	Steel	500,000	3,000	850	155	4,005		New tank
Eastern	Desert Glen	Bullhead City		1995	1995	Steel	200,000	2,800	750	115	3,665		Paint oxidized, chips in paint from rocks.
Eastern	Lake Mohave Highlands	Bullhead City	1972	1972	1996	Steel	100,000	2,800	750	115	3,665		Steel tank/ blisters on overflow pipe/ Signs of failure showing
Eastern	Laredo Village	Bullhead City	1990	1990	1990	Steel	500,000	3,000	850	155	4,005		various gunshot wounds to tank,needs maintenance
Eastern	Pegasus Ranch	Bullhead City	1971	1992	1992	Steel	120,000	2,800	750	115	3,665		Galvanized tank/leaks in tank
Eastern	Rancho Colorado	Bullhead City	2006	2006	2006	Steel	250,000	3,000	850	155	4,005		New tank
~~Eastern~~	~~River Bend (No. 2)~~	~~Bullhead City~~	~~unknown~~	~~uknown~~	~~unknown~~	~~Steel~~	~~100,000~~	~~0~~	~~0~~	~~0~~	~~0~~		Out of service/ Needs demolishid
Eastern	Riverview Mall	Bullhead City	1963	1963	1983	Steel	40,000	2,800	750	115	3,665		Lots of stains in paint/oxidized
Eastern	Silver Creek	Bullhead City	1984	1984	1984	Steel	300,000	3,000	850	115	3,965	62,960	outside looks good/oxidized
Eastern	Havasu Booster #1	Lake Havasu City	unknown	unknown	unknown	Steel	100,000	2,800	750	115	3,665		numerous patches made, tank should be replaced
Eastern	Havasu Booster #2	Lake Havasu City	1990	1990	1990	Steel	100,000	2,800	750	115	3,665		outside looks good/oxidized
Eastern	Havasu Booster #3	Lake Havasu City	1991	1991	1991	Steel	125,000	2,800	750	115	3,665		outside looks good/oxidized
Eastern	Havasu Booster #4 (No. 1)	Lake Havasu City	1994	1994	1994	Steel	250,000	3,000	850	155	4,005		outside looks good/oxidized
Eastern	Havasu Booster #4 (No. 2)	Lake Havasu City	2003	2003	2003	Steel	750,000	3,200	900	185	4,285	19,285	outside looks good
Eastern	60th Street Tank	Paradise Valley	1960	1974	1974	Steel	200,000	2,800	750	115	3,665		
Eastern	Clearwater Hills #1	Paradise Valley	1956	2000	2000	Steel	102,000	2,800	750	115	3,665		Refurbished in 2000
Eastern	Clearwater Hills #2	Paradise Valley	1965	1978	1976	Steel	100,000	2,800	750	115	3,665		
Eastern	Clearwater Hills #3	Paradise Valley	1968	2000	2000	Steel	20,000	2,800	750	115	3,665		Refurbished in 2000
Eastern	Club Estates Tank	Paradise Valley	1961	1978	1978	Steel	30,000	2,800	750	115	3,665		
Eastern	Country Club #1	Paradise Valley	unknown	2000	2000	Steel	500,000	3,000	850	155	4,005		Refurbished in 2000
Eastern	Country Club #2	Paradise Valley	1961	2000	2000	Steel	360,000	3,000	850	155	4,005		Refurbished in 2000
Eastern	PVARF #1	Paradise Valley	2006	2006	2006	Steel	1,500,000	3,200	1,150	215	4,565		New Tank
Eastern	PVARF #2	Paradise Valley	2006	2006	2006	Steel	1,500,000	3,200	1,150	215	4,565		New Tank
Eastern	Racquet Club Tank	Paradise Valley	1955	2000	2000	Steel	102,000	2,800	750	115	3,665		Refurbished in 2000
Eastern	Stone Canyon Tank	Paradise Valley	1955	2000	2000	Steel	90,000	2,800	750	115	3,665	42,795	Painted outside
Eastern	Pallo Parado Booster	Tucac	unknown	unknown	unknown	Steel	50,000	2,800	750	115	3,665	3,665	
								97,000	27,100	4,605	126,705		

Central Division

Division	Facility Name	District	Year Constructed	Last Interior Paint	Last Exterior Paint	Type	Size (Gals.)	Evaluation and Report	Washout of Tank	Disinfection of Tank	Total Estimated Cost		Comments
Central	A.F. WP 1 TANK 1	Agua Fria	2000	2000	2000	Concrete	1,325,000	3,200	1,150	215	4,565		Buried concrete
Central	A.F. WP 1 TANK 2	Agua Fria	2000	2000	2000	Concrete	1,325,000	3,200	1,150	215	4,565		Buried concrete
Central	A.F. WP 2 TANK 1	Agua Fria	1996	1996	1996	Steel	1,000,000	3,200	900	185	4,285		
Central	A.F. WP 2 TANK 2	Agua Fria	2000	2000	2000	Steel	1,000,000	3,200	900	185	4,285		
Central	A.F. WP 3 TANK 1	Agua Fria	1996	1996	1996	Steel	1,000,000	3,200	900	185	4,285		
Central	A.F. WP 3 TANK 2	Agua Fria	2000	2000	2000	Steel	1,000,000	3,200	900	185	4,285		
Central	A.F. WP 4 TANK 1	Agua Fria	1998	1998	1998	Steel	1,500,000	3,200	1,150	215	4,565		
Central	A.F. WP 4 TANK 2	Agua Fria	2000	2000	2000	Steel	2,000,000	3,200	1,150	215	4,565		
Central	A.F. WP 5	Agua Fria	2007	2007	2007	Concrete	1,250,000	3,200	1,150	215	4,565		Buried concrete
~~Central~~	~~A.F. WP 6~~	~~Agua Fria~~	~~unknown~~	~~unknown~~	~~unknown~~	~~Steel~~	~~40,000~~	~~0~~	~~0~~	~~0~~	~~0~~		Out of service
Central	A.F. WP 100	Agua Fria	2007	2007	2007	Steel	1,500,000	3,200	1,150	215	4,565		
Central	A.F. WP 8 - Tank 1	Agua Fria	2004	2004	2004	Steel	1,500,000	3,200	1,150	215	4,565		
Central	A.F. WP 8 - Tank 2	Agua Fria	2009	2009	20009	Steel	2,500,000	3,400	1,650	240	5,290		New - online by Jan 1, 2009
Central	A.F. WP 9	Agua Fria	2004	2004	2004	Steel	100,000	2,800	750	115	3,665		
Central	A.F. WP 10 TANK 1	Agua Fria	2005	2005	2005	Concrete	1,735,000	3,200	1,150	215	4,565		Buried concrete
Central	A.F. WP 10 TANK 2	Agua Fria	2007	2007	2007	Concrete	1,735,000	3,200	1,150	215	4,565		Buried concrete
Central	Cool Well	Agua Fria	unknown	unknown	unknown	Steel	10,000	2,800	750	115	3,665	70,845	
Central	S.C.W. WP 1 TANK 1	Sun City West	1992	1992	1992	Steel	1,250,000	3,200	1,150	215	4,565		Prev. inspections recommended next exterior paint - 2007, next inter paint - 2008
Central	S.C.W. WP 1 TANK 2	Sun City West	1992	1992	1992	Steel	1,250,000	3,200	1,150	215	4,565		Prev. inspections recommended next exterior paint - 2007, next inter paint - 2010
Central	S.C.W. WP 2 TANK 1	Sun City West	1986	1986	1986	Steel	758,000	3,200	900	185	4,285		
Central	S.C.W. WP 2 TANK 2	Sun City West	1986	1986	1986	Steel	758,000	3,200	900	185	4,285	17,700	
								63,400	21,200	3,945	88,545		

Arizona American Water

Interior - Cost to Maintain, Sq. Ft	4.22
Exterior - Cost to Maintain, Sq. Ft	1.68

Eastern Division Tank Maintenance Average Cost Per Square Foot of Surface Space

Facility Information							Square Footage			Last Maintained		Next Maintained		Estimated Cost	
							Interior	Exterior	Combined						
Divison	Tank Name	Tank Location	Year Constructed	Tank Capacity	Diameter	Height	Total/ft²	Total/ft²	Total/ft²	Interior	Exterior	Interior	Exterior	Interior	Exterior
Eastern	16-1 (No. 1)	Bullhead City	1986	1,000,000	82.0	24.0	16,745	11,464	28,208	1986	1986	2012	2012	$70,663	$ 19,259
Eastern	16-1 (No. 2)	Bullhead City	1969	420,000	56.0	24.0	9,148	6,685	15,834	1969	1969	2012	2012	$38,606	$ 11,231
Eastern	16-2 (No. 1)	Bullhead City	1975	250,000	44.0	24.0	6,359	4,838	11,197	unknown	1988	N/A	N/A	N/A	N/A
Eastern	16-2 (No. 2)	Bullhead City	1994	1,000,000	82.0	24.0	16,745	11,464	28,208	1980	1980	2011	2011	$70,663	$ 19,259
Eastern	24-1	Bullhead City	1999	1,000,000	82.0	24.0	16,745	11,464	28,208	1999	1999	2013	2013	$70,663	$ 19,259
Eastern	Arizona Gateway	Bullhead City	1995	300,000	72.0	24.0	13,572	9,500	23,072	1995	1995	2009	2009	$57,272	$ 15,960
Eastern	Big Bend Acres	Bullhead City	1987	120,000	30.0	24.0	3,676	2,969	6,644	1991	1987	N/A	N/A	N/A	N/A
Eastern	Bullhead #4	Bullhead City	1961	120,000	30.0	24.0	3,676	2,969	6,644	1961	1991	2012	2012	$15,511	$ 4,988
Eastern	Camp Mohave	Bullhead City	1996	250,000	44.0	24.0	6,359	4,838	11,197	1996	1996	2010	2010	$26,833	$ 8,128
Eastern	Desert Foothills (No. 1)	Bullhead City	1997	500,000	60.0	24.0	10,179	7,351	17,530	1997	1997	2011	2011	$42,954	$ 12,350
Eastern	Desert Foothills (No. 2)	Bullhead City	2006	500,000	60.0	24.0	10,179	7,351	17,530	2006	2006	2020	2020	$42,954	$ 12,350
Eastern	Desert Glen	Bullhead City	1988	200,000	65.0	24.0	11,537	8,219	19,757	1988	1988	2011	2011	$48,688	$ 13,808
Eastern	Lake Mohave Highlands	Bullhead City	1972	100,000	27.0	24.0	3,181	2,608	5,789	1972	1996	2010	2010	$13,423	$ 4,382
Eastern	Laredo Village	Bullhead City	1990	500,000	60.0	24.0	10,179	7,351	17,530	1990	1990	2010	2010	$42,954	$ 12,350
Eastern	Pegasus Ranch	Bullhead City	1971	120,000	30.0	24.0	3,676	2,969	6,644	1992	1992	2010	2010	$15,511	$ 4,988
Eastern	Rancho Colorado	Bullhead City	2006	250,000	44.0	24.0	6,359	4,838	11,197	2006	2006	2020	2020	$26,833	$ 8,128
Eastern	River Bend (No. 2)	Bullhead City	unknown	100,000	27.0	24.0	3,181	2,608	5,789	uknown	unknown	N/A	N/A	N/A	N/A
Eastern	Riverview Mall	Bullhead City	1983	40,000	22.0	12.0	1,590	1,210	2,799	1983	1983	2009	2009	$6,708	$ 2,032
Eastern	Silver Creek	Bullhead City	1984	300,000	50.0	32.0	8,954	6,990	15,944	1984	1984	2009	2009	$37,784	$ 11,743
Eastern	Havasu Booster #1	Lake Havasu City	unknown	100,000	27.0	24.0	3,181	2,608	5,789	unknown	unknown	2010	2010	$13,423	$ 4,382
Eastern	Havasu Booster #2	Lake Havasu City	1990	100,000	30.0	32.0	4,430	3,723	8,152	1990	1990	2009	2009	$18,693	$ 6,254
Eastern	Havasu Booster #3	Lake Havasu City	1991	125,000	30.0	24.0	3,676	2,969	6,644	1991	1991	2009	2009	$15,511	$ 4,988
Eastern	Havasu Booster #4 (No. 1)	Lake Havasu City	1994	250,000	70.0	24.0	12,975	9,126	22,101	1994	1994	2010	2010	$54,754	$ 15,332
Eastern	Havasu Booster #4 (No. 2)	Lake Havasu City	2003	750,000	52.0	32.0	9,475	7,351	16,826	2003	2003	2017	2017	$39,985	$ 12,350
Eastern	60th Street Tank	Paradise Valley	1960	200,000	38.1	24.0	5,147	4,009	9,156	1974	1974	2009	2009	$21,720	$ 6,735
Eastern	Clearwater Hills #1	Paradise Valley	1956	102,000	27.0	24.0	3,181	2,608	5,789	2000	2000	2014	2014	$13,423	$ 4,382
Eastern	Clearwater Hills #2	Paradise Valley	1965	100,000	27.0	24.0	3,181	2,608	5,789	1978	1978	2009	2009	$13,423	$ 4,382
Eastern	Clearwater Hills #3	Paradise Valley	1968	20,000	13.0	20.0	1,082	950	2,032	2000	2000	2014	2014	$4,567	$ 1,595
Eastern	Club Estates Tank	Paradise Valley	1961	30,000	16.0	20.0	1,407	1,206	2,614	1978	1978	2010	2010	$5,939	$ 2,027
Eastern	Country Club #1	Paradise Valley	1961	500,000	60.0	24.0	10,179	7,351	17,530	2000	2000	2014	2014	$42,954	$ 12,350
Eastern	Country Club #2	Paradise Valley	1961	360,000	50.0	24.0	7,697	5,733	13,430	2000	2000	2014	2014	$32,481	$ 9,632
Eastern	PVARF #1	Paradise Valley	2006	1,500,000	116.0	20.0	28,425	17,857	46,282	2006	2006	2020	2020	$119,954	$ 29,999
Eastern	PVARF #2	Paradise Valley	2006	1,500,000	116.0	20.0	28,425	17,857	46,282	2006	2006	2020	2020	$119,954	$ 29,999
Eastern	Racquet Club Tank	Paradise Valley	1955	102,000	27.0	24.0	3,181	2,608	5,789	2000	2000	2014	2014	$13,423	$ 4,382
Eastern	Stone Canyon Tank	Paradise Valley	1955	90,000	26.0	24.0	3,022	2,491	5,513	2000	2000	2014	2014	$12,754	$ 4,185
Eastern	Palo Parado Booster	Tubac	1984	50,000	12.0	30.0	1,357.17	1,244.07	2,601.24	1984	2000	2014	2014	$5,727	$ 2,090

Central Division Tank Maintenance Average Cost Per Square Foot of Surface Space

Facility Information							Square Footage			Last Maintained		Next Maintained		Estimated Cost	
							Interior	Exterior	Combined						
Divison	Tank Name	Tank Location	Year Constructed	Tank Capacity	Diameter	Height	Total/ft²	Total/ft²	Total/ft²	Interior Paint	Exterior Paint	Interior Paint	Exterior Paint	Interior Paint	Exterior Paint
Central	A.F. WP 1 TANK 1	Agua Fria	2000	1,325,000	75.0	20.0	0	0	0	N/A	N/A	N/A	N/A	$ -	$ -
Central	A.F. WP 1 TANK 2	Agua Fria	2000	1,325,000	75.0	20.0	0	0	0	N/A	N/A	N/A	N/A	$ -	$ -
Central	A.F. WP 2 TANK 1	Agua Fria	1996	1,000,000	108.0	16.0	23,750	14,590	38,340	1996	1996	2010	2010	$ 100,227	$ 24,510
Central	A.F. WP 2 TANK 2	Agua Fria	2000	1,000,000	108.0	16.0	23,750	14,590	38,340	2000	2000	2014	2014	$ 100,227	$ 24,510
Central	A.F. WP 3 TANK 1	Agua Fria	1996	1,000,000	108.0	16.0	23,750	14,590	38,340	1996	1996	2010	2010	$ 100,227	$ 24,510
Central	A.F. WP 3 TANK 2	Agua Fria	2000	1,000,000	108.0	16.0	23,750	14,590	38,340	2000	2000	2014	2014	$ 100,227	$ 24,510
Central	A.F. WP 4 TANK 1	Agua Fria	1998	1,500,000	135.0	16.0	35,414	21,100	56,513	1998	1998	2012	2012	$ 149,445	$ 35,448
Central	A.F. WP 4 TANK 2	Agua Fria	2000	2,000,000	156.0	16.0	46,068	26,955	73,023	2000	2000	2014	2014	$ 194,408	$ 45,284
Central	A.F. WP 5	Agua Fria	2007	1,250,000	127x71	19.6	0	0	0	N/A	N/A	N/A	N/A	$ -	$ -
Central	A.F. WP 6	Agua Fria	unknown	40,000	14.0	14.0	924	770	1,693	unknown	unknown	N/A	N/A	N/A	N/A
Central	A.F. WP 100	Agua Fria	2007	1,500,000	125.0	18.0	31,612	19,340	50,953	2007	2007	2021	2021	$ 133,404	$ 32,492
Central	A.F. WP 8 - Tank 1	Agua Fria	2004	1,500,000	135.0	16.0	35,414	21,100	56,513	2004	2004	2018	2018	$ 149,445	$ 35,448
Central	A.F. WP 8 - Tank 2	Agua Fria	2009	2,500,000	168.0	16.0	52,779	30,612	83,390	2009	2009	2023	2023	$ 222,726	$ 51,428
Central	A.F. WP 9	Agua Fria	2004	100,000	135.0	16.0	35,414	21,100	56,513	2004	2004	2018	2018	$ 149,445	$ 35,448
Central	A.F. WP 10 TANK 1	Agua Fria	2005	1,735,000	124.0	20.0	0	0	0	N/A	N/A	N/A	N/A	$ -	$ -
Central	A.F. WP 10 TANK 2	Agua Fria	2007	1,735,000	124.0	20.0	0	0	0	N/A	N/A	N/A	N/A	$ -	$ -
Central	Coot Well	Agua Fria	1994	10,000	12.0	12.0	679	565	1,244	unknown	unknown	#VALUE!	#VALUE!	N/A	N/A
Central	S.C.W. WP 1 TANK 1	Sun City West	1992	1,250,000	117.0	16.0	27,384	16,632	44,016	1992	1992	2009	2009	$ 115,559	$ 27,942
Central	S.C.W. WP 1 TANK 2	Sun City West	1992	1,250,000	117.0	16.0	27,384	16,632	44,016	1992	1992	2009	2009	$ 115,559	$ 27,942
Central	S.C.W. WP 2 TANK 1	Sun City West	1986	758,000	96.0	15.0	19,000	11,762	30,762	1986	1986	2010	2010	$ 80,181	$ 19,760
Central	S.C.W. WP 2 TANK 2	Sun City West	1986	758,000	96.0	15.0	19,000	11,762	30,762	1986	1986	2010	2010	$ 80,181	$ 19,760

Arizona American Water
Eastern & Central Division - Tank Maintenance Plan
Total Spend

	TOTAL	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Eastern Division																
Interior	$ 1,362,666	$ 171,113	$ 178,163	$ 172,305	$ 136,312	$ 79,537	$ 145,228	$ -	$ -	$ 50,691	$ -	$ -	$ 429,317	$ -	$ -	$ -
Exterior	$ 384,850	$ 52,094	$ 53,124	$ 48,121	$ 38,646	$ 21,552	$ 44,593	$ -	$ -	$ 15,585	$ -	$ -	$ 111,135	$ -	$ -	$ -
	$ 1,747,516	$ 223,207	$ 231,287	$ 220,426	$ 174,958	$ 101,089	$ 189,821	$ -	$ -	$ 66,276	$ -	$ -	$ 540,452	$ -	$ -	$ -
Central Division																
Interior	$ 2,142,524	$ 231,118	$ 371,932	$ -	$ 163,257	$ -	$ 457,553	$ -	$ -	$ -	$ 390,258	$ -	$ -	$ 190,622	$ -	$ 337,784
Exterior	$ 510,241	$ 55,885	$ 91,177	$ -	$ 38,612	$ -	$ 108,900	$ -	$ -	$ -	$ 91,995	$ -	$ -	$ 46,224	$ -	$ 77,448
	$ 2,652,765	$ 287,003	$ 463,109	$ -	$ 201,869	$ -	$ 566,453	$ -	$ -	$ -	$ 482,253	$ -	$ -	$ 236,846	$ -	$ 415,232
Total Estimated Cost	$ 4,400,281	$ 510,210	$ 694,396	$ 220,426	$ 376,827	$ 101,089	$ 756,274	$ -	$ -	$ 66,276	$ 482,253	$ -	$ 540,452	$ 236,846	$ -	$ 415,232

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT	DOCKET NO. W-01303A-08-0227
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WASTEWATER DISTRICT	DOCKET NO. SW-01303A-08-0227

REBUTTAL TESTIMONY
OF
BRADLEY J. COLE
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 11, 2009

REBUTTAL TESTIMONY
OF
BRADLEY J. COLE
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 11, 2009

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EXECUTIVE SUMMARY

Mr. Cole testifies as follows:

Arizona-American will be hiring a Production Supervisor and four Plant Operators over the next six months to Staff the White Tanks Water Treatment Plant ("White Tanks Plant")

Once the White Tanks Plant enters service, Arizona-American's power savings for groundwater production are estimated at $791,765. Estimated chemical-treatment savings are $30,138.

Arizona-American accepts Staff's Recommendations for the Service Line and Meter Installation fees.

I INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Bradley J. Cole. My business address is 15626 N. Del Webb Boulevard, Sun City, Arizona, 85351, and my business phone is 623-815-3136.

Q. ARE YOU THE SAME BRADLEY J. COLE WHO PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. First, I will discuss Arizona-American's plans to begin staffing the White Tanks Water Treatment Plant ("White Tanks Plant"). Second, I will discuss the operational savings that Arizona-American expects to realize when the White Tanks Plant goes into service. Finally, I will respond to Staff's proposed service-line and meter-installation fees.

II WHITE TANKS PLANT STAFFING

Q. WHAT IS THE WHITE TANKS PLANT?

A. The White Tanks Plant is currently under construction to serve Arizona-American's Agua Fria Water District. When it enters service late this year it will allow Arizona-American to treat its allotment of Central Arizona Project water from the Colorado River. This will allow Arizona-American to substantially reduce ground water consumption in the Aqua Fria Water District.

Mr. Gross provides more details about the White Tanks Plant in his direct testimony and updates the status of construction in his rebuttal testimony

Q. WILL ARIZONA-AMERICAN WATER BE ADDING NEW EMPLOYEES TO STAFF THE WHITE TANKS PLANT?

A. Yes. Arizona-American will be hiring a Production Supervisor and four Plant Operators over the next six months.

Q. WHAT WILL THESE NEW EMPLOYEES DO AT THE WHITE TANKS PLANT?

A. The Production Supervisor will have direct overall operational responsibility for running the White Tanks Plant. To ensure that the White Tanks Plant operates effectively and efficiently, the Production Supervisor's duties will include:

- Hiring new operators;
- Setting staff schedules;
- Conducting performance reviews;
- Imposing discipline;
- Ensuring rule compliance;
- Maintaining water quality;
- Making reports;
- Supervising equipment maintenance;
- Making or directing operational adjustments; and
- Recommending and implementing capital replacements.

The Plant Operators will consist of a four-man crew - a lead operator and three subordinate operators. Each will be charged with operating the White Tanks Plant to ensure that is operates effectively and efficiently, and performing various equipment maintenance and replacement tasks. Each will also be charged with keeping detailed records of work activities.

Q. WILL ADDITIONAL SUPPORT BE AVAILABLE FROM OTHER ARIZONA-AMERICAN EMPLOYEES FOR THE WHITE TANKS PLANT?

A. Yes. Arizona-American operates in thirteen districts throughout the state. Its Central Division includes the Sun City Water, Sun City West Water, and Agua Fria Water districts. The Central Division employs an experienced maintenance crew including journeyman electricians. If support is needed, this maintenance crew can provide support or perform maintenance on plant equipment.

III <u>WHITE TANKS PLANT OPERATIONAL SAVINGS</u>

Q. WILL THERE BE OPERATIONAL SAVINGS IN THE AGUA FRIA WATER DISTRICT AS A RESULT OF OPERATING THE WHITE TANKS PLANT?

A. Yes. Because the White Tanks Plant will maximize Arizona-American's use of CAP water in the Agua Fria Water District, the district's well production will be reduced along with associated costs.

Q. WHAT OPERATING EXPENSES WOULD BE IMPACTED?

A. To the extent that well water is not being used, pumping and treatment costs will be reduced. The primary pumping cost is electricity. The primary variable costs associated with treatment are the chemicals used to treat the raw well water.

Q. DO YOU KNOW THE EXACT AMOUNTS OF THESE POWER AND CHEMICAL COST REDUCTIONS?

A. No, of course not. One of the major variables that must be estimated is well usage once the White Tanks Plant enters service. Arizona-American has hired a consultant to perform a well integration study, which should be completed later this year. The study will help Arizona-American determine where, when, and how our wells will be used in conjunction with the White Tanks Plant.

Q. CAN YOU GIVE THE COMMISSION AN IDEA OF WHAT THOSE REDUCTIONS IN POWER AND CHEMICAL COSTS MAY BE?

A. Yes. I performed a high-level analysis based on the annual system delivery in the Agua Fria Water District. I also looked at the annual power and chemical costs and reduced each accordingly by the estimated well production savings from the White Tanks Plant.

Q. HOW WAS YOUR ANALYSIS PERFORMED?

A. The Agua Fria Water District produced 5,879,468,000 gallons of water in 2008, all from groundwater wells. CAP water will be delivered to the White Tanks Plant through the Beardsley Canal, owned by Maricopa Water District ("MWD"). However, the canal is not available between December 1 and February 13, while MWD performs annual maintenance. This is the MWD 10-year average of canal dry-up period. During those 75 days, all the water in the Agua Fria Water District must be supplied from groundwater sources. Therefore, the White Tanks Plant will be able to treat Arizona-American's CAP water allocation for 290 days (365-75) each year.

Q. HOW DID YOU FACTOR MWD'S CANAL MAINTENANCE INTO YOUR CALCULATIONS?

A. During the 290-day operating period, the White Tanks Plant will treat approximately 10 million gallons per day, or 2.90 billion gallons of renewable Colorado River water. In 2008, water wells in the Agua Fria Water District produced 5.07 billion gallons during the same 290 day operating period. Therefore, I calculated that the White Tanks Plant will displace approximately 57.24 % [(2.90/5.07) x 100] of the district's groundwater usage.

Q. HOW DID YOU APPLY THAT CALCULATION TO ESTIMATE THE OFFSETS IN POWER AND CHEMICAL EXPENSES?

A. As a reasonable estimate I assume that power and chemical costs will be reduced by the same percentage that groundwater usage will be reduced. Power and chemical expenses are directly related to the amount of well water produced.

Q. WHAT IS YOUR ESTIMATE OF WELL ELECTRICITY SAVINGS?

A. In 2008, well electricity costs during the same 290-day period in the Agua Fria Water District were $1,383,344. If I reduce this by 57.24%, I estimate the resulting power savings would be $ 791,765.

Q. WHAT IS YOUR ESTIMATE OF CHEMICAL SAVINGS?

A. In 2008, chemical treatment costs during the same 290-day period in the Agua Fria Water District were $52,657. If I reduce this by 57.24%, I estimate the resulting chemical savings would be $30,138.

Q. WHAT IS YOUR ESTIMATE OF TOTAL ANNUAL OPERATIONAL SAVINGS RESULTING FROM OPERATION OF THE WHITE TANKS PLANT?

A. If I add the savings for electricity and chemicals together, I estimate that total annual savings will be $821,903.

IV <u>SERVICE LINE AND METER INSTALLATION FEES</u>

Q. HAVE YOU REVIEWED STAFF'S RECOMMENDATIONS FOR THE SERVICE LINE AND METER INSTALLATION FEES?

A. Yes.

Q. DO YOU SUPPORT THOSE RECOMMENDATIONS?

A. Yes. Arizona-American supports Staff's recommendations.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT	DOCKET NO. W-01303A-08-0227
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WASTEWATER DISTRICT	DOCKET NO. SW-01303A-08-0227

REBUTTAL TESTIMONY
OF
JEFFREY W. STUCK
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
DATED FEBRUARY 11, 2009

REBUTTAL TESTIMONY
OF
JEFFREY W. STUCK
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DATED FEBRUARY 11, 2009

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EXECUTIVE SUMMARY

Jeffrey W. Stuck testifies as follows:

Tubac Water District

Arizona-American is planning to construct a central plant to treat the district's water supply, which presently exceeds the federal arsenic standard of 10 parts per billion. The Central Plant treatment option is less expensive, more thorough, easier to manage, and consistent with recommendations provided by the Arizona Department of Environmental Quality ("ADEQ").

In the Tubac Water District, the initial cost for the Central Plant treatment option will be approximately $2.3 million versus only about $544,000 for the Point-Of-Use option. However, the annual O&M costs for the Central Plant option are only about $173,000 compared to $349,000 for the Point-Of-Use option. Consequently, the cross-over point in our Tubac Water District would occur in approximately the tenth year.

The Central Plant option treats all water delivered to the customer. This means that the water from every tap will meet the federal arsenic standard, including water used for showering and tooth brushing. The Point-Of-Use option would only treat water at one location, the kitchen tap.

For the Point-Of-Use Option, Arizona-American would have to regularly enter every customer residence or business to test the systems and to replace filters. This would not only be a burden on Arizona-American, but also on our customers.

Our Tubac Water District had an average of 535 customers during the test year. In its Arsenic Master Plan, a compliance guidance document for the arsenic regulation, ADEQ does not recommend use of Point-Of-Use devices in public water systems that serve more than 300 connections due to the breakpoint cost for O&M. This is consistent with our projections.

Mohave Water District

Arizona-American is currently negotiating an agreement with the Laughlin Ranch Developer which currently owns the LR1 well. We hope to finalize the agreement very quickly and to have the well in service by August 31, 2009, as recommended by Staff.

Mohave Wastewater

In 2007, the actual waste disposal expense associated with hauling away liquid sludge from the Wishing Well Plant was $186,330. As part of the upgrade, Arizona-American installed a screw press to dewater the sludge. I estimate that the annual cost of disposing of solid waste from the Wishing Well plant will drop to just $45,000. Therefore, I conservatively estimate plant operating-expense savings of approximately $140,000 per year.

Flows have continued to increase at the Wishing Well Treatment Plant. December 2008 saw the greatest monthly flows in the plant's history. Peak flows have also continued to increase. Our peak day was November 26, 2008, where flows reached 284,000 gallons. This was 84,000 gallons more than the Plant's former effective capacity of 200,000 gallons per day, or 42% above daily capacity.

I INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jeffrey W. Stuck. My business address is 19820 N. 7th Street, Suite 201, Phoenix, Arizona 85024.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Arizona-American Water Company ("Arizona-American") as Director of Operations for Eastern Arizona, which includes the following districts: Mohave Water; Mohave Wastewater; Havasu City Water; Paradise Valley Water; Anthem Water; Anthem/Agua Fria Wastewater; and Tubac Water.

Q. PLEASE DESCRIBE YOUR DUTIES AND RESPONSIBILITIES AS DIRECTOR OF OPERATIONS.

A. In my districts, I am responsible for water treatment, wastewater treatment, customer service, water distribution, and wastewater-collection operations.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND.

A. I hold a Bachelor of Science Degree from Arizona State University.

Q. PLEASE OUTLINE YOUR BUSINESS EXPERIENCE.

A. I have worked in the water industry for 20 years. I began my career working at the Arizona Department of Water Resources where my duties included water rights investigations associated with the Little Colorado River Adjudication. In 1992 I began working for the Arizona Department of Environmental Quality in the Safe Drinking Water Program for the next 13 years. I held many positions in the ADEQ Safe Drinking Water Program, the last being the Safe Drinking Water Program Manager. In 2005 I joined American Water.

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS CASE?

A. No.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS CASE?

A. The purpose of my rebuttal testimony in this case is to respond to Mr. Magruder's testimony regarding point of use arsenic treatment and central plant treatment. In addition, I am providing the production data and estimated cost savings of the Wishing Well Wastewater Treatment Plant ("Wishing Well WWTP") in response to Staff and RUCO's recommendations in this proceeding.

II <u>TUBAC ARSENIC TREATMENT</u>

Q. MR. MAGRUDER QUESTIONED ARIZONA-AMERICAN'S CHOICE OF A CENTRAL PLANT TREATMENT FOR ARSENIC REMOVAL INSTEAD OF POINT-OF-USE; WHY DID ARIZONA-AMERICAN SELECT THE CENTRAL PLANT OPTION?

A. The Central Plant treatment option is less expensive, more thorough, easier to manage, and consistent with recommendations provided by the Arizona Department of Environmental Quality ("ADEQ").

Q. WHAT IS THE CENTRAL PLANT TREATMENT OPTION FOR ARSENIC REMOVAL?

A. In this option, arsenic-laden water is collected from one or more wells, treated in a central arsenic-remediation facility, treated for other contaminants, chlorinated, and then distributed to our customers.

Q. WHAT IS THE POINT-OF-USE TREATMENT OPTION?

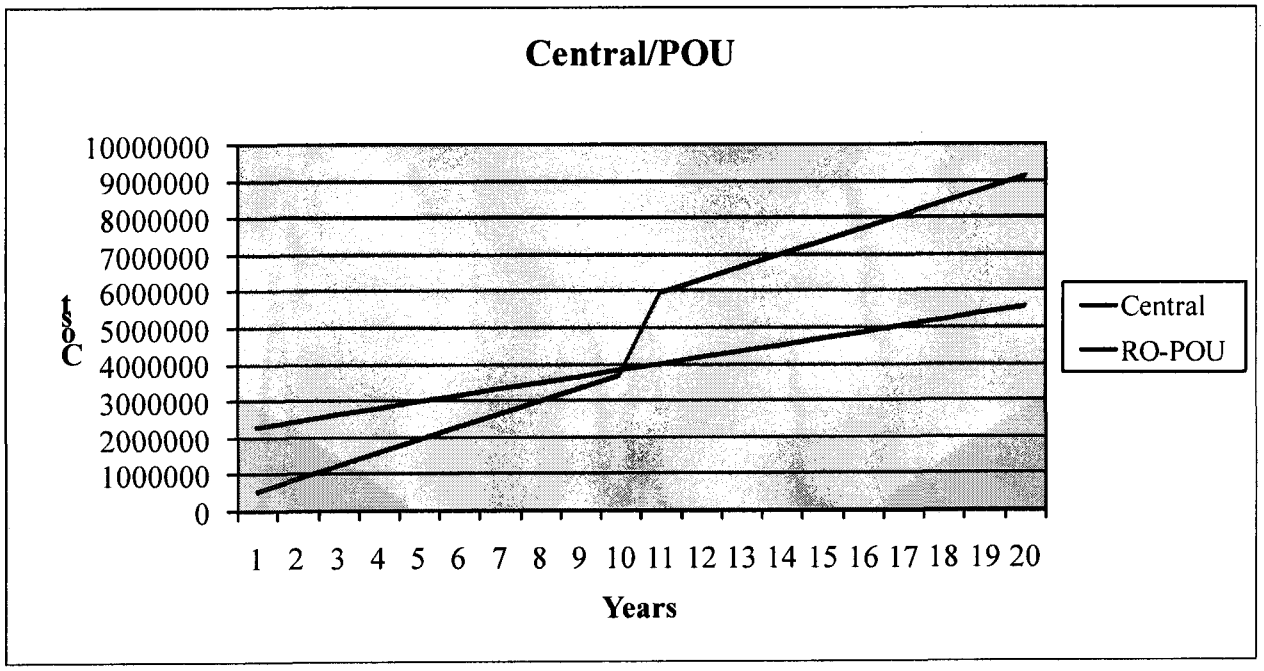
A. In this option, the collection, treatment, and delivery processes are the same, except that arsenic is removed by a filtering system at the point of use, typically the kitchen sink, with water delivered for drinking and cooking through a separate tap.

Q. HOW IS THE CENTRAL PLANT OPTION LESS EXPENSIVE THAN THE POINT-OF-USE OPTION?

A. The Point-Of-Use option is less expensive initially. The cost of acquiring and installing the arsenic-removal devices in each customer's home or business is less than the cost of constructing the Central Plant. However, the ongoing operation-and-maintenance costs for the Point-Of-Use option are significantly greater. Arizona-American would have to regularly enter the customer's residence or business to ensure that the Point-Of-Use devise was performing as required, and for periodic filter replacement. The whole process would be very labor intensive and customer intrusive. The Point-Of-Use device would also need to be changed in its entirety once every 10 years according to manufacturer recommendations. By contrast, with the Central-Plant option, monitoring is provided by instrumentation, and media replacement is required at just one location, every year or two, and the plant itself has a much longer operational life span, on the order of 40 years. In addition, there are liability concerns because of the necessity to monitor a unit that is outside of the Company's control without complete access to the customers' premises.

Q. CAN YOU PROVIDE ANY MORE INFORMATION COMPARING THE UP-FRONT AND LONG-TERM COSTS OF THE TWO OPTIONS?

A. Certainly. I have prepared the following chart that compares the two options:



In the Tubac Water District, the initial cost for the Central Plant treatment option will be approximately $2.3 million versus only about $544,000 for the Point-Of-Use option. However, the annual O&M costs for the Central Plant option are only about $173,000 compared to $349,000 for the Point-Of-Use option. Consequently, the chart shows that the cross-over point in our Tubac Water District would occur in approximately the tenth year. At that point, the cumulative costs of the Point-Of-Use option catch-up to and surpass the cumulative costs of the Central Plant option. The forecast also assumes an additional investment of almost $2 million would be required for the Point-Of-Use option in year 11 to replace the individual units in the customers' homes.

Q. HOW IS THE CENTRAL PLANT OPTION MORE THOROUGH?

A. The Central Plant option treats all water delivered to the customer. This means that the water from every tap will meet the federal arsenic standard, including water used for showering and tooth brushing. The Point-Of-Use option would only treat water at one location, the kitchen tap.

Q. HOW IS THE CENTRAL PLANT OPTION EASIER TO MANAGE?

A. I have already touched on this. To ensure compliance, Arizona-American will have to regularly enter every customer residence or business to test the systems and to replace filters. This would not only be a burden on Arizona-American, but also on our customers. Each customer uses quantities of water each month, so the effective replacement of filters would not necessarily occur at the same point in time for all customers.

Q. HOW IS THE CENTRAL PLANT OPTION MORE CONSISTENT WITH ADEQ RECOMMENDATIONS?

A. Our Tubac Water District had an average of 535 customers during the test year. In its Arsenic Master Plan, a compliance guidance document for the arsenic regulation, ADEQ does not recommend use of Point-Of-Use devices in public water systems that serve more than 300 connections due to the breakpoint cost for O&M. This is consistent with our projections.

III <u>MOHAVE WATER</u>

Q. STAFF RECOMMENDED THAT ARIZONA-AMERICAN BRING A NEW WELL IN SERVICE FOR ITS LAUGHLIN RANCH SERVICE AREA BY AUGUST 31, 2009. WILL ARIZONA-AMERICAN COMPLY WITH THAT RECOMMENDATION?

A. Yes. We are currently negotiating an agreement with the Laughlin Ranch Developer which currently owns the LR1 well. We hope to finalize the agreement very quickly and to have the well in service by August 31, 2009, as recommended by Staff.

IV <u>MOHAVE WASTEWATER</u>

Q. MR. GROSS TESTIFIES THAT THERE WILL BE OPERATIONAL SAVINGS ASSOCIATED WITH THE UPGRADE AND EXPANSION OF THE WISHING WELL WASTEWATER TREATMENT PLANT; IS HE CORRECT?

A. Yes. In 2007, the actual waste disposal expense associated with hauling away liquid sludge from the Wishing Well Treatment Plant was $186,330. As part of the upgrade, Arizona-American installed a screw press to dewater the sludge. Based on our experience at our Anthem Wastewater Treatment Plant, I estimate that the annual cost of disposing of solid waste from the Wishing Well Treatment Plant will drop to just $45,000. Therefore, I conservatively estimate plant operating-expense savings of approximately $140,000 per year.

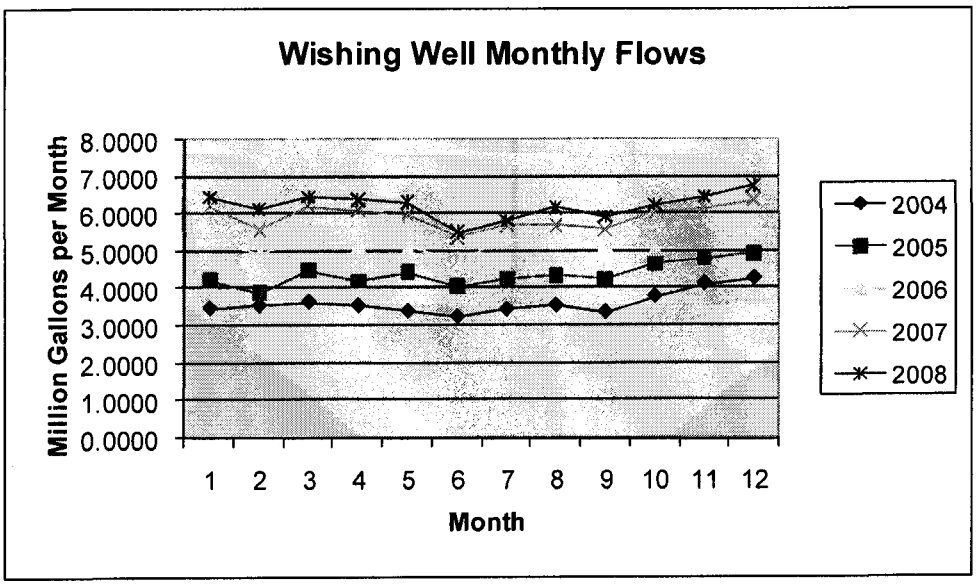
Q. WHAT HAS BEEN THE TREND WITH FLOWS AT THE WISHING WELL PLANT?

A. Flows have continued to increase. The following table shows monthly flows for the years 2004-2008.

Table – Monthly Flows at Wishing Well Treatment Plant (million-gallons/month)

	2004	2005	2006	2007	2008
JAN	3.5000	4.2327	5.2405	6.2361	6.4742
FEB	3.5680	3.8964	4.9412	5.5790	6.1517
MAR	3.6676	4.5064	5.2719	6.2015	6.4626
APR	3.5645	4.2216	5.1776	6.1266	6.3996
MAY	3.4137	4.4503	5.1008	5.9844	6.3247
JUN	3.2708	4.0808	4.8097	5.3793	5.5063
JUL	3.4577	4.2679	5.2768	5.6995	5.8099
AUG	3.5661	4.3570	5.2358	5.6937	6.1751
SEP	3.3918	4.2680	5.1879	5.5907	5.91564
OCT	3.8055	4.6815	5.0621	6.0749	6.259
NOV	4.1481	4.8141	5.2477	6.1426	6.466
DEC	4.2823	4.9637	5.5904	6.3761	6.7831
Total	43.6361	52.7404	62.1424	71.0844	74.7279

I have also provided the data in chart form.



The data show that monthly and annual flows continue to increase. December 2008 saw the greatest monthly flows in the plant's history.

Q. WHAT HAVE RECENT PEAK FLOWS BEEN AT THE WISHING WELL TREATMENT PLANT?

A. Peak flows have also continued to increase. Our peak day was November 26, 2008, where flows reached 284,000 gallons. This was 84,000 gallons more than the Plant's former effective capacity of 200,000 gallons per day, or 42% above daily capacity.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF ARIZONA -AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT	DOCKET NO. W-01303A-08-0227
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WASTEWATER DISTRICT	DOCKET NO. SW-01303A-08-0227

REBUTTAL TESTIMONY
OF
THOMAS M. BRODERICK
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 11, 2009

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EXECUTIVE SUMMARY

Thomas M. Broderick testifies as follows:

Rebuttal Revenue Requirement

Arizona-American's revised rebuttal requirement is shown on Schedule A-1 Rebuttal. Arizona-American has reduced its requested revenue requirement increase to $16.2 million (40.2% increase) from its original request of $20.0 million (50.2% increase).

Voluntary Community Outreach

Arizona-American completed at least one voluntary community presentation in each of the districts included in this rate case in addition to voluntary written communication. Each community presentation consisted of a formal presentation, followed by a question-and-answer session. We also responded to approximately 500 customer e-mails received at "azrates@amwater.com" requesting that the proposed rate increase be calculated for an individual account.

Paradise Valley Fire Flow Update

Arizona-American withdraws its request to re-establish the Public Safety surcharge in the Paradise Valley Water District to further fund its discretionary fire-flow projects.

High Block surcharge proceeds will be adequate to recover the costs of the initial study conducted several years ago and to recover the costs of the suspended Phase 3b before the High Block surcharge is eliminated upon conclusion of this case. The Public Safety surcharge can remain at zero.

White Tanks Project

The existing WHU-1 hook-up fee tariff is a single fee by meter size that combines the original hook-up fee ($1,150 for a 5/8 inch meter) and the incremental hook-up fee ($2,130 for a 5/8 inch meter) approved in late 2007 to help pay for the White Tanks Water Treatment Plant. Arizona-American proposes to separate the single fee hook-up fee into two components with the second component (the White Tanks portion) ineligible for offset credits. The original hook-up fee ($1,150, Component A) will continue to be used to pay for Arizona-American's existing investment in common facilities and will be eligible for offset against developer built common facilities. The White Tanks portion of the hook-up fee (Component B) will not be eligible for offset against developer built common facilities and will always be applied towards White Tanks plant.

Rate Consolidation

Arizona-American has developed a flexible analysis tool to evaluate rate consolidation in this case. This will be made available to any party.

Based on several assumptions, rate consolidation would result in the following total revenue and percentage shifts and typical consolidated bills for 5/8 inch meter customers by district:

Anthem ($4.6) million or (47.74%) rate decrease	$34.15 typical bill
Tubac ($0.3) million or (47.13%) rate decrease	$41.01 typical bill
Havasu ($0.6) million or (42.90%) rate decrease	$35.85 typical bill
Agua Fria ($3.5) million or (17.75%) rate decrease	$30.09 typical bill

Sun City West ($1.3) million or (15.69%) rate decrease	$28.35 typical bill
Paradise Valley $0.3 million or 2.95% rate increase	$66.94 typical bill
Mohave $1.7 million or 37.22% rate increase	$31.77 typical bill
Sun City $8.4 million or 136.00% rate increase	$32.26 typical bill

Mohave Wastewater Future Rate Adjustment

If the Commission includes all of Mohave Wastewater's Wishing Well Plant in rates, Arizona-American is willing to accept a deadline to file the next Mohave Wastewater rate case, which may result in a rate decrease in the future for that district due to reflecting such mitigating factors as accumulated depreciation, increases in test year treatment volumes and accumulated hook-up fees. Additionally, in the interim until the next rate case, Arizona-American is willing to accept an annual requirement of a surcredit filing.

Rebuttal Of Staff

Imputed Regulatory Assets

Arizona-American shareholders have been shouldering these expenses in the interim following American Water's acquisition of the affected districts from Citizens in 2002. The mismatch is in the direction opposite than Staff testifies. Due to a number of factors, especially the three-year rate moratorium imposed as a condition of RWE's acquisition of Arizona-American's parent company, actual amortizations due to the passage of time have fallen far short of what Arizona-American bargained for.

The following table compares the actual cumulative increase to rate vase versus what was contemplated in 2001:

Increases to Rate Base Resulting From Amortizing

Imputed Regulatory Advances for Arizona American Water

	Commission Approved Amortization Schedule	Test Year Amounts Actually Reflected in Rate Base
2002	$16,769,441	$0
2003	$32,209,659	$0
2004	$51,649,878	$1,209,090
2005	$69,090,096	$42,182,344
2006	$86,350,315	43,961,770
2007	$103,970,533	TBD in this case

RUCO supports Arizona-American's request concerning imputed regulatory advances.

Cost of Capital

Short-term debt should not be included in Arizona-American's capital structure. Arizona-American's short-term debt has increased due to the on-going construction of the White Tanks project. This large project is in CWIP and is being financed in the interim by short-term debt. It is inappropriate to include this short term debt in our permanent capital structure, when it is

financing CWIP. RUCO was earlier persuaded by Arizona-American's rationale on this point and continues to remain in agreement in this case.

Long-term interest rates have been dramatically increasing. Arizona-American's affiliate American Water Capital Corporation ("AWCC") issues long-term debt for Arizona-American and other regulated affiliates. Just in recent months, AWCC's debt cost has risen by approximately 350 basis points. The interest rate is 10.0%, compared to just 6.5% not long ago. Fortunately, Arizona-American has not had to issue long-term debt at the higher amount.

Water Use Data

It would be unwise for the Commission to order Staff to automatically declare insufficiency and suspend the time clock if Arizona-American submits inaccurate water use data in the next rate case. This would be an overly harsh penalty on Arizona-American. These water-use errors had no impact on the original cost-of-service study or the original rate design. Staff already has adequate authority in the sufficiency process and does not need an automatic requirement which may not be appropriate, given the facts in the next rate case.

Rate Design

Paradise Valley's residential rate design can be expanded from three to five rate blocks to provide an incentive for those customers with one-acre lots to conserve to levels below 65,000 gallons per month. Paradise Valley residential customers consuming more than 80,000 gallons per month will receive a substantial rate reduction upon conclusion of this case due to eliminating the existing High Block surcharge.

Water Loss

Arizona-American should not be required to reduce its water loss percentage to below 10 percent in several districts as proposed by Staff. Rather, it would make much more sense to require Arizona-American and Staff to work cooperatively together to derive a plan to further reduce water loss, with the cost of the plan made transparent to all. If the consequence of somewhat higher water losses for a district would be no rate relief, Arizona-American could be forced to cancel or defer other worthwhile capital projects in favor of addressing water losses.

Mohave Hook-Up Fee Compliance

Arizona-American is in compliance concerning the Mohave wastewater hook-up fee. However, Arizona-American does not oppose the new future compliance recommended by Ms. Hains.

Rebuttal of RUCO

Rate Case Expense

Arizona-American's revised request for rate case expenses totals $456,275 which is down from $612,000 requested in the original application. This is very close to RUCO's recommended level.

White Tanks Hook-Up Fee Extension

RUCO simultaneously recommends denial of the requested hook-up fee extension, while recommending that Arizona-American stay the course and rely only on hook-up fees and never put the costs for the initial phase of White Tanks in rate base. In light of the real estate depression which has dramatically eroded hook-up fee proceeds, the consequence of these

combined RUCO recommendations, if adopted, would be to permanently deny Arizona-American cost recovery of White Tanks. Arizona-American's requested extension to 2020 is reasonable and probably will need to be extended further.

Rebuttal of Magruder

Rate Case Expense

Arizona-American accepts Mr. Magruder's recommendation to eliminate any expense for witness training.

Arsenic Cost Recovery Mechanism ("ACRM")

The Commission should reject Mr. Magruder's proposal to not allow an ACRM for the Tubac Water District. The ACRM concept was created precisely because arsenic facility costs occur after the test year end in a rate case and yet the costs – when incurred – are very significant and due to a federal mandate. The Commission has previously approved ACRMs for four other Arizona-American water districts. In each case, once the ACRMs were approved, construction commenced. By design, this occurred after the test year. Then, after the treatment facility entered service, Arizona-American made an ACRM Step I filing, including all the required schedules, exhibits and project invoices. The procedure Arizona-America is following for Tubac Water is completely consistent with this past practice and that of other water utilities, such as Arizona Water.

Third Pricing Block for Tubac

The Commission should reject Mr. Magruder's proposal to set a very expensive third pricing block for Tubac Water. Higher use water consumers in Tubac are price sensitive and drill private wells to fully or partially bypass our system. Since most of our costs are fixed costs, such dramatic conservation only serves to raise rates later for the remaining customers.

I INTRODUCTION

Q. PLEASE STATE YOUR NAME, 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 telephone number is 623-445-2420.

Q. ARE YOU THE SAME THOMAS M. BRODERICK WHO PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. In my testimony:

- I sponsor Arizona-American's rebuttal revenue requirement.
- I discuss Arizona-American's community outreach in this rate case, and various other minor issues.
- I provide an update on the Paradise Valley Fire-Flow programs.
- I indicate which Company witnesses are responding to Staff and RUCO's positions to our White Tanks rate proposals and request a modification to tariff WHU-1.
- I provide and explain the rate consolidation spreadsheet analysis tool developed by Arizona-American that is now available as a work paper for use by the parties.
- I propose a response to allowing the Wishing Well Wastewater Treatment Plant upgrade into rate base.
- Finally, I respond to various testimony positions of Staff, RUCO and Mr. Magruder concerning various subjects, including imputed regulatory advances, cost of capital, water-use data, water loss, Tubac's ACRM, and rate case expense.

II REBUTTAL REVENUE REQUIREMENT

Q. WHAT IS ARIZONA-AMERICANS REBUTTAL REVENUE REQUIREMENT?

A. Arizona-American's revised rebuttal requirement is shown on Schedule A-1 Rebuttal. Arizona-American has reduced its requested revenue requirement increase to $16.2 million (40.2% increase) from its original request of $20.0 million (50.2% increase).

III VOLUNTARY COMMUNITY OUTREACH

Q. WHAT HAS ARIZONA-AMERICAN DONE FOR VOLUNTARY COMMUNITY OUTREACH CONCERNING THIS RATE CASE?

A. Arizona-American completed at least one voluntary community presentation in each of the districts included in this rate case in addition to voluntary written communication. Each community presentation consisted of a formal presentation, followed by a question-and-answer session. As an example, Rebuttal Exhibit TMB-R1 is a copy of the public presentation in the Tubac Water District on December 8, 2008. We also had informational tables set up at each community meeting for customers to ask questions about such topics as water quality, conservation, operations and billing. Meetings were well attended.

We also responded to approximately 500 customer e-mails received at "azrates@amwater.com" requesting that the proposed rate increase be calculated for an individual account.

While we can always improve, I am not aware of any other utility in Arizona conducting this level of outreach into the community to explain a rate increase request.

IV PARADISE VALLEY FIRE FLOW UPDATE

Q. ARE YOU WITHDRAWING ANY REQUESTS?

A. Yes. I withdraw the request (Broderick Direct Testimony, page 29, lines 21-22) to re-establish the Public Safety surcharge in the Paradise Valley Water District to further fund its discretionary fire-flow project. Decision No. 70488 issued September 3, 2008, re-set this surcharge to zero. This on-going case represented the next opportunity to re-

establish this surcharge; however, the Town of Paradise Valley did not file direct testimony. Therefore, with no evidentiary support for the fire flow project we can no longer support a Public Safety surcharge.

Q. ARE THERE ANY REMAINING HOUSEKEEPING DETAILS FROM THE PRIOR FIRE-FLOW PROJECT PHASES?

A. Yes. In 2008, Arizona-American suspended the Paradise Valley fire-flow project and recovered the associated deferrals by August as authorized in Decision No. 68303 and later modified in Decision No. 68858. High Block surcharge proceeds will be adequate to recover the costs of the initial study conducted several years ago and to recover the costs of the suspended Phase 3b before the High Block surcharge is eliminated upon conclusion of this case. Thus, other than to order the elimination of the High Block surcharge upon conclusion of this case, no further Commission action is necessary. The Public Safety surcharge can remain at zero.

V <u>WHITE TANKS PROJECT</u>

Q. IN YOUR DIRECT TESTIMONY, YOU PRESENTED A NUMBER OF REQUESTS RELATED TO THE WHITE TANKS PROJECT, WHICH WERE DISCUSSED BY STAFF AND RUCO. ARE YOU RESPONDING TO THESE DISCUSSIONS?

A. No. Rebuttal to the specific positions of Staff and RUCO concerning these critical requests is being addressed by Company witnesses Mr. Townsley, Mr. Buls, Mr. Gross and Ms. Hubbard.

Q. ARE YOU PROPOSING ANY FURTHER CHANGES TO THE WHITE TANKS HOOK-UP FEE TARIFF WHU-1?

A. Yes. The existing WHU-1 hook-up fee tariff is a single fee by meter size that combines the original hook-up fee ($1,150 for a 5/8 inch meter) and the incremental hook-up fee

($2,130 for a 5/8 inch meter) approved in late 2007 to help pay for the White Tanks Surface Water Treatment Plant (WTSWTP). While we internally bifurcate the accounting of the hook-up fees to track the amount received for the White Tanks, the fee is administered as a single fee to the developer/customer. Since the Commission requires that hook-up fees be offset against developer built off-site facilities (also referred to as common facilities) and new development occurring in the Aqua Fria district typically requires some degree of common facilities, this delays Arizona-American's cash receipts for White Tanks as the offsets credits are worked off slowly by the developer. This approach was reasonable during the high growth real estate market of the recent past as offset credits were extinguished fairly quickly, but in today's housing market and for the foreseeable near future, the slow growth is delaying cash receipts for many years.

As a result of the planned White Tanks Plant completion, Arizona-American has reduced the need for developers to bring new wells. But while this benefits developers, Arizona-American does not benefit while we are constructing White Tanks as we are not receiving adequate cash until the developer works off the credits against any of the developer-built common facilities. The solution is to separate the single fee hook-up fee into two components with the second component (the White Tanks portion) ineligible for offset credits. The original hook-up fee ($1,150, Component A) will continue to be used to pay for Arizona-American's existing investment in common facilities and will be eligible for offset against developer built common facilities. The White Tanks portion of the hook-up fee (Component B) will not be eligible for offset against developer built common facilities and will always be applied towards White Tanks plant. Rebuttal Exhibit TMB-R2 displays the requested revised tariff. Please note that the hook-up fee projections contained in Mr. Gross' and Mr. Buls' rebuttal testimonies are based on the existing method of offsets. If my new proposal is approved, this would improve somewhat the cash receipts relative to that forecast.

VI RATE CONSOLIDATION

Q. HAS ARIZONA-AMERICAN PREPARED A SPREADSHEET BASED ANALYSIS TOOL FOR EVALUATING VARIOUS RATE CONSOLIDATION SCENARIOS?

A. Yes. In a letter to the docket dated December 17, 2008, I promised to provide a flexible analysis tool in response to Chairman Mayes' request for the parties to evaluate rate consolidation in this case.

The consolidation-analysis tool is a large Excel spreadsheet. The spreadsheet uses Excel's 2007 version, but it can also be used in Excel 2003 with an upgrade patch. We will provide the spreadsheet on a CD-ROM to any party that requests a copy. If any party is interested in calculating various rate consolidation scenarios, please contact me at 623-445-2420 in order that you can be provided the necessary detailed instructions necessary to utilize the spreadsheet. Alternatively, a party can submit a data request to Arizona-American specifying the assumptions desired and we will reply with the results.

Rebuttal Exhibit TMB – R4 is the result of one specific rate consolidation scenario for the residential class of customers for all of Arizona-American's eight water districts.

Q. DID THE RATE-CONSOLIDATION ANALYSIS PROCESS PROVE MORE COMPLICATED THAN YOU EXPECTED?

A. Yes. A rate-consolidation analysis has a number of assumptions and decision points. For example, in addition to the obvious need to decide which water districts to consolidate, one must additionally decide (my scenario decisions are in parenthesis):

- Whether to base the consolidated rates on existing or proposed rates (original proposed as we do not have rates designed for Arizona-American's revised rebuttal revenue requirement).

- Whether to preserve the class revenues or allow class revenues to re-allocate among the classes in the consolidation process (preserved proposed class revenues).
- Whether to exclude surcharges (excluded Tubac's ACRM as a matter of convenience, but included it for the other districts since those were already in the base rates proposed in this case).
- Where the rate blocks should break (selected 4,000 and 15,000 gallons for a 5/8 inch meter).
- What the rates should be for the rate blocks ($1.50, $2.50 and $3.25).
- Whether to include multi-housing residential tariffs which represent less than one percent of residential revenue and present rate design challenges to consolidate (excluded for now).
- What customer classes to consolidate (residential only in my scenario).

Q. WHAT ARE THE RESULTS OF YOUR RATE CONSOLIDATION SCENARIO?

A. I included all eight of Arizona-American's water districts, even Anthem and Sun City, even though these districts are not part of this rate case. I did not yet want to narrow the analysis at this initial exploratory stage. One can delete any district from a rate consolidation scenario simply by going to line 54 of the results tab and deleting the name of the district to exclude. One also needs to re-set the target revenue for the calibration of the rates in the targeting process.

For **un**consolidated rates, I used Arizona-American's proposed rates in the original application of this case, including Anthm (as we do not have rates designed for our requested rebuttal revenue), plus Sun City's existing rates. Unconsolidated rates can be updated in later scenarios.

For a residential 5/8 inch meter, the spreadsheet calculates a consolidated monthly basic service charge of $15.59 and consolidated commodity tier 1 rates of $1.50, tier 2 rates of

$2.50 and tier 3 rates of $3.25. These consolidated rates cause the following total residential revenue and percentage shifts (in total the changes net to zero) by district:

- Anthem ($4.6) million - (47.74%) rate decrease
- Tubac ($0.3) million - (47.13%) rate decrease
- Havasu ($0.6) million - (42.90%) rate decrease
- Agua Fria ($3.5) million - (17.75%) rate decrease
- Sun City West ($1.3) million - (15.69%) rate decrease
- Paradise Valley $0.3 million - 2.95% rate increase
- Mohave $1.7 million - 37.22% rate increase
- Sun City $8.4 million - 136.00% rate increase

Rebuttal Exhibit TMB4 R4 displays the typical 5/8 inch bills on a pre and post consolidated basis. For example, on a pre-consolidated basis the typical proposed 5/8 inch meter customer in Havasu would pay monthly $73.77, but on a post consolidated basis this drops to $35.85 per month. In order to reduce water rates in Havasu and four other districts, customers in Sun City and Mohave water would see typical 5/8 inch meter customer monthly bills increase from $13.91 to $32.26 in Sun City and $24.50 to $31.77 in Mohave.

I experimented with the residential rate designs (and you can as well), but this did not change the overall robust conclusion that in order to achieve a total residential rate consolidation, the rates in Sun City and Mohave would increase significantly. The major short-term beneficiaries of such a rate consolidation would be Anthem, Tubac and Havasu water districts. Only Paradise Valley would be largely unaffected in an eight-district consolidation.

The rate consolidation results make sense intuitively. Sun City and Mohave districts' rates are low because they are older, larger, and slower growing districts that did not have

arsenic-compliance issues. Original costs were low and depreciation has had years to reduce rate base. The other districts are newer or smaller and /or had arsenic-compliance problems.

Q. WHAT IS ARIZONA-AMERICAN'S PROPOSAL CONCERNING RATE CONSOLIDATION?

A. Our customers are not yet ready for an eight-district rate consolidation, with this magnitude of revenue shift. Mr. Townsley presents a specific partial rate-consolidation proposal in his rebuttal testimony, which, if implemented and after the passage of some years, would reduce the gap from our highest rate to our lowest rate water districts to enable future rate consolidation. This could eventually promote community acceptance for rate consolidation of some of all of these districts in the future. The first district that would benefit under Mr. Townsley's proposal is Tubac, because that district will otherwise be the district with the highest rates after completion of its arsenic facility.

The other parties are encouraged to submit their own proposals. RUCO submitted a consolidation proposal for the districts in this case, but did not calculate a revenue shift among the districts.

VII <u>MOHAVE WASTEWATER FUTURE RATE ADJUSTMENT</u>

Q. IF THE COMMISSION INCLUDES ALL OF MOHAVE WASTEWATER'S WISHING WELL PLANT IN RATES, WHAT COMMITMENT CAN ARIZONA-AMERICAN MAKE?

A. Arizona-American is willing to accept a deadline to file the next Mohave Wastewater rate case, which may result in a rate decrease in the future for that district due to reflecting such mitigating factors as accumulated depreciation, increases in test year treatment volumes and accumulated hook-up fees. Additionally, in the interim until the next rate case, Arizona-American is willing to accept an annual requirement of a surcredit filing.

The filing would provide that if the annual revenue requirement in Mohave wastewater district decreases, Arizona-American would credit to customers the difference from rates approved in this case. For example, if a calculation of Mohave wastewater's revenue requirement using a test year of 2009 is less than what the established tariffs actually collected in 2009, then a credit would appear on customers' bills after Commission review and approval of the 2009 test year data. And so on for 2010, until the next rate case. The interim surcredit would not be used to increase rates above the amounts authorized in this case, again, based on including all of Mohave Wastewater's plant in service in rates upon conclusion of this case.

VIII REBUTTAL OF STAFF

A IMPUTED REGULATORY ASSETS

Q. STAFF'S RATE BASE ADJUSTMENT NO. 3 WOULD REDUCE RATE BASE BY $3,467,655 FOR IMPUTED REGULATORY ADVANCES IN THE AFFECTED DISTRICTS FOR THE AMORTIZATION PERIOD JANUARY 1, 2008 THROUGH JULY 14, 2008. DO YOU AGREE TO THIS ADJUSTMENT?

A. No. First, I note that Staff's Mr. Becker erred in his Direct Testimony when he stated (page 14, line 9) that the settlement agreement's six and one-half year amortization period ends July 2009. Rather, the amortization period already ended July 14, 2008, as correctly described by Arizona-American and by RUCO's Mr. Rigsby (Direct Testimony, page 9, line 12). This is because the six and one-half year period started January 15, 2002, as initially set by the Commission.

Q. WHY SHOULD THE COMMISSION REJECT STAFF'S ADJUSTMENT NO. 3?

A. This is the first rate case in which the Commission considers this issue after the entire six and one-half year amortization period has ended. Please note; there is not a parallel Company request in this case for post test year amortizations of imputed ***contributions*** because those amortizations are not completed until January 14, 2012.

Mr. Becker alleges that Arizona-American's request creates a mismatch between revenues and expenses. However, the investment expenses that gave rise to the imputed regulatory advances were made in the 1990's. Arizona-American shareholders have been shouldering these expenses in the interim following American Water's acquisition of the affected districts from Citizens in 2002. The mismatch is in the direction opposite than Staff testifies.

Mr. Becker alleges that there is a violation of the historical test-year standard. I believe he is referring to the Commission's known and measurable standard. However the amortization amounts and schedule are known precisely and have been for many years.

Q. MR. BECKER STATES THAT ARIZONA-AMERICAN'S REQUEST CIRCUMVENTS THE COMMISSION'S INTENT. HOW DO YOU RESPOND?

A. Staff has previously described post-test-year amortization of imputed advances as exceeding what the Commission "bargained for" in Decision No. 67093. However, the bargain has actually been a terrible one for Arizona-American.

Q. WHY DO YOU STATE THAT THE AMORTIZATIONS OF IMPUTED ADVANCES HAVE BEEN A TERRIBLE BARGAIN FOR ARIZONA-AMERICAN?

A. In Decision No. 63584, dated April 24, 2001, the Commission approved, as part of its approval of the sale of Citizens Utilities' water and wastewater properties to Arizona-American, the 6.5-year amortization period for imputed advances included as reductions to rate base. As per the Settlement, as time elapsed and amortizations of the imputed advances/contributions occurred, rate base would increase. The amortization period was to begin on the day the transfer from Citizens to Arizona-American took place. The sale was completed on January 15, 2002, so the 6.5-year amortization period went from that date to July 14, 2008. However, due to a number of factors, especially the three-year rate

moratorium imposed as a condition of RWE's acquisition of Arizona-American's parent company, actual amortizations due to the passage of time have fallen far short of what Arizona-American bargained for. The following table compares the actual cumulative increase to rate base versus what was contemplated in 2001:

Increases to Rate Base Resulting From Amortizing
Imputed Regulatory Advances for Arizona American Water

	Commission Approved Amortization Schedule	Test Year Amounts Actually Reflected in Rate Base
2002	$16,769,441	$0
2003	$32,209,659	$0
2004	$51,649,878	$1,209,090
2005	$69,090,096	$42,182,344
2006	$86,350,315	$43,961,770
2007	$103,970,533	TBD in this case

Q. WHY DID THE ACTUAL TEST YEAR IMPUTED ADVANCES FALL SO FAR BEHIND THE APPROVED AMORTIZATIONS?

A. As I discussed, the major reason was the three-year rate case moratorium. The first amortization in 2004 was only for Mohave water and wastewater district. The next opportunity arose with 2005 test year filings for rate cases involving Sun City Wastewater, Sun City West Wastewater, Anthem Water and Anthem/Agua Fria Wastewater, which increased amortizations substantially to $42,182,344. However, this was still $27 million behind the bargained for amortizations of $69,090,096.

The next case filed was the first one for Sun City Water after the three-year moratorium, it used a 2006 test year and that result is reflected above. The gap had grown to $43 million.

In this on-going rate case, Commission Staff informed Arizona-American that if it did not withdraw several former Citizens districts from the case (e.g., Anthem) the case would

experience delays for all of the districts, including a requirement to re-file using an updated test year. This, once again, postponed the possibility of realization in rates of the total Company-wide amount eligible for 2007 of $103,970,533 based on the amortization schedule approved in 2001.

I should also point out that the rate impacts of the limited reductions in imputed advances using test year amounts were not realized until the rate cases concluded. This ranged from an additional 16 months to over two years following the test years.

Hence, if Staff's bargain concept is based on approved versus actual amortizations eligible over the life of the settlement agreement, then the agreement has indeed been a very bad bargain for Arizona-American to-date. It is very difficult to understand why Staff opposes including the roughly $4 million Arizona-American requests in this case, when the shortfall for the prior 2006 test year alone was over $40 million.

Q. DOES RUCO SUPPORT ARIZONA-AMERICAN'S REQUEST CONCERNING IMPUTED REGULATORY ADVANCES?

A. Yes. Mr. Rigby (Direct Testimony, page 10, lines 2-6) states:

> "RUCO believes that the amortization of the imputed AIAC is a known and measureable post-test year event and is in agreement with Arizona-American on this issue. Given the fact that the imputed AIAC has been fully amortized since July 14, 2008, RUCO believes that the Commission should approve Arizona-American's request."

B <u>COST OF CAPITAL</u>

Q. WHAT COMPONENTS OF COST OF CAPITAL ARE YOU REBUTTING?

A. Ms. Bente Villadsen rebuts both Staff and RUCO's recommended return on equity. I continue to rebut the inclusion by Staff of short-term debt in Arizona-American's capital structure. The parties agree on the cost of long-term debt.

Q. SHOULD SHORT-TERM DEBT BE INCLUDED IN THE CAPITAL STRUCTURE FOR RATEMAKING?

No. As I predicted in a recent prior rate case, Arizona-American's short-term debt has increased due to the on-going construction of the White Tanks project. This large project is in CWIP and is being financed in the interim by short-term debt. It is inappropriate to include this short term debt in our permanent capital structure, when it is financing CWIP. RUCO was earlier persuaded by Arizona-American's rationale on this point and continues to remain in agreement in this case.

Q. WHAT HAS BEEN THE RECENT TREND IN LONG-TERM INTEREST RATES?

A. Our affiliate American Water Capital Corporation ("AWCC") issues long-term debt for Arizona-American and other regulated affiliates. Just in recent months, AWCC's debt cost has risen by approximately 350 basis points. Attached is Rebuttal Exhibit TMB-R3, which is a copy of a recent debt issuance by AWCC for our affiliate Texas-American Water (the issuance also included several other state affiliates at the same interest rate). The interest rate is 10.0%, compared to just 6.5% not long ago. Fortunately, Arizona-American has not had to issue any new long-term debt during this period.

Q. HAS THIS RAPID RUN-UP IN LONG-TERM DEBT COSTS AFFECTED ARIZONA-AMERICAN'S REQUIRED RETURN ON EQUITY?

A. Yes. Dr. Bente Villadsen discusses this effect in her rebuttal testimony.

C <u>WATER USE DATA</u>

Q. STAFF'S MR. OLEA RECOMMENDS THAT THE COMMISSION ORDER STAFF TO AUTOMATICALLY DECLARE INSUFFICIENCY AND SUSPEND THE TIME CLOCK IF ARIZONA-AMERICAN SUBMITS INACCURATE WATER USE DATA IN THE NEXT RATE CASE. IS SUCH AN ADDITIONAL REQUIREMENT NECESSARY?

A. No. Mr. Olea's (Direct Testimony, page 8, lines 5-12) recommendation for an automatic insufficiency suspension requirement would be an overly harsh penalty on Arizona-American. These water-use errors had no impact on the original cost-of-service study or the original rate design. Arizona-American's cost-of-service witness, Mr. Paul Herbert, has re-visited his studies and has inserted the correct information, but this caused no changes to his cost-of-service studies.

Arizona-American's cost-of service studies have not been the primary determinates of rate designs accepted by the Commission in recently completed cases; rather, conservation goals have been the larger consideration. The only district where Arizona-American proposed rate design changes in this case was Paradise Valley, but the water-use data for that district was correct in the original application.

Staff already has adequate authority in the sufficiency process and does not need an automatic requirement which may not be appropriate, given the facts in the next rate case.

Arizona-American understands the concerns raised by Staff, and in future cases will do its best to address them. Arizona-American already has a strong incentive to avoid insufficiency and time clock suspension.

D <u>RATE DESIGN</u>

Q. STAFF WITNESS MR. MILLSAP RECOMMENDS THAT PARADISE VALLEY'S RESIDENTIAL RATE DESIGN NOT BE EXPANDED FROM THREE TO FIVE RATE BLOCKS. DO YOU HAVE ANY REACTION?

A. RUCO accepted Arizona-American's proposal. Staff's Mr. Millsap concluded there was inadequate water usage in the proposed five rate blocks to get customers' attention. The proposed third rate block ends at 65,000 gallons per month. If the price of a new fourth rate block is higher, it provides an incentive for those customers with one-acre lots to conserve to levels below 65,000 gallons per month. Residential customers consuming in

the proposed fifth block (in excess of 125,000 gallons per month) are consuming at a discretionary level far in excess of essential use under any standard of measurement applicable to Arizona's desert environment. If the Commission approves Arizona-American's request to terminate the high block surcharge and the Staff's recommendation to retain the existing three tiers, then those Paradise Valley residential customers consuming more than 80,000 gallons per month will receive a substantial rate reduction upon conclusion of this case.

E <u>WATER LOSS</u>

Q. STAFF'S MS. HAINS RECOMMENDS THAT ARIZONA-AMERICAN REDUCE ITS WATER LOSS TO BELOW 10 PERCENT IN SEVERAL DISTRICTS BY DECEMBER 31, 2009, OR BEFORE IT FILES ITS NEXT RATE INCREASE APPLICATION AND/OR CC&N APPLICATION AND/OR FINANCING APPLICATION, WHICHEVER COMES FIRST. DOES THIS RECOMMENDATION CONCERN YOU?

A. Yes. If adopted, I am very concerned how this would be stated in a final order and how it might later be interpreted. Arizona-American should not be precluded from submitting any applications at the Commission based on water-loss percentages exceeding ten percent (or any percentage for that matter) as a form of punishment of Arizona-American. Rather, it would make much more sense to require Arizona-American and Staff to work cooperatively together to derive a plan to further reduce water loss with the cost of the plan made transparent to all.

Other witnesses discuss Arizona-American's miserable financial condition and what is being done to address it. Timely rate relief is one key strategy. If the consequence of somewhat higher water losses for a district would be no rate relief, Arizona-American could be forced to cancel or defer other worthwhile capital projects in favor of addressing water losses.

Water losses can be reduced, but at a cost. Arizona-American has various on-going meter and other infrastructure replacement programs that, if appropriate, might be accelerated or augmented. But, these programs must compete in these difficult economic times with other worthy investments. It makes no sense to essentially force investment in one area, without examining all possible challenges and opportunities. By this request, Staff seeks to substitute its judgment, without any kind of analysis, for management's.

F HOOK-UP FEE COMPLIANCE

Q. STAFF'S MS. HAINS (DIRECT TESTIMONY, PAGE 13) STATES ARIZONA-AMERICAN IS NOT IN COMPLIANCE WITH REPORTING ON THE EXISTING MOHAVE WASTEWATER HOOK-UP FEE, BUT ELSEWHERE STATES ARIZONA-AMERICAN IS IN OVERALL COMPLIANCE. HOW DO YOU RESPOND?

A. I researched Arizona-American's compliance data base and cannot find any existing compliance requirement concerning the Mohave wastewater hook-up fee (Treatment Plant Availability Fee, existing amount $785 per new connection). Ms. Hains did not reference a Commission decision as authority for such compliance. However, Arizona-American does not oppose the new future compliance recommended by Ms. Hains.

IX REBUTTAL OF RUCO

A RATE CASE EXPENSE

Q. RUCO RECOMMENDS RATE CASE EXPENSE OF $425,265. DO YOU AGREE?

A. Not precisely, but we are close. As of January 28, 2009, Arizona-American had already spent and deferred $289,275 for the districts in this rate case. I estimate I will receive invoices totaling $ 132,000[1] from my outside witnesses, external counsel, plus invoices for the costs of analyzing rate consolidation requested by Commissioner Mayes. I

[1] Marks $72,000, Villadsen $35,000, Herbert $15,000 AND $10,000 to GDS for rate consolidation.

anticipate at least one more required letter to customers at the end of the case with postage costing of approximately $35,000. Therefore, Arizona-American's revised request for rate case expenses totals $456,275 which is down from $612,000 requested in the original application.

Q. MR. RIGSBY RECOMMENDS DENIAL OF THE REQUESTED EXTENSION OF THE WHITE TANKS ("WHU-1") HOOK-UP FEE UNTIL 2020. HOW DO YOU RESPOND?

A. RUCO simultaneously also recommends that Arizona-American stay the course and rely only on hook-up fees and never put the costs for the initial phase of White Tanks in rate base. In light of the real estate depression which has dramatically eroded hook-up fee proceeds, the consequence of these combined RUCO recommendations, if adopted, would be to permanently deny Arizona-American cost recovery of White Tanks. Arizona-American's requested extension to 2020 is reasonable and probably will need to be extended further.

X <u>REBUTTAL OF MAGRUDER</u>

A <u>RATE CASE EXPENSE</u>

Q. DO YOU ACCEPT MR. MAGRUDER'S RECOMMENDATION TO ELIMINATE WITNESS TRAINING EXPENSES FROM RATE CASE EXPENSES?

A. Yes. Arizona-American's revised request for rate case expense does not include any expense for witness training.

B <u>ARSENIC COST RECOVERY MECHANISM ("ACRM")</u>

Q. MR. MAGRUDER (DIRECT TESTIMONY PAGES 11-12) OPPOSES AN ARSENIC COST RECOVERY MECHANISM ("ACRM"), IN PART, BECAUSE THE ARSENIC FACILITY IS NOT UNDER CONSTRUCTION AND OUTSIDE THE TEST YEAR. IS THAT A REASON TO OPPOSE AN ACRM?

A. No. The ACRM concept was created precisely because arsenic facility costs occur after the test year end in a rate case and yet the costs – when incurred – are very significant and due to a federal mandate. The Commission has previously approved ACRMs for four other Arizona-American water districts. In each case, once the ACRMs were approved, construction commenced. By design, this occurred after the test year. Then, after the treatment facility entered service, Arizona-American made an ACRM Step I filing, including all the required schedules, exhibits and project invoices. The procedure Arizona-America is following for Tubac Water is completely consistent with this past practice and that of other water utilities, such as Arizona Water.

In my experience over the past several years, the ACRM procedure causes more – not less – scrutiny of an individual project than occurs in a rate case. I have observed Staff and RUCO personnel visiting each arsenic facility, sometimes several times, and these parties have extensively reviewed project invoices and accounting.

Q. MR. MAGRUDER WANTS THE THIRD PRICING BLOCK FOR TUBAC TO BE VERY EXPENSIVE. DO YOU AGREE?

A. No. Higher use water consumers in Tubac are price sensitive and drill private wells to fully or partially bypass our system. Even though these wells are expensive, we saw a number of new wells drilled several years ago when the topic of the cost of the arsenic facility first came up. Since most of our costs are fixed costs, such dramatic conservation only serves to raise rates later for the remaining customers.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

ARIZONA
AMERICAN WATER

Investing in Our Communities

Investing in Our [illegible]

Interim [illegible] Water Rate Increase

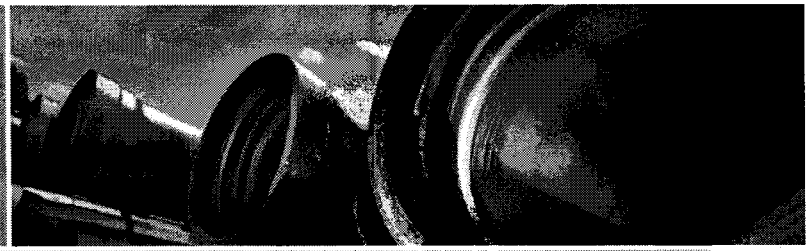
December [illegible] 2008

Introductions

- **Arizona American Water**
  - Paul Townsley, President, Arizona American Water
  - Tom Broderick, Director, Rates & Regulation
  - Jeffrey Stuck, Director of Operations

Community Meeting Format

- **5:30p.m. -Arizona American Water Presentation**
- **Please hold all questions until presentation concludes,**
  <u>Thank You!</u>
- **Open house: Arizona American Water experts continue to answer questions on Rates, Engineering, Operations, Customer Service, Water Quality and Conservation.**



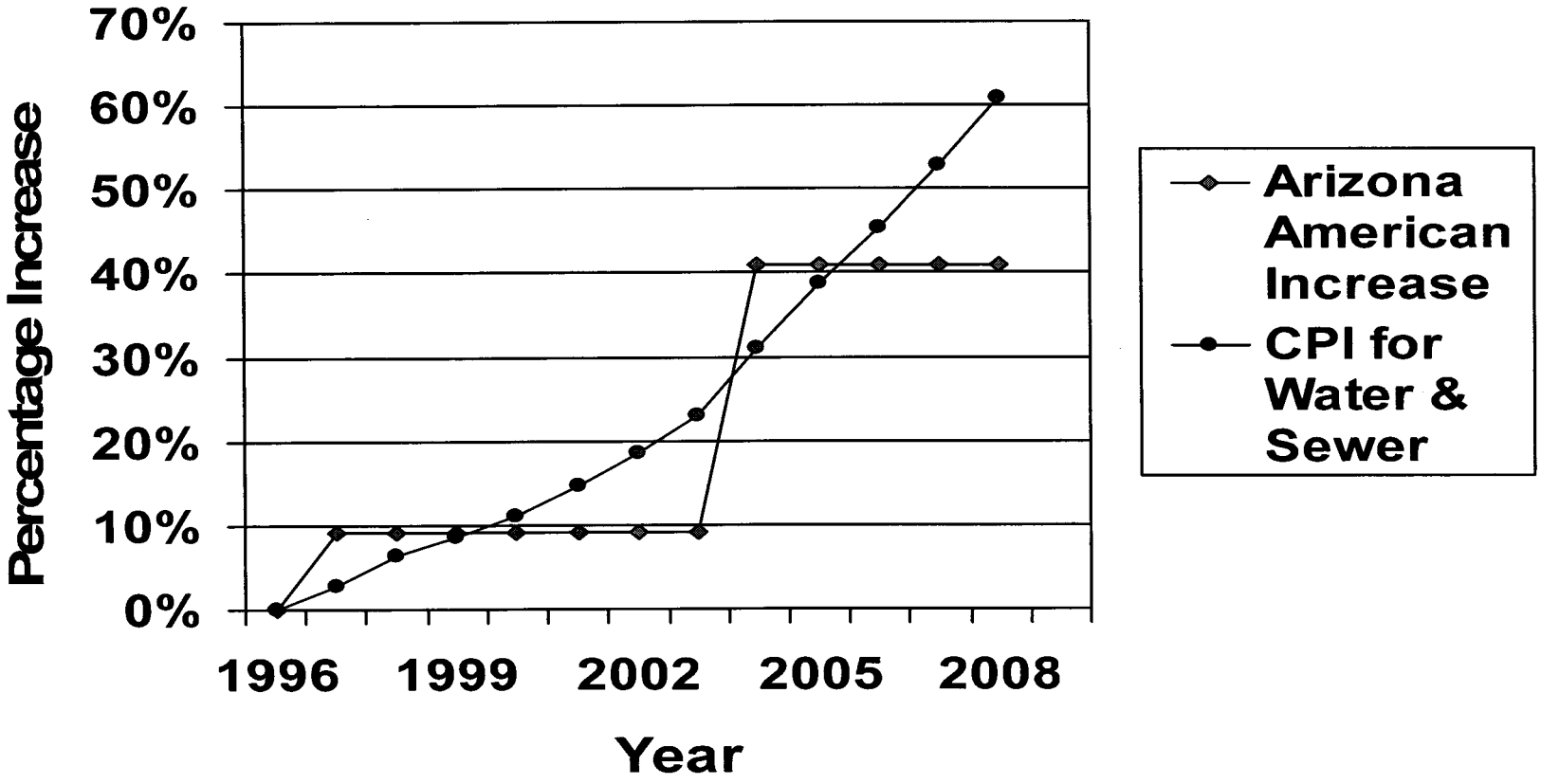
Today, we will talk about…

- Tubac Water System
- Water Rates – Current & Proposed Rate Components
- How rate increase proposals are formulated
- Investment in local infrastructure
- Arsenic Treatment Issues
- Rate Increase Application Timeline
- What's Next?

Tubac Water Facts

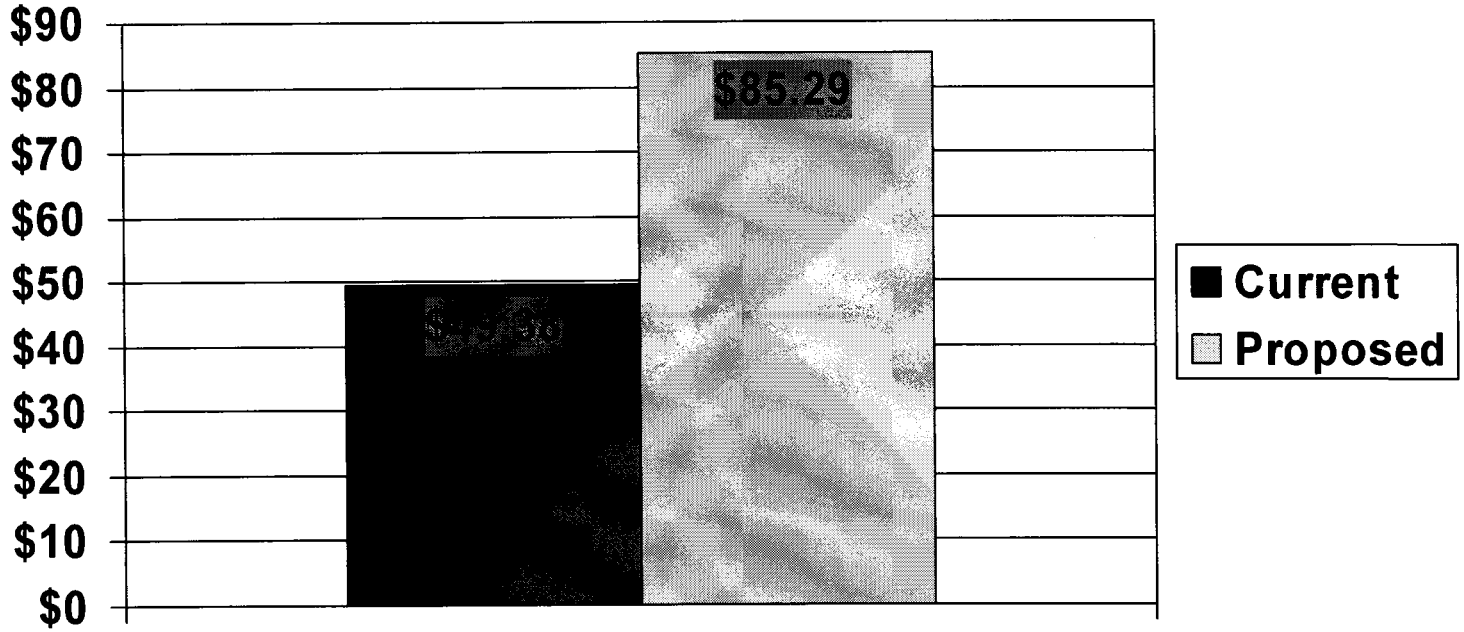
- In Tubac, Arizona American Water provides high-quality water utility services to 532 water customers
- Current water rates were effective July 2004 and are based on investment and operating expense at calendar year 2001
- Current rate case application is based on the amount of investment and operating expense at calendar year 2007
- New rates likely effective September 1, 2009

History of Tubac Rates



ARIZONA AMERICAN WATER

Proposed Increase = $1.20 per day



Average residential monthly bill based on monthly water usage of 11,767 gallons for 5/8" and 3/4" meters - 461 customers in Tubac

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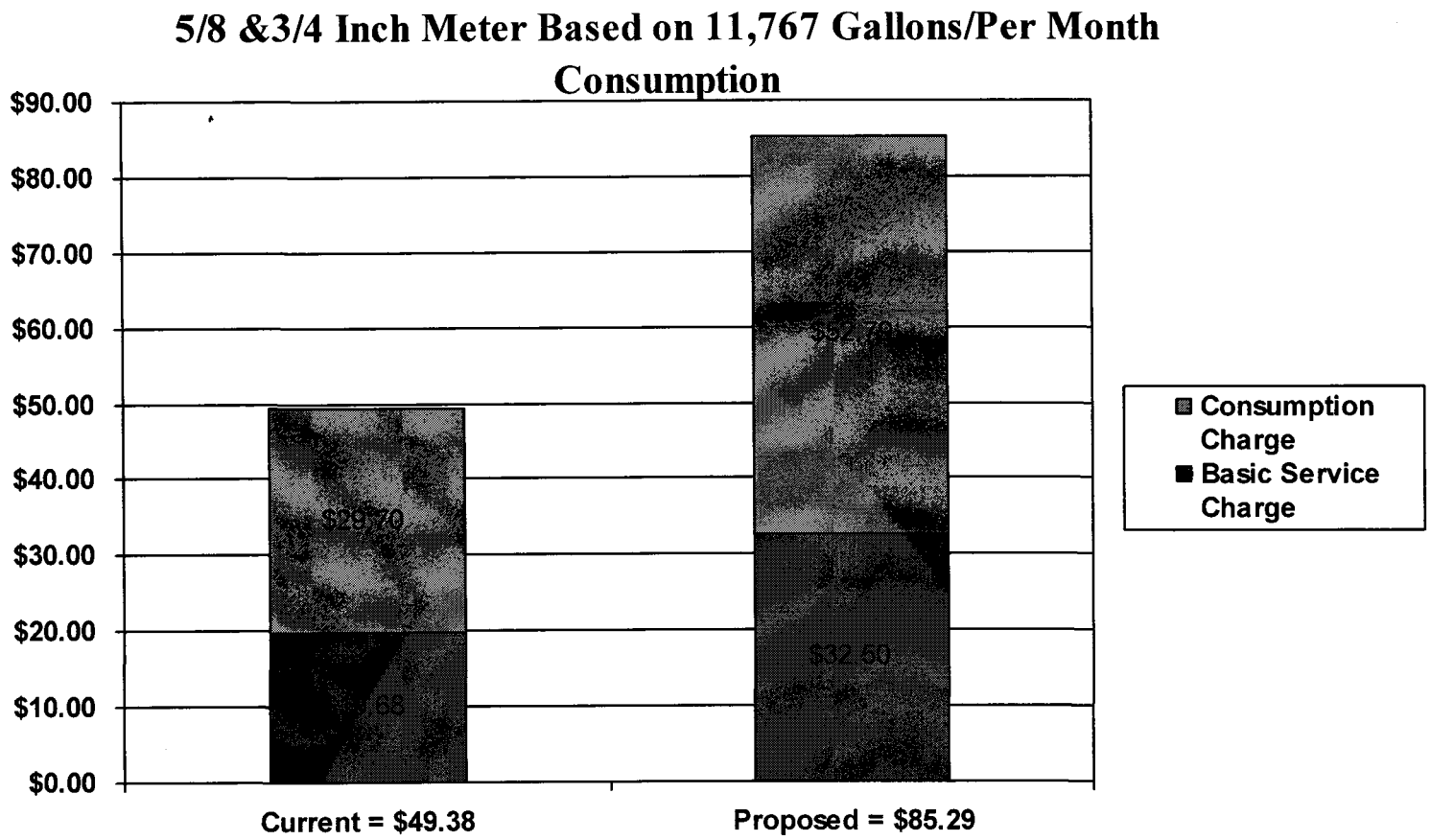
Rate Components – Basic and Consumption Charges



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Residential Water Consumption Charges
Charge per 1,000 gallons for 5/8 & 3/4 inch meters

Gallons of Water (per month)	Current	Proposed
0- 4,000 gallons	$1.89	$3.78
4,001-20,000 gallons	$2.85	$4.85
20,001 + gallons	$3.41	$4.95

ARIZONA AMERICAN WATER

ACTUAL TUBAC BILL – Exact Proposed Changes

Customer Account Information

For Service To:

Account Number
Premise Number:

Billing Period & Meter Information

Billing Date: Nov 10, 2008
Billing Period: Oct 02 to Nov 05 (34 days)

Next reading on/about: Dec 04, 2008
Rate Type: Residential

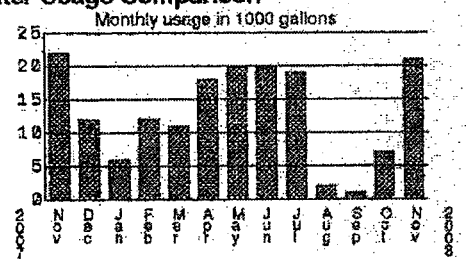
Meter readings in current billing period:
Meter Number S46786 is a 5/8-inch meter.

Present-actual	2143
Last-actual	2122
T-gal used	21

Billing Summary

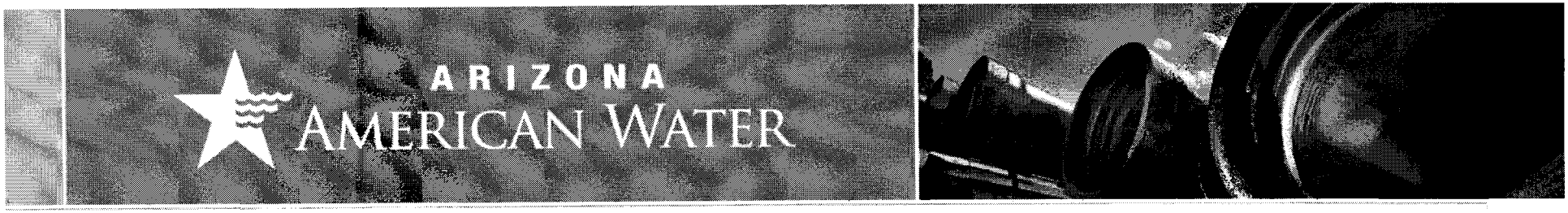
——Prior Balance——		
Balance from last bill		$61.75
Payments as of Nov 10, 2008. Thanks!		-61.75
Total prior balance, Nov 10, 2008		.00
——Current Water Charges——		
Basic Service		19.68
Water Volume	($ 1.890 x 4.00)	7.56
	($ 2.850 x 16.00)	45.60
	($ 3.410 x 1.00)	3.41
Groundwater Withdrawal Fee		.21
Total Use Billed	21.00	76.46
——Other Current Charges——		
ACC Resid Reg Assmnt Fee		.15
Total other charges, Nov 10, 2008		.15
——Taxes——		
County Tax - TUBAC		.76
State Tax		4.28
Water Use Tax		.14
Total taxes, Nov 10, 2008		5.18
——TOTAL AMOUNT DUE——		$81.79

Water Usage Comparison



Basic Formula For Water Rates

2007 Total Invested Capital or "Rate Base"	$1,527,454
Requested Cost of Capital	$ 8.4 %
Required Annual Operating Income/(Loss)	$ 128,306
2007 Revenues	$ 426,900
2007 Expenses	$ 465,453
Actual Adjusted Operating Income/(Loss)	$ (38,553)
After Tax Operating Income Deficiency	$ 166,859
Additional Taxes	$ 111,355
Proposed Increase in Revenues	$ 278,214



New Infrastructure Investments

Key Infrastructure Investments = $1.4 million

1.) **Water Mains & Pipes –** New/replacement mains throughout Tubac

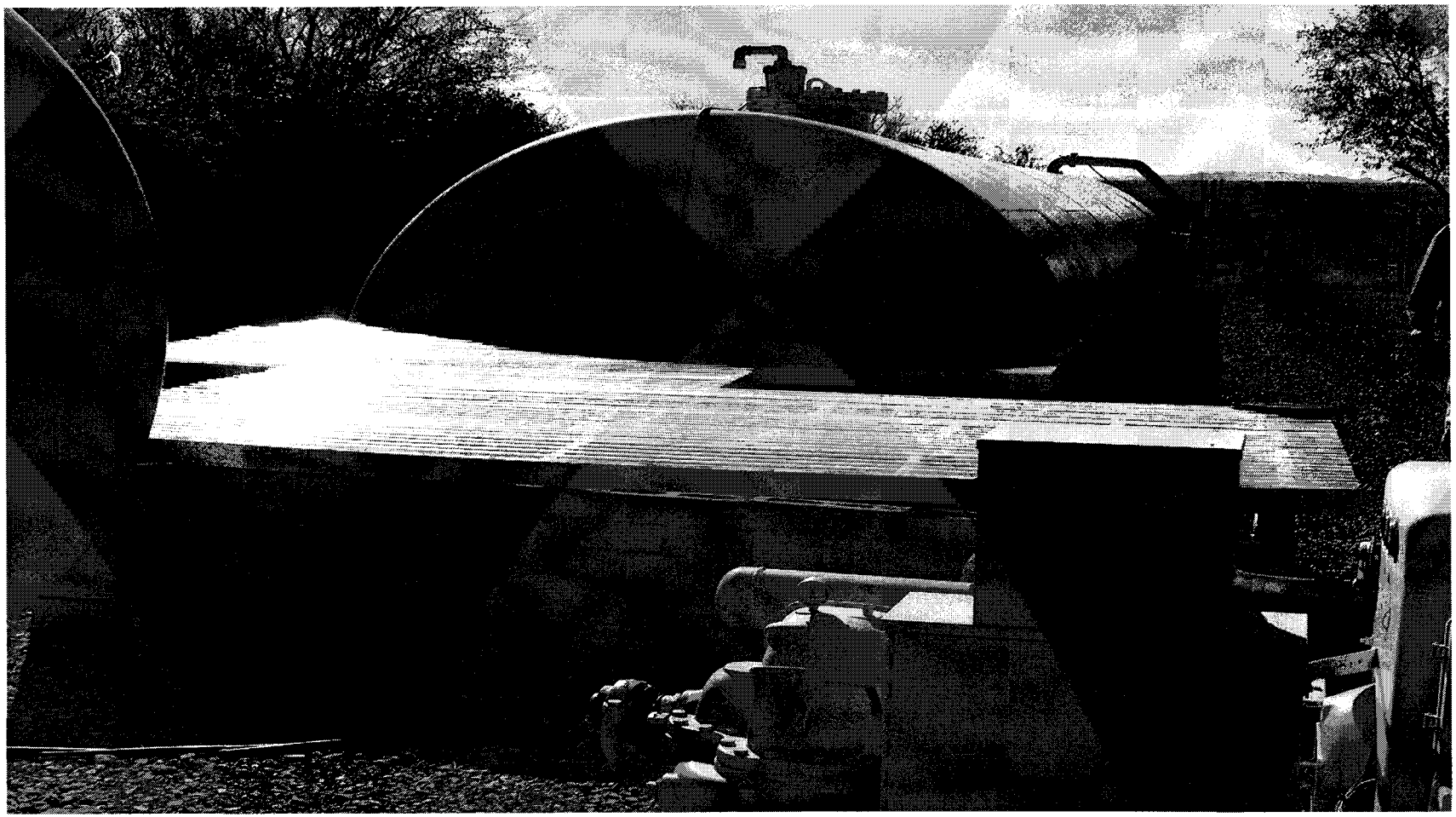
2.) **Wells** - Well 5 pump, motor replacement

3.) **Storage & Booster Tank** - Replace pumps & motors to maintain well sites

4.) **Back up Power/Tools** - Generator at Well

These investments benefit you by improving your water quality, water pressure and reliability.

Palo Prado Storage Tank



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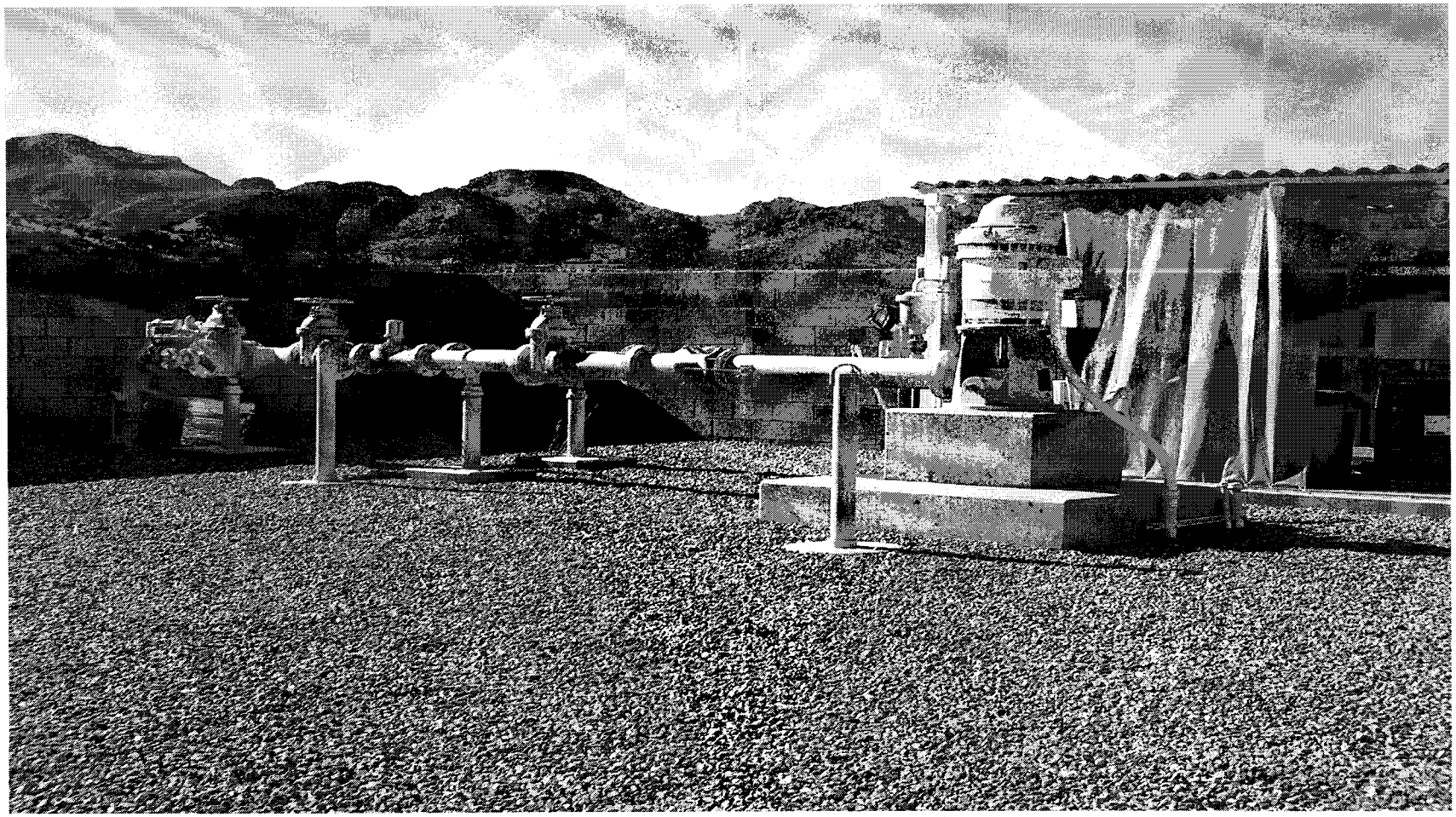
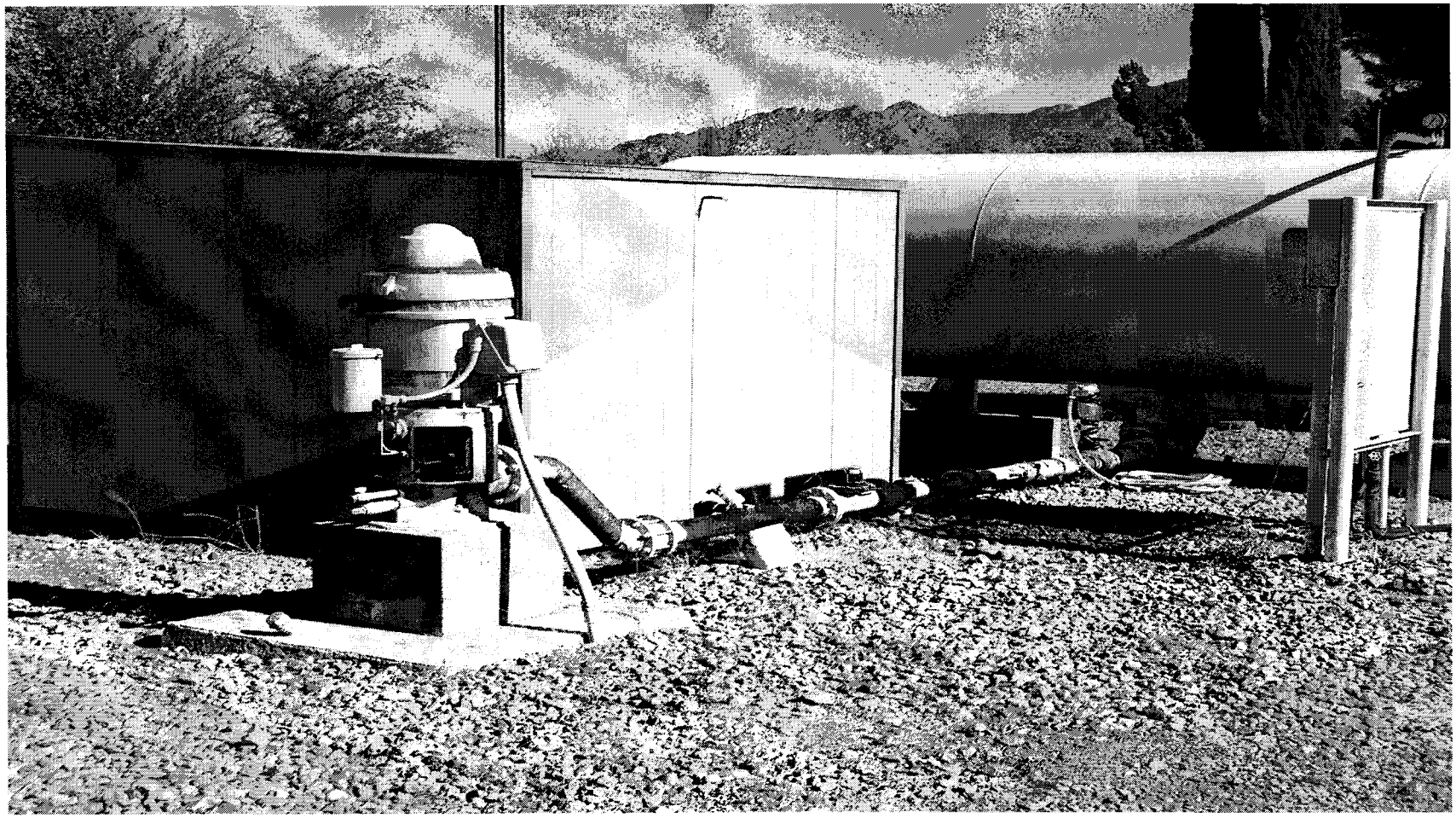
Tubac Well



Tubac Well



Tubac Water Expenses

- **2001 versus 2007**
  - **Total Operating and Maintenance Expense Allowed in Rates Increased $231,000**

- **Primary Reasons for Expense Increases are:**
  - **Shared corporate and support services, National call center and National laboratories and Reporting & compliance $74,000**
  - **Locally based labor, health insurance and pensions $53,000**
  - **Depreciation $46,000**
  - **Electricity & chemicals $7,000**

Arsenic Treatment Facility

Recovered Through Arsenic Surcharge on Future Bills

- Exemption from Federal Arsenic Standard denied by US EPA.
- Design of arsenic treatment facility commenced in Summer 2008.
- The construction starts in the summer of 2009.
  The estimated completion date is the summer of 2010.
- Arsenic facility costs not included in pending base rate proposal
- Requesting approval of an Arsenic Cost Recovery Surcharge Mechanism (ACRM) from the Arizona Corporation Commission
- Estimated cost of arsenic remediation facility: $2.3 million
- Estimated arsenic step 1 surcharge for 5/8" meter: $25.98 per month
- Estimated arsenic step 1 commodity surcharge: $3.14 per 1,000 gal

Rate Application Timeline:

• Rate Application Filed	May 1, 2008
• Community Meeting	December 8, 2008
• ACC Staff & Intervenor Recommendations	January 9, 2009
• Arizona Corporation Commission Hearings	March 19, 2009
• New Rates Effective	September 1, 2009

ARIZONA AMERICAN WATER

Contact Arizona American Water

Please contact Arizona American Water with any questions or concerns you have!

24- hour Call Center: 1-800-383-0834

We are located at:

Arizona American Water: Tubac
15 Burruel St.
Tubac, AZ 85646

Arizona American Water: Phoenix
19820 N. 7th Street, Suite 201
Phoenix, AZ 85024

Or email us at azrates@amwater.com for a calculation of the impact of the rate proposal on your account.

TARIFF SCHEDULE

UTILITY: _____ DECISION NO. _____
DOCKET NO. _____ EFFECTIVE DATE: _____

COMMON WATER FACILITIES HOOK-UP FEE WHU-1

I. Purpose and Applicability

The purpose of the Common Facilities hook-up fee payable to Arizona-American Water Company ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional common water facility infrastructure, including the White Tanks Surface Water Treatment Facility, to provide water production, delivery, treatment, storage and pressure among all new service connections. These charges are applicable to all new service connections established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to the Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with the Company for the installation of water facilities to serve new service connections, and may include developers and/or builders of new residential subdivisions.

"Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of water facilities, which may include Common Facilities, to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, in either case which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Common Facilities" means wells, storage tanks, production, treatment, booster pumps, pressure tanks, transmission mains and related appurtenances, including engineering and design costs, constructed for the benefit of the entire water system and are not for the exclusive use of the Applicant's development.

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

III. Common Facilities Water Hook-up Fee

For each new service connection, the Company shall collect a Common Facilities hook-up fee derived from the following table:

COMMON FACILITIES HOOK-UP FEE TABLE				
Meter Size	**Size Factor**	**Component A Offset Eligible**	**Component B Not Offset Eligible**	**Total Fee**
5/8" x 3/4"	1	$1,150.00	$2,130.00	**$3,280.00**
3/4"	1.5	$1,725.00	$3,195.00	**$4,920.00**
1"	2.5	$2,875.00	$5,325.00	**$8,200.00**
1-1/2"	5	$5,750.00	$10,650.00	**$16,400.00**
2"	8	$9,200.00	$17,040.00	**$26,240.00**
3"	16	$18,400.00	$34,080.00	**$52,480.00**
4"	25	$28,750.00	$53,250.00	**$82,000.00**
6" or larger	50	$57,500.00	$106,500.00	**$164,000.00**

IV. Terms and Conditions

(A) Assessment of One Time Common Facilities Hook-up Fee: The Common Facilities hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Common Facilities Hook-up Fee: Common Facilities hook-up fees may only be used to pay for capital items of Common Facilities, or for repayment of loans obtained for installation of Common Facilities. Common Facilities hook-up fees shall not be used for repairs, maintenance, or operational purposes.

(C) Time of Payment:

1) In the event that the Applicant that will be constructing improvements is required to enter into a Main Extension Agreement, payment of the Common Facilities hook-up fees required hereunder shall be made by the Applicant no later than within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).

2) In the event that the Applicant for service is not required to enter into a Main Extension Agreement, the charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Common Facilities Construction By Developer: The Company and Applicant may agree to construction of Common Facilities necessary to serve a particular development by Applicant which facilities are then conveyed to the Company. In that event, Company shall credit the total cost of such Common Facilities as an offset to Component A of the Common

Facilities hook-up fees due under this Tariff. If the total cost of the Common Facilities constructed by Applicant and conveyed to Company is less than the applicable Component A of the Common Facilities hook-up fee due under this Tariff, Applicant shall pay the remaining amount of Component A of the Common Facilities hook-up fees owed hereunder. If the total cost of the Common Facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable Component A of the Common Facilities hook-up fees under this Tariff, Applicant shall be refunded the difference upon acceptance of the Common Facilities by the Company. The Company and Applicant may agree to construction of additional facilities, whether on-site or off-site of the Applicant's development, that are required to serve only the Applicant's development, but which are not Distribution Mains under R14-2-401 and which are not subject to refund under R14-2-406(D). The Company may require the Applicant to construct and contribute such additional facilities to the Company, and any such contribution shall be a non-refundable contribution in aid of construction not subject to off-set under this paragraph IV.D.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to provide water service to any Applicant or other applicant for service in the event that such Applicant or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Large Subdivision Projects: In the event that the Applicant is engaged in the development of a residential subdivision containing more than 150 lots, and is a party to a Main Extension Agreement with the Company for such development, the Company may, in its discretion, agree to payment of the Common Facilities hook-up fees in installments. Such installments may be based on the residential subdivision development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Applicant's construction schedule and water service requirements.

(G) Common Facilities Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the Common Facilities hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Common Facilities Hook-Up Fees Received: All funds collected by the Company as Common Facilities hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of the Common Facilities, including repayment of loans obtained for the installation of Common Facilities that will benefit the entire water system.

(I) Common Facilities Hook-up Fee in Addition to On-site Facilities: The Common Facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities or other additional facilities under Paragraph IV.D, above, under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable Common Facilities are constructed utilizing funds collected pursuant to the Common Facilities hook-up fees, or if the Common Facilities hookup fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The

manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

K) Fire Flow Requirements: In the event the Applicant has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the Common Facilities hook-up fee, and which are contemplated to be constructed using the proceeds of the Common Facilities hook-up fee, the Company may require the Applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to paying the Common Facilities hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Common Facilities hook-up fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 20XX, until the Common Facilities hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the Common Facilities hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

PROMISSORY NOTE
FOR LONG-TERM BORROWINGS
10.00% Maturity - December 1, 2038

$3,000,000 November 26, 2008

FOR VALUE RECEIVED, Texas-American Water Company, a Texas corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at 1025 Laurel Oak Rd. Voorhees, NJ 08043 or such other place as Lender may from time to time designate, the principal sum of Three Million dollars **($3,000,000)**, together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waivers presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefore shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of April 28, 2003 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

Texas-American Water Company

By: James M. Johns VP Finance
Name and Title

SCENARIO: ALL EIGHT DISTRICTS RATE CONSOLIDATION

RESIDENTIAL CUSTOMERS

Meter Size	Anthem	Aqua Fria	Havasu	Mohave	Paradise Valley	Sun City	Sun City West	Tubac	Total
Avg gals 5/8"	9,022	7,400	9,705	8,073	20,493	8,269	6,704	11,767	
UNCONSOLIDATED RATES (BASED ON PROPOSED RATES ORIGINAL 5-1-08 FILING PLUS EXISTING SUN CITY)									
5/8 & 3/4	$4,235,042	$13,040,648	$1,326,214	$4,442,597	$2,088,645	$3,389,239	$5,957,328	$466,587	$34,946,301
1	$5,054,744	$4,271,558	$312	$47,776	$4,348,114	$127,597	$157,769	$38,921	$14,046,791
1.5	$164,849	$945,122	$0	$0	$216,452	$1,788,716	$1,469,445	$0	$4,584,584
2	$258,430	$1,781,218	$2,627	$106,464	$1,112,402	$825,185	$538,188	$12,982	$4,637,496
3	$0	$6,307	$0	$0	$0	$14,350	$0	$1,949	$22,606
4	$0	$0	$30,750	$0	$0	$0	$368,296	$0	$399,046
6	$0	$610	$0	$0	$0	$6,185	$0	$0	$6,795
8	$0	$0	$0	$0	$0	$0	$0	$0	$0
TOTAL	$9,713,065	$20,045,463	$1,359,903	$4,596,838	$7,765,613	$6,151,273	$8,491,027	$520,438	$58,643,621
Avg Mo Bill 5/8"	$66.64	$38.21	$73.77	$24.50	$70.26	$13.91	$35.10	$85.29	
CONSOLIDATED RATES									
5/8 & 3/4	$2,209,212	$10,537,998	$747,995	$6,067,816	$1,944,389	$7,947,897	$4,913,727	$240,554	$34,609,589
1	$2,634,456	$3,603,402	$222	$69,040	$4,643,788	$291,799	$136,053	$24,105	$11,402,867
1.5	$88,000	$825,982	$0	$0	$253,343	$4,243,195	$1,274,269	$0	$6,684,790
2	$143,948	$1,564,455	$2,384	$170,798	$1,153,127	$1,976,152	$484,796	$8,111	$5,503,772
3	$0	$5,812	$0	$0	$0	$35,472	$0	$2,359	$43,643
4	$0	$0	$25,871	$0	$0	$0	$349,653	$0	$375,524
6	$0	$780	$0	$0	$0	$22,656	$0	$0	$23,436
8	$0	$0	$0	$0	$0	$0	$0	$0	$0
TOTAL	$5,075,617	$16,538,429	$776,473	$6,307,654	$7,994,648	$14,517,171	$7,158,498	$275,130	$58,643,621
Avg Mo Bill 5/8"	$34.15	$30.09	$35.85	$31.77	$66.94	$32.26	$28.35	$41.01	
INCREASE/(DECREASE) IN RATES NEEDED TO CONSOLIDATE									
5/8 & 3/4	$ (2,025,830)	$ (2,502,650)	$ (578,219)	$ 1,625,219	$ (144,256)	$ 4,558,658	$ (1,043,601)	$ (226,033)	$ (336,712)
1	$ (2,420,288)	$ (668,155)	$ (90)	$ 21,263	$ 295,674	$ 164,202	$ (21,716)	$ (14,815)	$ (2,643,925)
1.5	$ (76,849)	$ (119,139)	$ -	$ -	$ 36,891	$ 2,454,479	$ (195,176)	$ -	$ 2,100,206
2	$ (114,482)	$ (216,763)	$ (243)	$ 64,334	$ 40,726	$ 1,150,967	$ (53,392)	$ (4,871)	$ 866,276
3	$ -	$ (496)	$ -	$ -	$ -	$ 21,122	$ -	$ 410	$ 21,037
4	$ -	$ -	$ (4,879)	$ -	$ -	$ -	$ (18,643)	$ -	$ (23,522)
6	$ -	$ 169	$ -	$ -	$ -	$ 16,472	$ -	$ -	$ 16,641
8	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	**$ (4,637,449)**	**$ (3,507,034)**	**$ (583,430)**	**$ 1,710,816**	**$ 229,035**	**$ 8,365,899**	**$ (1,332,529)**	**$ (245,308)**	**$ (0)**
TOTAL	**-47.74%**	**-17.50%**	**-42.90%**	**37.22%**	**2.95%**	**136.00%**	**-15.69%**	**-47.13%**	**0.00%**
Change in Avg Mo Bill 5/8"	($32.49)	($8.12)	($37.92)	$7.27	($3.32)	$18.35	($6.75)	($44.28)	

Description	Meter Size in Inches	Base Charge	Volume Blocks (1,000 Gallons) 1 First	2 Next	Volume Charges (per 1,000 Gallons) 1 First	2 Next	3 Next
Residential	5/8 & 3/4	$15.59	4	11	1.5	2.5	3.25
Residential	1	$38.98	4	36	1.5	2.5	3.25
Residential	1.5	$77.96	75		2.5	3.25	
Residential	2	$124.74	120		2.5	3.25	
Residential	3	$233.89	225		2.5	3.25	
Residential	4	$389.81	375		2.5	3.25	
Residential	6	$779.62	750		2.5	3.25	
Residential	8	$1,247.39	1200		2.5	3.25	

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF ARIZONA -AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT	DOCKET NO. W-01303A-08-0227
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WASTEWATER DISTRICT	DOCKET NO. SW-01303A-08-0227

REBUTTAL TESTIMONY
OF
LINDA J. GUTOWSKI
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
DATED FEBRUARY 10, 2009

REBUTTAL TESTIMONY
OF
LINDA J. GUTOWSKI
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ARIZONA-AMERICAN WATER COMPANY
DATED FEBRUARY 10, 2009

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EXECUTIVE SUMMARY

Linda J. Gutowski responds to Staff and RUCO testimony concerning rate-base issues and then discusses revenue and depreciation expense.

I RATE BASE – UTILITY PLANT IN SERVICE

A AGUA FRIA WATER DISTRICT

In Rebuttal Adjustment LJG-1R, Arizona-American is reducing the cost of the Sierra Montana 2.2 MG Reservoir from an estimated amount to the actual cost. This adjustment reduces Plant in Service by $252,470.

Staff Rate-Base Adjustment No.1 would inappropriately disallow any recognition of the Rancho Cabrillo Subdivision On-Site Costs. These costs are currently estimated at $1,189,832. The project is in service, and Ms. Hains did not make any determination that the project is not used and useful. Therefore, the costs should be included in rate base.

Arizona-American accepts Staff Rate-Base Adjustment No.5 to include $1,167,268 in post-test-year additions for distribution system improvements.

Staff Rate-Base Adjustment No.5 would inappropriately exclude $2,046,765 in post-test-year additions for the Sierra Montana 2.2 Mg Reservoir. The project was placed in Utility Plant in Service in December 2008 at a cost of $1,794,295. .

Staff Rate-Base Adjustment No.6 would inappropriately exclude $25,000,000 in White Tanks Project CWIP. RUCO Rate-Base Adjustment No.7 is the same as Staff Rate Base Adjustment No. 6 and should also be rejected.

Arizona-American accepts RUCO Rate-Base Adjustment No.4 to increase rate base by $18,581 for two projects that are actually in the Agua Fria water district, but were mistakenly included in the Sun City West Water District.

B HAVASU WATER DISTRICT

Adjustment, LJG-2R is to move the Gateway water and wastewater plant from the Havasu Water District and put it properly into the Mohave Water District and into the Mohave Wastewater District. Gateway is geographically located half way between our Havasu District and our Mohave District, but is in our Mohave Water And Wastewater CC&N areas. The decrease to plant in service in Havasu is $814,761 and there is a companion decrease to accumulated depreciation discussed below.

C MOHAVE WATER DISTRICT

There are two rate base adjustments for the Mohave Water District. Rebuttal Adjustment LJG-1R updates the estimated cost for the 0.25 mg Big Bend Acres Reservoir to actual costs of $643,127. This increases plant by $32,395. Rebuttal Adjustment LJG-2R adds the Gateway Water Plant to the Mohave Water District in the amount of $721,333.

Staff Rate-Base Adjustment No.1 would inappropriately disallow $1,539,768 for three projects lacking supporting invoices. All three projects are in service and the plants are used and useful. All of the projects were built in accordance with other commission-approved line extension agreements. It would be punitive not to include a million-dollar project in rate base, just because we are having difficulty getting final paperwork.

Staff Rate Base Adjustment No. 5 would inappropriately disallow all of the estimated costs for the Big Bend Acres Reservoir in the amount of $610,732. The project was completed, and used and useful as of November 26, 2008.

D PARADISE VALLEY WATER DISTRICT

Arizona-American accepts Staff Rate-Base Adjustment No.1 to decrease plant in service by $180,916 to account for plant retirements. Arizona-American retired tanks and pumps as a result of building the arsenic treatment plant in the Paradise Valley Water District. However, these retirements were incorrectly booked in 2007 to our Sun City and Sun City West Water Districts

RUCO Rate-Base Adjustment No.5 would inappropriately decrease plant in service to account for plant retirements. The adjustment is for the same retirement-errors that Staff identified, but is not for the full amount.

Arizona-American accepts RUCO Rate-Base Adjustment No.3 to remove $2,109,032 of post test year plant, the estimated cost of the rehabilitation of Well No. 12. However, the correct amount is $1,775,026.

E SUN CITY WEST WATER DISTRICT

Arizona-American accepts RUCO Rate-Base Adjustment No.3 to increase plant in service by $76,672, to adjust for plant retirements that should have been made in the Paradise Valley Water District.

Arizona-American rejects Staff Rate-Base Adjustment No.1. This is a similar adjustment to RUCO RB-3. RUCO's adjustment is for the correct amount, as Staff did not retire $6,672 and made no adjustment to accumulated depreciation.

Arizona-American accepts RUCO Rate-Base Adjustment No.4 to decrease plant in service by $18,581 to adjust for two projects that belong in Agua Fria Water District instead of the Sun City West Water District.

F TUBAC WATER DISTRICT

There are no rate base adjustments for the Tubac Water District.

G MOHAVE WASTEWATER DISTRICT

Arizona-American makes three rebuttal adjustments for the Mohave Wastewater District. LJG-1R lowers accumulated depreciation for a change in depreciation rates approved in the previous rate case. LJG-2R for $94,978 adjusts for the Gateway Wastewater Plant being moved from the Havasu Water District and being placed in the Mohave Wastewater District. LJG-3R adds $343,959 to plant in service for the difference between the actual cost of the Wishing Well Wastewater Treatment Plant expansion and the estimated cost used in my direct testimony.

Staff Rate-Base Adjustment No.1 would inappropriately decrease plant in service by $306,362 by disallowing two projects that do not have invoices. It would be punitive to disallow including plant in rate base that is in service, just because all the final invoices have not been collected.

Staff Rate-Base Adjustment No.5 would inappropriately decrease plant in service by $3,932,808 by disallowing all costs associated with the upgrade and expansion of the Wishing Well Treatment Plant. Mr. Gross discusses why this would be inappropriate.

RUCO Rate-Base Adjustment No.4 would inappropriately decrease plant in service by $1,966,040 by deferring its estimate (50%) of the costs of the Wishing Well Treatment Plant. Mr. Gross discusses why this would be inappropriate.

II RATE BASE – ACCUMULATED DEPRECIATION

A ALL DISTRICTS

We reject RUCO Rate Base Adjustment No. 1. RUCO inappropriately recomputed depreciation expense for all districts claiming that the only acceptable methods of depreciation are mid-year or mid-month. RUCO is incorrect. Arizona-American changed from the mid-year method to the end of month method as of January 2003. The Company's depreciation methodology is accepted by our outside auditors and complies with all Sarbanes-Oxley requirements. All three methods give the same results over the life of the asset. Arizona-American's case is based on the actual depreciation expenses booked and approved by the auditors. RUCO would improperly substitute a fictional depreciation expense.

B AGUA FRIA WATER DISTRICT

Staff Rate Base Adjustment No. 1 would inappropriately decrease accumulated depreciation in the amount of $7,532. This appears to be the result of an arithmetical error.

C HAVASU WATER DISTRICT

Arizona-American made two adjustments. Adjustment LJG-1R decreases accumulated depreciation by $6,540 to reflect the depreciation rates that were effective on June 30, 2004 in Decision no. 67093. Adjustment, LJG-2R, decreases accumulated depreciation by $14,000 with the removal of the Gateway Plant discussed above.

RUCO's Rate-Base Adjustment No.1 is not entirely accurate. It is appropriate to adjust depreciation rates since June 30, 2004, but RUCO inappropriately uses its half-month convention.

D MOHAVE WATER DISTRICT

Rate Base Adjustment LJG-2R increases accumulated depreciation to adjust for the Gateway Water Facilities in the amount of $45,790.

Staff Rate Base Adjustment No. 1 would inappropriately remove $26,559 from accumulated depreciation. This adjustment corresponds to the improper rate-base reduction for three projects, which is discussed above.

RUCO's Rate-Base Adjustment No.1 would inappropriately adjust accumulated depreciation. The adjustment relies on RUCO's mid-month convention, which is improper. Second, RUCO improperly used several Havasu Water District depreciation rates instead of the currently approved rates for Mohave Water District.

E PARADISE VALLEY WATER DISTRICT

Arizona-American accepts Staff Rate Base Adjustment No. 1 to reduce accumulated depreciation. This adjustment corresponds to the rate-base adjustment for plant retirements, previously discussed.

Arizona-American accepts RUCO's Rate-Base Adjustment No.1 to adjust accumulated depreciation. The Company made a math error in decreasing Paradise Valley's accumulated depreciation instead of increasing it. The appropriate correction is $100,554.

RUCO's Rate-Base Adjustment No.5 would inappropriately adjust accumulated depreciation for Paradise Valley wells. RUCO should have included well #17 for $288,080 and not included well #12 for $1,935,000 since the company withdrew the project before computing accumulated depreciation. RUCO also should not have reduced accumulated depreciation in the post test year exhibit by a retirement for Well #12 that will not happen until the well project is undertaken sometime this year.

F SUN CITY WEST WATER DISTRICT

RUCO's Rate-Base Adjustment No.1 inappropriately adjusts accumulated depreciation by use of its half-month convention.

Arizona-American accepts RUCO's Rate-Base Adjustment No.3 to adjust accumulated depreciation to account for two retirements that were booked in Sun City West, but should have been attributed to Paradise Valley. One minor adjustment is needed to adjust for RUCO's improper mid-month convention.

Arizona-American accepts RUCO's Rate-Base Adjustment No.4 to adjust accumulated depreciation to account for plant booked to Sun City West, that should have been attributed to Agua Fria Water. However, RUCO took out accumulated depreciation of $860 in Sun City West and added accumulated depreciation to Agua Fria in the amount of $2,375. These amounts should both be $2,446, as the depreciation rates for these items were the same in the two districts. rate base .

G TUBAC WATER DISTRICT

RUCO's Rate-Base Adjustment No.1 inappropriately adjusts accumulated depreciation by use of its half-month convention.

H MOHAVE WASTEWATER DISTRICT

Rate Base Adjustment LJG-1R, calculates accumulate depreciation using correct rates and provides a decrease of $17,306.

Rate Base Adjustment LJG-2R increases accumulated depreciation by $7,621 to reflect the additional depreciation that should have been calculated in Mohave Wastewater to account for the transfer of the Gateway Wastewater Facilities.

RUCO's Rate-Base Adjustment No.1 inappropriately adjusts accumulated depreciation by use of its half-month convention.

III RATE BASE – ADVANCES IN AID OF CONSTRUCTION

A AGUA FRIA WATER DISTRICT

Staff Adjustment No. 1 improperly reduced advances for the Rancho Cabrillo project because it removed the associated plant from utility plant in service.

B MOHAVE WATER DISTRICT

RUCO's Rate Base Adjustment No. 2 would inappropriately add back $291,910 to advances for plant items that are still in CWIP, rather than in utility plant in service. If plant is not in rate base to begin with, it is inappropriate to reduce rate base for the amount of advances directly associated with that plant.

C TUBAC WATER DISTRICT

RUCO's Rate Base Adjustment No. 2 would inappropriately add back $20,266 to advances for plant items that are still in CWIP, rather than in utility plant in service. If plant is not in rate base to begin with, it is inappropriate to reduce rate base for the amount of advances directly associated with that plant.

D MOHAVE WASTEWATER DISTRICT

Staff inappropriately deducted the advances associated with used and useful plant that they disallowed for having no invoices in the amount of $306,362.

IV RATE BASE – CONTRIBUTIONS IN AID OF CONSTRUCTION

A AGUA FRIA WATER DISTRICT

RUCO's Rate Base Adjustment No. 2 would inappropriately add back $28,019 to contributions for plant items that are still in CWIP, rather than in utility plant in service. If plant is not in rate base to begin with, it is inappropriate to reduce rate base for the amount of contributions directly associated with that plant.

Arizona-American accepts RUCO Rate Base Adjustment No. 3 to move amortization of contributions from Mohave Water to Agua Fria Water.

B HAVASU WATER DISTRICT

RUCO's Rate Base Adjustment No. 2 would inappropriately add back $10,645 to contributions for plant items that are still in CWIP, rather than in utility plant in service. If plant is not in rate base to begin with, it is inappropriate to reduce rate base for the amount of contributions directly associated with that plant.

C MOHAVE WATER DISTRICT

RUCO's Rate Base Adjustment No. 2 would inappropriately add back $94,453 to contributions for plant items that are still in CWIP, rather than in utility plant in service. If plant is not in rate base to begin with, it is inappropriate to reduce rate base for the amount of contributions directly associated with that plant.

Arizona-American accepts RUCO Rate Base Adjustment No. 3 to move amortization of contributions from Mohave Water to Agua Fria Water. When the contribution balances were moved from Mohave Water, the associated amortization of these contributions did not get moved.

D PARADISE VALLEY WATER DISTRICT

RUCO's Rate Base Adjustment No. 2 would inappropriately add back $322,588 to contributions for plant items that are still in CWIP, rather than in utility plant in service. If plant is not in rate base to begin with, it is inappropriate to reduce rate base for the amount of contributions directly associated with that plant.

E SUN CITY WEST WATER DISTRICT

RUCO's Rate Base Adjustment No. 2 would inappropriately add back $17,318 to contributions for plant items that are still in CWIP, rather than in utility plant in service. If plant is not in rate base to begin with, it is inappropriate to reduce rate base for the amount of contributions directly associated with that plant.

F MOHAVE WASTEWATER DISTRICT

RUCO's Rate Base Adjustment No. 2 would inappropriately add back $65,395 to contributions for plant items that are still in CWIP, rather than in utility plant in service. If plant is not in rate base to begin with, it is inappropriate to reduce rate base for the amount of contributions directly associated with that plant.

V RATE BASE – IMPUTED REGULATORY ADVANCES

A AGUA FRIA WATER DISTRICT

Staff Rate Base Adjustment No. 3 would inappropriately add back $2,268,167 to imputed regulatory advances for the period January 1, 2008 through July 15, 2008. Mr. Broderick discusses this issue in his rebuttal testimony.

B HAVASU WATER DISTRICT

Staff Rate Base Adjustment No. 3 would inappropriately add back $34,679 to imputed regulatory advances for the period January 1, 2008 through July 15, 2008. Mr. Broderick discusses this issue in his rebuttal testimony.

C MOHAVE WATER DISTRICT

Staff Rate Base Adjustment No. 3 would inappropriately add back $348,557 to imputed regulatory advances for the period January 1, 2008 through July 15, 2008. Mr. Broderick discusses this issue in his rebuttal testimony

D PARADISE VALLEY WATER DISTRICT

Staff Rate Base Adjustment No. 3 would inappropriately add back $233,188 to imputed regulatory advances for the period January 1, 2008 through July 15, 2008. Mr. Broderick discusses this issue in his rebuttal testimony.

E SUN CITY WEST WATER DISTRICT

Staff Rate Base Adjustment No. 3 would inappropriately add back $1,006,408 to imputed regulatory advances for the period January 1, 2008 through July 15, 2008. Mr. Broderick discusses this issue in his rebuttal testimony.

F TUBAC WATER DISTRICT

Staff Rate Base Adjustment No. 3 would inappropriately add back $233,188 to imputed regulatory advances for the period January 1, 2008 through July 15, 2008. Mr. Broderick discusses this issue in his rebuttal testimony.

G MOHAVE WASTEWATER DISTRICT

Staff Rate Base Adjustment No. 3 would inappropriately add back $61,769 to imputed regulatory advances for the period January 1, 2008 through July 15, 2008. Mr. Broderick discusses this issue in his rebuttal testimony. Further, this amount should be only $14,090. Staff appears to have used the imputed ciac amount from Sun City West Water.

VI RATE BASE – DEFERRED DEBITS

A AGUA FRIA WATER DISTRICT

Arizona-American accepts Staff Rate Base Adjustment No. 4 and RUCO Rate Base Adjustment No. 5 to reduce deferred debits by $3,321,116 to correct an error in the original filing.

B HAVASU WATER DISTRICT

Arizona-American accepts Staff Rate Base Adjustment No. 4 and RUCO Rate Base Adjustment No. 5 to reduce deferred debits by$145,701 6 to correct an error in the original filing.

C MOHAVE WATER DISTRICT

Arizona-American accepts Staff Rate Base Adjustment No. 4 and RUCO Rate Base Adjustment No. 5 to reduce deferred debits by $1,649,972 to correct an error in the original filing.

D PARADISE VALLEY WATER DISTRICT

Arizona-American accepts Staff Rate Base Adjustment No. 4 and RUCO Rate Base Adjustment No. 5 to reduce deferred debits by $1,083,637 to correct an error in the original filing.

E SUN CITY WEST WATER DISTRICT

Arizona-American accepts Staff Rate Base Adjustment No. 4 and RUCO Rate Base Adjustment No. 5 to reduce deferred debits by $892,284 to correct an error in the original filing.

F TUBAC WATER DISTRICT

Arizona-American accepts Staff Rate Base Adjustment No. 4 and RUCO Rate Base Adjustment No. 5 to reduce deferred debits by $51,122 to correct an error in the original filing.

G MOHAVE WASTEWATER DISTRICT

Arizona-American accepts Staff Rate Base Adjustment No. 4 and RUCO Rate Base Adjustment No. 5 to reduce deferred debits by $7,071 to correct an error in the original filing.

VII RATE BASE – CASH WORKING CAPITAL

Arizona-American rejects the adjustments proposed by Staff and RUCO for each district. Ms. Hubbard has revised her lead-lag study. Based on this study, Arizona-American makes the following adjustments.

A AGUA FRIA WATER DISTRICT

The correct amount of cash working capital for the Agua Fria Water District is $ 60,105, a decrease to the original filing of $1,349,754.

B HAVASU WATER DISTRICT

The correct amount of cash working capital for the Havasu Water District is $46,992, a decrease to the original filing of $55,427.

C MOHAVE WATER DISTRICT

The correct amount of cash working capital for the Mohave Water District is $185,707, a decrease to the original filing of $181,855.

D PARADISE VALLEY WATER DISTRICT

The correct amount of cash working capital for the Paradise Valley Water District is $79,326, a decrease to the original filing of $469,708.

E SUN CITY WEST WATER DISTRICT

The correct amount of cash working capital for the Sun City West Water District is $77,120, a decrease to the original filing of $403,020.

F TUBAC WATER DISTRICT

The correct amount of cash working capital for the Tubac Water District is $21,683, a decrease to the original filing of $18,982.

G MOHAVE WASTEWATER DISTRICT

The correct amount of cash working capital for the Mohave Wastewater District is $425, a decrease to the original filing of $57,933.

VIII REVENUE

A HAVASU WATER DISTRICT

Arizona-American is adjusting present rate revenue for the annualization of the ACRM Phase 2 increase. This increases present rate revenue by $150,935.

B PARADISE VALLEY WATER DISTRICT

Arizona-American is adjusting present rate revenue for the annualization of the ACRM Phase 2 increase. This increases present rate revenue by $371,853

C SUN CITY WEST WATER DISTRICT

Arizona-American is adjusting present rate revenue for the annualization of the ACRM Phase 2 increase. This increases present rate revenue by $155,835.

IX DEPRECIATION EXPENSE

A AGUA FRIA WATER DISTRICT

Arizona-American reduced the plant accounts for the actual costs of the Sierra Montana 2.2 mg reservoir. This also would reduce annualized depreciation expense by $5,316.

B HAVASU WATER DISTRICT

In Decision No. 67093, the depreciation rates for the Havasu Water District changed. The new rates would increase annual depreciation expense by $9,761. Arizona-American also removed the Gateway Water and Wastewater Plant from Havasu District and added it to Mohave Water and Mohave Wastewater, respectively. This reduced annual depreciation expense by $22,440. the two changes result in a net decrease to depreciation expense of $12,679..

C MOHAVE WATER DISTRICT

Due to moving the Gateway Water Plant from the Havasu Water District to the Mohave Water District, plant increased by $721,333 and depreciation expense increases $16,386 for these facilities. The second change decreases depreciation expense for post test year plant by $334.

D PARADISE VALLEY WATER DISTRICT

The post test year amount for depreciation expense is reduced by $51,921 to $9,403 due to the delay in the well no. 12 rehabilitation project.

E SUN CITY WEST WATER DISTRICT

There were two rate base adjustments to utility plant in service that effect the annual depreciation expense in Sun City West Water District. The first was to add back $76,672 in retirements from November and December 2007 that belonged in Paradise Valley. The second was to remove additions that occurred in January and February 2005 in Sun City West Water that actually belonged in Agua Fria Water. The net result of the additions to plant is $2,606 in additional depreciation expense..

F MOHAVE WASTEWATER DISTRICT

Arizona-American has three rebuttal adjustments to annual depreciation expense for the Mohave Wastewater District.

Decision No. 69440 changed the approved depreciation rates for Mohave Wastewater District. This change in depreciation rates results in a decrease in annual depreciation expense of $23,880. The second adjustment is needed to account for moving the Gateway Wastewater Treatment Plant from the Havasu Water District to the Mohave Wastewater District. The additional plant results in additional depreciation expense of $2,406. The third adjustment to annual depreciation expense flows from including the actual costs of the Wishing Well Treatment Plant in plant. The actual costs were higher than the estimate by $343,959 and the resulting increase in annual depreciation expense is $10,627.

G ALL DISTRICTS

Arizona-American recommends the following common changes to depreciation rates that would apply to all districts.

<u>Account 304510</u>. Currently, staff is recommending a depreciation rate of 1.67%, or 60 years, for professional services, permits, fees, and other costs association with evaluating, developing, and

setting up our Corporate Offices on 7th Street. The life of the lease is seven years, so I recommend a rate of 14.28% to reflect depreciating the set up over the life of the lease.

Account 334100, meters. Arizona-American is on a program to change meters every 15 years. We recommend a rate of 6.7% for all districts. We currently have rates ranging from 2.51% (40 years) to Mohave's recently approved 6.53%.

Account 339600, Other Plant and Miscellaneous Equipment Comprehensive Planning Studies. Arizona-American uses this account for comprehensive planning studies, which are done every five years. Currently, we have 0% depreciation expense. Our internal audit department is questioning why the rate is not 20%. We recommend a 20% rate to reflect the five-year applicable period of these studies.

Account 340200, computer & peripheral equipment. Staff is recommending a 10% rate for Agua Fria, Paradise Valley, Sun City West, and Corporate, but is recommending rates of 4.47% for Havasu, 15.59% for Mohave Water, and 10.83% for Tubac. Arizona-American recommends using one rate of 10% for every district.

Account 341100, transportation equipment light trucks. This account is used for smaller pick-up trucks. Staff's recommended depreciation rate for our districts varies from 20% to 25%. We recommend that we use either rate consistently for all districts.

Account 341400, transportation equipment – other. This account reflects depreciation being taken on golf carts purchased for meter readers. The only approved rate is 0.93% in Paradise Valley. In April of 2008, we purchased golf carts in Agua Fria and Mohave Water. Golf carts last four to six years, so we recommend a consolidated rate of 20% for every district.

I INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, ADDRESS, AND TELEPHONE NUMBER.

A. My name is Linda J. Gutowski. 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 LINDA J. GUTOWSKI WHO PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I will respond to Staff and RUCO testimony concerning rate-base issues. Please note that I have organized my rebuttal testimony to address each of the rate base topics separately by district (Sections II-VIII). Then, I discuss revenue (Section IX) and depreciation expense (Section X).

II RATE BASE – UTILITY PLANT IN SERVICE

A. AGUA FRIA WATER DISTRICT

Q. DO YOU HAVE ANY ADJUSTMENTS TO MAKE TO THE COMPANY'S APPLICATION?

A. Yes. In Rebuttal Adjustment LJG-1R, Arizona-American is reducing the cost of the Sierra Montana 2.2 MG Reservoir from an estimated amount to the actual cost. This adjustment reduces Plant in Service by $252,470.

Q. STAFF RATE-BASE ADJUSTMENT NO.1 WOULD DISALLOW ANY RECOGNITION OF THE RANCHO CABRILLO SUBDIVISION ON-SITE COSTS. DO YOU ACCEPT THIS ADJUSTMENT?

A. No. These costs are currently estimated at $1,189,832. The project is in service, and Ms. Hains did not make any determination that the project is not used and useful. Therefore,

the costs should be included in rate base. The estimated costs are based on engineering estimates, which are usually quite conservative. Although the developer claims to have submitted the final invoices, we do not believe that we have received them. We are still asking for anther copy. It would be punitive not to include a million-dollar project in rate base, just because we are having difficulty getting paperwork from the developer.

Q. STAFF RATE-BASE ADJUSTMENT NO.5 WOULD INCLUDE $1,167,268 IN POST-TEST-YEAR ADDITIONS FOR DISTRIBUTION SYSTEM IMPROVEMENTS. DO YOU ACCEPT THIS ADJUSTMENT?

A. Yes.

Q. STAFF RATE-BASE ADJUSTMENT NO.5 WOULD ALSO EXCLUDE $2,046,765 IN POST-TEST-YEAR ADDITIONS FOR THE SIERRA MONTANA 2.2 MG RESERVOIR. DO YOU ACCEPT THIS ADJUSTMENT?

A. No. As Mr. Gross says in his testimony, the project was placed in Utility Plant in Service in December 2008 at a cost of $1,794,295. As already discussed, Rebuttal Adjustment LJG-1R decreases the cost of the project from the estimated $2,046,765 to the actual cost of $1,794,295, a decrease in Plant of $252,470.

Q. STAFF RATE-BASE ADJUSTMENT NO.6 WOULD EXCLUDE $25,000,000 IN WHITE TANKS PROJECT CWIP. DO YOU ACCEPT THIS ADJUSTMENT?

A. No. Company witnesses Messrs. Townsley, Buls, Gross, and Broderick provide rebuttal testimony concerning this issue.

Q. RUCO RATE-BASE ADJUSTMENT NO.7 WOULD ALSO EXCLUDE $25,000,000 IN WHITE TANKS PROJECT CWIP. DO YOU ACCEPT THIS ADJUSTMENT?

A. No. RUCO Rate-Base Adjustment No.7 is the same as Staff Rate Base Adjustment No. 6.

Q. RUCO RATE-BASE ADJUSTMENT NO.4 WOULD INCREASE RATE BASE BY $18,581 FOR TWO PROJECTS THAT ARE ACTUALLY IN THE AGUA FRIA WATER DISTRICT, BUT WERE MISTAKENLY INCLUDED IN THE SUN CITY WEST WATER DISTRICT. DO YOU ACCEPT THIS ADJUSTMENT?

A. Yes.

B. <u>HAVASU WATER DISTRICT</u>

Q. ARE THERE ANY PLANT-IN-SERVICE ISSUES FOR THE HAVASU WATER DISTRICT?

A. Adjustment, LJG-2R is to move the Gateway Water and Wastewater Plant from the Havasu Water District and put it properly into the Mohave Water District and into the Mohave Wastewater District. Gateway is geographically located half way between our Havasu District and our Mohave District, but is in our Mohave Water and Wastewater CC&N areas (Decision 64039 dated August 20, 2001). The decrease to plant in service in Havasu is $814,761 and there is a companion decrease to Accumulated Depreciation discussed below.

C. <u>MOHAVE WATER DISTRICT</u>

Q. DO YOU HAVE ANY RATE BASE ADJUSTMENTS FOR THE MOHAVE WATER DISTRICT?

A. Yes. I have two adjustments to the Company's application.

Q. WHAT IS REBUTTAL ADJUSTMENT LJG-1R?

A. This adjustment updates the estimated cost for the 0.25 mg Big Bend Acres Reservoir to actual costs of $643,127. This increases Plant by $32,395.

Q. WHAT IS REBUTTAL ADJUSTMENT LJG-2R?

A. The adjustment adds the Gateway Water Plant to the Mohave Water District in the amount of $721,333 in Utility Plant in Service.

Q. STAFF RATE-BASE ADJUSTMENT NO.1 WOULD DISALLOW $1,539,768 FOR THREE PROJECTS LACKING SUPPORTING INVOICES. DO YOU AGREE?

A. No. These projects are in service, Ms. Hains did not make any determination that the projects are not used and useful and, in the case of Mira Monte, the invoices are attached herein. Furthermore, all of the projects were built in accordance with other Commission-approved line extension agreements. Therefore, the costs should be included in rate base using detailed engineering estimated costs. It would be punitive not to include a million-dollar project in rate base, just because we are having difficulty getting final paperwork.

The first project is the Villages at Stonebridge for $242,459. The developer went bankrupt and the project is now in the hands of the FDIC. The pipelines are finished in all three phases and there are existing homes we are serving in Phase 1. The FDIC has plans to finish Phases 2 and 3. Due to the bankruptcy, we cannot get copies of the invoices, but we do have the engineering estimate.

The second project is the Mira Monte at Fox Creek for $117,718. Attached as Rebuttal Exhibit LJG-R1 are the invoices for this project. The invoices total more than Staff's Mr. Becker reports because the project includes services and hydrants, as well as the main that Mr. Becker audited.

The third project is the Winterhaven Estates for $177,052. Again, the pipes are in place. There is a model home there and properties are for sale.

Q. STAFF RATE BASE ADJUSTMENT NO. 5 WOULD DISALLOW ALL OF THE ESTIMATED COSTS FOR THE BIG BEND ACRES RESERVOIR IN THE AMOUNT OF $610,732. DO YOU AGREE?

A. No. The project was completed, and used and useful as of November 26, 2008. There is no reason not to include it in rate base. Also note that Rebuttal Adjustment LJG-1R updated the estimated cost for the 0.25 mg Big Bend Acres Reservoir to actual costs of $643,127.

D. <u>PARADISE VALLEY WATER DISTRICT</u>

Q. STAFF RATE-BASE ADJUSTMENT NO.1 WOULD DECREASE PLANT IN SERVICE BY $180,916 TO ACCOUNT FOR PLANT RETIREMENTS. DO YOU AGREE?

A. Yes. Arizona-American retired tanks and pumps as a result of building the arsenic treatment plant in Paradise Valley Water District. However, these retirements were incorrectly booked in 2007 to our Sun City and Sun City West Water Districts. This adjustment reduces Paradise Valley Utility Plant and Accumulated Depreciation by $180,916.

Q. RUCO RATE-BASE ADJUSTMENT NO.5 WOULD ALSO DECREASE PLANT IN SERVICE TO ACCOUNT FOR PLANT RETIREMENTS. DO YOU AGREE?

A. No. The adjustment is for the same retirement-errors that Staff identified, but is not for the full amount. Therefore, Staff's adjustment is the correct one.

Q. RUCO RATE-BASE ADJUSTMENT NO.3 WOULD REMOVE $2,109,032 OF POST TEST YEAR PLANT, THE ESTIMATED COST OF THE REHABILITATION OF WELL NO. 12. DO YOU AGREE?

A. Yes, but not as to RUCO's amount. As Mr. Gross states, this project is delayed. However, the correct amount is $1,775,026, the amount that Arizona-American included in its Original Application on the Utility Plant line (which happened to be the net of $1,935,000 plant less $159,974 retirements). See Rate Base Adjustment LJG-1R.

E. <u>SUN CITY WEST WATER DISTRICT</u>

Q. RUCO RATE-BASE ADJUSTMENT NO.3 WOULD INCREASE PLANT IN SERVICE BY $76,672, TO ADJUST FOR PLANT RETIREMENTS THAT SHOULD HAVE BEEN MADE IN THE PARADISE VALLEY WATER DISTRICT. DO YOU AGREE?

A. Yes.

Q. STAFF RATE-BASE ADJUSTMENT NO.1 WOULD INCREASE PLANT IN SERVICE BY $70,000 TO ADJUST FOR PLANT RETIREMENTS THAT SHOULD HAVE BEEN MADE IN THE PARADISE VALLEY WATER DISTRICT. DO YOU AGREE?

A. No. This is a similar adjustment to RUCO RB-3, which I just discussed. RUCO's adjustment is for the correct amount, as Staff did not retire $6,672 and made no adjustment to Accumulated Depreciation.

Q. RUCO RATE-BASE ADJUSTMENT NO.4 WOULD DECREASE PLANT IN SERVICE BY $18,581 TO ADJUST FOR TWO PROJECTS THAT BELONG IN AGUA FRIA WATER DISTRICT INSTEAD OF THE SUN CITY WEST WATER DISTRICT. DO YOU AGREE?

A. Yes.

F. <u>TUBAC WATER DISTRICT</u>

Q. ARE THERE ANY PLANT-IN-SERVICE ISSUES FOR THE TUBAC WATER DISTRICT?

A. Not to my knowledge, based on reviewing Staff's and RUCO's testimony filings.

G. MOHAVE WASTEWATER DISTRICT

Q. HAS ARIZONA-AMERICAN MADE ANY REBUTTAL ADJUSTMENTS FOR THE MOHAVE WASTEWATER DISTRICT?

A. Yes. There are three adjustments to the Company's application. The first adjustment, LJG-1R, lowers Accumulated Depreciation for a change in depreciation rates approved in the previous rate case. I will discuss this under the Accumulated Depreciation section.

Q. WHAT IS THE SECOND ADJUSTMENT?

A. As previously discussed, Gateway Wastewater Plant is being moved from the Havasu Water District and being placed in the Mohave Wastewater District. The amount of plant that was moved is $94,978 on adjustment LJG-2R. See the section on Accumulated Depreciation for the depreciation balance on this plant.

Q. WHAT IS THE THIRD ADJUSTMENT?

A. Rate Base Adjustment LJG-3R shows the difference between the actual cost of the Wishing Well Wastewater Treatment Plant expansion and the estimated cost used in my direct testimony. It adds $343,959 to plant in service, bringing the total for this project to $4,276,767.

Q. STAFF RATE-BASE ADJUSTMENT NO.1 WOULD DECREASE PLANT IN SERVICE BY $306,362 BY DISALLOWING TWO PROJECTS THAT DO NOT HAVE INVOICES. DO YOU AGREE?

A. No. The Staff reduction to Plant and Advances is $170,432 for Mesa Vista and $135,930 for Sage Hill. Mesa Vista property is accepted and owned by us and there are

customers being served. The plant is used and useful and we have credible engineering estimates. The Sage Hill property is developed. There is another property south of there that is having trouble deeding us the land needed for a lift station due to problems with the County. That is expected to be accomplished this year. Sage Hill is used and useful and there are a few houses on a pipeline that doesn't have to use the lift station. It would be punitive to disallow including plant in rate base that is in service, just because all the final invoices have not been collected.

Q. STAFF RATE-BASE ADJUSTMENT NO.5 WOULD DECREASE PLANT IN SERVICE BY $3,932,808 BY DISALLOWING ALL COSTS ASSOCIATED WITH THE UPGRADE AND EXPANSION OF THE WISHING WELL TREATMENT PLANT. DO YOU AGREE?

A. No. First, the project is in service, and Ms. Hains did not make any determination that the project is not used and useful. Second, the majority of the project was for upgrades to the existing plant in the amount of $2,871,534, which is used to serve existing customers. Mr. Gross further discusses this issue in his rebuttal testimony.

Q. RUCO RATE-BASE ADJUSTMENT NO.4 WOULD DECREASE PLANT IN SERVICE BY $1,966,040 BY DEFERRING ITS ESTIMATE (50%) OF THE COSTS OF THE WISHING WELL PROJECT AS NOT USED AND USEFUL FOR THE CURRENT LEVEL OF CUSTOMERS. DO YOU AGREE?

A. No. This project both upgraded and expanded the old plant. The rebuttal testimony of Mr. Gross discusses this project. The total amount of the project associated with the expansion to 0.5 mgd is $1,405,233. Therefore, if the Commission were inclined to accept RUCO's recommendation to defer 50% of the costs to serve additional customers, that would be only $702,616.

III RATE BASE – ACCUMULATED DEPRECIATION

A. ALL DISTRICTS

Q. IN RUCO RATE BASE ADJUSTMENT NO. 1, RUCO HAS RECOMPUTED DEPRECIATION EXPENSE FOR ALL DISTRICTS CLAIMING THAT THE ONLY ACCEPTABLE METHODS OF DEPRECIATION ARE MID-YEAR OR MID-MONTH; DO YOU AGREE?

A. No. RUCO is incorrect. GAAP allows for mid-year depreciation or monthly depreciation. Under monthly, the methods are beginning of month, end of month, and mid-month. Arizona-American changed from the mid-year method to the end of month method as of January 2003. There is no prohibition against doing that. Our depreciation methodology is accepted by our outside auditors and complies with all Sarbanes-Oxley requirements.

All three methods give the same results over the life of the asset. RUCO's method takes one-half month depreciation in the month the asset enters service and one-half month in the month it is retired, the equivalent of one full month of depreciation. In the beginning-of-month method, the asset is not depreciated in the month it enters service, but it is depreciated in the month of retirement. This is also the equivalent of one full month of depreciation over the life of the asset. In the end-of-month method, the plant is depreciated in the month it is added, but is not depreciated in the month it is retired. Again, this is the equivalent of one full month of depreciation over the life of the asset.

Arizona-American's case is based on the actual depreciation expenses booked and approved by the auditors. RUCO would improperly substitute a fictional depreciation expense.

B. AGUA FRIA WATER DISTRICT

Q. STAFF RATE BASE ADJUSTMENT NO. 1 APPEARS TO DECREASE ACCUMULATED DEPRECIATION IN THE AMOUNT OF $7,532. DO YOU ACCEPT THIS ADJUSTMENT?

A. If the adjustment is intentional, I do reject it. However, this appears to be an incorrect sign in Column B.

C. <u>HAVASU WATER DISTRICT</u>

Q. HAS ARIZONA-AMERICAN MADE ANY ADJUSTMENTS TO ACCUMULATED DEPRECIATION?

A. Yes. I am making two adjustments to our application. The first adjustment, LJG-1R, decreases Accumulated Depreciation by $6,540 to reflect the depreciation rates that were effective on June 30, 2004 in Decision No. 67093. The Company was using the wrong rates. The second adjustment, LJG-2R, decreases Accumulated Depreciation by $14,000 with the removal of the Gateway Plant discussed above. These total a reduction to Accumulated Depreciation of $20,541.

Q. RUCO'S RATE-BASE ADJUSTMENT NO.1 ADJUSTS ACCUMULATED DEPRECIATION. DO YOU AGREE?

A. Not entirely. It is appropriate to adjust depreciation rates since June 30, 2004, but RUCO inappropriately uses its half-month convention to decrease Accumulated Depreciation by $4,659. The correct adjustment is to decrease Accumulated Depreciation by $6,540 using the end-of-month convention that Arizona-American actually uses. I have attached Exhibit Schedule B-2 Rebuttal, Pages 3 through 8, where I derive this figure.

D. <u>MOHAVE WATER DISTRICT</u>

Q. WHAT IS THE ADJUSTMENT TO ACCUMULATED DEPRECIATION FOR THE GATEWAY WATER FACILITIES?

A. The increase to Accumulated Depreciation is $45,790 based on plant in service dates. Please refer to Rate Base Adjustment LJG-1R and LJG-2R.

Q. STAFF RATE BASE ADJUSTMENT NO. 1 REMOVES $26,559 FROM ACCUMULATED DEPRECIATION; DO YOU ACCEPT THIS ADJUSTMENT?

A. No. This adjustment corresponds to the improper rate-base reduction for three projects, which I discussed above.

Q. RUCO'S RATE-BASE ADJUSTMENT NO.1 ADJUSTS ACCUMULATED DEPRECIATION; DO YOU AGREE?

A. No. First, the adjustment relies on RUCO's mid-month convention, which is improper. Second, RUCO improperly used several Havasu Water District depreciation rates instead of the currently approved rates for Mohave Water District.

E. <u>PARADISE VALLEY WATER DISTRICT</u>

Q. STAFF RATE BASE ADJUSTMENT NO. 1 REDUCES ACCUMULATED DEPRECIATION; DO YOU ACCEPT THIS ADJUSTMENT?

A. Yes. This adjustment corresponds to the rate-base adjustment for plant retirements, which I previously discussed.

Q. RUCO'S RATE-BASE ADJUSTMENT NO.1 ADJUSTS ACCUMULATED DEPRECIATION; DO YOU AGREE?

A. Yes. I made a math error in decreasing Paradise Valley's Accumulated Depreciation instead of increasing it. The appropriate correction is $100,554.

Q. RUCO'S RATE-BASE ADJUSTMENT NO.5 ADJUSTS ACCUMULATED DEPRECIATION FOR PARADISE VALLEY WELLS; DO YOU AGREE?

A. No. On RLM-3, Page 4 of 4, RUCO shows Wells & Springs on Line 17 at Test Year End as $1,436,130. On Exhibit RLM-4, Post Test Year Plant, RUCO should have included Well #17 for $288,080 and not included Well #12 for $1,935,000 since the Company withdrew the project before computing Accumulated Depreciation. Instead, RUCO shows a huge negative for plant leading to negative plant in service for wells of ($575,057). Further, they reduced Accumulated Depreciation in the Post Test Year Exhibit RLM-4 by a retirement for Well #12 that will not happen until the Well project is undertaken sometime this year.

F. <u>SUN CITY WEST WATER DISTRICT</u>

Q. RUCO'S RATE-BASE ADJUSTMENT NO.1 ADJUSTS ACCUMULATED DEPRECIATION; DO YOU AGREE?

A. No. RUCO improperly uses its half-month convention.

Q. RUCO'S RATE-BASE ADJUSTMENT NO.3 ADJUSTS ACCUMULATED DEPRECIATION TO ACCOUNT FOR TWO RETIREMENTS THAT WERE BOOKED IN SUN CITY WEST, BUT SHOULD HAVE BEEN ATTRIBUTED TO PARADISE VALLEY; DO YOU AGREE?

A. Yes, with one minor adjustment. The retirements occurred in November and December 2007, and under the Company's end of month depreciation methodology, would total $76,364. Using its improper mid-month convention, RUCO calculated a value of $76,531.

Q. RUCO'S RATE-BASE ADJUSTMENT NO.4 ADJUSTS ACCUMULATED DEPRECIATION TO ACCOUNT FOR PLANT BOOKED TO SUN CITY WEST, THAT SHOULD HAVE BEEN ATTRIBUTED TO AGUA FRIA WATER; DO YOU AGREE?

A. Yes, as long as it is correctly calculated. RUCO took out accumulated depreciation of $860 in Sun City West and added accumulated depreciation to Agua Fria in the amount of $2,375. These amounts should both be $2,446, as the depreciation rates for these items were the same in the two districts. Rate Base Adjustment LJG-1R calculates the correct amount.

G. TUBAC WATER DISTRICT

Q. RUCO'S RATE-BASE ADJUSTMENT NO.1 AGAIN ADJUSTS ACCUMULATED DEPRECIATION BASED ON ITS USE OF THE MID-MONTH CONVENTION; DO YOU AGREE?

A. Again, no.

H. MOHAVE WASTEWATER DISTRICT

Q. ARE THERE COMPANY ADJUSTMENTS TO ACCUMULATED DEPRECIATION?

A. Yes. New depreciation rates were ordered for this District in its last rate case, Decision No. 69440, effective May 1, 2007. This first adjustment, Rate Base Adjustment LJG-1R, calculates Accumulate Depreciation using those rates and provides a decrease of $17,306 from the Original Filing.

Q. WHAT IS THE ADJUSTMENT TO ACCUMULATED DEPRECIATION FOR THE GATEWAY WATER FACILITIES?

A. Accumulated depreciation was increased by $7,621 to reflect the additional depreciation that should have been calculated in Mohave Wastewater. This is Rate Base Adjustment LJG-2R.

Q. RUCO'S RATE-BASE ADJUSTMENT NO.1 AGAIN ADJUSTS ACCUMULATED DEPRECIATION BASED ON ITS USE OF THE MID-MONTH CONVENTION; DO YOU AGREE?

A. Again, no.

IV RATE BASE – ADVANCES IN AID OF CONSTRUCTION

A. AGUA FRIA WATER DISTRICT

Q. ARE THERE ANY ISSUES WITH ADVANCES FOR THE AGUA FRIA WATER DISTRICT?

A. Staff Adjustment No. 1 reduced advances for the Rancho Cabrillo project because it removed the associated plant from Utility Plant in Service. As I discussed above, we do not agree with either adjustment.

B. HAVASU WATER DISTRICT

Q. ARE THERE ANY ISSUES WITH ADVANCES FOR THE HAVASU WATER DISTRICT?

A. Not to my knowledge, based on reviewing Staff's and RUCO's testimony filings.

C. MOHAVE WATER DISTRICT

Q. RUCO'S RATE BASE ADJUSTMENT NO. 2 WOULD ADD BACK $291,910 TO ADVANCES FOR PLANT ITEMS THAT ARE STILL IN CWIP, RATHER THAN IN UTILITY PLANT IN SERVICE; DO YOU AGREE?

A. No. If plant is not in rate base to begin with, it is inappropriate to reduce rate base for the amount of advances directly associated with that plant. The reason Mr. Coley gives for opposing Arizona-American is that we have never asked for this treatment before, and all other utilities in Arizona are treated this way. It is true that Arizona-American has not previously treated advances in this matter, but that is irrelevant since each successive case

incorporates improvements to the process. The proposed accounting for advances is correct and consistent with Commission precedent. For example, Arizona Water excludes CWIP and excludes the associated advances and contributions. It makes no sense to reduce rate base for advances associated with plant that is not in rate base.

D. PARADISE VALLEY WATER DISTRICT

Q. ARE THERE ANY ISSUES WITH ADVANCES FOR THE PARADISE VALLEY WATER DISTRICT?

A. Not to my knowledge, based on reviewing Staff's and RUCO's testimony filings.

E. SUN CITY WEST WATER DISTRICT

Q. ARE THERE ANY ISSUES WITH ADVANCES FOR THE SUN CITY WEST WATER DISTRICT?

A. Not to my knowledge, based on reviewing Staff's and RUCO's testimony filings.

F. TUBAC WATER DISTRICT

Q. RUCO'S RATE BASE ADJUSTMENT NO. 2 WOULD ADD BACK $20,266 TO ADVANCES FOR PLANT ITEMS THAT ARE STILL IN CWIP, RATHER THAN IN UTILITY PLANT IN SERVICE; DO YOU AGREE?

A. No, for the reasons I just provided to reject RUCO's similar adjustment to the Mohave Water advance balance.

G. MOHAVE WASTEWATER DISTRICT

Q. ARE THERE ANY ISSUES WITH ADVANCES FOR THE MOHAVE WASTEWATER DISTRICT?

A. Staff deducted the advances associated with used and useful plant that they disallowed for having no invoices. We disagree with the plant disallowance and therefore with the advances disallowance of $306,362.

V RATE BASE – CONTRIBUTIONS IN AID OF CONSTRUCTION

A. AGUA FRIA WATER DISTRICT

Q. RUCO'S RATE BASE ADJUSTMENT NO. 2 WOULD ADD BACK $28,019 TO CONTRIBUTIONS FOR PLANT ITEMS THAT ARE STILL IN CWIP, RATHER THAN IN UTILITY PLANT IN SERVICE; DO YOU AGREE?

A. No, for the same reasons given above for advances in Mohave Water District.

Q. RUCO RATE BASE ADJUSTMENT NO. 3 WOULD MOVE AMORTIZATION OF CONTRIBUTIONS FROM MOHAVE WATER TO AGUA FRIA WATER; DO YOU AGREE?

A. Yes. Several years ago, the Company discovered a refund of Contributions was given and the amount was taken out of Mohave Water's contribution balance in error. A correction was made to move the refund to Agua Fria Water where it rightly belonged. When the Contribution balances were moved from Mohave Water, the associated amortization of these Contributions did not get moved. This was discovered in 2008 due to a response to one of Mr. McMurray's data requests about the balance in Amortization of Contributions. RUCO's adjustment corrects the error, which the Company has already made to its books.

B. HAVASU WATER DISTRICT

Q. RUCO'S RATE BASE ADJUSTMENT NO. 2 WOULD ADD BACK $10,645 TO CONTRIBUTIONS FOR PLANT ITEMS THAT ARE STILL IN CWIP, RATHER THAN IN UTILITY PLANT IN SERVICE; DO YOU AGREE?

A. No, for the reasons I just provided to reject RUCO's similar adjustment to the Agua Fria Water contribution balance.

C. MOHAVE WATER DISTRICT

Q. RUCO'S RATE BASE ADJUSTMENT NO. 2 WOULD ADD BACK $94,453 TO CONTRIBUTIONS FOR PLANT ITEMS THAT ARE STILL IN CWIP, RATHER THAN IN UTILITY PLANT IN SERVICE; DO YOU AGREE?

A. No, for the reasons I just provided to reject RUCO's similar adjustment to the Agua Fria Water contribution balance.

Q. RUCO RATE BASE ADJUSTMENT NO. 3 WOULD MOVE AMORTIZATION OF CONTRIBUTIONS FROM MOHAVE WATER TO AGUA FRIA WATER; DO YOU AGREE?

A. Yes. When the Contribution balances were moved from Mohave Water, the associated amortization of these Contributions did not get moved. RUCO's adjustment corrects the error, which the Company has already made to its books.

D. <u>PARADISE VALLEY WATER DISTRICT</u>

Q. RUCO'S RATE BASE ADJUSTMENT NO. 2 WOULD ADD BACK $322,588 TO CONTRIBUTIONS FOR PLANT ITEMS THAT ARE STILL IN CWIP, RATHER THAN IN UTILITY PLANT IN SERVICE; DO YOU AGREE?

A. No, for the reasons I just provided to reject RUCO's similar adjustment to the Agua Fria Water contribution balance.

E. <u>SUN CITY WEST WATER DISTRICT</u>

Q. RUCO'S RATE BASE ADJUSTMENT NO. 2 WOULD ADD BACK $17,318 TO CONTRIBUTIONS FOR PLANT ITEMS THAT ARE STILL IN CWIP, RATHER THAN IN UTILITY PLANT IN SERVICE; DO YOU AGREE?

A. No, for the reasons I just provided to reject RUCO's similar adjustment to the Agua Fria Water contribution balance.

F. <u>TUBAC WATER DISTRICT</u>

Q. ARE THERE ANY ISSUES WITH CONTRIBUTIONS FOR THE TUBAC WATER DISTRICT?

A. Not to my knowledge, based on reviewing Staff's and RUCO's testimony filings.

G. MOHAVE WASTEWATER DISTRICT

Q. RUCO'S RATE BASE ADJUSTMENT NO. 2 WOULD ADD BACK $65,395 TO CONTRIBUTIONS FOR PLANT ITEMS THAT ARE STILL IN CWIP, RATHER THAN IN UTILITY PLANT IN SERVICE; DO YOU AGREE?

A. No, for the reasons I just provided to reject RUCO's similar adjustment to the Agua Fria Water contribution balance.

VI RATE BASE – IMPUTED REGULATORY ADVANCES

A. AGUA FRIA WATER DISTRICT

Q. STAFF RATE BASE ADJUSTMENT NO. 3 WOULD ADD BACK $2,268,167 TO IMPUTED REGULATORY ADVANCES FOR THE PERIOD JANUARY 1, 2008 THROUGH JULY 15, 2008; DO YOU AGREE?

A. No. Mr. Broderick will discuss this issue in his Rebuttal Testimony.

B. HAVASU WATER DISTRICT

Q. STAFF RATE BASE ADJUSTMENT NO. 3 WOULD ADD BACK $34,679 TO IMPUTED REGULATORY ADVANCES FOR THE PERIOD JANUARY 1, 2008 THROUGH JULY 15, 2008; DO YOU AGREE?

A. No. Mr. Broderick will discuss this issue in his Rebuttal Testimony.

C. MOHAVE WATER DISTRICT

Q. STAFF RATE BASE ADJUSTMENT NO. 3 WOULD ADD BACK $348,557 TO IMPUTED REGULATORY ADVANCES FOR THE PERIOD JANUARY 1, 2008 THROUGH JULY 15, 2008; DO YOU AGREE?

A. No. Mr. Broderick will discuss this issue in his Rebuttal Testimony.

D. PARADISE VALLEY WATER DISTRICT

Q. STAFF RATE BASE ADJUSTMENT NO. 3 WOULD ADD BACK $233,188 TO IMPUTED REGULATORY ADVANCES FOR THE PERIOD JANUARY 1, 2008 THROUGH JULY 15, 2008; DO YOU AGREE?

A. No. The Paradise Valley Water District was not part of the Citizens acquisition and never received imputed advances. Mr. Broderick will discuss this issue in his Rebuttal Testimony.

E. SUN CITY WEST WATER DISTRICT

Q. STAFF RATE BASE ADJUSTMENT NO. 3 WOULD ADD BACK $1,006,408 TO IMPUTED REGULATORY ADVANCES FOR THE PERIOD JANUARY 1, 2008 THROUGH JULY 15, 2008; DO YOU AGREE?

A. No. Mr. Broderick will discuss this issue in his Rebuttal Testimony.

F. TUBAC WATER DISTRICT

Q. STAFF RATE BASE ADJUSTMENT NO. 3 WOULD ADD BACK $233,188 TO IMPUTED REGULATORY ADVANCES FOR THE PERIOD JANUARY 1, 2008 THROUGH JULY 15, 2008; DO YOU AGREE?

A. No. Mr. Broderick will discuss this issue in his Rebuttal Testimony. Further, this amount should be only $14,090. Staff appears to have used the Imputed CIAC amount from Sun City West Water.

G. MOHAVE WASTEWATER DISTRICT

Q. STAFF RATE BASE ADJUSTMENT NO. 3 WOULD ADD BACK $61,769 TO IMPUTED REGULATORY ADVANCES FOR THE PERIOD JANUARY 1, 2008 THROUGH JULY 15, 2008; DO YOU AGREE?

A. No. Mr. Broderick will discuss this issue in his Rebuttal Testimony.

VII RATE BASE – DEFERRED DEBITS

A. AGUA FRIA WATER DISTRICT

Q. STAFF RATE BASE ADJUSTMENT NO. 4 AND RUCO RATE BASE ADJUSTMENT NO. 5 WOULD REDUCE DEFERRED DEBITS BY $3,321,116. DO YOU AGREE?

A. Yes. These adjustments properly correct an error in Arizona-American's original filing.

B. HAVASU WATER DISTRICT

Q. STAFF RATE BASE ADJUSTMENT NO. 3 AND RUCO RATE BASE ADJUSTMENT NO. 5 WOULD REDUCE DEFERRED DEBITS BY $145,701. DO YOU AGREE?

A. Yes. These adjustments properly correct an error in Arizona-American's original filing.

C. MOHAVE WATER DISTRICT

Q. STAFF RATE BASE ADJUSTMENT NO. 4 AND RUCO RATE BASE ADJUSTMENT NO. 5 WOULD REDUCE DEFERRED DEBITS BY $1,649,972. DO YOU AGREE?

A. Yes. These adjustments properly correct an error in Arizona-American's original filing.

D. PARADISE VALLEY WATER DISTRICT

Q. STAFF RATE BASE ADJUSTMENT NO. 4 AND RUCO RATE BASE ADJUSTMENT NO. 5 WOULD REDUCE DEFERRED DEBITS BY $1,083,637. DO YOU AGREE?

A. Yes. These adjustments properly correct an error in Arizona-American's original filing.

E. SUN CITY WEST WATER DISTRICT

Q. STAFF RATE BASE ADJUSTMENT NO. 4 AND RUCO RATE BASE ADJUSTMENT NO. 5 WOULD REDUCE DEFERRED DEBITS BY $892,284. DO YOU AGREE?

A. Yes. These adjustments properly correct an error in Arizona-American's original filing.

F. <u>TUBAC WATER DISTRICT</u>

Q. STAFF RATE BASE ADJUSTMENT NO. 3 AND RUCO RATE BASE ADJUSTMENT NO. 5 WOULD REDUCE DEFERRED DEBITS BY $51,122. DO YOU AGREE?

A. Yes. These adjustments properly correct an error in Arizona-American's original filing.

G. <u>MOHAVE WASTEWATER DISTRICT</u>

Q. STAFF RATE BASE ADJUSTMENT NO. 4 AND RUCO RATE BASE ADJUSTMENT NO. 5 WOULD INCREASE DEFERRED DEBITS BY $7,071. DO YOU AGREE?

A. Yes. These adjustments properly correct an error in Arizona-American's original filing.

VIII <u>RATE BASE – CASH WORKING CAPITAL</u>

A. <u>AGUA FRIA WATER DISTRICT</u>

Q. STAFF RATE BASE ADJUSTMENT NO. 2 WOULD REDUCE CASH WORKING CAPITAL BY $1,474,153. DO YOU AGREE?

A. No. Please see Schedule B-5 Rebuttal, where I recalculate working capital by district. Ms. Hubbard will discuss her lead-lag study in her Rebuttal Testimony. Based on her revised lead-lag study, the correct amount of cash working capital for the Agua Fria Water Districtis $ 60,105, a decrease to the original filing of $1,349,754.

Q. RUCO RATE BASE ADJUSTMENT NO. 6 WOULD REDUCE CASH WORKING CAPITAL BY $1,318,023. DO YOU AGREE?

A. No. Based on Ms. Hubbard's revised lead-lag study, the correct amount of cash working capital for the Agua Fria Water Districtis $ 60,105 as discussed above.

B. <u>HAVASU WATER DISTRICT</u>

Q. STAFF RATE BASE ADJUSTMENT NO. 1 WOULD REDUCE CASH WORKING CAPITAL BY $124,904. DO YOU AGREE?

A. No. Based on Ms. Hubbard's revised lead-lag study, the correct amount of cash working capital for the Havasu Water District is $46,992, a decrease to the original filing of $55,427.

Q. RUCO RATE BASE ADJUSTMENT NO. 6 WOULD REDUCE CASH WORKING CAPITAL BY $57,366. DO YOU AGREE?

A. No. Based on Ms. Hubbard's revised lead-lag study, the correct amount of cash working capital for the Havasu Water District is $46,992 as discussed above.

C. <u>MOHAVE WATER DISTRICT</u>

Q. STAFF RATE BASE ADJUSTMENT NO. 2 WOULD REDUCE CASH WORKING CAPITAL BY $563,132. DO YOU AGREE?

A. No. Based on Ms. Hubbard's revised lead-lag study, the correct amount of cash working capital for the Mohave Water District is $185,707, a decrease to the original filing of $181,855.

Q. RUCO RATE BASE ADJUSTMENT NO. 6 WOULD REDUCE CASH WORKING CAPITAL BY $311,647. DO YOU AGREE?

A. No. Based on Ms. Hubbard's revised lead-lag study, the correct amount of cash working capital for the Mohave Water District is $185,707 as discussed above.

D. <u>PARADISE VALLEY WATER DISTRICT</u>

Q. STAFF RATE BASE ADJUSTMENT NO. 2 WOULD REDUCE CASH WORKING CAPITAL BY $589,957. DO YOU AGREE?

A. No. Based on Ms. Hubbard's revised lead-lag study, the correct amount of cash working capital for the Paradise Valley Water District is $79,326, a decrease to the original filing of $469,708.

Q. RUCO RATE BASE ADJUSTMENT NO. 7 WOULD REDUCE CASH WORKING CAPITAL BY $618,037. DO YOU AGREE?

A. No. Based on Ms. Hubbard's revised lead-lag study, the correct amount of cash working capital for the Paradise Valley Water District is $79,326 as discussed above.

E. <u>SUN CITY WEST WATER DISTRICT</u>

Q. STAFF RATE BASE ADJUSTMENT NO. 2 WOULD REDUCE CASH WORKING CAPITAL BY $522,003. DO YOU AGREE?

A. No. Based on Ms. Hubbard's revised lead-lag study, the correct amount of cash working capital for the Sun City West Water District is $77,120, a decrease to the original filing of $403,020.

Q. RUCO RATE BASE ADJUSTMENT NO. 6 WOULD REDUCE CASH WORKING CAPITAL BY $468,364. DO YOU AGREE?

A. No. Based on Ms. Hubbard's revised lead-lag study, the correct amount of cash working capital for the Sun City West Water District is $77,120 as discussed above.

F. <u>TUBAC WATER DISTRICT</u>

Q. STAFF RATE BASE ADJUSTMENT NO. 1 WOULD REDUCE CASH WORKING CAPITAL BY $2,332. DO YOU AGREE?

A. No. Based on Ms. Hubbard's revised lead-lag study, the correct amount of cash working capital for the Tubac Water District is $21,683, a decrease to the original filing of $18,982.

Q. RUCO RATE BASE ADJUSTMENT NO. 8 WOULD REDUCE CASH WORKING CAPITAL BY $24,455. DO YOU AGREE?

A. No. Based on Ms. Hubbard's revised lead-lag study, the correct amount of cash working capital for the Tubac Water District is $21,683 as discussed above.

G. <u>MOHAVE WASTEWATER DISTRICT</u>

Q. STAFF RATE BASE ADJUSTMENT NO. 2 WOULD REDUCE CASH WORKING CAPITAL BY $22,552. DO YOU AGREE?

A. No. Based on Ms. Hubbard's revised lead-lag study, the correct amount of cash working capital for the Mohave Wastewater District is $425, a decrease to the original filing of $57,933.

Q. RUCO RATE BASE ADJUSTMENT NO. 6 WOULD REDUCE CASH WORKING CAPITAL BY $64,685. DO YOU AGREE?

A. No. Based on Ms. Hubbard's revised lead-lag study, the correct amount of cash working capital for the Mohave Wastewater District is $425 as discussed above.

H. <u>SUMMARY OF REBUTTAL RATE BASE POSITIONS.</u>

Q. PLEASE SUMMARIZE THE COMPANY'S REBUTTAL RATE BASE POSITION FOR EACH DISTRICT.

A. The table below summarizes Arizona-American's rebuttal position.

	Rate Base
Agua Fria	$92,349,679

Havasu	$3,224,575
Mohave Water	$10,889,904
Paradise Valley	$37,436,060
Sun City West Water	$38,374,522
Tubac Water	$1,457,349
Mohave Wastewater	$5,138,539

IX REVENUE

A. HAVASU WATER DISTRICT

Q. DOES ARIZONA-AMERICAN HAVE ANY REBUTTAL ADJUSTMENTS TO REVENUE FOR THE HAVASU WATER DISTRICT?

A. Yes. Arizona-American is adjusting Present Rate Revenue for the annualization of the ACRM Phase 2 increase which occurred as a result of Decision No. 70626 effective November 19, 2008. This adjustment increases Present Rate Revenue by $150,935. Attached is Schedule C-2 Rebuttal, Income Statement Adjustment LJG-1R.

B. PARADISE VALLEY WATER DISTRICT

Q. DOES ARIZONA-AMERICAN HAVE ANY REBUTTAL ADJUSTMENTS TO REVENUE FOR THE PARADISE VALLEY WATER DISTRICT?

A. Yes. Arizona-American is adjusting Present Rate Revenue for the annualization of the ACRM Phase 2 increase which occurred as a result of Decision No. 70560 effective September 3, 2008. This adjustment increases Present Rate Revenue by $371,853. Attached is Schedule C-2 Rebuttal, Income Statement Adjustment LJG-1R.

C. SUN CITY WEST WATER DISTRICT

Q. DOES ARIZONA-AMERICAN HAVE ANY REBUTTAL ADJUSTMENTS TO REVENUE FOR THE SUN CITY WEST WATER DISTRICT?

A. Yes. Arizona-American is adjusting Present Rate Revenue for the annualization of the ACRM Phase 2 increase which occurred as a result of Decision No. 70703 effective January 20, 2009. This adjustment increases Present Rate Revenue by $155,835. Attached is Schedule C-2 Rebuttal, Income Statement Adjustment LJG-1R.

X DEPRECIATION EXPENSE

A. AGUA FRIA WATER DISTRICT

Q. DOES ARIZONA-AMERICAN HAVE ANY REBUTTAL ADJUSTMENTS TO ANNUAL DEPRECIATION EXPENSE FOR THE AGUA FRIA DISTRICT?

A. Yes. As I discussed above, Arizona-American reduced the Plant accounts for the actual costs of the Sierra Montana 2.2 MG Reservoir. This also would reduce annualized depreciation expense by $5,316. The effect is shown on Schedule C-2, Rebuttal Adjustment SLH-7R.

B. HAVASU WATER DISTRICT

Q. DOES ARIZONA-AMERICAN HAVE ANY REBUTTAL ADJUSTMENTS TO ANNUAL DEPRECIATION EXPENSE FOR THE HAVASU WATER DISTRICT?

A. Yes. In Decision No. 67093, dated June 30, 2004, the depreciation rates for Havasu District changed. The work paper to calculate depreciation did not get updated to the new rates. The new rates would increase annual depreciation expense by $9,761. Also, we removed the Gateway Water and Wastewater Plant from Havasu District and added it to Mohave Water and Mohave Wastewater, respectively. This reduced annual depreciation expense by $22,440. The two changes result in a net decrease to depreciation expense of $12,679. Please see the effect on Schedule C-2, Rebuttal Adjustment SLH-7R.

C. MOHAVE WATER DISTRICT

Q. DOES ARIZONA-AMERICAN HAVE ANY REBUTTAL ADJUSTMENTS TO ANNUAL DEPRECIATION EXPENSE FOR THE MOHAVE WATER DISTRICT?

A. Yes, I have two adjustments. The first change is due to moving the Gateway Water Plant from the Havasu Water District to the Mohave Water District. Plant increased by $721,333 and depreciation expense increases $16,386 for these facilities. The second change decreases depreciation expense for post test year plant by $334. Although the actual costs are higher than the estimated costs, the specific plant accounts that are used in the final actual costs spread the depreciation differently than the estimated costs and plant accounts did. Please see the effect on Schedule C-2, Rebuttal Adjustment SLH-7R.

D. <u>PARADISE VALLEY WATER DISTRICT</u>

Q. DOES ARIZONA-AMERICAN HAVE ANY REBUTTAL ADJUSTMENT TO ANNUAL DEPRECIATION EXPENSE FOR THE PARADISE VALLEY WATER DISTRICT?

A. Yes. The Post Test Year amount for depreciation expense is reduced by $51,921 to $9,403 due to the delay in the Well No. 12 rehabilitation project. Please see the effect on Schedule C-2, Rebuttal Adjustment SLH-7R.

E. <u>SUN CITY WEST WATER DISTRICT</u>

Q. DOES ARIZONA-AMERICAN HAVE ANY REBUTTAL ADJUSTMENT TO ANNUAL DEPRECIATION EXPENSE FOR THE SUN CITY WEST WATER DISTRICT?

A. Yes. There were two rate base adjustments to Utility Plant in Service that effect the Annual Depreciation Expense in Sun City West Water District. The first was to add back $76,672 in retirements from November and December 2007 that belonged in Paradise Valley. The second was to remove additions that occurred in January and February 2005

in Sun City West Water that actually belonged in Agua Fria Water. The net result of the additions to plant is $2,606 in additional depreciation expense. Please see the effect on Schedule C-2, Rebuttal Adjustment SLH-7R.

F. MOHAVE WASTEWATER DISTRICT

Q. DOES ARIZONA-AMERICAN HAVE ANY REBUTTAL ADJUSTMENTS TO ANNUAL DEPRECIATION EXPENSE FOR THE MOHAVE WASTEWATER DISTRICT?

A. Yes, I have three adjustments. Decision No. 69440, effective May 1, 2007, changed the approved depreciation rates for Mohave Wastewater District. This change in depreciation rates results in a decrease in annual depreciation expense of $23,880. The second adjustment is needed to account for moving the Gateway Wastewater Treatment Plant from the Havasu Water District to the Mohave Wastewater District. The additional plant results in additional depreciation expense of $2,406. The third adjustment to annual depreciation expense flows from including the actual costs of the Wishing Well Treatment Plant in plant. The actual costs were higher than the estimate by $343,959 and the resulting increase in annual depreciation expense is $10,627.

The net result of the three adjustments is to decrease annual depreciation expense by ($10,856). Please see the effect on Schedule C-2, Rebuttal Adjustment SLH-7R.

G. ALL DISTRICTS

Q. DO YOU RECOMMEND ANY COMMON CHANGES TO DEPRECIATION RATES THAT WOULD APPLY TO ALL DISTRICTS?

A. Yes. My first recommendation concerns Account 304510. Currently, Staff is recommending a depreciation rate of 1.67%, or 60 years, for professional services, permits, fees, and other costs association with evaluating, developing, and setting up our

Corporate Offices on 7th Street. The life of the lease is seven years, so I recommend a rate of 14.28% to reflect depreciating the set up over the life of the lease.

My second recommendation concerns Account 334100, Meters. Mr. Troy Day is explaining in his testimony that we are on a program to change meters every 15 years. Therefore, I recommend a rate of 6.7% for all districts. We currently have rates ranging from 2.51% (40 years) to Mohave's recently approved 6.53%.

My third recommendation concerns Account 339600. We use this account for comprehensive planning studies, which are done every five years. Currently, we have 0% depreciation expense. Our Internal Audit Department is questioning why the rate is not 20%. I recommend a 20% rate to reflect the five-year applicable period of these studies.

My fourth recommendation concerns Account 340200, Computer & Peripheral Equipment. Staff is recommending a 10% rate for Agua Fria, Paradise Valley, Sun City West, and Corporate, but is recommending rates of 4.47% for Havasu, 15.59% for Mohave Water, and 10.83% for Tubac. I recommend using one rate of 10% for every district.

My fifth recommendation concerns Account 341100, Transportation Equipment Light Trucks. This account is used for smaller pick up trucks. Staff's recommended depreciation rate for our districts varies from 20% to 25%. I recommend that we use either rate consistently for all districts.

My final recommendation concerns Account 341400, Transportation Equipment – Other. This account reflects depreciation being taken on golf carts purchased for meter readers. The only approved rate is 0.93% in Paradise Valley. In April of 2008, we purchased golf

carts in Agua Fria and Mohave Water. Golf carts last four to six years, so I recommend a consolidated rate of 20% for every district.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

MOHAVE WATER DISTRICT

EXHIBIT LJG – R1

INVOICES FOR MIRA MONTE @ FAX CREEK
SILVER BUTTE CONSTRUCTION

Unconditional Waiver and Release on Final Payment

Project: Mira Monte Classic located at _____

Job No.: 2425 on site

The undersigned has been paid in full for all labor, services, equipment or material furnished to he job-site or to Silver Butte Const.
(person with whom undersigned contracted)

on the job of Brookfield Com. (owner) located at Mira Monte Classic (job description) Waterline on site

and does hereby waive and release any right to mechanic's lien, any state or federal statutory bond right, any private bond right, any claim for payment and any rights under any similar ordinance, rule or statute related to claim or payment rights for persons in the undersigned's position, except for disputed claims for extra work in the amount of $ 68,514.00.

The undersigned warrants that he either has already paid or will use the monies he receives from this final payment to promptly pay in full all of his laborers, subcontractors, materialmen and suppliers for all work, materials, equipment or services provided for or to the above referenced project.

Date: 3/14/06

Silver Butte Const (Company name)

By: [signature] (Signature)

Secretary/treasurer (Title)

Notice:
This document waives rights unconditionally and states that you have been paid for giving up those rights. This document is enforceable against you if you sign it, even if you have not been paid. If you have not been paid, use a conditional release form.

2/95 AWWS Co. Standard Documents UW-1

SILVER BUTTE CONSTRUCTION

1788 Hwy 95 Ste #18
BULLHEAD CITY AZ 86439

License #: 136273 AZ 50720 NV

CONTRACT INVOICE

Invoice#: 222238
Invoice Date: 10/30/2008
Due Date: 10/30/2008
Order:

TO: Brookfield Communities
3101 North Central Ave
Phoenix AZ 85012

PROJECT: Mira Monte Classic On Site
3101 North Central Ave
Phoenix AZ 85012

Description	Quantity	Units	Price	Amount
8 - 8" C900 CL 200	1,034.0000		19.150000	19,801.10
9 - Fire Hydrant	3.0000		2,984.000000	8,952.00
10- 6" C900 CL200	625.0000		16.080000	10,050.00
11 - 8" x 6" Reducer	2.0000		252.000000	504.00
12 - 8" x 6" Tee	3.0000		395.000000	1,185.00
13 - 8" Tee	3.0000		395.000000	1,185.00
14 - 8" Flg Adapter	3.0000		252.000000	756.00
15 - 8" Gate Valve	6.0000		874.000000	5,244.00
16 - 6" Gate Valve	2.0000		630.000000	1,260.00
17 - 8" Fittings	10.0000		161.000000	1,610.00
19 - 6" Cap & Blow off	2.0000		440.000000	880.00
20 - 8" Cap & Blow off	3.0000		450.000000	1,350.00
21 - Double Services	28.0000		439.000000	12,292.00
22 - Single Services	5.0000		329.000000	1,645.00
30- Raise Manholes	8.0000		225.000000	1,800.00

Notes:

Non-taxable Amount:	68,514.10
Taxable Amount:	0.00
Sales Tax:	0.00
Amount Due:	68,514.10

Please Pay This Amount $68,514.10

A service charge of 0.00 % per annum will be charged on all amounts overdue on regular statement dates.
Please make check payable to SILVER BUTTE CONSTRUCTION
Thank You for your prompt payment!

Unconditional Waiver and Release on Final Payment

Project: Mira Monte Vista on Site located at _____

Job No.: 2423

The undersigned has been paid in full for all labor, services, equipment or material furnished to he job-site or to Silver Butte Construction
(person with whom undersigned contracted)

on the job of Brookfield Communities (owner) located at Mira Monte Vista on Site (job description) Water line

and does hereby waive and release any right to mechanic's lien, any state or federal statutory bond right, any private bond right, any claim for payment and any rights under any similar ordinance, rule or statute related to claim or payment rights for persons in the undersigned's position, except for disputed claims for extra work in the amount of $ 65,584.90

The undersigned warrants that he either has already paid or will use the monies he receives from this final payment to promptly pay in full all of his laborers, subcontractors, materialmen and suppliers for all work, materials, equipment or services provided for or to the above referenced project.

Date: 3/23/06

Silver Butte Constr (Company name)

By Audrey H. (Signature)

Secretary/treasurer (Title)

Notice:
This document waives rights unconditionally and states that you have been paid for giving up those rights. This document is enforceable against you if you sign it, even if you have not been paid. If you have not been paid, use a conditional release form.

SILVER BUTTE CONSTRUCTION

1788 Hwy 95 Ste #18
BULLHEAD CITY AZ 86439

License #: 136273 AZ 50720 NV

CONTRACT INVOICE

Invoice#: 222236
Invoice Date: 10/30/2008
Due Date: 10/30/2008
Order:

TO: Brookfield Communities
3101 North Central Ave
Phoenix AZ 85012

PROJECT: Mira Monte Vistas Onsite
3101 North Central Ave
Phoenix AZ 85012

Description	*Quantity*	*Units*	*Price*	*Amount*
8" x 6" Resevoir md	1.0000		252.000000	252.00
Fire hydrant assembly	4.0000		2,984.000000	11,936.00
8" 45 degree, 22.5, 11 1/4	11.0000		161.000000	1,771.00
6" cap & blowoff	1.0000		440.000000	440.00
Double Services	29.0000		439.000000	12,731.00
Single Services	3.0000		329.000000	987.00
8" c900 cl 200	1,762.0000		19.150000	33,742.30
Water Valves	3.0000		225.000000	675.00
6" c900 cl 200	120.0000		16.080000	1,929.60
8" cap & Blow off	2.0000		480.000000	960.00
8" 11.25	1.0000		161.000000	161.00

Notes:

Non-taxable Amount:	65,584.90
Taxable Amount:	0.00
Sales Tax:	0.00
Amount Due:	65,584.90

Please Pay This Amount $65,584.90

A service charge of 0.00 % per annum will be charged on all amounts overdue on regular statement dates.
Please make check payable to SILVER BUTTE CONSTRUCTION
Thank You for your prompt payment!

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, ANTHEM WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT AND TUBAC WATER DISTRICT	DOCKET NO. W-01303A-08-0227
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WASTEWATER DISTRICT, ANTHEM WASTEWATER DISTRICT, AND MOHAVE WASTEWATER DISTRICT	DOCKET NO. SW-01303A-08-0227

REBUTTAL TESTIMONY
OF
SHERYL L. HUBBARD
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 11, 2009

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EXECUTIVE SUMMARY

Sheryl L. Hubbard testifies as follows:

Working Capital

The following tables summarize Arizona-American's revised request for the cash-working-capital component of working capital for each water and wastewater district:

Table 1 – Cash Working Capital Component of Working Capital

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Cash Working Capital	$ 60,105	$47,000	$ 185,717	$ 79,326	$ 77,120	$ 21,683	$ 425

In computing the cash working capital, Staff has made several errors, both formulaic and theoretical. The schedule on which Staff calculates its recommended cash working capital contains mathematical errors and the resulting adjustments are not consistently reflected in each district's Rate Base calculations. Instead of subtracting the expense lag from the revenue lag, the formula subtracts the revenue lag from the expense lag, thus making Staff's Net Lag calculations incorrect. Another error is the use of the Mohave Water District's expense lags for Fuel & Power and Chemicals for the Mohave Wastewater District.

One theoretical error noted while reviewing Staff's recommended cash working capital was the use of an inappropriate level of income tax expense. Staff's cash working capital calculation reflects income tax expense based on adjusted test year revenue instead of the proposed revenues.

RUCO's working-capital calculation also contains many errors. There were enough errors in a majority of the districts to render RUCO's recommended cash working capital calculations unreliable as filed.

Arizona-American accepts Staff's recommendation to use the expense lags from a recent rate proceeding, the Mohave Water and Mohave Wastewater docket (WS-01303A-06-0014).

Adjusted Operating Income

The following tables summarize Arizona-American's rebuttal position for Adjusted Operating Income for each water and wastewater district seeking rate increases in this proceeding:

Table 2 – Adjusted Operating Income

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Adjusted Operating Income	$ 2,878,406	$ 47,158	$ 305,753	$ 2,042,832	$ 736,193	($ 40,106)	$116,454

Operating Revenues

No party objected to removal of Central Arizona Project ("CAP") surcharge revenues. Ms. Gutowski is sponsoring Arizona-American's adjustment to include Arsenic Cost Recovery

Mechanism ("ACRM") surcharge revenues recently approved by the Commission in Arizona-American's Step 2 filings for Havasu Water, Paradise Valley Water, and Sun City West Water districts.

Operating Expenses

The following tables summarize adjusted test year operating expenses for each district:

Table 3 – Operating Expenses

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Operating Expenses	$15,940,207	$1,130,363	$ 4,807,878	$ 6,177,754	$ 5,121,073	$ 467,006	$ 679,707

Labor Expense

Arizona-American accepts RUCO's adjustment to labor expenses in Agua Fria Water, Mohave Water and Sun City West Water districts. However, RUCO did not properly apply a 4-factor allocator. The effect of that labor adjustment is summarized in the table below:

Table 4 – Labor Expense Adjustment

District	Adjustment
Agua Fria Water	($ 37,665)
Havasu Water	(2,259)
Mohave Water	(12,768)
Paradise Valley Water	(12,536)
Sun City West Water	(13,568)
Tubac Water	(1,183)
Mohave Wastewater	(1,678)

Waste Disposal Expense

Arizona-American accepts RUCO's adjustment to adjust waste-disposal expenses in Agua Fria Water, Havasu Water, Mohave Water, Paradise Valley Water, Sun City West Water, Tubac Water and Mohave Wastewater districts. The adjustment is summarized in the table below.

Table 5 – Waste Disposal Expense Adjustment

District	Adjustment
Agua Fria Water	**$ 870**
Havasu Water	**52**
Mohave Water	**295**
Paradise Valley Water	**290**

Sun City West Water	**313**
Tubac Water	**27**
Mohave Wastewater	**39**

Chemicals Expense

Arizona-American accepts the adjustment proposed by both Staff and RUCO to the chemical expenses for the Paradise Valley Water District. The proposed adjustment reduces Arizona-American's original request for chemicals expense in the Paradise Valley district by $51,945 from a total of $236,982 to $185,037. Chemical costs for ferric chloride in the amount of $49,530 and polymer in the amount of $2,415 had been inadvertently double counted. In the Agua Fria Water District, chemical expenses were also double counted. The amount of this error is $139,625.

In the Havasu Water District, Arizona-American requested, through Mr. Broderick's testimony, approval for an amortization period of twelve years for the deferred arsenic O&M costs that were the subject of Decision No. 69162 (issued December 5, 2006). The effect of this amortization was inadvertently omitted from the calculation of the chemicals expense for that district. Arizona-American has included an amount of $7,916 per year in its chemical expense for Havasu Water. Ms. Gutowski calculates the deferred balance that Arizona-American is seeking to amortize.

Management Fees

Arizona-American reluctantly accepts RUCO's disallowance of the AIP awards as the result of Arizona-American meeting its financial targets. RUCO's adjustment affects each district through an allocation process that uses a 4-factor allocation methodology. The adjustment is summarized in the table below:

Table 6 – Management Fees Adjustment

District	Adjustment
Agua Fria Water	($ 33,408)
Havasu Water	(2,004)
Mohave Water	(11,325)
Paradise Valley Water	(11,119)
Sun City West Water	(12,035)
Tubac Water	(1,049)
Mohave Wastewater	(1,489)

Rate Case Expense

Arizona-American agrees with RUCO's recommended three-year amortization period, but disagrees on the amount of rate case expenses to be amortized. Mr. Broderick testifies concerning Arizona-American's revised rate case expense of $456,000, which is very close to RUCO's recommended level.

At the time that Arizona-American revised its filing to eliminate Anthem Water, Anthem Wastewater and Agua Fria Wastewater districts, it did not revise the 4-factor allocation factors used to allocate the rate case expenses among the remaining districts. The revised rate case expense proposed by Arizona-American in this rebuttal filing has been computed using revised allocators based on the seven remaining districts.

Arizona-American agrees with RUCO's finding that an incorrect 4-factor allocator was used in calculating Tubac Water District's portion of the total rate case expenses. This issue is now moot because Arizona-American has recomputed the 4-factor for allocating rate case expenses to reflect the reduction to seven districts in the revised application versus the 10 districts included in Arizona-American's original application.

Regarding RUCO's assertion that Arizona-American included rate case expenses from previous rate cases, Arizona-American agrees that the rate case expenses for the Sun City West Water District should be removed but disagrees in the case of the Mohave Water and Mohave Wastewater districts. The amortization of rate case expense from Decision 69440 began in May of 2007 and the expenses will not be fully recovered until April of 2010.

Water Testing Expense

Arizona-American accepts the level of water testing expense contained in Staff witness Dorothy Hains's testimony. However, it does not appear that Staff included Ms. Hains's water-testing expenses in its proposed Miscellaneous Expenses or any other expense.

Line 21 Clean-Up

Arizona-American accepts RUCO's proposed adjustments to miscellaneous expense to disallow certain line 21 expenses.

Tank Maintenance Expense (Maintenance Expense)

Arizona-American has reviewed its original request and is proposing some modifications. The basis of the cost estimates has been revised and is discussed in greater detail in Mr. Day's testimony. These revised cost estimates have been incorporated into the original calculations and a revised request has been proposed.

Property Taxes

The proposed adjustments to property taxes recommended by Staff and RUCO are merely conforming adjustments to reflect each party's changes to the revenue requirement. Arizona-American has revised this expense in its rebuttal filing to conform with its revised revenue increase proposal as well.

Income Taxes

The proposed adjustments to income taxes recommended by Staff and RUCO are merely conforming adjustments to reflect each party's changes to the revenue requirement. Arizona-American has revised this expense in its rebuttal filing to conform with its revised revenue increase proposal as well.

Fuel and Power Supply Adjustment Mechanism

In response to RUCO, Arizona-American stands by its recommended Fuel and Power Supply Adjustment Mechanism. Power costs are a large component of Arizona-American's operating

expenses. For the seven districts in this proceeding, fuel and power costs represent approximately 12% of the total operating expenses. Most businesses are able to adjust their prices to accommodate large increases in these expenses which may be uncontrollable depending on their operations. A utility cannot make these adjustments without a fuel and power supply adjustment mechanism.

The majority of the power costs that Arizona-American incurs are in relation to the delivery of water to its customers. Increases are typically the result of changes in rates and tariffs of its power suppliers, which are regulated by the Corporation Commission, so Arizona-American has no control over their price increases. That is why this cost is the perfect expense for an adjustor mechanism.

White Tanks Surface Water Treatment Plant

In order to maintain a healthy, viable utility, actual recovery of the invested capital and associated operating costs must occur in a timely fashion. Deferrals of the depreciation expense and return on the investment cannot sustain Arizona-American's financial condition.

Arizona-American requested hook-up fee financing of the White Tanks Plant under the assumption that there would be sufficient contributions in aid of construction ("CIAC") from hook-up fees to enable it to offset the deferred return and deferred depreciation on its investment in the White Tanks Plant to avoid the write offs that will be required if accumulated hook up fees are inadequate to offset the equity portion of the deferred return and depreciation expense when the plant goes into service.

Currently, a hook-up fee has been approved by the Commission to finance the construction of the White Tanks Plant. The hook-up fees are recorded as contributions in aid of construction ("CIAC") which reduces rate base and the associated revenue requirement of the investment. Since the plant was projected to be in service prior to collection of all of the hook-up fees necessary to finance the plant, Arizona-American sought, and the Commission approved, the accounting treatment proposed, which addressed the timing of the completion of construction and recovery of the plant costs in excess of the CIAC collected at that time.

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Standards No. 92 ("SFAS 92") to amend its original FASB Statement No. 71 which provided accounting guidance to regulated enterprises when the regulator issues decisions that depart from conventional rate-making methods regarding the recovery of allowable costs of the plant. A departure from conventional rate-making occurs when alternatives to the recovery scenario are adopted by the regulator such as deferral of depreciation expense, deferral of O&M expenses, and deferral of the return on the investment which results from providing the accumulation of post in-service allowance for funds used during construction ("AFUDC"). These statements provide guidance as to when a regulated entity might be required to write off an asset.

Mr. Broderick stated that a write off of the plant was possible after August 2011. Now it appears that some write-offs could come even earlier. Mr. Broderick's projections were based on estimated hook-up fees that have been adjusted downward based upon the housing market in Arizona and more current economic indicators. Based upon the amount of hook-up fees collected to date and the projections of future hook-up fees to be collected, it appears that potential write offs will occur well before that date.

Arizona-American is hopeful that the parties first, and then the Commission will be persuaded that inclusion of $25 million of the White Tanks Plant's construction work in progress ("CWIP") in rate base is a reasonable solution to avert a potential financial disaster. Without the necessary rate relief in this proceeding, Arizona-American will face certain financial hardship shortly after the completion of construction of the White Tanks Plant. A regional surface water treatment plant will be beneficial to Arizona-American's customers in Maricopa County as well as the State of Arizona. Inclusion of White Tanks Plant's CWIP in rate base in this case, and/or Commission assurance of future recovery by approving a mechanism such as was approved for arsenic treatment plant cost recovery is imperative to Arizona-American's financial health.

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Sheryl L. Hubbard. My business address is 19820 N. 7th Street, Suite 201, Phoenix, Arizona 85024, and my business phone is 623-445-2419.

Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I did.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS CASE?

A. My rebuttal testimony is organized by subject matter primarily focusing on adjustments to Arizona-American's cash working capital calculations and Adjusted Test Year Operating Income proposed by witnesses for the Arizona Corporation Commission Staff ("Staff") and the Residential Consumer Utility Office ("RUCO"). In addition, I will discuss accounting implications associated with recommendations by Staff and RUCO to exclude the White Tank Water Treatment Plant ("White Tank Plant") construction expenditures from rate base.

Q. DOES YOUR TESTIMONY IN THIS PROCEEDING INCORPORATE RECOMMENDATIONS OF OTHER COMPANY WITNESSES?

A. Yes, it does. I have incorporated recommendations sponsored by Company witnesses Thomas M. Broderick, Mr. Bradley J. Cole, Mr. Jeffrey Stuck, Mr. Troy Day, Mr. Joseph E. Gross, and Ms. Linda J. Gutowski resulting in revised *pro forma* adjustments to test-year expenses where applicable.

III. SPONSORED SCHEDULES AND EXHIBITS

Q. PLEASE IDENTIFY THE SCHEDULES YOU ARE SPONSORING.

A. I am sponsoring the following schedules:

- Schedule B-6 Rebuttal - Arizona-American Computation of Cash Working Capital
- Schedule C-2 Rebuttal - Arizona-American Income Statement Pro Forma Adjustments
- Schedule C-3 Rebuttal - Arizona-American Computation of Gross Revenue Conversion Factor

Q. PLEASE IDENTIFY THE EXHIBITS YOU ARE SPONSORING.

A. I am sponsoring the following exhibits, which are attached to this rebuttal testimony.

- Exhibit SLH-R1 - Copy of Company's Response to ACC Staff data request GTM 8.2
- Exhibit SLH-R2 - Copy of Company's Response to ACC Staff data request GTM 8.7
- Exhibit SLH-R3 – Copy of Company's Response to RUCO data request RUCO 1.37
- Exhibit SLH-R4 - Copy of Company's Response to RUCO data request RUCO 2.06
- Exhibit SLH-R5 – Copy of Company's Responses to ACC Staff's data requests pertaining to historical tank maintenance activities.
- Exhibit SLH-R6 – Proposed Power Supply Adjustment tariffs

IV. <u>WORKING CAPITAL</u>

Q. WHAT IS ARIZONA-AMERICAN'S REVISED REQUEST FOR CASH WORKING CAPITAL?

A. The following tables summarize Arizona-American's revised request for the cash-working-capital component of working capital for each water and wastewater district:

Table 1 – Cash Working Capital Component of Working Capital

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Cash Working Capital	$ 60,105	$47,000	$ 185,717	$ 79,326	$ 77,120	$ 21,683	$ 425

Q. HAVE YOU REVIEWED STAFF'S RECOMMENDATION FOR CALCULATING CASH WORKING CAPITAL IN THIS PROCEEDING?

A. Yes, I have.

Q. DO YOU AGREE WITH STAFF'S RECOMMENDED CASH WORKING CAPITAL CALCULATIONS?

A. In part. Staff's witness, Mr. Gerald Becker testifies that Staff would modify Arizona-American's lead/lag study to incorporate the expense lags from the recent Mohave Water and Mohave Wastewater cases. Arizona-American does not oppose this part of Staff's recommendation.

Q. WHAT PORTIONS OF STAFF'S CASH WORKING CAPITAL CALCULATION DO YOU NOT AGREE WITH?

A. In computing the cash working capital, Staff has made several errors, both formulaic and theoretical. The schedule on which Staff calculates its recommended cash working capital contains mathematical errors and the resulting adjustments are not consistently reflected in each district's Rate Base calculations. (See for instance, Agua Fria Water). One major error in all districts is in the calculation of the Net Lag component, the difference between the revenue lag and the expense lag. Instead of subtracting the expense lag from the revenue lag, the formula subtracts the revenue lag from the expense lag, thus making Staff's Net Lag calculations incorrect. Another error is the use of the

Mohave Water District's expense lags for Fuel & Power and Chemicals for the Mohave Wastewater District. All of the other expense lags were the same.

Q. YOU ALSO REFERRED TO THEORETICAL ERRORS IN THE STAFF'S CASH WORKING CAPITAL CALCULATION. WHAT DO YOU MEAN?

A. One theoretical error noted while reviewing Staff's recommended cash working capital was the use of an inappropriate level of income tax expense. Typically, the working capital calculation reflects the expense levels that rates are intended to recover, which includes the income taxes associated with the recommended revenue increase. Staff's cash working capital calculation reflects income tax expense based on adjusted test year revenue instead of the proposed revenues. Failure to include the appropriate expense levels makes Staff's cash working capital model totally unusable. Accordingly, Arizona-American cannot accept Staff's cash working capital calculation.

Q. HAVE YOU REVIEWED THE RECOMMENDED CASH WORKING CAPITAL FOR EACH DISTRICT AS PROPOSED BY RUCO IN THIS PROCEEDING?

A. Yes, I have.

Q. WHAT IS ARIZONA-AMERICAN'S POSITION REGARDING RUCO'S CASH WORKING CAPITAL RECOMMENDATIONS?

A. RUCO has performed the calculation of the net lag correctly and included the appropriate income tax expense as opposed to the calculations made by Staff discussed above. However, in reviewing RUCO's schedule, I noted many errors without any consistency among the districts. For instance, in the Agua Fria Water District, the Other Operating Expenses in column (C) do not include Regulatory Expenses of $64,012 so the adjustment in column (B) is incorrect and therefore the resulting Expense Lag on line 18 is incorrect. Another example of errors can be seen in the Havasu Water District. RUCO has included Depreciation & Amortization in column (C) overstating the total operating

expensed which translates into an understatement of the Expense Lag on line 19. For the Sun City West Water Districts and the Tubac Water Districts, RUCO has used the wrong income tax expense. I could go on, but to what purpose? Although I did not find these types of errors in all of the districts, there were enough errors in a majority of the districts to render RUCO's recommended cash working capital calculations unreliable as filed.

Q. PLEASE SUMMARIZE ARIZONA-AMERICAN'S REVISED CASH WORKING CAPITAL POSITION.

A. Arizona-American accepts Staff's recommendation to use the expense lags from a recent rate proceeding, the Mohave Water and Mohave Wastewater docket (WS-01303A-06-0014) as discussed by Mr. Becker in his testimony. These expense lags for Mohave Water have been incorporated into the cash working capital calculations for the water districts in this proceeding and the expense lags for Mohave Wastewater have been included in Arizona-American's revised cash working capital calculations for the Mohave Wastewater district the results of which are reflected on Schedule B-5 Rebuttal-Computation of Working Capital.

V. <u>ADJUSTED OPERATING INCOME</u>

Q. WHAT IS ARIZONA-AMERICAN'S ADJUSTED OPERATING INCOME BY DISTRICT IN THIS PROCEEDING?

A. The following tables summarize Arizona-American's rebuttal position for Adjusted Operating Income for each water and wastewater district seeking rate increases in this proceeding:

Table 2 – Adjusted Operating Income

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Adjusted Operating Income	$ 2,878,406	$ 47,158	$ 305,753	$ 2,042,832	$ 736,193	($ 40,106)	$116,454

A OPERATING REVENUES

Q. ARE YOU SPONSORING ARIZONA-AMERICAN'S REBUTTAL POSITION FOR OPERATING REVENUE IN THIS PROCEEDING?

A. No, I am not. In my direct testimony I sponsored removal of Central Arizona Project ("CAP") surcharge revenues. This was not opposed by any party. Ms. Gutowski is sponsoring Arizona-American's adjustment to include Arsenic Cost Recovery Mechanism ("ACRM") surcharge revenues recently approved by the Commission in Arizona-American's Step 2 filings for Havasu Water, Paradise Valley Water, and Sun City West Water districts.

B OPERATING EXPENSES

Q. WHAT ARE ARIZONA-AMERICAN'S REQUESTED TOTAL OPERATING EXPENSES BY DISTRICT?

A. The following tables summarize adjusted test year operating expenses for each district:

Table 3 – Operating Expenses

District	Agua Fria Water	Havasu Water	Mohave Water	Paradise Valley Water	Sun City West Water	Tubac Water	Mohave Wastewater
Operating Expenses	$15,940,207	$1,130,363	$ 4,807,878	$ 6,177,754	$ 5,121,073	$ 467,006	$ 679,707

C LABOR

Q. HAVE YOU REVIEWED THE ADJUSTMENT TO LABOR EXPENSE PROPOSED BY RUCO WITNESS MR. MOORE?

A. Yes. Mr. Moore proposes to adjust labor expenses in Agua Fria Water, Mohave Water and Sun City West Water districts consistent with information provided by Arizona-American in data response GTM 8.2.

Q. DO YOU AGREE WITH THE LABOR EXPENSE ADJUSTMENT AS PROPOSED BY MR. MOORE?

A. Yes, but the adjustment referred to in data response GTM 8.2, attached as Exhibit SLH-R1, in the amount of $163,092 involved the Arizona Corporate labor expense. Therefore, it should impact all the districts in this proceeding through a 4-factor allocator. The effect of that labor adjustment is summarized in the table below and appears on Schedule C-2 as ADJ SLH-4R.

Table 4 – Labor Expense Adjustment

District	Adjustment
Agua Fria Water	($ 37,665)
Havasu Water	(2,259)
Mohave Water	(12,768)
Paradise Valley Water	(12,536)
Sun City West Water	(13,568)
Tubac Water	(1,183)
Mohave Wastewater	(1,678)

D WASTE DISPOSAL EXPENSE

Q. HAVE YOU REVIEWED THE ADJUSTMENT TO WASTE DISPOSAL EXPENSE PROPOSED BY RUCO WITNESS MR. MOORE?

A. Yes. Mr. Moore proposes to adjust waste-disposal expenses in Agua Fria Water, Havasu Water, Mohave Water, Paradise Valley Water, Sun City West Water, Tubac Water and Mohave Wastewater districts, consistent with information provided by Arizona-American in data response GTM 8.7 attached as Exhibit SLH-R2.

Q. DO YOU AGREE WITH THE WASTE DISPOSAL EXPENSE ADJUSTMENTS AS PROPOSED BY MR. MOORE?

A. Yes. The adjustment is necessary to reflect the appropriate waste-disposal expense for each of the districts. The adjustment is summarized in the table below.

Table 5 – Waste Disposal Expense Adjustment

District	Adjustment
Agua Fria Water	$ 870
Havasu Water	52
Mohave Water	295
Paradise Valley Water	290
Sun City West Water	313
Tubac Water	27
Mohave Wastewater	39

E CHEMICALS EXPENSE

Q. HAVE YOU REVIEWED THE ADJUSTMENTS TO CHEMICALS EXPENSES PROPOSED BY STAFF AND RUCO?

A. Yes, I have.

Q. ARE THERE ANY PROPOSED ADJUSTMENTS THAT ARE THE SAME BETWEEN THE TWO PARTIES?

A. The only operating expense adjustment proposed by both Staff and RUCO is an adjustment to the chemical expenses for the Paradise Valley Water District. The proposed adjustment reduces Arizona-American's original request for chemicals expense in the Paradise Valley district by $51,945 from a total of $236,982 to $185,037. (Staff is recommending a reduction of $51,390 for this expense, but Arizona-American presumes that Staff has made an error in calculating their proposed adjustment).

Q. DOES ARIZONA-AMERICAN WATER AGREE WITH THE PROPOSED REDUCTION TO PARADISE VALLEY'S CHEMICALS EXPENSE AS RECOMMENDED BY STAFF AND RUCO?

A. Yes. During the course of responding to data requests posed by RUCO, specifically RUCO 1.37 attached as Exhibit SLH-R3, Arizona-American realized that chemical costs for ferric chloride in the amount of $49,530 and polymer in the amount of $2,415 had been inadvertently double counted. By reducing Arizona-American's original request for chemicals expense by $51,945, the error in Arizona-American's original proposal is corrected.

Q. ARE THERE ANY OTHER PROPOSED ADJUSTMENT TO CHEMICALS EXPENSES IN ANY DISTRICTS?

A. Yes. In the Agua Fria Water District, chemical expenses were also double counted. The amount of this error is $139,625 while Staff has proposed an adjustment of $142,065. The error was uncovered while responding to another RUCO data request, RUCO 2.06, attached as Exhibit SLH-R4. RUCO did not propose a similar adjustment to the Agua Fria district's chemicals expense, but Arizona-American acknowledges that an adjustment in the amount of $139,625, versus Staff's proposed adjustment of $142,065, is necessary to reflect the proper level of chemicals expense for its Agua Fria Water District.

Q. ARE THERE ANY OTHER ADJUSTMENTS THAT NEED TO BE MADE TO ACCURATELY REFLECT ARIZONA-AMERICAN'S CHEMICAL EXPENSES?

A. Yes. Regarding the Havasu Water District, Arizona-American requested, through Mr. Broderick's testimony, approval for an amortization period of twelve years for the deferred arsenic O&M costs that were the subject of Decision No. 69162 (issued December 5, 2006). The effect of this amortization was inadvertently omitted from the calculation of the chemicals expense for that district. Arizona-American has included an amount of $7,916 per year in its chemical expense for Havasu Water. Ms. Gutowski calculates the deferred balance that Arizona-American is seeking to amortize.

F MANAGEMENT FEES

Q. RUCO'S WITNESS IS PROPOSING TO DISALLOW 30 PERCENT OF ARIZONA-AMERICAN'S ANNUAL INCENTIVE PAY EXPENSE IN THIS PROCEEDING. DOES ARIZONA-AMERICAN AGREE WITH THIS DISALLOWANCE?

A. Arizona-American strongly disagrees with the premise that shareholders are the primary beneficiaries of additional profit Arizona-American achieves as the result of Arizona-American meeting its financial targets. However, the Commission has adopted a similar RUCO adjustment in the Sun City Water district Decision No. 70351 (issued May 16, 2008). Based upon this prior Commission precedent, Arizona-American will not continue to oppose RUCO's proposed adjustment at this time. RUCO's adjustment affects each district through an allocation process that uses a 4-factor allocation methodology. The adjustment is summarized in the table below.

Table 6 – Management Fees Adjustment

District	Adjustment
Agua Fria Water	($ 33,408)
Havasu Water	(2,004)
Mohave Water	(11,325)
Paradise Valley Water	(11,119)
Sun City West Water	(12,035)
Tubac Water	(1,049)
Mohave Wastewater	(1,489)

G RATE CASE EXPENSE

Q. RUCO'S WITNESS IS RECOMMENDING RATE CASE EXPENSE OF $424,265 AS A FAIR AND REASONABLE LEVEL OF TEST YEAR RATE CASE EXPENSE AND PROPOSES A THREE-YEAR AMORTIZATION PERIOD. DOES ARIZONA-AMERICAN AGREE WITH RUCO'S RECOMMENDATION?

A. Yes, in part. Arizona-American does agree with RUCO's recommended three-year amortization period, but does not accept RUCO's recommended rate case expense allowance. Mr. Broderick testifies concerning Arizona-American's revised rate case expense of $456,000.

Q. HAS ARIZONA-AMERICAN PROPOSED ANY OTHER CHANGES IN ITS CALCULATION OF ANNUAL RATE CASE EXPENSE BY DISTRICT?

A. Yes. At the time that Arizona-American revised its filing to eliminate Anthem Water, Anthem Wastewater and Agua Fria Wastewater districts, it did not revise the 4-factor allocation factors used to allocate the rate case expenses among the remaining districts. The revised rate case expense proposed by Arizona-American in this rebuttal filing has been computed using revised allocators based on the seven remaining districts.

Q. WERE THERE ANY OTHER ADJUSTMENTS TO ARIZONA-AMERICAN'S PROPOSED RATE CASE EXPENSES OPPOSED BY RUCO?

A. Yes. RUCO asserts that there are other "computation errors" in Arizona-American's calculation of rate case expense citing Arizona-American's inclusion of rate case expenses from previous rate cases in the Sun City West Water, Mohave Water and Mohave Wastewater districts and the use of an incorrect 4-factor allocator in the Tubac district.

Q. HOW DOES ARIZONA-AMERICAN'S RESPOND TO RUCO'S ASSERTION REGARDING COMPUTATIONAL ERRORS?

A. Arizona-American agrees with RUCO's finding that an incorrect 4-factor allocator was used in calculating Tubac Water District's portion of the total rate case expenses. This issue is now moot because Arizona-American has recomputed the 4-factor for allocating rate case expenses to reflect the reduction to seven districts in the revised application versus the 10 districts included in Arizona-American's original application.

Regarding RUCO's assertion that Arizona-American included rate case expenses from previous rate cases, Arizona-American agrees that the rate case expenses for the Sun City West Water District should be removed but disagrees in the case of the Mohave Water and Mohave Wastewater districts. The rate case expenses from Sun City West Water's last rate case were fully amortized during the test year. A normalizing adjustment to remove the 2007 amortization is necessary and is reflected in the supporting schedule to Arizona-American's Adjustment SLH-3R-Adjust Rate Case Expense.

In the case of the rate case expenses for the Mohave Water and Mohave Wastewater districts, the amortization of rate case expense from Decision 69440 (issued May 1, 2007) began in May of 2007 and the expenses will not be fully recovered until April of 2010. The amount included in rate case expense is based upon the unamortized balance as of

May 31, 2009 and Arizona-American is proposing to spread that unamortized balance over the same three-year period as the current case's rate case expenses. If these unrecovered costs of approximately $62,000 are disallowed in this proceeding, the result is an additional disallowance of rate case expenses over and above the original disallowance of approximately $107,000 in Decision No. 69440 (issued May 1, 2007), which Arizona-American previously wrote off for accounting purposes in 2007. This result is neither fair to Arizona-American nor a reasonable position for the Commission to encourage.

H MISCELLANEOUS EXPENSE

1 WATER TESTING EXPENSE

Q. STAFF WITNESS MS. HAINS SPONSORS WATER TESTING EXPENSES FOR ARIZONA-AMERICAN'S WATER AND WASTEWATER DISTRICTS. WERE MS. HAINS'S RECOMMENDATIONS FACTORED INTO STAFF'S OPERATING EXPENSES?

A. As far as I can tell, Staff did not include Ms. Hains' water-testing expenses in its proposed Miscellaneous Expenses or any other expense.

Q. DOES ARIZONA-AMERICAN ACCEPT THE WATER TESTING EXPENSES PROPOSED BY MS. HAINS IN ITS REBUTTAL FILING?

A. Yes. I identified the amount of water testing expense by district that was in Arizona-American's direct case filing and adjusted those expenses to Ms. Hains' recommended levels. The necessary adjustment to Miscellaneous Expense is labeled ADJ SLH- 6R on Schedule C-2 Rebuttal for each of the districts.

2 LINE 21 CLEAN-UP

Q. HAVE YOU REVIEWED RUCO'S PROPOSED ADJUSTMENTS TO MISCELLANEOUS EXPENSE TO DISALLOW LINE 21 EXPENSES?

A. Yes, I have.

Q. DOES ARIZONA-AMERICAN ACCEPT RUCO'S PROPOSED DISALLOWANCE?

A. Yes. In Arizona-American's direct case we attempted to remove "civic and charitable contributions, membership dues, and other miscellaneous expenditures that are recorded in a Miscellaneous Expense account, but are not typically recoverable from customers". Arizona-American does not oppose removing the additional expenses identified by RUCO in its proposed adjustment. I have reflected acceptance of RUCO's proposed disallowance in ADJ SLH-9R on Schedule C-2 Rebuttal for each district in this proceeding.

I <u>TANK MAINTENANCE EXPENSE (MAINTENANCE EXPENSE)</u>

Q. RUCO ACCEPTS ARIZONA-AMERICAN'S REQUEST TO ESTABLISH A TANK MAINTENANCE RESERVE BUT STAFF REJECTS THE PROPOSAL. HOW DOES ARIZONA-AMERICAN RESPOND?

A. Establishing a tank maintenance reserve in this case would provide Arizona-American with a much needed revenue stream to improve its tank maintenance efforts. Use of a maintenance reserve also protects Arizona-American's customers, as RUCO's witness Rigsby acknowledges, because all revenue collected is used to offset actual expenditures made by Arizona-American to maintain its tanks.

Staff computed a three-year average of the maintenance expense in response to Arizona-American's request for a reserve for tank maintenance. This methodology is deficient in quantifying maintenance expense in districts where admittedly, no tank maintenance activities have been performed in the three year period. Arizona-American provided data responses that established that maintenance expense did not include any expenditures for

inspecting or maintaining tanks during the past three years in many of its districts (See responses to data requests attached as Exhibit SLH-R5).

Because of Staff's rejection of Arizona-American's request for a tank maintenance reserve, Arizona-American has reviewed its original request and is proposing some modifications. The basis of the cost estimates has been revised and is discussed in greater detail in Mr. Day's testimony. These revised cost estimates have been incorporated into the original calculations and a revised request has been proposed. The resulting adjustments to the districts' maintenance expense account are reflected on ADJ SLH-5R of Schedule C-2 Rebuttal for each district.

J PROPERTY TAXES

Q. IS ARIZONA-AMERICAN REBUTTING EITHER THE STAFF'S OR RUCO'S PROPOSED ADJUSTMENTS TO PROPERTY TAXES?

A. The proposed adjustments to property taxes recommended by Staff and RUCO are merely conforming adjustments to reflect each party's changes to the revenue requirement. Arizona-American has revised this expense in its rebuttal filing to conform with its revised revenue increase proposal as well. This adjustment will change again in conjunction with the final revenue requirement determination in this case. Accordingly, Arizona-American does not rebut this conforming expense change.

K INCOME TAXES

Q. IS ARIZONA-AMERICAN REBUTTING EITHER THE STAFF'S OR RUCO'S PROPOSED ADJUSTMENTS TO INCOME TAXES?

A. The proposed adjustments to income taxes recommended by Staff and RUCO are merely conforming adjustments to reflect each party's changes to operating expenses. Arizona-American has revised income tax expense in its rebuttal filing to conform with changes to its proposed operating expense levels as well. This adjustment will change again in

conjunction with the final operating expenses ultimately adopted in this case. Accordingly, Arizona-American does not rebut this conforming expense change.

VI. FUEL AND POWER SUPPLY ADJUSTMENT MECHANISM

Q. RUCO, THROUGH ITS WITNESS, MR. RIGSBY, REJECTS THE COMPANY'S PROPOSAL FOR A FUEL AND POWER SUPPLY ADJUSTMENT MECHANISM. HOW DO YOU RESPOND TO RUCO'S RATIONALE?

A. Mr. Rigsby testifies on page 31 of his testimony that such adjustment mechanisms are restricted to fluctuations in certain narrowly defined operating expenses. He goes on to state that all businesses have to make allowances for them in their budgets. I agree with both of these concepts. However, power costs are a large component of Arizona-American's operating expenses. For the seven districts in this proceeding, fuel and power costs represent approximately 12% of the total operating expenses. And though I also agree that all businesses have to make allowances for them in their budgets, most businesses are able to adjust their prices to accommodate large increases in these expenses which may be uncontrollable depending on their operations. A utility cannot make these adjustments without a fuel and power supply adjustment mechanism.

Q. IS ARIZONA-AMERICAN ABLE TO CONTROL INCREASES IN ITS FUEL AND POWER COSTS?

A. The majority of the power costs that Arizona-American incurs are in relation to the delivery of water to its customers. Increases are typically the result of changes in rates and tariffs of its power suppliers, such as Arizona Public Service and Tucson Electric Power. The rates and tariffs of both of these providers are regulated by the Corporation Commission, so Arizona-American has no control over their price increases. That is why this cost is the perfect expense for an adjustor mechanism.

Q. DOES ARIZONA-AMERICAN'S PROPOSED ADJUSTMENT MECHANISM LIMIT RECOVERY TO CHANGES IN PRICE AS OPPOSED TO CHANGES IN VOLUMES?

A. Yes. In response to RUCO's data request 2.04, the Company provided a proposed tariff, attached hereto as Exhibit SLH-R6, which sets forth how the cost increases would be calculated. Starting with the adjusted test year unit cost of power by district, annual changes in power costs will be calculated and a tariff filing submitted to the Commission. Upon approval by the Commission, the change in the unit cost of power, either an increase or decrease, would be added to the existing commodity charge under the Company's proposal.

VII. WHITE TANKS SURFACE WATER TREATMENT PLANT

Q. ARIZONA-AMERICAN'S REBUTTAL TESTIMONY GENERALLY PREDICTS DIRE FINANCIAL CONSEQUENCES RELATED TO THE PRESENT REGULATORY TREATMENT OF THE WHITE TANKS PLANT COSTS. ARE THE CONSEQUENCES SOLELY ACCOUNTING DRIVEN?

A. Initially, yes, but the financing vehicle, hook-up fees from new connections, is the main culprit to the financial demise. In order to maintain a healthy, viable utility, actual recovery of the invested capital and associated operating costs must occur in a timely fashion. Deferrals of the depreciation expense and return on the investment cannot sustain Arizona-American's financial condition.

Q. DID ARIZONA-AMERICAN REQUEST USING HOOK-UP FEES AS THE FINANCING VEHICLE FOR THE PROJECT?

A. Yes, but Arizona-American did so under the assumption that there would be sufficient contributions in aid of construction ("CIAC") from hook-up fees to enable it to offset the deferred return and deferred depreciation on its investment in the White Tanks Plant to

avoid the write offs that will be required if accumulated hook up fees are inadequate to offset the equity portion of the deferred return and depreciation expense when the plant goes into service. Arizona-American also relied on assurance from the Commission that it would be able to file for a mechanism to defer the O&M expenses associated with operating the White Tank Plant in the 2008 Agua Fria Water rate case (which is this pending proceeding) for future recovery.

Q. PLEASE SUMMARIZE THE CURRENT RECOVERY SCENARIO FOR THE WHITE TANKS PLANT?

A. Currently, a hook-up fee has been approved by the Commission to finance the construction of the White Tanks Plant. The hook-up fees are recorded as contributions in aid of construction ("CIAC") which reduces rate base and the associated revenue requirement of the investment. Since the plant was projected to be in service prior to collection of all of the hook-up fees necessary to finance the plant, Arizona-American sought, and the Commission approved, the accounting treatment proposed, which addressed the timing of the completion of construction and recovery of the plant costs in excess of the CIAC collected at that time.

In Decision No. 69914, the Commission ordered the following:

- Approval to record post-in-service allowance for funds used during construction ("AFUDC") on the excess of the construction cost of the White Tank Project over directly related hook-up fees collected through December 31, 2015, or the date that rates became effective subsequent to a rate case that includes 80 percent of the White Tanks Project in rate base, whichever comes first;
- Approval to defer post in-service depreciation expense in excess of the associated amortization of contributions;

- Approval to exclude any White Tanks-related CIAC in excess of the White Tanks construction expenditures included in rate base and any costs deemed imprudently incurred used to calculate rate base until December 31, 2015; and
- Authorization for Arizona-American to file, as part of its 2008 Agua Fria Water District rate case filing, a proposed mechanism to defer and subsequently recover Operations and Maintenance Expense ("O&M") incurred for the White Tanks Plant until such expenses can be placed in base rates without predetermining the necessity for or the appropriateness of any mechanism proposed in the future by Arizona-American Water Company for recovery of O&M incurred for the White Tanks Plant.

Q. WHAT ARE THE ACCOUNTING IMPLICATIONS RESULTING FROM THE ACC STAFF AND RUCO'S RECOMMENDATIONS TO REJECT ARIZONA-AMERICAN'S REQUEST TO INCLUDE WHITE TANKS PLANT CONSTRUCTION EXPENDITURES IN RATE BASE?

A. The Financial Accounting Standards Board ("FASB") issued Statement of Financial Standards No. 92 ("SFAS 92") to amend its original FASB Statement No. 71 which provided accounting guidance to regulated enterprises when the regulator issues decisions that depart from conventional rate-making methods regarding the recovery of allowable costs of the plant. This accounting pronouncement has implications for this case.

Q. PLEASE EXPLAIN WHAT IS MEANT BY THE PHRASE "DEPART FROM CONVENTIONAL RATE-MAKING" AS USED ABOVE?

A. Upon completion of construction of a plant such as the White Tanks PLANT, depreciation of the plant investment commences as does the incurrence of O&M expenses. Upon Arizona-American's request, rates are approved to allow the recovery of depreciation on the plant investment and O&M expenses, as well as a rate of return on the prudent investment in plant. A departure from conventional rate-making occurs when

alternatives to the recovery scenario are adopted by the regulator such as deferral of depreciation expense, deferral of O&M expenses, and deferral of the return on the investment which results from providing the accumulation of post in-service allowance for funds used during construction ("AFUDC").

Q. IN ARIZONA-AMERICAN'S RESPONSE TO DATA REQUEST NO. RUCO 2.07, PROVIDED SEPTEMBER 4, 2008, MR. BRODERICK STATED THAT A WRITE OFF WAS POSSIBLE AFTER AUGUST 2011. DO YOU AGREE WITH THAT ASSESSMENT?

A. Yes, but the write-off could come even earlier. Mr. Broderick's projections were based on estimated hook-up fees that have been adjusted downward based upon the housing market in Arizona and more current economic indicators. The testimony of Mr. Gross contains more information on these revised projections. Based upon the amount of hook-up fees collected to date and the projections of future hook-up fees to be collected, it appears that the potential write off will occur well before that date, as testified to by Company witness Mr. Buls.

Q. HOW IS ARIZONA-AMERICAN PROPOSING TO AVERT THE POSSIBLE NEGATIVE RAMIFICATIONS OF WRITE DOWNS ASSOCIATED WITH THE WHITE TANKS PLANT?

A. Arizona-American is hopeful that the parties first, and then the Commission will be persuaded that inclusion of $25 million of the White Tanks Plant's construction work in progress ("CWIP") in rate base is a reasonable solution to avert a potential financial disaster. More current information and projections demonstrating the adverse effects of placing the White Tanks Plant into service is part of this rebuttal filing. Without the necessary rate relief in this proceeding, Arizona-American will face certain financial hardship shortly after the completion of construction of the White Tanks Plant as testified

to by Mr. Buls. A regional surface water treatment plant will be beneficial to Arizona-American's customers in Maricopa County as well as the State of Arizona. Inclusion of White Tanks Plant's CWIP in rate base in this case, and/or Commission assurance of future recovery by approving a mechanism such as was approved for arsenic treatment plant cost recovery is imperative to Arizona-American's financial health.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY IN THIS CASE?

A. Yes, it does.

EXHIBIT SLH-R1

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-08-0227 and SW-1303A-08-0227

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates and Regulation

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

Company Response Number: GTM 8.2 Page 1 of 3

Q: Labor – Please provide a narrative and attach a schedule if necessary explaining why the recorded labor charges increased between 2006 and 2007 for the following districts.

District	2007	2006	Difference	%
Agua Fria	$1,342,608	$828,411	$514,197	62.1%
Mohave	827,315	698,875	128,440	18.4%
Sun City West	643,462	435,014	208,448	47.9%

A: Upon closer examination of the transactions reflected in the labor charges shown above, it appears that two credit adjustments totaling $825,092 ($662,000 and $163,092) were recorded in 2006 in the AZ Corporate district. The ($662,000) was a prior period adjustment related to 2004 and 2005. The $163,092 was an accrual (true up) for the 2006 incentive plan. In 2007, the $163,092 accrual was reversed, but should **not** have been included in the adjusted test year labor dollars. Since these amounts were recorded in the AZ Corporate district, the impacts are reflected in all of the districts using a 4-factor allocation methodology to allocate AZ Corporate charges among the districts. The corrected labor charges recalculated on the attached Excel spreadsheet labeled GTM 8.2 are as follows:

District	2007	2006	Difference	%
Agua Fria	$1,304,943	$1,000,851	$304,092	30.38%
Mohave	814,547	764,337	50,210	6.57%
Sun City West	629,893	500,538	129,355	25.84%

The corrected labor cost increases experienced in 2007 above those experienced in 2006 in the three districts identified in this request fall primarily into three categories. Increases in personnel, increases in labor hours charged to the district, and changes in pay rates of personnel generally will explain all increases. The number of vacancies that existed in 2006 was greater than the average number of vacancies in 2007. The number of employees increased in 2007 as a result of the additional AZ Human Resources staff which enabled the Company to focus more on recruiting efforts to reduce existing vacancies. The Company's overall vacancy rate in 2006 was as high as 25% and the vacancy rate at the end of 2007 was less than 5%. Labor costs increased in 2007 as a result of new hiring and a reduction in turnover.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-08-0227 and SW-1303A-08-0227

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates and Regulation

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

Company Response Number: GTM 8.2

Agua Fria experienced high customer growth rates and accordingly, the Company increased recruitment to ensure we could meet customer service needs. In 2006, Agua Fria had 30,741 customers which increased to 33,021 customers in 2007, an increase of 7%. O&M labor hours increased from 33,217 hours in 2006 to 39,105 in 2007, an increase of 18%.

Sun City West Water had increased O&M labor hours of 12% (18,901 hours in 2006 up to 21,100 hours in 2007). (The average number of customers in this district increased by only 30 customers from 2006 to 2007.)

Mohave Water's labor expense reflects the hiring of a construction inspector in that district and more staff in general (meter readers, utility workers, consumer services representatives and operators). As a result, fewer workers were charging time on an as-needed basis in this district. O&M labor hours charged remained relatively constant from 2006 to 2007.

Arizona American Water has a Step Pay Program for field hourly employees. The pay increases received under the Step Pay Program occur in lieu of American Water merit increases for those employees who meet the requirements of their job. Employees who do not meet all of their position's job description requirements for skills, experience and certifications are not eligible to participate in the Step Pay Program. In such cases, those employees will be eligible to participate in the American Water merit increase program. In an effort to be competitive in the job market to reduce employee turnover, incent employees to pursue certifications in the water and wastewater field, and demonstrate career progression, the Step Plan was created.

Employees in the Step Plan realized an average salary increase of 7.5%. The average amount between step increases is approximately 5%; however, employees are able to move up to two steps depending on their achievements in performance and certifications. Employees in the field also receive certification pay upon obtaining water and wastewater certifications. In 2007, $123,000 in increases (Certification and Commercial Drivers Licenses ("CDLs")) was paid to 196 employees. (Arizona American Water has increased the budgeted amount for certifications and CDLs for 2008 to $150,000.)

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-08-0227 and SW-1303A-08-0227

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates and Regulation

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

Company Response Number: GTM 8.2 Page 3 of 3

Employees charge their time to the districts in which they perform service which can be seen on the Excel spreadsheet labeled AZ 2007 Labor with Annualizations.xls provided with the Company's initial Labor workpapers.

EXHIBIT SLH-R2

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-08-0227
SW-1303A-08-0227

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates and Regulation

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

Company Response Number: GTM 8.7

Q: Waste Disposal Expense - Please provide a narrative and attach a schedule if necessary explaining why the waste disposal expense has a credit balance for the following districts for 2007?

Agua Fria	($870)
Havasu	($52)
Mohave	($295)
Paradise Valley	($290)
Tubac	($27)

A: The amounts referenced above are allocations of Corporate charges for waste disposal expenses. Upon closer examination, the charges reflect the reversal of a prior period adjustment for ($1,840) and true up of waste disposal expenses more appropriately charged to Sun City wastewater of ($1,928.43). None of these charges should have been included in the 2007 Corporate waste disposal expenses allocated to the districts in this proceeding. The amounts included incorrectly for each district are shown below. The Company will remove these credit amounts in its rebuttal filing or accept them in Staff's report if reversed therein.

Agua Fria Water	($870)
Havasu Water	($ 52)
Mohave Water	($295)
Mohave Wastewater	($ 39)
Paradise Valley	($290)
Sun City West Water	($313)
Tubac	($ 27)

EXHIBIT SLH-R3

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET: W-01303A-08-0227
SW-01303A-08-0227

Response provided by: Sheryl L. Hubbard

Title: Manager, Rates and Regulation

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

Company Response Number: RUCO 1.37

Specific to Paradise Valley District

Q: Operating Income Adjustment SLH-4 – Annualize Chemical Expense - Please provide further explanation and documentation to support a $146,681 or 161% increase as a typical and recurring test-year expense; noting that the Step Two ACRM on-going chemical expense was recorded at $74,953.

A: Upon re-examination it was discovered that the arsenic-related chemical costs for ferric chloride of $49,530.31 and polymer of $2,414.79 were double counted. The corrected pro forma adjustment should be $94,736.

The ACRM mechanism provided for the deferral of certain "recoverable O&M expenses" for a period of up to twelve months. It also provided that the costs incurred during the deferral period would form the basis of the on-going expenses for purposes of the ACRM surcharge calculation. The supporting schedules to the ACRM show that the $20,666.19 for sludge disposal is for expenses for the period July 25, 2007 to February 18, 2008 – or 5 months less than 1- year. Accordingly, some arsenic-related sludge disposal costs for a normal 12-month period are not reflected in the ACRM.

The annualized chemical expenses for Paradise Valley Water district include the price increase for all chemicals, not just chemicals for arsenic treatment, used during 2007 priced out at 2008 contract prices plus the known and measurable cost for arsenic-related waste disposal.

The workpapers in support of the pro forma adjustment for Chemicals expense can be found at 08 AZ Mega\Common\Workpapers\Chemicals\Pro Forma Adj-Chemicals.xls.

EXHIBIT SLH-R4

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-08-0227 AND SW-1303A-08-0227

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates and Regulation

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

Company Response Number: RUCO 2.06

Q: Chemical Expense – The workpaper in the Chemical adjustment spreadsheet computes a $137,305 adjustment under the Agua Fria tab. However, Schedule C-2, ADJ SLH-4 shows the Agua Fria Chemical adjustment as being $927,490. Which figure is correct?

A: The $927,490 adjustment shown on Schedule C-2 page 1, under the column heading ADJ SLH-4-annualize Chemical Exp is the Company's pro forma adjustment for Agua Fria Water district and is supported by the calculation shown on Schedule C-2, page 13. The pro forma chemical expense of $979,289 shown on line 3 of Schedule C-2, page 13 is the sum of $198,651.71 and $780,636.84 both taken from the workpaper titled Pro Forma Adj-Chemicals.xls. The $198,651.71 figure is supported on the worksheet tab labeled Agua Fria W and the $780,636.84 figure is supported on the worksheet tab labeled Arsenic Pro Forma. The $198,651.71 represents the test year quantity of chemicals priced out at the 2008 contract rate while the $780,636.84 quantifies the annualized cost of arsenic-related chemicals (280,066.44), media replacement ($491,535.20), and testing costs ($9,035.20).

While responding to this data request, it has come to my attention that the adjustment to test year chemicals expense of $139,625 to remove Arsenic Costs Deferred in ACRM shown on line 7 of Schedule C-2 page 13 is unnecessary and should be removed as the arsenic chemicals are already in the test year expense. The corrected pro forma adjustment should be $787,865 ($979,289 - $191,424) instead of $927,490.

EXHIBIT SLH-R5

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-08-0227
SW-1303A-08-0227

Response provided by: Bradley J. Cole & Jeffrey Stuck
Title: Director of Operations, Central & Eastern AZ

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

Company Response Number: GTM 8.17

Q: Tank Maintenance - In addition to the historical data requested by RUCO in Request No. 1.41 (re: Paradise Valley), please provide amounts spent each year for the past ten years for the remaining six districts.

A: The amounts spent each year for the past ten years for these six districts are not available for years 2001 and earlier and have not been assembled for subsequent years for these districts. It would require a significant effort to assemble the requested maintenance expense information.

Tank maintenance in the Eastern Division consisted of the following activities between 1998 and 2008. 13 of the 36 tanks in the Arizona American Water Eastern Division had interior repainting work completed, 15 tanks had exterior repainting work completed, four of the tanks were newly installed in 2006, six tanks were refurbished in 2000, and the balance of tanks are all scheduled for maintenance ranging from replacement to repainting over the next nine years in accordance with a tank maintenance plan. Specific work completed by Eastern Division District is:

1. Paradise Valley – There are 11 tanks in this District. Two new tanks were installed in 2006. Six tanks were refurbished in 2000 and the remaining tanks are scheduled for maintenance in later years.

2. Mohave – There are 17 tanks in this District. There are three new tanks, two installed in 2006 and one installed in 2008. The remaining tanks are scheduled for inspection and maintenance between 2009 and 2014.

3. Havasu – There are five tanks in this District. One was installed in 2003. The remaining tanks are scheduled for inspection and maintenance between 2009 and 2014.

4. Tubac – There is one tank in this District. Because this is the only tank it cannot easily be taken out of service. This tank will be scheduled for inspection and maintenance in the coming years.

Tank maintenance in the Central Division consisted of the following activities between 1998 and 2008.

1. Agua Fria – There are 14 tanks in this District. Five are constructed of concrete and the remaining nine are above ground welded steel storage tanks. The oldest tank in the Agua Fria water district is twelve years old (1996) and eleven of the districts storage facilities were installed after year 2000. No "tank maintenance" activities have occurred in this district previously. The tanks are scheduled for inspection and maintenance between 2009 and 2014.

2. Sun City West – There are four tanks in this District. Two tanks were evaluated by an independent inspection firm in August 2004 and the other two in July 2005. The 2004 inspections provided the recommendation that two of the tanks, which were constructed in 1992, should be top coated in 2007. They also provided that one of these two tanks should be interior coated in 2008 and the other in 2010. The 2005 inspections provided that both inspected tanks should be both interior and exterior coated in 2007. Other than inspections, no tank maintenance activity occurred in this district over the last ten years. The tanks are scheduled for inspection and maintenance between 2009 and 2014.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-08-0227
SW-1303A-08-0227

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates and Regulation

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

Company Response Number: GTM 12.5

Q: Historical Tank Maintenance Costs GTM-8.17 – The Company has indicated that for the Eastern Division there were 13 tanks that received interior painting, 15 tanks received exterior painting, and six tanks were refurbished. For the Central Division, the Company has stated that only four tanks were inspected and there has been no tank maintenance activity of the past ten years. With respect to GTM-8.17, the Company has stated that "it would require a significant effort to assemble the requested maintenance information." Please provide a narrative explaining why Staff's request to provide historical tank maintenance cost information is considered by the Company to be unduly burdensome.

A: Please see the two attachments GTM 12.5 Exhibit BJC-3 (Eastern Division) and GTM 12.5 Exhibit BJC-3 (Central Division) which contain detailed information on historical tank maintenance. These two exhibits set forth the initial erection date of the tanks, and interior/exterior evaluations that have been performed. The exhibits also show any interior/exterior painting that has been done. The Company's statement that "it would require significant effort to assemble the requested maintenance information" was based on an interpretation that the Staff was seeking invoices for maintenance expenditures and to locate invoices as far back as ten years ago would be burdensome.

Arizona-American Water Company
Tank Maintenance Schedule (Eastern Division)
Test Year Ending December 31,2007

Response to Data Request 12.5 (Exhibit BJC-3, page 1 of 2)

TANK NAME	TANK LOCATION	CONST.	TANK CAPACITY	DATE EVALUATED	DIAMETER (FT)	SHELL HEIGHT (FT)	ERECTION DATE	2009 EST FUNDING	2010 EST FUNDING	2011 EST FUNDING	2012 EST FUNDING	2013 EST FUNDING	2014 EST FUNDING	2015 EST FUNDING	2016 EST FUNDING	2017 EST FUNDING	2018 EST FUNDING
Plant Reservoir #1	Anthem	steel	1,200,000	2004	120.0	16.0	1999	125,000	0	0	0	0					
Plant Reservoir #2	Anthem	steel	1,200,000	2002	120.0	16.0	2002	0	0	0	4,000	125,000					
Upper Reservoir #1	Anthem	concrete	1,670,000	1998	79x120	23.0	1998	0	0	0	0	75,000					
Upper Reservoir #2	Anthem	concrete	1,670,000	2005	79x120	23.0	2005	0	0	4,600	0	0			75,000		
Vista Arroyo Norte	Anthem		500,000	2007	80.0	13.0	2007	0	0	0	0	5,000					350,000
16-1 (No. 1)	Bullhead City	steel	1,000,000	1999	82.0	24.0	1993	4,600	0	0	0	0			275,000		
16-1 (No. 2)	Bullhead City	steel	420,000	?	56.0	24.0	?	4,600	0	0	0	0			275,000		
16-2 (No. 1)	Bullhead City	steel	250,000		44.0	24.0	1975	0	0	0	0	0					
16-2 (No. 2)	Bullhead City	steel	1,000,000	1994	82.0	24.0	1994	4,600	0	0	0	300,000					
24-1	Bullhead City	steel	1,000,000	2000	82.0	24.0	1999	4,600	0	0	0	0		300,000			
Arizona Gateway	Bullhead City	steel	300,000	1995	72.0	24.0	1995	4,600	0	250,000	0	0					
Big Bend Acres	Bullhead City	steel	120,000	1997	30.0	24.0	1987										
Bullhead #4	Bullhead City	steel	120,000	1995	30.0	24.0	?	4,600	0	0	0	0	150,000				
Camp Mohave	Bullhead City	steel	250,000	1996	44.0	24.0	1996	4,600	0	0	0	0		275,000			
Desert Foothills (No. 1)	Bullhead City	steel	500,000	1997	60.0	24.0	1997	4,600	0	0	0	0	300,000				
Desert Foothills (No. 2)	Bullhead City	steel	500,000	2006	60.0	24.0	2006	0	0	0	4,600	0				300,000	
Desert Glen	Bullhead City	steel	200,000	1993	65.0	24.0		4,600	0	0	250,000	0					
Lake Mohave Highlands	Bullhead City	steel	100,000	1995	27.0	24.0	1972	4,600	200,000	0	0	0					
Laredo Village	Bullhead City	steel	500,000	1994	60.0	24.0	1990	4,600	0		250,000	0					
Pegasus Ranch	Bullhead City	steel	120,000	1999	30.0	24.0	1971	4,600	200,000	0	0	0					
Rancho Colorado	Bullhead City	steel	250,000	2006	44.0	24.0	2006	0	0	0	4,600	0				250,000	
River Bend (No. 2)	Bullhead City	steel	100,000	2004	27.0	24.0	?	0	0	0	0	0					
Riverview Mall	Bullhead City	steel	40,000	1983		16.0	1983	4,600	0	0	0	0	50,000				
Silver Creek	Bullhead City	steel	300,000	1984	50.0	32.0	1984	4,600	0	250,000	0	0					
Havasu Booster #1	Lake Havasu City	steel	100,000	?	27.0	24.0	?	4,600	200,000	0	0	0					
Havasu Booster #2	Lake Havasu City	steel	100,000	1990	30.0	32.0	1990	4,600	200,000	0	0	0					
Havasu Booster #3	Lake Havasu City	steel	125,000	1991	30.0	24.0	1991	4,600	0	200,000	0	0					
Havasu Booster #4 (No. 1)	Lake Havasu City	steel	250,000	1994	70.0	24.0	1994	4,600	0	250,000	0	0					
Havasu Booster #4 (No. 2)	Lake Havasu City	steel	750,000	2003	52.0	32.0	2003	4,600	0	0	0	0	275,000				
60th Street Tank	Paradise Valley	steel	200,000	1999	38.1	24.0	1960	4,600	0	0	0	250,000					
Clearwater Hills #1	Paradise Valley	steel	102,000	2000	27.0	24.0	1956	4,600	275,000	0	0	0					
Clearwater Hills #2	Paradise Valley	steel	100,000	2000	27.0	24.0	1965	200,000	0	0	0	0					
Clearwater Hills #3	Paradise Valley	steel	20,000	2000	13.0	20.0	1968	4,600	275,000	0	0	0					
Club Estates Tank	Paradise Valley	steel	30,000	1999	16.0	20.0	1961	200,000	0	0	0	0					
Country Club #1	Paradise Valley	steel	500,000	2000	60.0	24.0		4,600	0	287,500	0	0					
Country Club #2	Paradise Valley	steel	360,000	2000	50.0	24.0	1960/61	4,600	0	287,500	0	0					
PVARF #1	Paradise Valley	steel	1,500,000	2006	116.0	20.0	2006	0	0	0	5,250	0				125,000	
PVARF #2	Paradise Valley	steel	1,500,000	2006	116.0	20.0	2006	0	0	0	5,250	0				125,000	
Racquet Club Tank	Paradise Valley	steel	102,000	1999	27.0	24.0	1955	4,600	0	0	125,000	0					
Stone Canyon Tank	Paradise Valley	steel	90,000	1999	26.0	24.0	1955	4,600	0	0	100,000	0					
Pallo parado booster	Tubac	steel	50,000					0	0	0	0						

Arizona-American Water Company
Test Year Ending December 31, 2007
Tank Maintenance Schedule (Central Division)

Response to Data Request GTM 12.5
(Exh BJC-3 page 2 of 2)

TANK NAME	DISTRICT	CONST.	TANK TYPE	TANK CAPACITY	DATE EVALUATED	CP	DIA. (FT)	SHELL HEIGHT (FT)	ERECTION DATE	ERECTION CONTRACTOR	EXT PAINT	EXT PAINT	INT PAINT
A.F. WP 1 TANK 1	Agua Fria	CONCRETE		1,325,000			75.0	20.0	2000				
A.F. WP 1 TANK 2	Agua Fria	CONCRETE		1,325,000			75.0	20.0	2000				
A.F. WP 2 TANK 1	Agua Fria	STEEL		1,000,000			108.0	16.0	2000				
A.F. WP 2 TANK 2	Agua Fria	STEEL		1,000,000			108.0	16.0	1996				
A.F. WP 3 TANK 1	Agua Fria	STEEL		1,000,000			108.0	16.0	1996				
A.F. WP 3 TANK 2	Agua Fria	STEEL		1,000,000			108.0	16.0	2000				
A.F. WP 4 TANK 1	Agua Fria	STEEL		1,500,000			135.0	16.0	2000				
A.F. WP 4 TANK 2	Agua Fria	STEEL		2,000,000					1998				
A.F. WP 5	Agua Fria	CONCRETE		1,250,000					2004				
A.F. WP 6	Agua Fria	STEEL		40,000			14.0	14.0	Out of Service				
A.F. WP 100	Agua Fria	STEEL		1,500,000									
A.F. WP 8	Agua Fria	STEEL		1,500,000					2004				
A.F. WP 9	Agua Fria	STEEL		100,000			135.0	16.0	2004				
A.F. WP 10 TANK 1	Agua Fria	CONCRETE		1,735,000			124.0	20.0	2005				
A.F. WP 10 TANK 2	Agua Fria	CONCRETE		1,735,000			124.0	20.0	2007				
S.C. WP 1 TANK 1	Sun City	STEEL		300,000			30.0	40.0					
S.C. WP 1 TANK 2	Sun City	STEEL		300,000			30.0	40.0					
S.C. WP 2 TANK 1	Sun City	Welded	Ground	300,000	8/23-24/04	yes	40.0	32.0	1969	Garland Steel Co	2006		2011 check
S.C. WP 2 TANK 2	Sun City	Welded	Ground	300,000	8/23/2004	yes	40.0	32.0	1969	Garland Steel Co	2006		2011 check
S.C. WP 2 TANK 3	Sun City	Welded	Ground	300,000	8/24/2004	yes	40.0	32.0	1969	Garland Steel Co	2006		2011 check
S.C. WP 3 TANK 1	Sun City	STEEL	Ground	500,000			60.0	16.0					
S.C. WP 3 TANK 2	Sun City	STEEL	Ground	500,000			60.0	16.0					
S.C. WP 5 TANK 1	Sun City	Welded	Ground	1,250,000	7/11/2005	yes	115.0	16.0	1971	Garland Steel Co			
S.C. WP 5 TANK 2	Sun City	Welded	Ground	1,250,000	7/12/2005	yes	115.0	16.0	1970	Garland Steel Co			
S.C. WP 6 TANK 1	Sun City	Steel		1,250,000			115.0	16.0					
S.C. WP 6 TANK 2	Sun City	Steel		1,250,000			115.0	16.0					
S.C. WP 8 TANK 1	Sun City	Welded	Ground	675,000	8/24/2004	yes	85.0	16.0	1978	Cyprus			
S.C. WP 8 TANK 2	Sun City	Welded	Ground	675,000	7/14/2005	yes	85.0	16.0	1978	Cyprus			
S.C.W. WP 1 TANK 1	Sun City West	Welded	Ground	1,250,000	8/25/2004	yes	117.0	16.0		Brown Tank & Steel		2007	2008 rec
S.C.W. WP 1 TANK 2	Sun City West	Welded	Ground	1,250,000	8/26/2004	yes	117.0	16.0	1992	Shuff Steel Co		2007	2010 rec
S.C.W. WP 2 TANK 1	Sun City West	Welded	Ground	758,000	7/15/2005	yes	96.0	15.0	1986	Brown Tank & Steel			
S.C.W. WP 2 TANK 2	Sun City West	Welded	Ground	758,000	7/15/2005	yes	96.0	15.0	1986	Brown Tank & Steel			
COOL WELL	Sun City West	Steel		10,000			12.0	12.0					

Arizona-American Water Company
Test Year Ending December 31, 2007
Tank Maintenance Schedule (Central Divis

Response to Data Request GTM 12.5
(Exh BJC-3 page 2 of 2)

TANK NAME	DISTRICT	LEAD (mg/kg)	CHROMIUM (mg/kg)	CADMIUM (mg/kg)	LEAD (mg/kg)	CHROMIUM (mg/kg)	CADMIUM (mg/kg)
A.F. WP 1 TANK 1	Agua Fria						
A.F. WP 1 TANK 2	Agua Fria						
A.F. WP 2 TANK 1	Agua Fria						
A.F. WP 2 TANK 2	Agua Fria						
A.F. WP 3 TANK 1	Agua Fria						
A.F. WP 3 TANK 2	Agua Fria						
A.F. WP 4 TANK 1	Agua Fria						
A.F. WP 4 TANK 2	Agua Fria						
A.F. WP 5	Agua Fria						
A.F. WP 6	Agua Fria						
A.F. WP 100	Agua Fria						
A.F. WP 8	Agua Fria						
A.F. WP 9	Agua Fria						
A.F. WP 10 TANK 1	Agua Fria						
A.F. WP 10 TANK 2	Agua Fria						
S.C. WP 1 TANK 1	Sun City						
S.C. WP 1 TANK 2	Sun City						
S.C. WP 2 TANK 1	Sun City	6,520	972	<25	<250	<250	<25
S.C. WP 2 TANK 2	Sun City	8,800	543	<25	<250	<250	<25
S.C. WP 2 TANK 3	Sun City	6,520	972	<25	<250	<250	<25
S.C. WP 3 TANK 1	Sun City						
S.C. WP 3 TANK 2	Sun City						
S.C. WP 5 TANK 1	Sun City	16,200	<250	<25	<250	<250	<25
S.C. WP 5 TANK 2	Sun City	<250	<250	<25	<250	<250	<25
S.C. WP 6 TANK 1	Sun City						
S.C. WP 6 TANK 2	Sun City						
S.C. WP 8 TANK 1	Sun City	826	<250	<25	<250	<250	<25
S.C. WP 8 TANK 2	Sun City	829	<250	<25	283	<250	<25
S.C.W. WP 1 TANK 1	Sun City West	<250	<250	<25	<250	<250	<25
S.C.W. WP 1 TANK 2	Sun City West	<250	<250	<25	<250	<250	<25
S.C.W. WP 2 TANK 1	Sun City West	<250	<250	<25	<250	<250	<25
S.C.W. WP 2 TANK 2	Sun City West	<250	<250	<25	<250	<250	<25
COOL WELL	Sun City West						

Arizona-American Water Company
Test Year Ending December 31, 2007
Tank Maintenance Schedule (Central Divis

Response to Data Request GTM 12.5
(Exh BJC-3 page 2 of 2)

TANK NAME	DISTRICT	2007 EST. FUNDING	2009 EST. FUNDING	2010 EST. FUNDING	2011 EST. FUNDING	2012 EST. FUNDING	2013 EST. FUNDING	2014 EST. FUNDING	2015 EST. FUNDING	2016 EST. FUNDING	2017 EST. FUNDING	2018 EST. FUNDING
A.F. WP 1 TANK 1	Agua Fria	-	4,200	-	-	-	125,000					
A.F. WP 1 TANK 2	Agua Fria	-	4,200	-	-	-	125,000					
A.F. WP 2 TANK 1	Agua Fria	-	4,200	-	-	200,000	-					
A.F. WP 2 TANK 2	Agua Fria	-	4,200		-	200,000						
A.F. WP 3 TANK 1	Agua Fria	-	4,200	200,000	-	-						
A.F. WP 3 TANK 2	Agua Fria	-	4,200	200,000	-	-						
A.F. WP 4 TANK 1	Agua Fria	-	4,200	-	200,000	-						
A.F. WP 4 TANK 2	Agua Fria	-	4,200		200,000	-						
A.F. WP 5	Agua Fria	-	4,200	-	-	-	-			125,000		
A.F. WP 6	Agua Fria	-	-	-	-	-	-					
A.F. WP 100	Agua Fria	-	4,725	-	-	-	-			200,000		
A.F. WP 8	Agua Fria	-	4,725	-	-	-	-		200,000			
A.F. WP 9	Agua Fria	-	4,725	-	-	-	-		125,000			
A.F. WP 10 TANK 1	Agua Fria	-	4,725	-	-	-	-					125,000
A.F. WP 10 TANK 2	Agua Fria	-	4,725	-	-	-	-					125,000
S.C. WP 1 TANK 1	Sun City	-		-	143,750		-					
S.C. WP 1 TANK 2	Sun City	-	5,250	-	143,750		-					
S.C. WP 2 TANK 1	Sun City	-	5,250	-	143,750		-					
S.C. WP 2 TANK 2	Sun City	-		-	143,750		-					
S.C. WP 2 TANK 3	Sun City	-		-	143,750		-					
S.C. WP 3 TANK 1	Sun City	-	4,725	-	-	143,750	-					
S.C. WP 3 TANK 2	Sun City	-	4,725	-	-	143,750	-					
S.C. WP 5 TANK 1	Sun City	-	200,000	-	-	-	-					
S.C. WP 5 TANK 2	Sun City	-	200,000	-	-	-	-					
S.C. WP 6 TANK 1	Sun City	-	5,750	-	-	-	200,000					
S.C. WP 6 TANK 2	Sun City	-	5,750	-	-	-	200,000					
S.C. WP 8 TANK 1	Sun City	-	4,725	143,750	-	-	-					
S.C. WP 8 TANK 2	Sun City	-	4,725	143,750	-	-	-					
S.C.W. WP 1 TANK 1	Sun City West	-		-	200,000	-	-					
S.C.W. WP 1 TANK 2	Sun City West	-		-	200,000	-	-					
S.C.W. WP 2 TANK 1	Sun City West	-	4,725	183,750	-	-	-					
S.C.W. WP 2 TANK 2	Sun City West	-	4,725	183,750	-	-	-					
COOL WELL	Sun City West	-	0	-	-	-	-					

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-08-0227
SW-1303A-08-0227

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates and Regulation

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

Company Response Number: GTM 12.4

Q: Tank Inspection Historical Cost – Please provide a minimum of three complete inspection invoices for each District showing the historical cost of inspection.

A: Attached are inspection invoices for Sun City West and Paradise Valley. It appears from the response to GTM 8.17 that these are the only districts in this proceeding that have had tank inspections.

HVI Image System 6

TANK INDUSTRY CONSULTANTS

7740 West New York Street
Indianapolis, Indiana 46234

Telephone — 317/271 3180
FAX — 317/271 3186

10002674

Invoice

Invoice Number 19633
September 18, 2006

Received
SEP 1 8 2006
Shared Services Center

Sanjay Ponnangath A05ENC05
Arizona American Water
American Water Shared Services
PO Box 5613
Cherry Hill, NJ 08034

Client ID W1003
Project # 06002 Specifications for Three Tanks Located in Sun City West, Arizona
Contract # 06 002 W1003 10

1,250,000 Gallon Ground Storage Tank #1 at the Sun City West Water Plant #5

Professional Services Rendered in the Preparation of Detailed Technical Specifications for the 1,250,000 Gallon Ground Storage Tank Known as "Tank #1 at the Sun City West Water Plant #5" Located in Sun City West, Arizona

Specifications	$6,840.00
Amount Previously Invoiced	($6,156.00)
Subtotal	$684.00
Total Amount Due This Invoice	$684.00

AAA8K0E.001 JD4PST [Document 1 Page 1 of 1]

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TANK INDUSTRY CONSULTANTS

7740 West New York Street
Indianapolis, Indiana 46234

Telephone — 317/271 3180
FAX — 317/271 3186

10002674

Invoice

Invoice Number 20185
January 29, 2007

C. Kennedy A05ASST05
California American Water-Village Dist
American Water Shared Services A/P
P O Box 5604
Cherry Hill, NJ 08034

Client ID W358
Project # 06289 Work in Process
Contract # 06 289 W358 12

Deer Ridge Tank - 300,000 Gallon Ground Storage Tank

Professional Services Rendered in the Preparation of a Request for Proposal to be Issued to the Contractor AA-1 Services

Engineering Services	$500.00
Subtotal	$500.00
Total Amount Due This Invoice	$500.00

AABBL79.001 JD4PST [Document 1 Page 1 of 1]

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TANK INDUSTRY CONSULTANTS

7740 West New York Street
Indianapolis, Indiana 46214

Telephone — 317 / 271 3100
FAX — 317 / 271 3300

10002674
SJ

Invoice

Invoice Number 19631
September 08, 2006

Sanjay Ponnangath A0SENG05
Arizona American Water
American Water Shared Services
PO Box 5013
Cherry Hill, NJ 08034

Received
SEP 1 3 2006
Shared Services Center

Client ID W1003
Project # 06002 Specifications for Three Tanks Located in Sun City West, Arizona
Contract # 06 002 W1003 08

Tank #1 758 000 Gallon Ground Storage Tank

Professional Services Rendered in the Preparation of Detailed Technical Specifications for the 758 000 Gallon Ground Storage Tank known as "Tank #1 at West Water Plant #2," Located in Sun City West, Arizona

Specifications	$2,940.00
Discount	($2,470.00)
Subtotal	$2,470.00
Total Amount Due This Invoice	$2,470.00

AAABK28.001 :DAPS1 (Document 1 Page 1 of 1)

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TANK INDUSTRY CONSULTANTS

7740 West New York Street
Indianapolis, Indiana 46214

Telephone — 317 / 271 3100
FAX — 317 / 271 3300

10002674
SJ

Invoice

Invoice Number 19632
September 07, 2006

Sanjay Ponnangath A0SENG05
Arizona American Water
American Water Shared Services
PO Box 5013
Cherry Hill, NJ 08034

Received
SEP 1 3 2006
Shared Services Center

Client ID W1003
Project # 06002 Specifications for Three Tanks Located in Sun City West, Arizona
Contract # 06 002 W1003 08

758 000 Gallon Ground Storage Tank #2 at the Sun City West Water Plant #2

Professional Services Rendered in the Preparation of Detailed Technical Specifications for the 758 000 Gallon Ground Storage known as "Tank #2 at the Sun City West Water Plant #2" Located in Sun City West, Arizona

Specifications	$4,940.00
Amount Previously Invoiced	($4,446.00)
Subtotal	$494.00
Total Amount Due This Invoice	$494.00

AAABK00.001 :DAPS1 (Document 1 Page 1 of 1)

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TANK INDUSTRY CONSULTANTS

7740 West New York Street
Indianapolis, Indiana 46214

Telephone — 317/271 3100
FAX — 317/271 3300

10002674
5

Invoice

Invoice Number 19629
September 08 2006

Sanjay Ponnangath A05ENG05
Arizona American Water
American Water Shared Services
PO Box 5613
Cherry Hill NJ 08034

Received
SEP 12 2006
Shared Services Center

Client ID W1003
Project # 06189 Sun City West Water Plant #8 Detailed Technical Specifications
Contract # 06 189 W1003 07

Tank #2 680 000 Ground Storage Tank

Professional Services Rendered in the Preparation of Detailed Technical Specifications for the 680,000 Gallon Ground Storage Tank known as "Tank #2 at West Water Plant #8 " Located in Sun City Arizona

Specifications	$5,890 00
Subtotal	$5 890 00
Total Amount Due This Invoice	**$5,890 00**

AAA8K0A 001 JDAPST (Document 1 Page 1 of 1)

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TANK INDUSTRY CONSULTANTS

7740 West New York Street
Indianapolis, Indiana 46214

Telephone — 317 / 271 3100
FAX — 317 / 271 3300

10002674

Invoice

Invoice Number 19630
September 08, 2006

Sanjay Pennangath A05ENG05
Arizona American Water
American Water Shared Services
PO Box 5613
Cherry Hill, NJ 08034

Received
SEP 12 2006
Shared Services Center

Client ID W1003

Project # 06189 Sun City West Water Plant #8 Detailed Technical Specifications

Contract # 06 189 W1003 06

Tank #1 680 000 Gallon Ground Storage Tank

Professional Services Rendered in the Preparation of Detailed Technical Specifications for the 680 000 Gallon Ground Storage Tank known as "Tank #1 at West Water Plant #8" Located in Sun City Arizona

Specifications	$5,890 00
Subtotal	$5 890 00
Total Amount Due This Invoice	**$5,890 00**

AAA8KZ9.001 JDAPST (Document 1 Page 1 of 1)

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10002674 AC
A23S08T02

TANK INDUSTRY CONSULTANTS

7740 West New York Street
Indianapolis Indiana 46214

Telephone — 317 / 271 3100
FAX — 317 / 271 3300

Invoice

Invoice Number 17906
July 22, 2005

Mr Tom DeYoung
Arizona American Water
American Water Shared Services
PO Box 5087
Mt Laurel, MD 08054

Client ID W1003
Project # 05114 Underwater Evaluations for Arizona American Water
Contract # 05 114 W1003 11

Tank #2 at the Sun City West Water Plant #5

Professional Services Rendered in the Underwater Evaluation of the 1,250,000 Gallon Ground Storage Tank known as Tank #2 at the Sun City West Water Plant #5

Diving Tank Evaluation	$4,337 00
Subtotal	$4 337 00
Total Amount Due This Invoice	$4,337 00

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4,337.00

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10002674 AC
A23S08T02

TANK INDUSTRY CONSULTANTS

7740 West New York Street
Indianapolis Indiana 46214

Telephone — 317 / 271 3100
FAX — 317 / 271 3300

Invoice

Invoice Number 17905
July 22, 2005

Mr Tom DeYoung
Arizona American Water
American Water Shared Services
PO Box 5087
Mt Laurel MD 08054

Client ID W1003
Project # 05114 Underwater Evaluations for Arizona American Water
Contract # 05 114 W1003 10

Tank #1 at the Sun City West Water Plant #5

Professional Services Rendered in the Underwater Evaluation of the 1,250 000 Gallon Ground Storage Tank known as Tank #1 in the Sun City West Water Plant #5

Diving Tank Evaluation	$4,337 00
Subtotal	$4 337 00
Total Amount Due This Invoice	$4,337 00

AAAZMMN.C01 JDOFFIO Document 1 Page 1 of 11

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4,337.00

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TANK INDUSTRY CONSULTANTS

7340 West New York Street
Indianapolis, Indiana 46214

Telephone — 317 / 271 3100
FAX — 317 / 271 3300

Invoice

Invoice Number 17907
July 22, 2005

Mr. Tom DeYoung
Arizona American Water
American Water Shared Services
PO Box 5087
Mt. Laurel, MD 08054

Client ID W1003
Project # 05114 Underwater Evaluations for Arizona American Water
Contract # 05 114 W1003 07

Tank #2 at the Sun City West Water Plant #8

Professional Services Rendered in the Underwater Evaluation of the 670,000 Gallon Ground Storage Tank known as Tank #2 at the Sun City West Water Plant #8

Diving Tank Evaluation	$4,071.00
Subtotal	$4,071.00
Total Amount Due This Invoice	$4,071.00

AAAZMMI.001 JD-FNO (Document 1 Page 1 of 1)

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RVI Image System 6

10002674 AE
A23SOPT02

TANK INDUSTRY CONSULTANTS

7340 West New York Street
Indianapolis, Indiana 46214

Telephone — 317 / 271 3100
FAX — 317 / 271 3300

Invoice

Invoice Number 17904
July 22, 2005

Mr. Tom DeYoung
Arizona American Water
American Water Shared Services
PO Box 5087
Mt. Laurel, MD 08054

Client ID W1003
Project # 05114 Underwater Evaluations for Arizona American Water
Contract # 05 114 W1003 06

Tank #1 at the Sun City West Water Plant #8

Professional Services Rendered in the Underwater Evaluation of the 670,000 Gallon Ground Storage Tank known as Tank #1 at the Sun City West Water Plant #8

Diving Tank Evaluation	$4,071.00
Subtotal	$4,071.00
Total Amount Due This Invoice	$4,071.00

AAAZMMI.001 JD-FNO (Document 1 Page 1 of 1)

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4,071.00

4,071.00

122,497.67

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TANK INDUSTRY CONSULTANTS

7740 West New York Street
Indianapolis Indiana 46214

Telephone — 317 / 271 3100
FAX — 317 / 271 3300

18722

Invoice Number 18722
January 13 2006
1-13 06

Invoice

A05ENG05
10002674

Sanjay Ponnangath A05ENG05
Arizona American Water
American Water Shared Services
PO Box 5087
Mt Laurel, MD 08054

Client ID W1003
Project # 06002 Two Tanks located in Sun City West, Arizona

Contract # 06 002 W1003 09

758 000 Gallon Ground Storage Tank #2 at the Sun City West Water Plant #2

Professional Services Rendered in the Preparation of Detailed Technical Specifications for the 758,000 Gallon Ground Storage Tank #2 at the Sun City West Water Plant #2 Located in Sun City West, Arizona

Received
JAN 17 2006
Disbursement Services Center

Specifications	$4,940 00
Less Retainer Withheld	($494 00)
Subtotal	$4,446 00
Total Amount Due This Invoice	**$4,446 00**

4446 00

AAA21JL001 JDAPND (Document 1 Page 1 of 1)

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RVI Image System 6

TANK INDUSTRY CONSULTANTS

7340 West New York Street
Indianapolis Indiana 46214

Telephone — 317/271 3100
FAX — 317/271 3200

13664

Invoice

Invoice Number 13664
December 23, 2005

12 23 05

10002674

Sanjay Pornangali A05ENG05
Arizona American Water
American Water Shared Services
PO Box 5087
Mt Laurel, MD 08054

RECEIVED
DEC 27 2005
Shared Services Center

Client ID W1003
Project # 05253 Tank at the Sun City West Water Plant #5
Contract # 05 253 W1003 11

1 250 000 Gallon Ground Storage Tank

Professional Services Rendered in the Preparation of Detailed Technical Specifications for the 1,250,000 Gallon Ground Storage Tank known as "Tank #2 at the Sun City West Water Plant #5," Located in Sun City Arizona

Specifications	$6,805 00
Subtotal	$6,805 00
Total Amount Due This Invoice	$6,805 00

6,805 00

AAA2BPK 001 JDeFCH (Document 1 Page 1 of 1)

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6,805.00

RVI Image System 6

TANK INDUSTRY CONSULTANTS

7340 West New York Street
Indianapolis Indiana 46214

A05ENG05
10002674

Telephone — 317/271 3100
FAX — 317/271 3200

13732

Invoice

Invoice Number 13732
January 13, 2006

1-13 06

Sanjay Pornangali A05ENG05
Arizona American Water
American Water Shared Services
PO Box 5087
Mt Laurel, MD 08054

Received
JAN 17 2006
Shared Services Center

Client ID W1003
Project # 06002 Two Tanks located in Sun City West, Arizona
Contract # 06 002 W1003 10

1 250 000 Gallon Ground Storage Tank #1 at the Sun City West Water Plant #5

Professional Services Rendered in the Preparation of Detailed Technical Specifications for the 1,250,000 Gallon Ground Storage Tank known as Tank #1 Located in Sun City West, Arizona

Specifications	$6,840 00
Less Retainer Withheld	($684 00)
Subtotal	$6,156 00
Total Amount Due This Invoice	$6,156 00

AAA21JH 001 JDeFHO (Document 1 Page 1 of 1)

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6,156.00

12,961.00

EXHIBIT SLH-R6

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-08-0227 AND SW-1303A-08-0227

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates and Regulation

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

Company Response Number: RUCO 2.04

Q: Fuel and Power Supply Adjustor Mechanism – Please provide a copy of Schedule H-8, the proposed tariff for a power supply adjustor mechanism.

A: A copy of the Company's proposed tariff for the power supply adjustor mechanism is attached as Schedule H-8.ppt.

ORIGINAL SHEET NO.

Arizona-American Water Company
(Name of Company)

Agua Fria Water District
(Name of Service Area)

Purchased Power Adjustor

APPLICATION

The Purchased Power Adjustor ("PPA") shall apply to all water rate schedules of Sun City West Water District. All provisions of the customer's current applicable rate schedule shall apply in addition to this rate schedule.

RATES

The charges shall be calculated as follows:

~Included in the commodity rate is purchased power costs of $X.XXX per unit of water based on the Company's weighted average purchased power costs for its Agua Fria Water district. As soon as the data are available, but in any event not later than thirty days prior to December 1 of each year, the Company shall submit to the Arizona Corporation Commission ("ACC") a summary of bills rendered to it by the electric utilities providing power for operation of its water system. In addition, the Company will provide a schedule showing all water pumped and sold for the same period.

~The Company shall submit such data as the ACC may require showing the total quantity of water sold (in units) during any year for which an adjustment is calculated. From these data the Company shall calculate, to the nearest hundredth of a cent per unit, the amount by which its weighted average purchased power costs for the preceding year have increased or decreased from the weighted average costs as filed. The difference between the base year weighted average cost and weighted average cost for any subsequent year shall be added to or subtracted from, as the case may be, the commodity charge stated above to determine the commodity charge for the next succeeding twelve months for bill rendered on or after December 1 of each year.

~The foregoing provision shall be subject to change in any subsequent rate case applicable to the Company or in any generic proceeding applicable to the Company and other water utilities.

ISSUED:_____ EFFECTIVE: _____
Month Day Year Month Day Year

ISSUED BY: Thomas M. Broderick, Director of Rates & Regulation .
19820 N. 7th St., Suite 201, Phoenix, Arizona 85024
Decision No. _____.

ORIGINAL SHEET NO.

Arizona-American Water Company
(Name of Company)

Sun City West Water District
(Name of Service Area)

Purchased Power Adjustor

APPLICATION

The Purchased Power Adjustor ("PPA") shall apply to all water rate schedules of Sun City West Water District. All provisions of the customer's current applicable rate schedule shall apply in addition to this rate schedule.

RATES

The charges shall be calculated as follows:

~Included in the commodity rate is purchased power costs of $X.XXX per unit of water based on the Company's weighted average purchased power costs for its Sun City West Water district. As soon as the data are available, but in any event not later than thirty days prior to December 1 of each year, the Company shall submit to the Arizona Corporation Commission ("ACC") a summary of bills rendered to it by the electric utilities providing power for operation of its water system. In addition, the Company will provide a schedule showing all water pumped and sold for the same period.

~The Company shall submit such data as the ACC may require showing the total quantity of water sold (in units) during any year for which an adjustment is calculated. From these data the Company shall calculate, to the nearest hundredth of a cent per unit, the amount by which its weighted average purchased power costs for the preceding year have increased or decreased from the weighted average costs as filed. The difference between the base year weighted average cost and weighted average cost for any subsequent year shall be added to or subtracted from, as the case may be, the commodity charge stated above to determine the commodity charge for the next succeeding twelve months for bill rendered on or after December 1 of each year.

~The foregoing provision shall be subject to change in any subsequent rate case applicable to the Company or in any generic proceeding applicable to the Company and other water utilities.

ISSUED:_____ EFFECTIVE: _____
Month Day Year Month Day Year

ISSUED BY: Thomas M. Broderick, Director of Rates & Regulation .
19820 N. 7th St., Suite 201, Phoenix, Arizona 85024
Decision No. _____.

ORIGINAL SHEET NO.

Arizona-American Water Company
(Name of Company)

Havasu Water District
(Name of Service Area)

Purchased Power Adjustor

APPLICATION

The Purchased Power Adjustor ("PPA") shall apply to all water rate schedules of Sun City West Water District. All provisions of the customer's current applicable rate schedule shall apply in addition to this rate schedule.

RATES

The charges shall be calculated as follows:

~Included in the commodity rate is purchased power costs of $X.XXX per unit of water based on the Company's weighted average purchased power costs for its Havasu Water district. As soon as the data are available, but in any event not later than thirty days prior to December 1 of each year, the Company shall submit to the Arizona Corporation Commission ("ACC") a summary of bills rendered to it by the electric utilities providing power for operation of its water system. In addition, the Company will provide a schedule showing all water pumped and sold for the same period.

~The Company shall submit such data as the ACC may require showing the total quantity of water sold (in units) during any year for which an adjustment is calculated. From these data the Company shall calculate, to the nearest hundredth of a cent per unit, the amount by which its weighted average purchased power costs for the preceding year have increased or decreased from the weighted average costs as filed. The difference between the base year weighted average cost and weighted average cost for any subsequent year shall be added to or subtracted from, as the case may be, the commodity charge stated above to determine the commodity charge for the next succeeding twelve months for bill rendered on or after December 1 of each year.

~The foregoing provision shall be subject to change in any subsequent rate case applicable to the Company or in any generic proceeding applicable to the Company and other water utilities.

ISSUED:_____ EFFECTIVE: _____
Month Day Year Month Day Year

ISSUED BY: Thomas M. Broderick, Director of Rates & Regulation .
19820 N. 7th St., Suite 201, Phoenix, Arizona 85024
Decision No. _____.

ORIGINAL SHEET NO.

Arizona-American Water Company
(Name of Company)

Mohave Water District
(Name of Service Area)

Purchased Power Adjustor

APPLICATION

The Purchased Power Adjustor ("PPA") shall apply to all water rate schedules of Sun City West Water District. All provisions of the customer's current applicable rate schedule shall apply in addition to this rate schedule.

RATES

The charges shall be calculated as follows:

~Included in the commodity rate is purchased power costs of $X.XXX per unit of water based on the Company's weighted average purchased power costs for its Mohave Water district. As soon as the data are available, but in any event not later than thirty days prior to December 1 of each year, the Company shall submit to the Arizona Corporation Commission ("ACC") a summary of bills rendered to it by the electric utilities providing power for operation of its water system. In addition, the Company will provide a schedule showing all water pumped and sold for the same period.

~The Company shall submit such data as the ACC may require showing the total quantity of water sold (in units) during any year for which an adjustment is calculated. From these data the Company shall calculate, to the nearest hundredth of a cent per unit, the amount by which its weighted average purchased power costs for the preceding year have increased or decreased from the weighted average costs as filed. The difference between the base year weighted average cost and weighted average cost for any subsequent year shall be added to or subtracted from, as the case may be, the commodity charge stated above to determine the commodity charge for the next succeeding twelve months for bill rendered on or after December 1 of each year.

~The foregoing provision shall be subject to change in any subsequent rate case applicable to the Company or in any generic proceeding applicable to the Company and other water utilities.

ISSUED:_____ EFFECTIVE: _____
Month Day Year Month Day Year

ISSUED BY: Thomas M. Broderick, Director of Rates & Regulation .
19820 N. 7th St., Suite 201, Phoenix, Arizona 85024
Decision No. _____.

ORIGINAL SHEET NO.

Arizona-American Water Company
(Name of Company)

Paradise Valley District
(Name of Service Area)

Purchased Power Adjustor

APPLICATION

The Purchased Power Adjustor ("PPA") shall apply to all water rate schedules of Sun City West Water District. All provisions of the customer's current applicable rate schedule shall apply in addition to this rate schedule.

RATES

The charges shall be calculated as follows:

~Included in the commodity rate is purchased power costs of $X.XXX per unit of water based on the Company's weighted average purchased power costs for its Paradise Valley Water district. As soon as the data are available, but in any event not later than thirty days prior to December 1 of each year, the Company shall submit to the Arizona Corporation Commission ("ACC") a summary of bills rendered to it by the electric utilities providing power for operation of its water system. In addition, the Company will provide a schedule showing all water pumped and sold for the same period.

~The Company shall submit such data as the ACC may require showing the total quantity of water sold (in units) during any year for which an adjustment is calculated. From these data the Company shall calculate, to the nearest hundredth of a cent per unit, the amount by which its weighted average purchased power costs for the preceding year have increased or decreased from the weighted average costs as filed. The difference between the base year weighted average cost and weighted average cost for any subsequent year shall be added to or subtracted from, as the case may be, the commodity charge stated above to determine the commodity charge for the next succeeding twelve months for bill rendered on or after December 1 of each year.

~The foregoing provision shall be subject to change in any subsequent rate case applicable to the Company or in any generic proceeding applicable to the Company and other water utilities.

ISSUED:_____ EFFECTIVE: _____
Month Day Year Month Day Year

ISSUED BY: Thomas M. Broderick, Director of Rates & Regulation .
19820 N. 7th St., Suite 201, Phoenix, Arizona 85024
Decision No. _____.

ORIGINAL SHEET NO.

Arizona-American Water Company
(Name of Company)

Tubac Water District
(Name of Service Area)

Purchased Power Adjustor

APPLICATION

The Purchased Power Adjustor ("PPA") shall apply to all water rate schedules of Sun City West Water District. All provisions of the customer's current applicable rate schedule shall apply in addition to this rate schedule.

RATES

The charges shall be calculated as follows:

~Included in the commodity rate is purchased power costs of $X.XXX per unit of water based on the Company's weighted average purchased power costs for its Tubac Water district. As soon as the data are available, but in any event not later than thirty days prior to December 1 of each year, the Company shall submit to the Arizona Corporation Commission ("ACC") a summary of bills rendered to it by the electric utilities providing power for operation of its water system. In addition, the Company will provide a schedule showing all water pumped and sold for the same period.

~The Company shall submit such data as the ACC may require showing the total quantity of water sold (in units) during any year for which an adjustment is calculated. From these data the Company shall calculate, to the nearest hundredth of a cent per unit, the amount by which its weighted average purchased power costs for the preceding year have increased or decreased from the weighted average costs as filed. The difference between the base year weighted average cost and weighted average cost for any subsequent year shall be added to or subtracted from, as the case may be, the commodity charge stated above to determine the commodity charge for the next succeeding twelve months for bill rendered on or after December 1 of each year.

~The foregoing provision shall be subject to change in any subsequent rate case applicable to the Company or in any generic proceeding applicable to the Company and other water utilities.

ISSUED:_____ EFFECTIVE: _____
Month Day Year Month Day Year
ISSUED BY: Thomas M. Broderick, Director of Rates & Regulation .
19820 N. 7th St., Suite 201, Phoenix, Arizona 85024
Decision No. _____.

ORIGINAL SHEET NO.

Arizona-American Water Company
(Name of Company)

Mohave Wastewater District
(Name of Service Area)

Purchased Power Adjustor

APPLICATION

The Purchased Power Adjustor ("PPA") shall apply to all water rate schedules of Sun City West Water District. All provisions of the customer's current applicable rate schedule shall apply in addition to this rate schedule.

RATES

The charges shall be calculated as follows:

~Included in the commodity rate is purchased power costs of $X.XXX per unit of water based on the Company's weighted average purchased power costs for its Mohave Wastewater district. As soon as the data are available, but in any event not later than thirty days prior to December 1 of each year, the Company shall submit to the Arizona Corporation Commission ("ACC") a summary of bills rendered to it by the electric utilities providing power for operation of its water system. In addition, the Company will provide a schedule showing all water pumped and sold for the same period.

~The Company shall submit such data as the ACC may require showing the total quantity of water sold (in units) during any year for which an adjustment is calculated. From these data the Company shall calculate, to the nearest hundredth of a cent per unit, the amount by which its weighted average purchased power costs for the preceding year have increased or decreased from the weighted average costs as filed. The difference between the base year weighted average cost and weighted average cost for any subsequent year shall be added to or subtracted from, as the case may be, the commodity charge stated above to determine the commodity charge for the next succeeding twelve months for bill rendered on or after December 1 of each year.

~The foregoing provision shall be subject to change in any subsequent rate case applicable to the Company or in any generic proceeding applicable to the Company and other water utilities.

ISSUED:_____ EFFECTIVE: _____
Month Day Year Month Day Year

ISSUED BY: Thomas M. Broderick, Director of Rates & Regulation .
19820 N. 7th St., Suite 201, Phoenix, Arizona 85024
Decision No. _____.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
SANDRA D. KENNEDY
PAUL NEWMAN
GARY PIERCE
BOB STUMP

IN THE MATTER OF THE APPLICATION OF ARIZONA -AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, ANTHEM WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT	DOCKET NO. W-01303A-08-0227
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WASTEWATER DISTRICT, ANTHEM WASTEWATER DISTRICT, AND MOHAVE WASTEWATER DISTRICT	DOCKET NO. SW-01303A-08-0227

REBUTTAL TESTIMONY
OF
BENTE VILLADSEN
ON BEHALF OF
ARIZONA-AMERICAN COMPANY
FEBRUARY 10, 2009

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SUPPORTING TABLES AND FIGURES

I. EXECUTIVE SUMMARY

Dr. Bente Villadsen, a Principal at *The Brattle Group*, filed direct testimony on the cost of capital for Arizona-American districts (collectively, "Arizona-American") in April 2008, and is now filing rebuttal testimony in response to the testimony submitted by Mr. David C. Parcell on behalf of Arizona Corporation Commission Staff and by Mr. William A. Rigsby on behalf of the Residential Utility Consumer Office. Dr. Villadsen continues to believe that 11¾% is an appropriate return for Arizona-American on equity at 46.75% equity.

Mr. Parcell relied on three different samples of water companies, and used versions of the Discounted Cash Flow ("DCF") method, the Capital Asset Pricing Model ("CAPM"), and the Comparable Earnings method to arrive at his recommended 10% return on equity for Arizona-American. The recommendation of Mr. Parcell is too low, because (i) it is at or near the rate at which an affiliate recently raised debt, (ii) unlike prior Staff testimony, it failed to consider that Arizona-American's debt ratio is higher than that of the comparable companies, and (iii) it relied on downward biased data such as a geometric market risk premium for the CAPM, historical growth rates in its DCF, and regulated entities only in the comparable earnings methodology. In sum, the recommended 10% return on equity is too low, and does not reflect the Company's cost of equity.

Mr. Rigsby's recommended 8.88% return on equity on 44.8% equity is so low that it is below the cost at which an affiliate recently issued debt and only slightly above the current yield on investment-grade public utility bonds. This recommendation violates basic principles of finance, and would not afford the Company the opportunity to successfully raise equity capital, especially in a period of increased uncertainty due to the current financial and economic crisis. Further, Mr. Rigsby fails to take into account that the Company has higher financial risk than the comparable companies and also makes a number of inappropriate assumptions in implementing both the DCF method and the Capital Asset Pricing Model, which make his estimated 8.88% cost of equity completely unreliable.

II. INTRODUCTION AND SUMMARY

Q1. PLEASE STATE YOUR NAME AND ADDRESS FOR THE RECORD.

A1. My name is Bente Villadsen. My business address is *The Brattle Group*, 44 Brattle Street, Cambridge, MA 02138.

Q2. DID YOU PREVIOUSLY FILE TESTIMONY IN THIS PROCEEDING?

A2. Yes, I filed direct testimony ("Villadsen Direct") on behalf of Arizona-American Water Company ("Arizona-American" or the "Company") in April 2008 regarding the estimate of the cost of equity for Arizona-American's districts. The cost of equity is the return that the Arizona Corporation Commission (the "Commission") should provide the Company an opportunity to earn on the equity portion of its rate base.

Q3. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A3. Arizona-American has asked me to review and respond to the testimony of Mr. David C. Parcell ("Parcell Direct"), who filed testimony on behalf of the Arizona Corporation Commission Staff (the "Staff"), and to the testimony of Mr. William A. Rigsby ("Rigsby Direct"), who filed testimony on behalf of the Residential Utility Consumer Office. Specifically, I will address their recommendations for the cost of equity capital ("CoE") for Arizona-American in this matter.

Q4. PLEASE SUMMARIZE THE RECOMMENDATIONS OF THE PARCELL DIRECT AND THE RIGSBY DIRECT.

A4. The Parcell Direct recommends a cost of equity of 10%, on a capital structure consisting of 41.62% common equity, 47.70% long-term debt, and 10.98% short-term debt.[1] The recommendation is based on estimates obtained by employing three methods: the Discounted Cash Flow ("DCF") model, the Capital Asset Pricing Model ("CAPM"), and the Comparable Earnings method. The Parcell Direct estimates the cost of equity to be in

[1] Parcell Direct, p. 2.

the range of 9.5% to 10.5%.[2] The Parcell Direct relies on three proxy groups of water utilities: the four companies covered by *Value Line Standard Edition*, the nine companies covered by the AUS Utility Reports, and the eight companies comprising the water sample in the Villadsen Direct.[3] Although Commission Staff in prior testimony made an adjustment to account for the differences in financial risk between the sample companies and Arizona-American and the Commission approved hereof,[4] the Parcell Direct does not take the Company's more leveraged capital structure into account.

The Rigsby Direct recommends a cost of equity of 8.88%, on a capital structure with 44.8% common equity and 55.2% long-term debt.[5] The recommendation is based on CAPM and single-stage DCF estimates for a water sample comprised of the four water utilities covered by *Value Line Standard Edition* ("*Value Line*") and ten gas local distribution companies ("gas LDCs") covered by *Value Line*.[6] Although Mr. Rigsby has in the past made an adjustment for financial risk, he has not done so in this proceeding, although his testimony acknowledges that Arizona-American has more financial risk than the sample companies used in the estimation.[7]

Both the Parcell Direct and the Rigsby Direct discuss the ongoing financial crisis in their testimonies, but neither provides an explicit analysis of the impact on the market risk premium equity investors require to provide capital.

Q5. DO YOU BELIEVE THAT THE RECOMMENDATIONS OF THE PARCELL DIRECT AND THE RIGSBY DIRECT REFLECT THE COST OF EQUITY FOR ARIZONA-AMERICAN?

---

[2] Parcell Direct, p. 3.

[3] Parcell Direct, p. 17 (The Parcell Direct lists the AUS Utility Report companies as eight, but the correct number is nine, as reflected in the schedules to Parcell Direct, *e.g.* Schedule 5).

[4] See, for example, the Direct Testimony of Pedro M. Chaves in Docket No. WS-01303A-06-0491 and Arizona Corporation Commission Decision 69440 pp. 18-19.

[5] Rigsby Direct, pp. 4-5.

[6] Rigsby Direct, p. 16.

[7] Rigsby Direct, p. 54.

A5. No. The recommended cost-of-equity figures are simply too low. Arizona-American's financing affiliate, American Water Capital Corporation, has recently issued debt at an interest rate of 10%, so that the Company's cost of debt is higher than the Rigsby Direct's recommended cost of equity and near the Parcell Direct's recommended cost of equity. Because equity is riskier than debt, investors require a premium to provide equity capital and the ongoing financial crisis has increased the premium investors require to provide equity capital. Additionally, the recommendations are below the return allowed to other utilities prior to the financial crisis which has now increased the cost of capital. Further, if I make simple and conservative adjustments to the Parcell Direct and the Rigsby Direct cost-of-equity estimates that (i) discard cost-of-equity estimates below the cost of investment grade debt, (ii) take Arizona-American's higher financial risk into account in the manner that Staff and Mr. Rigsby have in past testimony, (iii) rely on forward-looking growth rates only, and (iv) ignore Capital Asset Pricing Model estimates that rely on the geometric Market Risk Premium or other unusual features, the result is cost of equity estimates in the range of no less than 11.2 to 11.4%. This range is only slightly below the Company's requested return on equity of 11.75%, and it is based on making conservative adjustments that do not attempt to reflect the impact of the current financial crisis on the cost of equity. For these reasons, the evidence continues to support Arizona-American's requested return on equity of 11.75%. It is reasonable and conservative given the current financial crisis.

Q6. HOW IS THE REMAINDER OF YOUR REBUTTAL TESTIMONY ORGANIZED?

A6. Section III discusses the reasonableness of the recommendations of the Parcell Direct and the Rigsby Direct. This section addresses the Company's access to capital markets, the need to raise capital for infrastructure investments, and the cost of capital. Section IV addresses the higher financial risk of the Company relative to the comparable companies. Section V addresses specific issues in the Parcell Direct and Section VI addresses specific issues in the Rigsby Direct. Finally, Section VII concludes.

III. REASONABLENESS OF THE RECOMMENDED COST OF EQUITY

Q7. PLEASE SUMMARIZE THE RETURN ON EQUITY RECOMMENDATIONS OF THE COST OF CAPITAL WITNESSES IN THIS PROCEEDING.

A7. Table R 1 below summarizes the return on equity and capital structure recommendations in this matter.[8]

Table R 1. Recommended RoE, RoR, and Capital Structure

	Parcell Direct	Rigsby Direct	Company Request
Cost of Equity	10.0%	8.88%	11.75%
Percentage Equity	41.62%	44.8%	46.75%
Rate of Return*	7.34%	7.0%	8.40%

* Rate of Return is the weighted cost of debt and equity.

Q8. IS A RETURN ON EQUITY AS LOW AS 8.88% REASONABLE?

A8. No. There are three main reasons why the returns on equity recommended in the Rigsby Direct and the Parcell Direct are unreasonable. First, a return on equity of 8.88% is below the cost of debt that Arizona-American's financing affiliate, American Water Capital Corporation, recently faced. As the equity is riskier than debt, this recommendation makes no sense economically or practically. Second, the recommendations of Mr. Parcell and Mr. Rigsby result in rates of return that are substantially below those allowed for gas and electric utilities in the recent past. For example, during the first three quarters of 2008, the weighted average allowed rate of return for electric and gas utilities were 8.30 and 8.51%, respectively, so the Company's requested 8.40% weighted average rate of return is in the same range.[9] Third, the

[8] See Parcell Direct p. 2, Rigsby Direct p. 4-5, Villadsen Direct p. 3, and Direct Testimony of Mr. Thomas M. Broderick ("Broderick Direct") p. 5.

[9] Regulatory Research Associates, "Regulatory Focus, Major Rate Case Decisions - January-September 2008," October 3, 2008 ("RRA October 2008"); Exhibit 60 in Missouri Public Service Commission Case No. ER-2008-0318. Direct Testimony of Mr. Thomas M. Broderick ("Broderick Direct") p. 5.

financial crisis has impacted the cost of capital broadly and has without question increased the cost of capital for water utilities. This section addresses these issues.

Q9. DOES AMERICAN WATER'S RECENT DEBT ISSUANCE TELL YOU ANYTHING ABOUT ARIZONA-AMERICAN'S COST OF EQUITY?

A9. Yes. Arizona-American's financing affiliate, American Water Capital Corporation has recently issued debt at an interest rate of 10%,[10] and those bonds currently trade at a price of 103.5, implying a current market cost of debt of approximately 9.7%.[11] This implies that the Company is currently facing a cost of debt of at least 75 basis points higher than the recommended cost of equity in the Rigsby Direct and about 30 basis points below the recommendation of the Parcell Direct. Since equity for a company is always riskier than its debt, equity must offer an expected return that is higher than the cost of debt to attract rational investors. Simply put, equity investors require a risk premium, and American Water cannot attract equity capital unless investors expect to earn a return that is higher than what they can expect to earn by buying less risky bonds. Therefore, the recommendation of the Rigsby Direct violates the very basic principles of risk and expected return and should be disregarded by the Commission. This is further evidenced when reviewing the Rigsby Direct's underlying estimates. Using the CAPM, the Rigsby Direct estimates a cost of equity for its water utility sample of 6.66 - 8.39% and for its gas LDC sample of 5.07 – 6.26%. Only the highest of the estimated figures is above the current yield on Baa-rated utility debt,[12] and all four are below American Water's current cost of debt as indicated by its recent bond issuance. As equity investors would not consider investing for a return below what they could earn on investment grade utility bonds, so any figure below the cost of investment grade utility debt should be ignored. The recommendation of the Parcell Direct is also too low because it allows equity

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[10] On November 26, 2008, American Water Capital Corporation, the financing arm of American Waterworks, Arizona-American's parent, issued $75 million worth of bonds maturing on 12/1/2038, and paying an interest rate of 10% (Bloomberg).

[11] Bloomberg, as of 1/28/2009.

[12] The 15-day average yield on Moody's Baa-rated public utility index for the period ending February 3, 2009 was 7.86% (Bloomberg).

investors a return that is only 30 basis points higher than that of debt investors. As Debra C. Coy of Janney Montgomery Scott LLC said in recent testimony filed with California Public Utilities Commission at the request of Staff

> Last week, a large institutional investor asked us the following question: "If I can buy American Water Works bonds with a 10% coupon, why would I buy the stock, which carries a higher risk, when the company is trading at book value and currently earning less than a 10% return on equity?" This is a fair question and one that sophisticated investors will be asking during American Water's upcoming equity offering roadshow.[13]

I agree. The expected return on equity must carry a premium over bonds to attract investors and 30 basis points over the parent company's cost of debt is too little.

Q10. WHAT HAVE RECENTLY ALLOWED RATES OF RETURN BEEN?

A10. According to Regulatory Research Associates, the average allowed overall return for gas LDCs was 10.39% on an average of 51.4% equity during the first three quarters of 2008. The figures do not include decisions made after the onset of the financial crisis, and are based on utilities with, on average, substantially more equity in their regulatory capital structure than Arizona-American. The average allowed overall rate of return for gas and electric utilities during the first three quarters of 2008 were 8.30 and 8.51%, respectively. Hence, the requested overall rate of return of 8.40% is very comparable.[14] Specific statistics on water utilities are not readily available, but a range of 9 to 12% has been mentioned.[15] It is also noteworthy that historically the average allowed return on equity for electric utilities has been about 360 basis points above Moody's Baa bond yield. Using today's bond yields, the addition of 360 basis points to Moody's bond yield results in a cost of equity of about 11.5%. While these figures are not exact, they indicate that

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[13] Debra G. Coy, "A Capital Markets View of Water Utilities," submitted to the California Public Utilities Commission at the request of the CPUC Staff, January 30, 2009 ("Coy Testimony"), p. 3.

[14] RRA October 2008. According to this source, electric utilities on average were allowed a return of 10.5% on an average of 48.7% equity.

[15] Coy Testimony p. 6.

the magnitude of Mr. Parcell's and Mr. Rigsby's RoE recommendations is low by historical standards.[16]

Q11. PLEASE COMMENT ON THE IMPACT OF THE CURRENT FINANCIAL CRISIS ON THE COST OF CAPITAL AND SPECIFICALLY ON THE DISCUSSION IN THE TESTIMONIES OF MR. PARCELL AND MR. RIGSBY.[17,18]

A11. First, the Rigsby Direct states that "8.88% cost of equity will provide Arizona-American with a reasonable rate of return on the Company's invested capital when economic data on interest rates (that are low by historical standards), ... are all taken into consideration."[19] There is ample evidence that the cost of both debt and equity capital has increased, and it is dangerous and incorrect to focus on the risk-free rates which are "low by historical standards." As a matter of fact, corporate and utility borrowing rates are high, and *the spread between utility borrowing rates and risk-free rates is historically high*. Figure R 1 below shows the development in the utility bond yields over the last two years and clearly illustrate the substantial increase in utility borrowing costs. For illustrative purposes, Figure R 1 also includes the yield on 20-year Treasury bonds.

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[16] See Table BV-R1 attached to this testimony. I look at electric utilities because I do not have access to the same long history of allowed rates of return on equity for water or gas utilities.

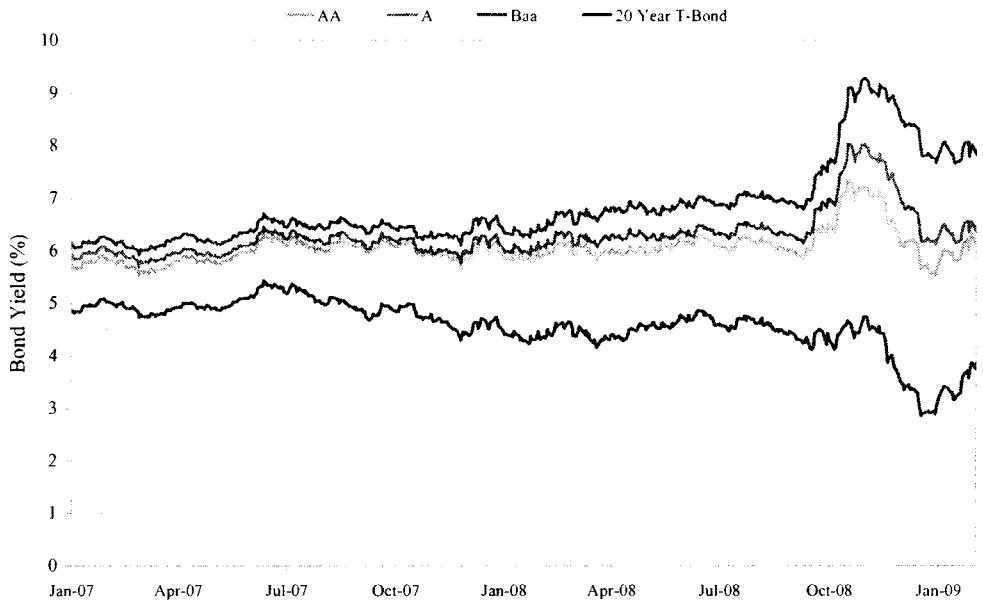
[17] Parcell Direct pp. 9-12.

[18] Rigsby Direct pp. 34-52.

[19] Rigsby Direct p. 52.

Figure R 1

Moody's Utility Bond Yields by Credit Rating



Source: Bloomberg LP, last accessed February 3, 2009.

For the purpose of evaluating the cost of capital for a utility, it is the borrowing rate for utilities (*e.g.*, yield on utility bonds) that is the relevant benchmark.

Second, the Parcell Direct states that the crisis will result in "declining capital costs," and that the crisis "do[es] not imply that the cost of equity for water utilities such as AAWC have [sic] increased."[20] Certainly, financial sector professionals disagree. For example, Janney, Montgomery, Scott LLP expects that the cost of debt will be "at least 100 to 200 basis points higher than previous rates, despite efforts by the federal government to lower interest rates and bring liquidity back into the capital markets."[21] Similarly, FitchRatings

[20] Parcell Direct p. 10 and p. 30, respectively.

[21] Coy Testimony p. 3.

and Reuters in recent publications on electric utility issues noted the raising cost of capital as a key theme.[22]

Q12. MORE BROADLY WHAT HAPPENS TO INVESTOR EXPECTATIONS DURING TIMES OF FINANCIAL TURMOIL?

A12. The facts that financial markets are in turmoil and stock market volatility has increased dramatically mean that equity investors face increased uncertainty. Increased uncertainty leads them to seek lower risk investments or to demand a higher expected rate of return before they are willing to invest their money. In part, this is an explanation of why market prices have fallen. The financial market distress means that the current market risk premium ("MRP") is *higher* than it would otherwise be. Dimson, Marsh, and Staunton (2008) appear to agree as they note

> Although credit spreads widened, credit fundamentals as measured by low default rates remained at historically strong levels. This may indicate higher defaults to come, an increase in risk aversion, a bigger premium for liquidity, or all three.[23]

As shown in Figure R 2 below, the volatility in the U.S. stock market spiked to 3 to 4 times the normal level of about 20% in September-October and remains at more than twice its normal level.

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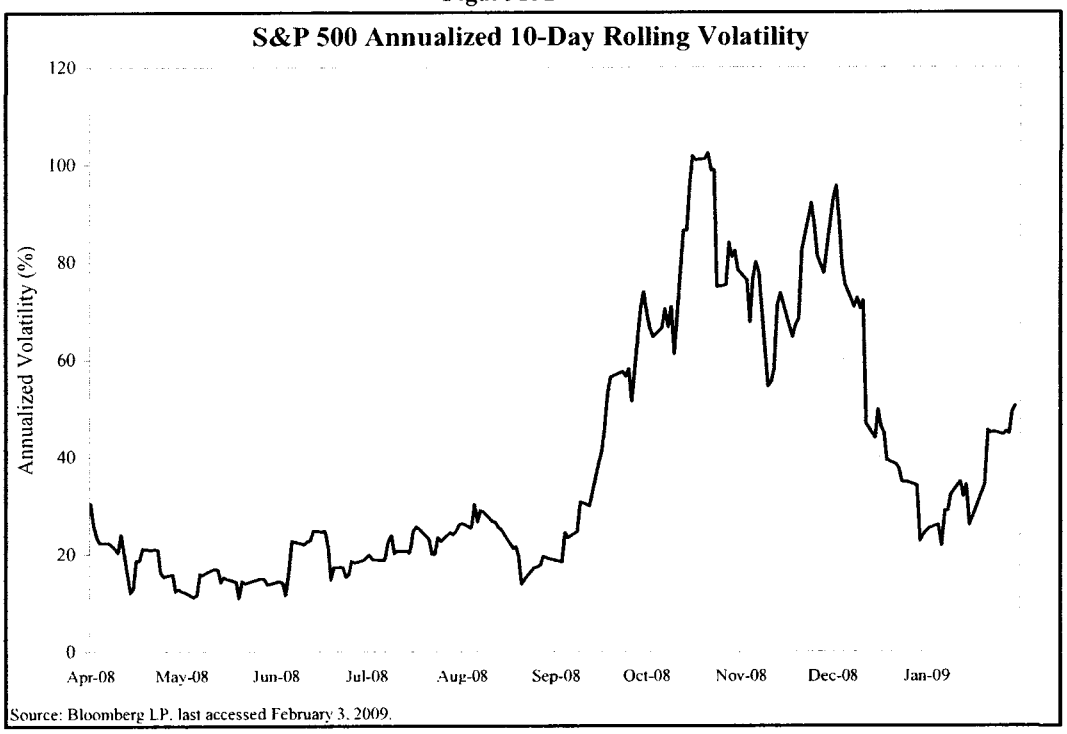
[22] FitchRatings, "EEI 2008 Wrap-Up: Cost of Capital Rising," November 17, 2008 and Reuters, "Credit Crisis Drives Buying in US Utilities' Bonds," December 16, 2008.

[23] Elroy Dimson, Paul Marsh, and Mike Staunton, 2008, *Global Investment Returns Yearbook 2008*, p. 25.

Figure R 2



As investors' risk aversion also increases during times of financial distress, there can be little doubt that the MRP is currently higher than in the recent past.

Q13. ARE THERE ACADEMIC STUDIES THAT PROVIDE INSIGHTS INTO THE MRP IN TIMES OF FINANCIAL RECESSION OR ECONOMIC DOWNTURN?

A13. Yes. The academic literature contains studies of the impact of recessions on investors' attitude towards risk. The typical investor is risk averse and risk averse investors would prefer a certain payoff to an uncertain gamble with the same expected payoff. Risk averse individuals or investors require compensation to engage in uncertain investments such as providing equity capital. These studies referenced above find that risk aversion, and hence the risk premium required to hold equity rather than debt, increases in economic downturns. Several articles suggest that the market risk premium is higher during times of recession. Constantinides (2008) studies a classical utility model where consumers are risk averse and summarizes some of the empirical literature. Constantinides draws from empirical evidence that shows that consumers become risk

averse in times of economic recession or downturn, and equity investments accentuate this risk.[24] (Increased risk aversion leads to a higher expected return for investors before they will invest.) Specifically, equities are pro-cyclical and decline in value when the probability of a job loss increases; thus, they fail to hedge against income shocks that are more likely to occur during recessions.[25] Consequently, investors require an added risk premium to hold equities during economic downturns:

> In economic recessions, investors are exposed to the double hazard of stock market losses and job loss. Investment in equities not only fails to hedge the risk of job loss but also accentuates its implications. Investors require a hefty equity premium in order to be induced to hold equities. This is the argument that I formalize below and address the predictability of asset returns and their unconditional moments.[26]

And

> The first implication of the theory is an explanation of the counter-cyclical behavior of the equity risk premium: the risk premium is highest in a recession because the stock is a poor hedge against the uninsurable income shocks, such as job loss, that are more likely to arrive during a recession.
>
> The second implication is an explanation of the unconditional equity premium puzzle: even though per capita consumption growth is poorly correlated with stocks returns, investors require a hefty premium to hold stocks over short-term bonds because stocks perform poorly in recessions, when the investor is most likely to be laid off.[27]

Empirically, several authors have found that market volatility and the market risk premium are positively related. For example, Kim, Morley and Nelson (2004)[28] find that

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[24] Constantinides, G. M., "Understanding the equity risk premium puzzle". In R. Mehra, ed., *Handbook of the Equity Risk Premium*, 2008, Elsevier, Amsterdam.

[25] Constantinides, G.M., and D. Duffie, 1996, "Asset Pricing with Heterogeneous Consumers", *Journal of Political Economy*.

[26] G.M. Constantinides (2008), *op. cit.*

[27] *Ibid*, p. 353.

[28] C-J. Kim, J.C. Morley and C.R Nelson (2004), "Is There a Positive Relationship Between Stock Market Volatility and the Equity Premium," *Journal of Money, Credit and Banking*, Vol. 36.

> When the effects of volatility feedback are fully taken into account, the empirical evidence supports a significant positive relationship between stock market volatility and the equity premium.[29]

Q14. WHAT BEARING DOES THIS HAVE ON WATER UTILITIES, WHICH HISTORICALLY HAVE BEEN VIEWED AS RELATIVELY LOW RISK?

A14. As noted by Debra G. Coy in testimony before the California PUC,

> Water utilities have historically been viewed as low-risk, predictable, regulated monopolies, and they have attracted equity investors who appreciated those characteristics. Now, investors are more wary

and

> [i]nvestors have come to understand that 'low risk' water utilities in fact carry a variety of potential risks, the largest of which is their raising need to repair and replace aging infrastructure, resulting in high capex requirements, low depreciation rates, and negative free cash flow, along with the negative effects of regulatory lag on earnings.[30]

Value Line documents this increase in systematic risk as the betas Value Line estimates for the utility companies in the water sample have increased over time. Figure R 3 below shows the average estimated betas for the water sample. Based upon the end-of-year reports,[31] Value Line's estimated betas for the water utility companies have increased from an average of about 0.54 in 1998 to an average of about 0.87 in January 2009.

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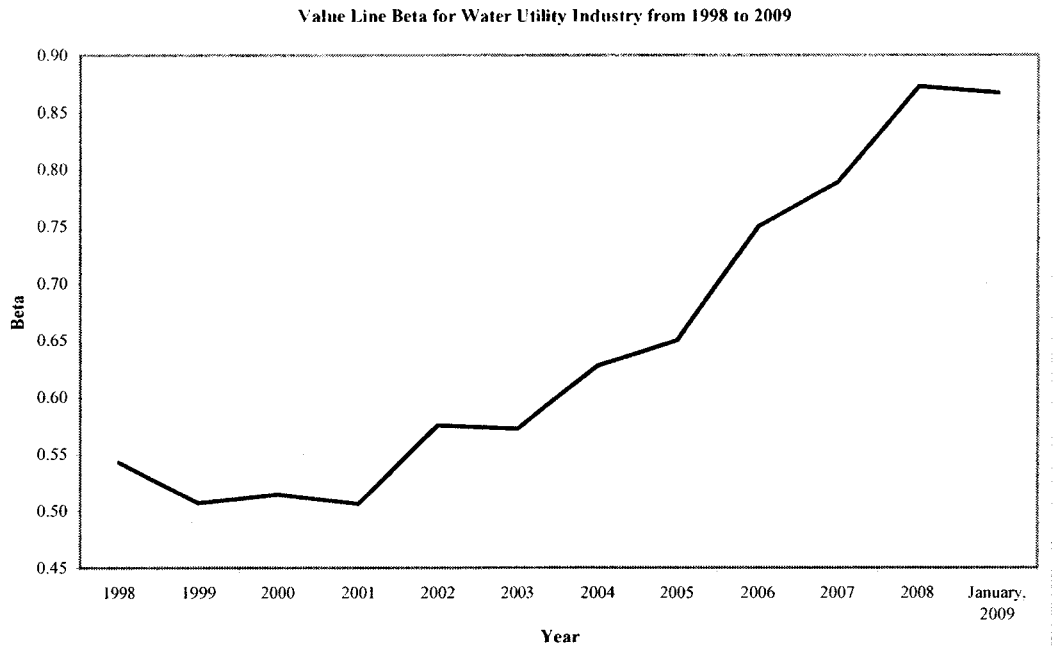
[29] *Ibid.* p. 357. The authors rely on a statistical (Markov-switching) model of the ARCH type and data for the period 1926 to 2000 for their analysis.

[30] Coy Testimony p. 7.

[31] The 2009 beta estimates are taken from January 23, 2009 *Value Line Summary & Index*. The January estimate of .865 is very close to the October 2008 estimate of .87.

Figure R 3



Source: Value Line Investment Analyzer, as of February 5, 2009.
Value for January, 2009 taken from most recent Value Line Standard Edition dated as of January 23, 2009.

Q15. ARE VALUE LINE BETAS A RELIABLE MEASURE OF THE WATER INDUSTRY'S SYSTEMATIC RISK?

A15. Yes. While the stocks of publicly traded water companies, as discussed in the Villadsen Direct, trade relatively infrequently,[32] the impact hereof on estimated betas do not change significantly over time, so the trend illustrated in Figure R 3 reflects an increase in the water industry's systematic risk. At the same time, there are other indications that the overall risk of the industry is increasing. Moody's Investors Service ("Moody's") and Standard & Poor's ("S&P") both note the need for significant capital expenditures and the costs of complying with environmental and security regulations as sources of risk.[33] Fitch notes that the debt ratios are increasing.[34] At the same time, the regulatory

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[32] Villadsen Direct, p. 36.

[33] *Moody's*, Credit Risks Are Increasing for U.S. Investor Owned Water Utilities, Special Comment, January 2004 and *Standard & Poor's*, Key Rating Factors for Water Companies Around the World, July 17, 2006.

[34] *Fitch Ratings*, 2007 Median Ratios for Water and Sewer Revenue Bonds – Retail Systems.

requirements imposed on the water industry are evolving.[35] Hence the water industry is experiencing a transition period which adds to the risk of the industry.

Q16. WHAT EVIDENCE DO YOU HAVE THAT THE WATER INDUSTRY WILL REQUIRE SUBSTANTIAL CAPITAL EXPENDITURES GOING FORWARD?

A16. As noted in the Villadsen Direct pp. 34-35, the water industry is expected to undertake substantial capital investments in coming years. For example, the Environmental Protection Agency ("EPA") has indicated that the water industry needs to invest capital of about $224 billion over the next two decades to meet the nation's need for clean drinking water and for wastewater disposal.[36] Similarly, *Value Line* notes the need for investment totaling "hundreds of millions of dollars in the coming decade" by the water utilities it follows as the EPA enacts more stringent requirements; portions of many current water systems are approaching 100 years in age and require significant maintenance, in some cases complete rebuilding.[37] The requirement for additional capital investment is a substantial hurdle for a group of companies that *Value Line* estimates to have an annual profit of about $450 million in 2009.[38] According to the American Society of Civil Engineers ("ASCE"), Arizona's drinking water infrastructure "needs $1.62 billion over the next 20 years" and there if "almost $6.2 billion in wastewater infrastructure needs."[39] Arizona-American also faces substantial capital expenditures.[40]

Q17. PLEASE SUMMARIZE WHAT EFFECT, IF ANY, THE CURRENT STATE OF THE ECONOMY IS LIKELY TO HAVE ON THE COST OF CAPITAL.

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[35] For example, the Ground Water Rule, a set of water quality standards mandated by the EPA, was published in the Federal Register November 8, 2006.

[36] www.epa.gov/waterinfrastructure/infrastructuregap.html

[37] *Value Line Investment Survey*, Water Utility Industry, July 25, 2008, p. 1415.

[38] *Ibid*, p. 1415.

[39] *American Society of Civil Engineers*, 2005 Report Card for America's Infrastructure, Arizona.

[40] See, for example, Broderick Direct's discussion pp. 13-26.

A17. I agree with the credit rating agencies, EEI, and financial professionals that the current state of the economy is likely to increase the cost of capital for all companies due to heightened investor uncertainty. Utilities face higher cost of debt and an increased equity premium. Investors are simply unwilling to commit capital to new investment without a much higher expected return relative to the risk of the investment than in the relatively recent past. This coupled with the requirement for substantial infrastructure investment in the water industry in general, and for the Company's continued efforts to maintain the water supply and wastewater infrastructure in Arizona, makes it imperative that the Commission not underestimate the required return on equity.

IV. LACK OF ADJUSTMENT FOR FINANCIAL RISK

Q18. HAS THE COMMISSION TRADITIONALLY PROVIDED AN ADJUSTMENT TO THE ALLOWED RETURN ON EQUITY TO ADJUST FOR FINANCIAL RISK?

A18. Yes. The Commission has approved Staff's use of its version of the Hamada methodology to increase the allowed return on equity to compensate for risk in all recent Arizona-American rate cases. Although I do not believe that the Hamada methodology as implemented by Staff in prior Arizona-American rate cases adequately compensates investors for risk, there has been no dispute that some methodology must be used.

Q19. HAS THE COMMISSION RECENTLY PROVIDED AN ADJUSTMENT TO THE ALLOWED RETURN ON EQUITY TO ADJUST FOR FINANCIAL RISK?

A19. Yes, very recently. On November 19, 2008, in Decision No. 70624, the Commission again approved adjusting the return on equity to account for financial (leverage) risk. Interestingly, Gold Canyon Sewer Company's capital structure was comprised of 100% equity, so the return on equity was reduced in recognition that investors faced less risk in

a company with no debt. The Commission did this by using RUCO's methodology of a hypothetical capital structure of 40% debt and 60% equity.[41]

Q20. DO THE RECOMMENDATIONS OF THE PARCELL DIRECT AND THE RIGSBY DIRECT ACCURATELY REFLECT THE FINANCIAL RISK INHERENT IN ARIZONA-AMERICAN'S REGULATORY CAPITAL STRUCTURE?

A20. No, neither the Parcell Direct nor the Rigsby Direct makes an adjustment to take into account the differences in financial risk between the Company and the sample companies. This violates the basic principles of financial economics, since there is no debate in the finance profession as to whether capital structure affects the risks borne by equity holders. I explained in great detail in my direct testimony how higher levels of debt increase the risk faced by shareholders, since debt has a priority claim in any cash flows, while shareholders are residual claimants – they only receive a return after all debt holders are paid off.[42]

Q21. HAS THE STAFF OR MR. RIGSBY IN THE PAST ADJUSTED SAMPLE ESTIMATES TO TAKE INTO ACCOUNT THE COMPANY'S HIGHER DEBT LEVEL?

A21. Yes. In past testimony by Staff and Mr. Rigsby, an adjustment was made to account for the fact that Arizona-American had more debt in its capital structure than the comparable companies.[43] In past testimony, Mr. Rigsby has recommended the reliance on a

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[41] Staff recommended using the Hamada methodology to reduce the allowed return on equity. See Decision No. 70624 pp. 11 and 14.

[42] Villadsen Direct, pp. 8-16.

[43] See, for example, Direct Testimony of Pedro M. Chaves in Dockets No. WS-01303A-06-0491 (Executive Summary) WS-01303A-06-0403 (Executive Summary) and Direct Testimony of William A. Rigsby in Dockets No. WS-01303A-06-0491 p. 6 and No. WS-01303A-06-0403. See also Arizona Corporation Commission Decision 69449 p. 19.

hypothetical capital structure for Arizona-American and an upward adjustment for the Company's higher financial risk.[44]

Q22. IF THE METHOD RELIED UPON BY STAFF IN PAST ARIZONA-AMERICAN CASES WAS APPLIED TO THE PARCELL DIRECT'S AND THE RIGSBY DIRECT'S ESTIMATES, WHAT WOULD BE THE RESULTING ESTIMATED RETURN ON EQUITY?

A22. Using the capital structure employed by the Parcell Direct, including short-term debt, I started with the 10% recommended cost of equity, and computed the financial risk adjustment used in previous Staff testimony. This resulted in an upward adjustment of 70 basis points, which applied to the Parcell recommended cost of equity would result in a recommendation of 10.7%. Table BV-R1 and associated workpapers detail the assumptions and the steps involved in this calculation. Similarly, Mr. Rigsby has in past testimony before this Commission in Arizona-American cases made an upward adjustment of 50 basis points to account for the Company's higher financial risk. Hence, I added 50 basis points to the recommended return on equity in the Rigsby Direct. The results are shown in Table R 2 below.[45]

Table R 2. RoE Recommendations Using Prior Adjustments for Financial Risk

	Parcell Direct	Rigsby Direct
Recommended RoE	10.00%	8.88%
Adjustment for financial risk	0.6 - 0.7%	0.50%
RoE adjusted for financial risk	10.6 - 10.7%	9.38%

Q23. DOES THE PARCELL DIRECT OR THE RIGSBY DIRECT DISCUSS THE LACK OF FINANCIAL RISK ADJUSTMENT?

A23. The Parcell Direct does not discuss the financial risk component of the cost of equity. Instead, Mr. Parcell criticizes the ATWACC model that I used to account for financial

[44] See, for example, Direct Testimony of William A. Rigsby in Docket No. WS-01303A-06-0491 p. 36.

[45] Parcell Direct p. 2, Rigsby Direct p. 4-5, Testimony of William A. Rigsby in Docket No. WS-0130A-06-0491 p. 6, and Table No. BV-R1.

risk, but he does not discuss, nor implement, an alternative method. However, Mr. Rigsby explicitly states that he departs from his usual method by not including a financial risk adjustment, although he acknowledges that Arizona-American has a higher level of financial risk than the sample companies he used to derive the cost-of-equity estimate.[46]

Q24. PLEASE COMMENT ON MR. PARCELL'S CRITIQUE OF THE ATWACC METHODOLOGY.

A24. The Parcell Direct does not explain why the ATWACC "is an unnecessary step in the cost of capital development,"[47] which is puzzling statement because the only purpose of using the ATWACC model is to properly account for financial risk differences among sample companies, as well as between sample companies and Arizona-American. To say that it is unnecessary appears to imply that accounting for financial risk is unnecessary, which is clearly at odds with established finance theory and practice. The Parcell Direct also objects to using the sample companies' market value capital structure in order to compute the sample ATWACC. However, this objection only speaks to *how* the financial risk adjustment should be done, not *whether* it should be done at all.

Q25. NEVERTHELESS, IS MR. PARCELL CORRECT THAT THE USE OF MARKET VALUES CAPITAL STRUCTURE FOR THE SAMPLE COMPANIES IS INAPPROPRIATE?

A25. No. As discussed in the Villadsen Direct,[48] the risk of the capital structure's equity depends on the market-value, not on the book-value, and cost of equity is determined in the market place. Hence, investors are concerned about market values not book values. Going through an example, the leading financial text of Brealey, Myers and Allen (2006) states:

> The market-value balance sheet shows assets worth $1,250 million. Of course we can't observe this value directly, because the assets themselves

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[46] Rigsby Direct, p. 54.

[47] Parcell Direct, p. 34.

[48] Villadsen Direct, pp. 11-14.

> are not traded. But we know what they are worth to debt and equity investors ... This value is entered on the left of the market-value balance sheet.
>
> Why did we show the book balance sheet? Only so you could draw a big X through it. Do so now.
>
> *When estimating the weighted-average cost of capital, you are not interested in past investments but in current values and expectations for the future.*[49]

In other words, the cost of equity is determined in the market place and is based upon market values. Thus, the cost-of-equity estimates obtained in the market place pertain to companies with a market-value capital structure, whereas a regulated utility such as Arizona-American is afforded an allowed cost of equity on a much lower equity percentage. Investors require compensation for the difference.

Q26. PLEASE COMMENT ON MR. RIGSBY'S DEPARTURE FROM HIS PRECEDENCE OF ADJUSTING FOR FINANCIAL RISK.

A26. The Rigsby Direct states that the lack of a financial risk adjustment is intended as an incentive for the Company to increase its equity ratio in the future. He does not however provide an argument as to why such a change in capital structure would benefit ratepayers or the Company. In fact, as the development of the ATWACC method makes clear,[50] the overall rate of return the Company needs to provide its investors in order to attract them is independent of capital structure. The capital structure affects how the overall risk and expected return are divided between debt and equity holders, but not the underlying business risk of the Company. As illustrated in Table 2 on p. 15 of the Villadsen Direct, the cost of financing is the same regardless of its capital structure. Additionally, it is difficult to see how the Company would attract equity capital at the

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[49] Richard A. Brealey, Stewart C. Myers, and Franklin Allen (2006), *Principles of Corporate Finance*, 8th Edition, McGraw-Hill, pp. 504-505 (emphasis added).

[50] See Villadsen Direct, pp. E-18 to E-21.

8.88% return on equity the Rigsby Direct recommends when the Company's bonds provide a higher return. It is also puzzling that the Rigsby Direct recommends a cost of equity below the cost of debt for the Company, and at the same time suggests the Company "start making a concerted effort to increase its level of common equity..."[51] Mr. Rigsby does not explain how a company would attract equity investors if the expected return on equity is, as the Rigsby Direct recommends, lower than the company's return on debt.

V. COMMENTS ON THE ESTIMATION METHODS OF THE PARCELL DIRECT

A. ISSUES WITH THE DCF APPROACH

Q27. WHAT ARE YOUR MAIN CONCERNS REGARDING THE DCF MODEL USED BY THE PARCELL DIRECT?

A27. I have two main concerns with the Parcell Direct's DCF implementation. First, the Parcell Direct relies on the single-stage version of the model, which assumes that the growth rate for each sample company is constant forever. This is an oversimplification of reality that makes the model less reliable, and can be corrected by using more sophisticated models such as the multi-stage DCF on which I rely in my direct testimony. Second, the Parcell Direct uses a biased estimate of growth rates for its DCF implementation, by relying on both forecasted and historical growth rates instead of using only analysts' forecasts, which are more reliable because they already incorporate any relevant historical information. I expand on these two main issues below, and then address several other problems with the Parcell Direct DCF approach.

Q28. WHY IS THE MULTI-STAGE DCF MODEL MORE RELIABLE THAN THE SIMPLE DCF MODEL?

A28. The simple DCF model uses a single value for the future growth rate of cash flows, even if the estimated growth rate is much higher or lower than the forecasted GDP growth.

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[51] Rigsby Direct p. 55.

However, if a company were to grow significantly faster (slower) than the economy as a whole for a very long time, it would become an increasingly larger (smaller) portion of the economy which appears illogical as water companies and utilities in general serve the public. While such an illogical situation is unlikely to happen in stable industries, which have reached a steady-state equilibrium in which all companies grow at approximately the same rate. In such circumstances, the industry as a whole is not expanding relative to the economy. It is much more likely to be a problem in industries undergoing significant changes and restructuring, such as the water industry today. This is reflected in the growth rates relied upon by Parcell Direct: for example, the forecasted earnings per share ("EPS") growth rates among the companies considered in the three samples range from 4% to 15%.[52] Even the overall average growth rates used by Parcell Direct, which are the result of averaging five different measures of growth, both historical and projected, vary widely between 3.8% and 7.5%.[53]

The multi-stage DCF model only relies on the estimated growth rates for several years, which is consistent with analysts' forecast horizon, and then assumes that all companies in the sample will gradually converge toward a growth rate equal the projected growth rate of the economy as a whole. This feature eliminates the illogical outcome described above, and has the additional benefit that it limits the effect of an unusually large forecast error, should one exist for some sample companies.

Q29. HOW DOES THE PARCELL DIRECT ESTIMATE THE GROWTH RATE USED TO IMPLEMENT THE DCF APPROACH?

A29. The Parcell Direct uses an average of historically observed and forecasted measures of growth rates. In particular, Mr. Parcell averages the historical growth rates of earnings per share, dividends per share, book values per share, and earnings retention rates, and

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[52] Parcell Direct, Schedule 5, p. 4.

[53] *Ibid.*

forecasts of the same variables, in order to arrive at a final estimate of the growth rate forecast.[54]

Q30. IS SUCH AN AVERAGE AN ACCURATE FORECAST?

A30. No. Taking an average of historical and forecast growth rates biases the resulting estimate toward the historical values, which have already been reflected in the analysts' forecasted growth rates. In other words, analysts have access to historical growth rates when making their forecasts, and they take them into account to the extent they deem them relevant. Therefore, the Parcell Direct effectively counts twice the importance of historically observed growth rates. Moreover, using outdated information invalidates the main argument in favor of using the DCF model in the first place: namely, that it is a forward-looking model capable of reflecting the most recent changes in investors' information about the company. There is a large academic literature that indicates that analysts' forecasts are statistically more accurate than growth forecasts solely based on historical earnings, dividends, book value and equity growth rates.[55] For example, a paper by Gordon, Gordon and Gould (1989)[56] demonstrates that for utilities, forecasted earnings growth outperform past growth in earnings, past growth in dividends, and past growth in earnings retention in explaining utilities expected return. (Note that one of the authors, Myron J. Gordon, developed the Gordon Growth Model, or DCF model, relied upon in the Parcell Direct).

Q31. WHAT IS THE EFFECT OF THIS DOUBLE COUNTING ON THE ESTIMATED GROWTH RATES AND COST OF EQUITY?

A31. Because the historical growth rates used by Parcell Direct are lower than the forecasts of the same growth rates, the erroneous inclusion of historical observations results in growth rate estimates that are biased downward. The bias that results from using historical

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[54] Parcell Direct, Schedule 5, pp. 3-4.

[55] This literature is summarized in the Villadsen Direct, Appendix C pp. 5-8.

[56] David A. Gordon, Myron J. Gordon, and Lawrence I. Gould (1989), Choice Among Methods of Estimating Share Yield, *The Journal of Portfolio Management*, 50-55.

growth rates is particularly troubling in times of industry changes, large infrastructure investments, and/or a changing financial environment. Table R 3 below shows the impact on the estimated cost of equity of incorrectly relying on historical estimates, using the input values provided in Schedule 5 of the Parcell Direct. Thus, including historic-based estimates biases the average growth rate estimate downward by 60 to 240 basis points (depending on the sample considered), which results in a downward bias in the DCF estimate for the cost of equity of at least 60 basis points.

Table R 3. Impact on the Parcell Direct DCF Estimates of Relying on Historical Growth Rates

	Value Line Water Group	AUS Utility Reports Group	Villadsen Water Sample
[1] Overall average growth rate (as used by Parcell Direct)	4.6%	5.2%	5.3%
[2] **Parcell Direct DCF cost of equity**	**7.8%**	**8.8%**	**8.8%**
[3] Average growth rate based on prospective figures	5.2%	7.4%	7.7%
[4] **DCF cost of equity based on prospective growth rate estimates**	**8.4%**	**11.1%**	**11.3%**
[5] Difference between estimated growth rates	0.6%	2.2%	2.4%
[6] **Difference between cost-of-equity estimates**	**0.6%**	**2.3%**	**2.5%**

Sources and Notes:
[1]: Parcell Direct, Schedule 5, Page 4.
[2]: Parcell Direct, Schedule 5, Page 4.
[3]: Table No. BV R-2, Column [13].
[4]: Table No. BV R-2, Column [15].
[5]: = [3] - [1].
[6]: = [4] - [2].

Q32. HAVE YOU IDENTIFIED OTHER PROBLEMS WITH THE DCF METHOD USED BY THE PARCELL DIRECT?

A32. Yes. The Parcell Direct uses an annual version of the DCF model, which requires an adjustment for the quarterly timing of dividends, instead of formulating the model in quarterly terms, which would not require an inexact adjustment to the growth rate. In addition, the stock price used to compute the dividend yield is an average of stock prices over a three-month period, which constitute out-of-date information and runs counter to

the forward-looking nature of the model. This is especially problematic when stock prices changes dramatically.

Q33. DOES THE PARCELL DIRECT USE AN APPROPRIATE FORMULA TO IMPLEMENT THE DCF METHOD?

A33. No, the Parcell Direct inappropriately adjusts the formula in an attempt to reconcile the quarterly payment of dividends with the annual model being employed. In particular, the Parcell Direct uses the following formula to calculate the dividend yield component of the DCF formula:[57]

$$Yield = \frac{D_0(1+0.5g)}{P_0}$$

The Parcell Direct states that "[t]his dividend yield component recognizes the timing of dividend payments and dividend increases."[58] In particular, the 0.5 factor is the adjustment used to account for the timing of dividends, since the usual, textbook, formula does not contain such a factor. However, such an adjustment is unnecessary if the DCF model is implemented using quarterly cash values, since in that case the timing of cash flows assumed by the model actually matches the timing of dividend payments.

B. ISSUES WITH THE CAPM APPROACH

Q34. WHAT ARE THE MAIN PROBLEMS YOU IDENTIFIED IN THE PARCELL DIRECT'S CAPM IMPLEMENTATION?

A34. The main flaw in the Parcell Direct's approach is the reliance on the geometric estimate of the market risk premium, as opposed to the arithmetic estimate.

Q35. PLEASE ADDRESS THIS ISSUE.

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[57] Parcell Direct, p. 19.

[58] Parcell Direct, p. 19.

A35. While the magnitude of the market risk premium currently is the subject of scrutiny in the academic literature,[59] there is little doubt among academics that the geometric market risk premium does not apply to cost-of-capital estimation. For example, Ibbotson Associates state

> The equity risk premium data presented in this book are arithmetic average risk premia as opposed to geometric average risk premia. The arithmetic average equity risk premium can be demonstrated to be most appropriate when discounting future cash flows. For use as the expected equity risk premium in either the CAPM or the building block approach, the arithmetic mean or the simple difference of the arithmetic means of stock market returns and riskless rates is the relevant number. This is because both the CAPM and the building block approach are additive models, in which the cost of capital is the sum of its parts. The geometric average is more appropriate for the reporting past performance, since it represents the compound average return.[60]

Similarly, the *New Regulatory Finance* text by Roger A. Morin (2006) argues that

> Only arithmetic means are correct for forecasting purposes and for estimating the cost of capital. There is no theoretical or empirical justification for the use of geometric mean rates of returns as a measure of the appropriate discount rate in computing the cost of capital or in computing present values. There is no dispute in academic circles as to whether the arithmetic or geometric average should be used for purposes of computing the cost of capital.[61]

Finally, the text by Bode, Kane, and Marcus (2005) states:

> [I]f our focus is on future performance, then the arithmetic average is the statistic of interest because it is an unbiased estimate of the portfolio's expected return (assuming, of course, that the expected return does not change over time). In contrast, because the geometric return over a sample period is always less than the arithmetic mean, it constitutes a

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[59] See Villadsen Direct p. 25 and Appendix C for a detailed discussion.

[60] Morningstar Ibbotson SBBI 2008 Valuation Yearbook, p. 77.

[61] Roger A. Morin (2006), *New Regulatory Finance*, Public Utilities Reports, Inc., ("Morin (2006)"), pp. 116-117.

> downward-biased estimator of the stock's expected return in any future year.[62,63]

Based on the academic and other literature, the MRP estimate based on the geometric average is invalid.[64] It leads to downward biased cost of capital estimates and should be ignored. Table R 4 below shows the difference between the Parcell Direct's cost-of-equity estimates including and excluding the geometric MRP.

Table R 4. Impact of Relying on Geometric MRP Estimates in Parcell Direct

		Value Line Water Group	AUS Utility Reports Group	Villadsen Water Sample
[1]	Risk-free rate	4.35%	4.35%	4.35%
[2]	Average beta	1.03	0.93	0.93
[3]	Arithmetic MRP (Average of Ibbotson and value derived by Parcell Direct based on S&P 500 returns)	6.48%	6.48%	6.48%
[4]	**Estimate based on arithmetic MRP**	**10.99%**	**10.38%**	**10.38%**
[5]	Average of arithmetic and geometric MRP used by Parcell Direct	5.90%	5.90%	5.90%
[6]	**Estimate based on both arithmetic and geometric MRP**	**10.40%**	**9.84%**	**9.84%**
[7]	**Difference**	**0.59%**	**0.54%**	**0.54%**

Sources and Notes:
[1] and [2]: Parcell Direct, Schedule 7.
[3] and [5]: Parcell Direct, p. 24.
[4] = [1] + [2] x [3].
[6] = [1] + [2] x [5].
[7] = [4] - [6].

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62 Zvi Bode, Alex Kane, and Alan J. Marcus (2005), *Investments*, 6'th Edition, McGraw-Hill, p. 865.

63 See also Richard A. Brealey, Stewart C. Myers, and Franklin Allen (2006), Principles of Corporate Finance, 8th Edition, McGraw-Hill, p. 150-151.

64 An exception to this could occur if returns were serially correlated, but the equity risk premium data series used by Moringstar / Ibbotson does not exhibit serial correlation and neither does the market return series. Morningstar's Ibbotson SBBI 2008 Valuation Yearbook notes that over the 1926-2007 period used to calculate the historical MRP, the equity risk premium shows no evidence of serial correlation (pp. 80-81). Additionally, I have performed the standard portmanteau (Ljung-Box) test for serial correlation on the series of annual stock market returns used by Morningstar to calculate the historical MRP, and found no evidence of serial correlation (for a description of the portmanteau test statistic, see John Y. Campbell, Andrew W. Lo, and A. Craig MacKinlay, *The Econometrics of Financial Markets*, Princeton UP: New Jersey, 1997, p. 47).

As can be seen from the table, the Parcell Direct's CAPM cost-of-equity estimates are between 54 and 59 basis points lower when relying on both the arithmetic and the geometric MRPs than when relying on the arithmetic MRPs only. Using only the arithmetic CAPM, the Parcell Direct method would estimate an average cost of equity of 10.59%.[65]

C. ISSUES WITH THE COMPARABLE EARNINGS APPROACH

Q36. WHAT ARE THE PROBLEMS WITH THE PARCELL DIRECT'S COMPARABLE EARNINGS METHODOLOGY?

A36. I find two key problems with the methodology as implemented in the Parcell Direct. First, the comparable earnings methodology relies on accounting returns rather than on market returns. Hence, it does not necessarily reflect the cost of capital that current and prospective investors require. Second, the figures that the Parcell Direct relies upon to estimated cost of equity relies on the historical return for regulated water utilities. Both the use of historical returns and the use of regulated entities are problematic.

Q37. WHY DO YOU THINK IT IS PROBLEMATIC TO USE ACCOUNTING RETURNS AS A MEASURE FOR THE COST OF CAPITAL?

A37. As noted in the Villadsen Direct, the cost of capital is the expected rate of return in capital markets on alternative investments of equivalent risk. Clearly, an accounting return is *not* a market measure.

Q38. WHY DO YOU THINK THE USE OF HISTORICAL RETURNS EARNED BY REGULATED UTILITIES IS PROBLEMATIC?

A38. First, historical returns are not necessarily representative for the industry going forward and hence do not measure the *expected rate of return*. Current and prospective investors are interested in the going forward rate of return. Second, as noted by Professor Morin

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[65] This is the average of the three estimates on line [4] of Table R 4.

> The rationale of the method is that regulation is a duplicate for competition. The profitability of unregulated firms is set by the free forces of competition. ... [B]y averaging the book profitability of a large number of unregulated companies over time, an appropriate measure of the fair return on equity for a public utility is obtained.[66]

Thus, for the method to work properly, it needs to be applied to unregulated entities. The Parcell Direct does apply the methodology to unregulated entities (S&P 500), and finds that the earned return on equity over the past 16 years was 14.7 to 15%.[67] However, the Parcell Direct ignores those figures based on a summary analysis of risk characteristics, and makes no attempt to identify a group of unregulated, comparable risk companies that could provide a useful insight into the magnitude of returns expected by investors in similarly risky, but competitive, companies. Third, the Parcell Direct finds that the prospective accounting return on equity is 9.5 to 11.5%.[68] However, the Parcell Direct also ignores these returns and concludes that the comparable earnings method results in a cost of equity estimate of 9.5 to 10.5%.[69]

Q39. WHAT DO YOU CONCLUDE REGARDING THE IMPLEMENTATION OF THE COMPARABLE EARNINGS METHOD?

A39. The methodology does not provide insights into the Company's current cost of capital because it focuses on historical accounting returns for water utilities which says nothing about the cost of capital that investors currently require. Therefore, this cost of equity estimate should be ignored. As estimated in the Parcell Direct, it is also downward biased as the Parcell Direct ignored the higher returns from non-regulated entities and also prospective returns.

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[66] Morin (2006) pp. 381-381.

[67] Parcell Direct p. 28.

[68] Parcell Direct, Schedule 8 (the range is based on the 2009 and 2011-2013 projections, since 2008 returns are not prospective at this time).

[69] Parcell Direct p. 30.

VI. COMMENTS ON ESTIMATION METHODS IN THE RIGSBY DIRECT

A. THE RIGSBY DIRECT RECOMMENDATION

Q40. HOW DOES THE RIGSBY DIRECT ARRIVE AT A RECOMMENDATION OF 8.88%?

A40. The Rigsby Direct's recommendation is driven by unrealistically low estimates. Specifically, the Rigsby Direct relies on CAPM estimates that are below the Company's current cost of debt. As summarized on page 33 of Rigsby Direct, the recommendation is based on at least three estimates that are clearly below the cost of debt: 6.66%, 5.07%, and 6.26%. Eliminating these estimates from the calculation of the average brings the estimated cost of equity for the sample to 9.78%. If one adds to this value the adjustment for financial risk that Mr. Rigsby has traditionally applied in the past,[70] the Rigsby Direct's recommendation would be 10.28%. In addition, there are other flaws in the methodology applied by the Rigsby Direct. The major flaws are failing to consider financial risk, relying on an adjusted sustainable growth rate formula in estimating the DCF growth rate, using an unrealistically low risk-free rate in the CAPM implementation, and relying on a geometric measure of the market risk premium. As I have already discussed the importance of adjusting for financial risk and the flaws of using a geometric market risk premium, this section addresses only the DCF growth rates and the results of the CAPM.

B. ISSUES WITH THE DCF METHOD

Q41. HOW DOES THE RIGSBY DIRECT ARRIVE AT ITS DCF ESTIMATE%?

A41. The Rigsby Direct relies on a constant growth DCF model with a sustainable growth rate where the standard sustainable growth model states that

$$g = b \times r + s \times v \qquad (1)$$

[70] Rigsby Direct pp. 54-55, and Direct Testimony of William A. Rigsby in Dockets No. WS-01303A-06-0491 p. 6 and No. WS-01303A-06-0403. See also Arizona Corporation Commission Decision 69440 p. 19.

where b is the earnings retention ratio
r is the return on common equity
s is the growth in shares
v = [(Market Value per Share) / (Book Value per Share) - 1] **(2-a)**

Rigsby calculates the five-year historical and forecasted retention ratio, book return on equity, book value per share, and growth in shares. Based on five-year historical averages and forecasted growth rates, Rigsby decides on an internal growth rate.[71] He also estimates the share growth. However, the Rigsby Direct relies on a model where v is replaced by[72]

v* = {[(Market Value per Share) / (Book Value per Share) + 1] / 2 - 1} **(2-b)**

As v* is less than v whenever the stock price per share is higher than the book value per share, the formula in (2-b) results in a lower growth rate than the standard formula for companies with a market-to-book (or price to book value per share) above one.

Q42. WHAT ARE THE CONSEQUENCES OF THE RIGSBY DIRECT'S MODIFICATION OF THE SUSTAINABLE GROWTH METHOD?

A42. In essence, the adjustment lowers (increases) the sustainable growth rate when the market-to-book ratio is higher (lower) than one. Table R 5 below reports the results from using the data in the Rigsby Direct's Schedules WAR-2 and WAR-4 page 2 but removing the adjustment factor. For the water companies the cost-of-equity estimate increases by about 79 basis points while the cost-of-equity estimate for the gas LDC sample increases by about 41 basis points for an average increase of about 60 basis points in the DCF cost-of-equity estimate.

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[71] *See* Rigsby Direct p. 27 and Schedules WAR-4, WAR-5, and WAR-6.

[72] Rigsby Direct, Schedule WAR-4, page 2.

Table R 5. The Impact on the DCF Cost of Equity of Rigsby Direct's Adjustment to the Sustainable Growth Model

	Water Utility Sample	Natural Gas LDC Sample
[1] Rigsby DCF estimate	11.19%	11.16%
[2] Rigsby DCF with adjustment	11.97%	11.57%
[3] Difference	**0.79%**	**0.41%**

Sources and Notes:
[1], [2]: Table BV-R3, columns [7] and [7a].
[3] = [2] - [1].

As can be seen from Table R 5 above, the impact of this one adjustment is significant and biases the DCF estimates obtained in the Rigsby Direct downward.

Q43. WHY DID YOU MODIFY THE CALCULATION OF THE EXTERNAL GROWTH RATE?

A43. The adjustment made in the Rigsby Direct is founded on the notion that "[t]he market price of a utility's common stock will tend to move toward book value, or a market-to-book ratio of 1.0, if regulators allow a rate of return that is equal to the cost of capital."[73] Thus, it appears that the Rigsby Direct relies on the so-called market-to-book test, which is based on the assumption that the value of a utility's stock equals the present value of the returns of and on a rate base equal to the net book value of the utility's equity. To illustrate the consequences of a strict belief in the market-to-book test,[74] I will discuss a hypothetical example.

Assume the market-to-book test worked, and that all parties agreed that at a cost of equity of 11% is appropriate for Utility A.[75] For simplicity; assume that Utility A has an actual and ratemaking capital structure consisting of 40% equity. Assume that Utility A's market-to-book ratio is 2, which if the market-to-book test were valid would signal that 11% is above the cost of equity at the regulatory equity ratio. Suppose also that the book

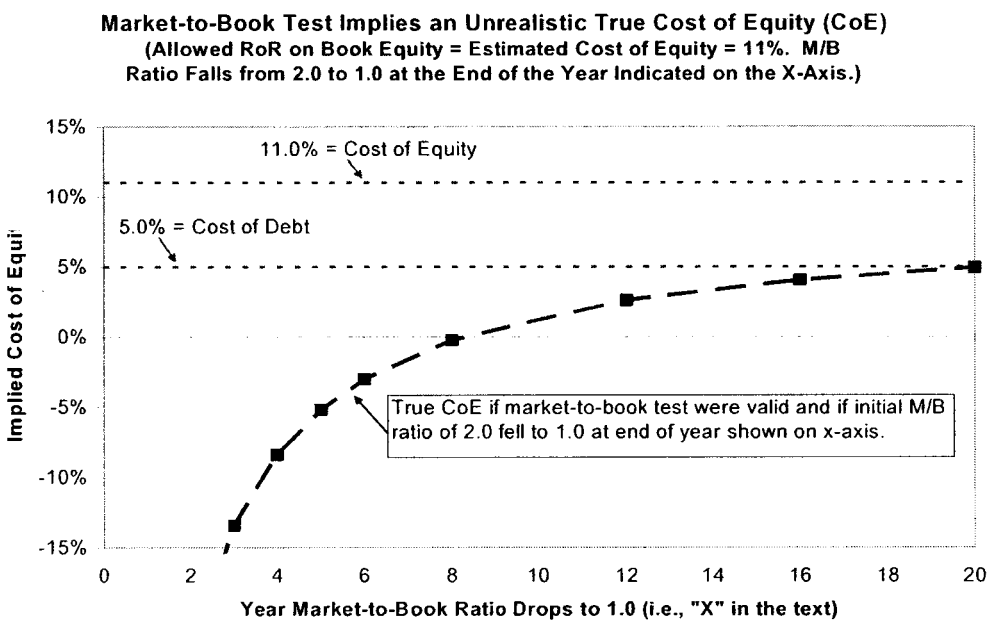
[73] Rigsby Direct p. 15.

[74] The Rigsby Direct does not argue that regulators should seek a market-to-book ratio of one.

[75] The 11% is used for illustrative purposes only.

value of the utility is expected to grow at a long-term annual rate of 5%. Lastly, suppose that investors expected an extreme form of regulatory lag: regulators will leave allowed rates of return at the current 11% level for X years. On the last day of the Xth year, regulators will readjust the allowed rate of return down to the cost of equity, so that the market-to-book ratio falls to 1.0 on that day. In short, the assumptions are that (1) investors put up $2 now for every $1 of book equity rate base, (2) earn an allowed rate of return of 11% (which by hypothesis is above the cost of capital) on the book value of the equity rate base (which grows at 5% per year) for X years, and (3) then end up with a stock value equal to only the book-value rate base, i.e., they lose 50% of their original investment after X years. If the market-to-book test were valid, the discount rate that makes the present value of these hypothesized returns equal to twice the book value of the stock is the utility's true cost of equity. Figure R 4 plots the implied true cost of equity associated with values of "X" running out to 20 years. As benchmarks, it adds the assumed 11% allowed rate of return on equity and the associated long-term bond rate, 5%.

Figure R 4



The curved line (blue in color copies) depicts the true cost of capital as the length of the regulatory lag (X) grows from three years to 20 years. With a loss of 50% of the original investment due at the end of the regulatory lag, X must exceed 8 years for the true cost of equity to become positive, and during the 20-year period considered it never exceeds the cost of debt (or risk-free rate). As investors clearly expect a return in excess of the risk-free rate, trying to regulate to obtain a market-to-book ratio of one is not viable. The example illustrates that it is unlikely that the simple market-to-book test works. Because the test does not work, I firmly believe the regulators should not attempt to maintain, increase, or decrease a utility's market-to-book ratio.[76]

Q44. DO YOU HAVE ANY GENERAL COMMENTS REGARDING CHOICE OF GROWTH RATES IN THE RIGSBY DIRECT?

A44. Yes, the Rigsby Direct relies on a mixture of historical growth rates and projected growth rates. Because, as discussed above, the water industry currently is in transition, historical growth rates are likely not representative of future growth. As noted above, the water utility industry is expected to make significant infrastructure investments, the industry is facing a number of mergers and acquisitions, and the water utility companies' risk appears to be increasing as evidenced by the increasing betas shown in Figure R 3.[77] There is a large academic literature that indicates that analysts' forecasts are statistically more accurate than growth forecasts solely based on historical earnings, dividends, book value and equity growth rates.[78] For example, a paper by Gordon, Gordon and Gould (1989)[79] demonstrates that for utilities, forecasted earnings growth outperform past growth in earnings, past growth in dividends, and past growth in earnings retention in

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[76] There may be circumstances where an extremely low market-to-book ratio indicates a fundamental problem in which case the regulator may need to address the underlying problem - - not the market-to-book ratio.

[77] *Section III* discusses this issue further.

[78] This literature is summarized in the Villadsen Direct, Appendix D pp. D-6-D-9.

[79] David A. Gordon, Myron J. Gordon, and Lawrence I. Gould (1989), "Choice Among Methods of Estimating Share Yield," *The Journal of Portfolio Management*, 50-55. See also R. Charles Moyer, Robert E. Chatfield, and Gary D. Kelley (1985), "The Accuracy of Long-Term Earnings Forecast in the Electric Utility Industry," *International Journal of Forecasting* 1, 241-252.

explaining utilities expected return. Therefore, the Rigsby Direct's use of historical growth rates biases the cost of equity. However, because the Rigsby Direct performs an assessment of the applicable growth rates[80] rather than a numerical calculation, I cannot determine the magnitude of this bias..

C. ISSUES WITH THE CAPM METHOD

Q45. DOES THE RIGSBY DIRECT RELY ON THE GEOMETRIC CALCULATION OF THE MARKET RISK PREMIUM?

A45. Yes, the Rigsby Direct considers estimates based on both the geometric and the arithmetic MRP.[81] As I explained in Section V.B above, the geometric MRP is not a valid measure of the market risk premium. Eliminating the estimated based on it would drop two of the Rigsby's Direct CAPM estimates that fall below estimates of the cost of debt, and are therefore unreliable: 6.66% and 5.07%.[82]

Q46. ARE THE OTHER CAPM ESTIMATES REASONABLE?

A46. The CAPM estimate based on the arithmetic MRP and the gas LDC sample is certainly not reasonable, since 6.26% is much lower than current yields on utility bonds.[83] Estimates below the current yield on investment grade utility bonds should be ignored and if the Rigsby Direct were to rely only on cost of equity estimates above the cost of investment grade utility debt, his CAPM estimate would be at least 8.39%. Additionally, the Rigsby Direct relies on a risk-free rate of 1.50% in his CAPM analysis.[84] If the Rigsby Direct is to use the unusually low risk-free rate that currently prevails, he would need to make an adjustment to the MRP which currently is unusually high. Alternatively, the Rigsby Direct needs to look to prospective estimates of the risk-free rate. For

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[80] Rigsby Direct p. 23.

[81] Rigsby Direct, p. 32, and Schedule WAR-7.

[82] See Page 1 of Schedule WAR-7 of Rigsby Direct.

[83] As of February 3, the 15-day average yield on Moody's Baa rated utility bonds was 7.86% (Bloomberg).

[84] Rigsby Direct, Schedule WAR-7, page 2.

example, a month into the financial crisis, Blue Chip Economic Indicators estimated the 3-month Treasury Bill rate at 3.6% and the 10-Year Treasury Notes rate at 4.9% for 2010. Had the Rigsby Direct used these more reasonable figures, say the midpoint of 4.25%,[85] the arithmetic CAPM would become 11.14% and 9.01% for the water utility and gas LDC samples, respectively. Using the average of these figures, the CAPM cost of equity would be about 10.08%.

VII. CONCLUSION

Q47. WHAT IS YOUR CONCLUSION REGARDING THE PARCELL DIRECT AND THE RIGSBY DIRECT RECOMMENDATIONS?

A47. The recommended return on equity and hence the rate of return is too low for several reasons. It is below or near the Company's current cost of debt and below the pre-crisis allowed rates of return in the utility industry. As the financial crisis have increased the cost of capital, it is imperative that Arizona-American be afforded an opportunity to earn a reasonable return on the equity invested. Further, the Parcell Direct deviates from the Staff's practice of recognizing the added financial risk of Arizona-American, and the Rigsby Direct deviates from Mr. Rigsby's previous recommendation to recognize the Company's higher financial risk. In addition, there are modeling or data issues in both the Parcell Direct and the Rigsby Direct which downward bias the recommended cost of equity. The overall impact of the implementation choices made by the Parcell Direct and the Rigsby Direct is that the recommended cost of equity is too low.

Q48. CAN YOU ILLUSTRATE THE CONSEQUENCES OF THE IMPLEMENTATION CHOICES MADE IN THE PARCELL DIRECT AND THE RIGSBY DIRECT?

A48. Yes, Table R 6 below summarizes the impact the cost of equity. The modifications are discussed in Section III to VI above.

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[85] The Rigsby Direct, Schedule WAR-7 uses the 5-year Treasury Bond yield which logically would be

Table R 6. Summary of the Impact of Modifications

	Parcell Direct [a]	Rigsby Direct [b]
Original recommendation	10.00%	8.88%
Revised DCF estimate	at least 10.6%	11.77%
Revised CAPM estimate	at least 10.5%	10.08%
Using Staff/Rigsby prior financial risk adjustment	+ 0.6% to 0.7%	+ 0.5%
Revised Cost of Equity	**at least 11.2%**	**11.4%**

As can be seen from Table R 6 and Section VI, if the Rigsby Direct used only cost of equity estimates above the current cost of Baa-rated utility debt and relied on Mr. Rigsby's previous adjustment for financial risk, the cost of equity would increase to about 10.3%. Further, if the Rigsby Direct had not made its unique adjustment to the sustainable growth model and used a reasonable risk-free rate, the recommended cost of equity would increase to about 11.4%. This figure does not take into account the reliance on historical growth rates. Similarly, if the Parcell Direct had used the same methodology as Staff in the past has used to adjust for financial risk, its recommendation would be in the range of 10.6 to 10.7%. If the Parcell Direct further had relied only on forecasted growth rates and the version of the CAPM that uses the arithmetic MRP, the midpoint of its range would increase to at least 11.2%. Thus, with adjustment based on past testimony from Staff and Mr. Rigsby and standard financial economics, the cost of equity estimated in the Parcell Direct and the Rigsby Direct is no less than 11.2 to 11.4%. As the adjustments are conservative, so are the ranges indicated above.

Q49. DO YOU HAVE ANY OTHER CONCLUDING REMARKS ON ARIZONA-AMERICAN'S COST OF EQUITY CAPITAL?

A49. Yes. As discussed in Section III above, Arizona-American's financing affiliate, American Water Capital Corporation, has recently issued debt at or near 10% and equity investors require a premium to provide capital. Additionally, the current turmoil in financial markets has caused the cost of debt and equity to increase. For a utility that

higher than the 3-month Treasury Bill rate but lower than the 10-year Treasury Note rate. The Parcell Direct uses a risk-free rate of 4.35%.

needs to undertake investments in infrastructure, it is therefore imperative that the allowed return on equity and overall return are such that it maintains its access to capital.

Q50. YOU DO NOT ADDRESS ALL ISSUES OR FINDINGS DISCUSSED IN THE PARCELL DIRECT OR RIGSBY DIRECT. DOES THAT IMPLY THAT YOU ACCEPT THEIR POSITIONS OR FINDINGS?

A50. A. No, not necessarily.

Q51. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A51. A. Yes.

Table No. BV R-1

Cost of Equity Adjustment Calculation

Company	Risk Free Rate [1]	Beta [2]	Risk Premium [3]	K [4]	
Value Line Water Group					
Using Value Line Beta	4.35%	1.03	5.90%	10.4%	[a]
Using Adjusted Relevered Beta	4.35%	1.15	5.90%	11.1%	[b]
				0.7%	[c]
AUS Utility Reports Group					
Using Value Line Beta	4.35%	0.93	5.90%	9.8%	[a]
Using Adjusted Relevered Beta	4.35%	1.03	5.90%	10.4%	[b]
				0.6%	[c]
Villadsen Water Sample					
Using Value Line Beta	4.35%	0.93	5.90%	9.8%	[a]
Using Adjusted Relevered Beta	4.35%	1.03	5.90%	10.4%	[b]
				0.6%	[c]

Sources and Notes:
[1], [3]: Parcell Direct, Schedule 7.
[2][a]: Workpaper #1 to Table No. BV R-1; column [1] average.
[2][b]: Workpaper #3 to Table No. BV R-1; column [6].
[4][a] - [b]: = [1] + ([2] x [3]).
[4][c]: = [4][b] - [4][a].

Workpaper #1 to Table BV R-1

Value Line Raw Beta Calculation

Company	Value Line Beta	Raw Beta
	[1]	[2]
Value Line Water Group		
American States Water Co.	0.95	0.90
Aqua America, Inc	1.00	0.97
California Water Service Group	1.10	1.12
Southwest Water Co.	1.05	1.04
Average	1.03	1.01
AUS Utility Reports Group		
American States Water Co.	0.95	0.90
Aqua America, Inc	1.00	0.97
Artesian Resources Corp.	-	-
California Water Service Group	1.10	1.12
Connecticut Water Service, Inc.	0.80	0.67
Middlesex Water	0.90	0.82
SJW Corporation	1.15	1.19
Southwest Water Co.	1.05	1.04
York Water Company	0.50	0.22
Average	0.93	0.87
Villadsen Water Sample		
American States Water Co.	0.95	0.90
Aqua America, Inc	1.00	0.97
California Water Service Group	1.10	1.12
Connecticut Water Service, Inc.	0.80	0.67
Middlesex Water	0.90	0.82
SJW Corporation	1.15	1.19
Southwest Water Co.	1.05	1.04
York Water Company	0.50	0.22
Average	0.93	0.87

[1]: Value Line Betas from Schedule 7 of Parcell Testimony.
[2]: (-0.35 + [1]) / 0.67

Workpaper #2 to Table No. BV R-1

Calculation of Unlevered Raw Beta

Company	(Unadjusted Beta) Value Line Levered Raw Beta	Primary Location of Operations	State Corporate Income Tax Rate	Tax Rate	Book Debt	Equity Cap	Unlevered Raw Beta
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Value Line Water Group							
American States Water Co.	0.90	CA	8.84%	40.75%	50%	50%	0.56
Aqua America, Inc	0.97	PA	9.99%	41.49%	57%	43%	0.55
California Water Service Group	1.12	CA	8.84%	40.75%	43%	57%	0.77
Southwest Water Co.	1.04	CA	8.84%	40.75%	48%	52%	0.68
Average	1.01		9.13%	40.93%	50%	51%	0.64
AUS Utility Reports Group							
American States Water Co.	0.90	CA	8.84%	40.75%	50%	50%	0.56
Aqua America, Inc	0.97	PA	9.99%	41.49%	57%	43%	0.55
Artesian Resources Corp.*	-						
California Water Service Group	1.12	CA	8.84%	40.75%	43%	57%	0.77
Connecticut Water Service, Inc.	0.67	CT	7.50%	39.88%	50%	50%	0.42
Middlesex Water	0.82	NJ	9.00%	40.85%	52%	48%	0.50
SJW Corporation	1.19	CA	8.84%	40.75%	48%	52%	0.77
Southwest Water Co.	1.04	CA	8.84%	40.75%	48%	52%	0.68
York Water Company	0.22	PA	9.99%	41.49%	52%	48%	0.14
Average	0.87		8.98%	40.84%	50%	50%	0.55
Villadsen Water Sample							
American States Water Co.	0.90	CA	8.84%	40.75%	50%	50%	0.56
Aqua America, Inc	0.97	PA	9.99%	41.49%	57%	43%	0.55
California Water Service Group	1.12	CA	8.84%	40.75%	43%	57%	0.77
Connecticut Water Service, Inc.	0.67	CT	7.50%	39.88%	50%	50%	0.42
Middlesex Water	0.82	NJ	9.00%	40.85%	52%	48%	0.50
SJW Corporation	1.19	CA	8.84%	40.75%	48%	52%	0.77
Southwest Water Co.	1.04	CA	8.84%	40.75%	48%	52%	0.68
York Water Company	0.22	PA	9.99%	41.49%	52%	48%	0.14
Average	0.87		8.98%	40.84%	50%	50%	0.55

Sources and Notes:

[1]: See Workpaper #1 to Table BV R-1; column [2].

[2]: From company website.

[3]: From Federation of Tax Adminstration Website: http://www.taxadmin.org/fta/rate/corp_inc.html.

[4]: = [3] + (1 - [3]) x 35%.

[5]: = 1 - [6].

[6]: Parcell Direct, Schedule 4.

[7]: = [1] / (1 + ([5] / [6]) x (1 - [4])).

*Artesian Resources Corp. is excluded from calculations due to lack of a Value Line Beta.

Workpaper #3 to Table No. BV R-1

Calculation of Adjusted Relevered Beta

Company	Unlevered Raw Beta [1]	Book Debt (Long-term and short term) [2]	Equity Capital [3]	Tax Rate [4]	Relevered Raw Beta [5]	Adjusted Relevered Beta [6]
Value Line Water Group	0.64	0.58	0.42	38.6%	1.19	1.15
AUS Utility Reports Group	0.55	0.58	0.42	38.6%	1.02	1.03
Villadsen Water Sample	0.55	0.58	0.42	38.6%	1.02	1.03

Sources and Notes:

[1]: Workpaper #2 to Table No. BV R-1; Column [7] average.

[2] - [3]: Parcell Direct, page 2.

[4]: Provided by Arizona-American Water.

[5]: = [1] x (1 + (1 - [4]) x ([2] / [3]).

[6]: = 0.35 + (0.67 x [5]).

Table No. BV R-2
Parcell Direct DCF Estimates Based only on Prospective Growth Rates

Company	DPS [1]	Average Stock Price [2]	Dividend yield [3]	Retention Growth Rates (2008) [4]	Retention Growth Rates (2009) [5]	Retention Growth Rates (2011 - 2013) [6]	Prospective Retention Growth [7]	Est'd '05-'07 to '11-'13 Growth Rates: EPS [8]	DPS [9]	BVPS [10]	Average [11]	First Call EPS Growth [12]	Average Growth [13]	Adjusted dividend yield [14]	RoE estimate [15]
American States Water	$1.00	$34.10	2.9%	4.5%	5.5%	7.5%	5.8%	11.0%	5.0%	2.5%	6.2%	4.0%	5.3%	3.0%	8.3%
Aqua America, Inc.	$0.54	$15.67	3.4%	3.0%	3.5%	4.0%	3.5%	7.5%	5.5%	5.5%	6.2%	7.0%	5.6%	3.5%	9.1%
California Water Service Group	$1.17	$35.09	3.3%	2.5%	4.0%	5.5%	4.0%	10.0%	2.0%	4.0%	5.3%	8.0%	5.8%	3.4%	9.2%
Southwest Water Co.	$0.24	$8.61	2.8%	0.5%	1.5%	4.5%	2.2%	9.5%	6.0%	1.0%	5.5%	5.0%	4.2%	2.8%	7.1%
Average													**5.2%**		**8.4%**
American States Water	$1.00	$34.10	2.9%	4.5%	5.5%	7.5%	5.8%	11.0%	5.0%	2.5%	6.2%	4.0%	5.3%	3.0%	8.3%
Aqua America	$0.54	$15.67	3.4%	3.0%	3.5%	4.0%	3.5%	7.5%	5.5%	5.5%	6.2%	7.0%	5.6%	3.5%	9.1%
Artesian Resources Corp.	$0.71	$15.27	4.6%									5.0%	5.0%	4.8%	9.8%
California Water Service Group	$1.17	$35.09	3.3%	2.5%	4.0%	5.5%	4.0%	10.0%	2.0%	4.0%	5.3%	8.0%	5.8%	3.4%	9.2%
Connecticut Water Service, Inc.	$0.89	$24.11	3.7%									15.0%	15.0%	4.0%	19.0%
Middlesex Water	$0.71	$15.00	4.7%									8.0%	8.0%	4.9%	12.9%
SJW Corporation	$0.64	$25.24	2.5%									10.0%	10.0%	2.7%	12.7%
Southwest Water Co.	$0.24	$8.61	2.8%	0.5%	1.5%	4.5%	2.2%	9.5%	6.0%	1.0%	5.5%	5.0%	4.2%	2.8%	7.1%
York Water Company	$0.48	$12.46	3.9%									8.0%	8.0%	4.0%	12.0%
Average													**7.4%**		**11.1%**
American States Water	$1.00	$34.10	2.9%	4.5%	5.5%	7.5%	5.8%	11.0%	5.0%	2.5%	6.2%	4.0%	5.3%	3.0%	8.3%
Aqua America	$0.54	$15.67	3.4%	3.0%	3.5%	4.0%	3.5%	7.5%	5.5%	5.5%	6.2%	7.0%	5.6%	3.5%	9.1%
California Water Service Group	$1.17	$35.09	3.3%	2.5%	4.0%	5.5%	4.0%	10.0%	2.0%	4.0%	5.3%	8.0%	5.8%	3.4%	9.2%
Connecticut Water Service, Inc.	$0.89	$24.11	3.7%									15.0%	15.0%	4.0%	19.0%
Middlesex Water	$0.71	$15.00	4.7%									8.0%	8.0%	4.9%	12.9%
SJW Corporation	$0.64	$25.24	2.5%									10.0%	10.0%	2.7%	12.7%
Southwest Water Co.	$0.24	$8.61	2.8%	0.5%	1.5%	4.5%	2.2%	9.5%	6.0%	1.0%	5.5%	5.0%	4.2%	2.8%	7.1%
York Water Company	$0.48	$12.46	3.9%									8.0%	8.0%	4.0%	12.0%
Average													**7.7%**		**11.3%**

Sources and Notes:
Note that the replication of the Parcell Direct's numbers is subject to minor rounding errors due to not having access to the original spreadsheets.
[1] - [2]: Parcell Direct, Schedule 5, Page 1.
[3] = [1] / [2]. See also, Parcell Direct, Schedule 5, Page 1.
[4] - [6]: Parcell Direct, Schedule 5, Page 2.
[7] = ([4] + [5] + [6]) / 3. See also, Parcell Direct, Schedule 5, Page 2.
[8] - [10]: Parcell Direct, Schedule 5, Page 3.
[11] = ([8] + [9] + [10]) / 3. See also, Parcell Direct, Schedule 5, Page 3.
[12]: Parcell Direct, Schedule 5, Page 4.
[13] = ([7] + [11] + [12]) / 3.
[14] = [3] x (1 + (0.5 x [13])).
[15] = [13] + [14].

Table No. BV R-3

Rigsby Direct DCF Estimates Without Adjustment to Sustainable Growth Formula

	Share Growth	Market-to-Book Ratio	External Growth (Rigsby)	External Growth (Unadjusted)	Internal Growth	Dividend Growth (Rigsby)	Dividend Growth (Unadjusted)	Dividend Yield	DCF Cost of Equity (Rigsby)	DCF Cost of Equity (Unadjusted)	Impact of Adjustment
	[1]	[2]	[3]	[3a]	[4]	[5]	[5a]	[6]	[7]	[7a]	[8]
American States Water Co.	3.25%	1.76	1.24%	2.47%	6.75%	7.99%	9.22%	3.10%	11.09%	12.32%	
California Water Service Group	3.00%	2.11	1.67%	3.33%	5.00%	6.67%	8.33%	2.87%	9.54%	11.20%	
Southwest Water Co.	3.50%	0.68	6.44%	5.88%	3.75%	10.19%	9.63%	5.38%	15.57%	15.01%	
Aqua America, Inc.	1.00%	2.60	0.80%	1.60%	5.00%	5.80%	6.60%	2.75%	8.55%	9.35%	
Water Company Average			**2.54%**	**3.32%**		**7.66%**	**8.45%**		**11.19%**	**11.97%**	**0.79%**
AGL Resources, Inc.	1.00%	1.29	0.15%	0.29%	5.25%	5.40%	5.54%	5.77%	11.17%	11.31%	
Atmos Energy Group	5.00%	0.99	9.98%	9.95%	4.00%	13.98%	13.95%	5.62%	19.60%	19.57%	
Laclede Group, Inc.	3.00%	2.22	1.83%	3.66%	4.50%	6.33%	8.16%	3.14%	9.47%	11.30%	
New Jersey Resources Corp.	1.00%	2.15	0.58%	1.15%	6.25%	6.83%	7.40%	3.01%	9.84%	10.41%	
Nicor, Inc.	0.07%	1.83	0.03%	0.06%	6.00%	6.03%	6.06%	4.89%	10.92%	10.95%	
Northwest Natural Gas Co.	1.00%	1.98	0.49%	0.98%	4.75%	5.24%	5.73%	3.37%	8.61%	9.10%	
Piedmont Natural Gas Co.	0.01%	2.52	0.01%	0.02%	5.00%	5.01%	5.02%	3.27%	8.28%	8.29%	
South Jersey Industries	1.75%	2.07	0.94%	1.87%	9.00%	9.94%	10.87%	6.32%	16.26%	17.19%	
Southwest Gas Corp.	2.50%	1.06	0.08%	0.15%	5.25%	5.33%	5.40%	3.66%	8.99%	9.06%	
WGL Holdings, Inc.	0.20%	1.54	0.05%	0.11%	4.00%	4.05%	4.11%	4.43%	8.48%	8.54%	
Natural Gas LDC Average			**1.41%**	**1.82%**		**6.81%**	**7.22%**		**11.16%**	**11.57%**	**0.41%**

Sources and Notes:

Note that the replication of the Rigsby Direct's numbers is subject to minor rounding errors due to not having access to the original spreadsheets.

[1]: Rigsby Direct, Schedule WAR-4, Page 2, Column (A).

[2]: Rigsby Direct, Schedule WAR-4, Page 2, Column (B).

[3] = [1] x (([2] + 1) / 2 - 1) if [2] > 1, and [1] x (([2] + 1) / 2 + 1) if [2] < 1.

[3a] = [1] x ([2] - 1) if [2] > 1, and [1] x ([2] + 1) if [2] < 1.

[4]: Rigsby Direct, Schedule WAR-4, Page 1, Column (A).

[5] = [4] + [3].

[5a] = [4] + [3a].

[6]: Rigsby Direct, Schedule WAR-2, Column (A).

[7] = [6] + [5].

[7a] = [6] + [5a].

[8] = [7a] - [7] (averages only).

Table BV R-4

Result of Corrections to the Rigsby Direct Cost-of-Equity Estimate

Estimate Basis	Original [a]	No estimates below cost of debt [b]	Arithmetic MRP only [c]	No adjustment to DCF sustainable growth formula [d]	Adjustment to risk-free rate [e]	**All corrections** [f]
DCF - Water Sample	11.19%	11.19%	11.19%	11.97%	11.19%	11.97%
DCF - Natural Gas LDC Sample	11.16%	11.16%	11.16%	11.57%	11.16%	11.57%
DCF Average	**11.17%**	**11.17%**	**11.17%**	**11.77%**	**11.17%**	**11.77%**
CAPM Geometric MRP - Water Sample	6.66%			6.66%	9.41%	
CAPM Geometric MRP - Natural Gas LDC Sample	5.07%			5.07%	7.82%	
CAPM Arithmetic MRP - Water Sample	8.39%	8.39%	8.39%	8.39%	11.14%	11.14%
CAPM Arithmetic MRP - Natural Gas LDC Sample	6.26%		6.26%	6.26%	9.01%	9.01%
CAPM Average	**6.59%**	**8.39%**	**7.33%**	**6.60%**	**9.35%**	**10.08%**
Estimate	**8.88%**	**9.78%**	**9.25%**	**9.18%**	**10.26%**	**10.92%**
Difference from Rigsby Direct Estimate	-	0.90%	0.37%	0.30%	1.38%	2.04%
Financial Risk Adjustment	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Estimate Adjusted for Financial Risk	9.38%	10.28%	9.75%	9.68%	10.76%	**11.42%**

Sources and Notes:

[a]: Rigsby Direct, Schedule WAR-1, Page 3.

[b]: The 15-day average yield on Moody's Baa-rated public utility index for the period ending February 3, 2009 was 7.86 percent (Bloomberg).

[d]: Table BV R-3, Column [7a].

[e]: See discussion in Section VI.C of the rebuttal testimony.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF ARIZONA -AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, ANTHEM WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT	DOCKET NO. W-01303A-08-0227
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WASTEWATER DISTRICT, ANTHEM WASTEWATER DISTRICT, AND MOHAVE WASTEWATER DISTRICT	DOCKET NO. SW-01303A-08-0227

REBUTTAL TESTIMONY
OF
PAUL R. HERBERT
ON BEHALF OF
ARIZONA-AMERICAN WATER COMPANY
FEBRUARY 11, 2009

REBUTTAL TESTIMONY
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EXECUTIVE SUMMARY

In his rebuttal testimony, Mr. Herbert responds to the testimony of Staff Witness Mr. Steve Olea concerning the cost-of-service allocation studies submitted in this proceeding.

Mr. Olea contends that that the cost-of-service studies submitted in this case should be given little weight because certain data related to system delivery volumes were corrected. This is incorrect. Any corrections are trivial and do not affect the results of my cost-of-service study. The cost-of-service studies prepared and submitted in this case properly reflect the allocation of costs to the various classes of users and can be used as a guide to design the appropriate rates in this case

1 **I** **INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS**

3 A. My name is Paul R. Herbert. My business address is 207 Senate Avenue, Camp Hill,
4 Pennsylvania.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Gannett Fleming, Inc.

7 **Q. DID YOU SUBMIT DIRECT TESTIMONY IN THIS PROCEEDING?**

8 A. Yes, my direct testimony and exhibits were submitted with the Company's filing in April
9 2008.

10 **II** **PURPOSE OF TESTIMONY**

11 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

12 A. I will address the cost-of-service study issues raised in Staff witness Steve Olea's
13 testimony.

14 **III** **COST-OF-SERVICE ALLOCATION**

15 **Q. PLEASE ADDRESS MR. OLEA'S COMMENTS REGARDING YOUR COST-OF-**
16 **SERVICE ALLOCATION STUDIES.**

17 A. Mr. Olea contends that the cost-of-service studies submitted in this case should be given
18 little weight because certain data related to system delivery volumes were corrected.

19 **Q. DO YOU AGREE THAT THESE SYSTEM DELIVERY CORRECTIONS**
20 **WOULD AFFECT THE RESULTS OF YOUR STUDY?**

21 A. No I do not. The corrections to the system delivery data only affect the peak-day ratios
22 calculated for some of the districts and these corrections were very small. Since the
23 commodity-demand method does not use the system-coincident-peak-day factor for the
24 purposes of allocation, these corrections do not affect the results of the studies at all. The
25 consumption data recorded by class and used to allocate commodity and demand costs to

the various classes were appropriate and reflect the proper allocation of costs to the classes.

Just to put Mr. Olea's concerns in perspective, the system-delivery corrections he discussed for the Mohave Water District's Gateway System are only a tiny fraction of the total system delivery for the entire Mohave Water District. The Gateway System delivery of 8,685,000 gallons is only 0.34% of the total system delivery of 2,527,613,000 gallons for the Mohave Water District. Any correction to data representing less than one-half of one percent of the total water delivered will not affect the results of the cost-allocation study.

Q. WHAT DO YOU CONCLUDE WITH RESPECT TO MR. OLEA'S TESTIMONY?

A. Mr. Olea's contention that the cost-of-service studies submitted in this case should be rejected. The cost-of-service studies prepared and submitted in this case properly reflect the allocation of costs to the various classes of users and can be used as a guide to design the appropriate rates in this case

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

A Schedules

Agua Fria Water

Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

Exhibit
Schedule A-1 Rebuttal
Page 1
Witness: Broderick

Company Rebuttal

Line No.					
1	Original Cost Rate Base			$ 92,349,679	
2					
3	Adjusted Operating Income			2,878,406	
4					
5	Current Rate of Return			3.12%	
6					
7	Required Operating Income			$ 7,757,373	
8					
9	Required Rate of Return			8.40%	
10					
11	Operating Income Deficiency			$ 4,878,967	
12					
13	Gross Revenue Conversion Factor			1.6553	
14					
15	Increase in Gross Revenue				
16	Requirement			$ 8,076,102	
17					
18	Customer	Present	Proposed	Dollar	Percent
19	Classification	Rates	Rates	Increase	Increase
20					
21	Residential	$13,633,335			0.00%
22	Commercial	3,920,854			0.00%
23	OPA	31,032			0.00%
24	Sale for Resale	123,440			0.00%
25	Private Fire	108,160			0.00%
26	Misc Irrigation Sales	96,636			0.00%
27					
28	Total Water Revenues	$17,913,457	$25,989,598	$8,076,141	45.08%
29					
30	Other Revenues	905,117	$905,117	$0	0.00%
31					
32	Total Revenues	$18,818,574	$26,894,715	$8,076,141	42.92%
33					
34					
35					
36					
37					
38					
39					
40	Supporting Schedules:				
41	B-1				
42	C-1				
43	H-1				
44					
45					
46					
47					
48					
49					
50	\Schedules\2007 Agua Fria Water Sch. A-F.xls\				

B Schedules

Agua Fria Water

Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2 Rebuttal
Page 1
Witness: Gutowski

Line No.		[A] Adjusted End of Test Year	[B] Company LJG-1R Reduce Sierra Montana Costs	[C] Reject STAFF RB # 1 Rancho Cabrillo	[D] Reject/Correct STAFF RB #2 Working Capital	[E] Reject STAFF RB # 3 Imputed Advances	[F] Accept STAFF RB # 4 Dfd DR[1] error	[G] Accept STAFF RB # 5 Post TY Dist Syst	[H] Reject STAFF RB # 5 Post TY Sierra M	[I] Reject STAFF RB # 6 White Tanks
									Company Rebuttal	
1	Gross Utility									
2	Plant in Service	$ 211,145,154	$ (252,470)	$ -				$ -	$ -	
3	CWIP for the White Tanks Project	25,000,000								-
4										
5	**Less:**									
6	Accumulated Depreciation	20,033,433		-						
7										
8	Net Utility Plant									
9	in Service	$ 216,111,721	$ (252,470)	$ -	$ -	$ -		$ -	$ -	$ -
10										
11	**Less:**									
12	Advances in Aid of									
13	Construction	98,233,813		-						
14	Contributions in Aid of	-								
15	Construction - Net	28,271,263								
16	Imputed Regulatory Advances	-				-				
17	Imputed Regulatory Contributions	796,965								
18	Customer Meter Deposits	19,040								
19	Deferred Income Taxes	(2,839,311)								
20	Investment Tax Credits	-								
21		-								
22		-								
23	**Plus:**	-								
24	Deferred Debits	3,529,517					(3,321,116)			
25	Working capital	1,816,928			(1,349,754)					
26	Utility Plant Acquisition Adjustment	-								
27										
28	Total	$ 96,976,395	$ (252,470)	$ -	$ (1,349,754)	$ -	$(3,321,116)	$ -	$ -	$ -
29										
30										
31										
32										
33	[1] RUCO RB Adjustment #5 is									
34	the same dollar amount.									
35										
36										
37										
38										
39	Supporting Schedules:									
40	B-5									
41	E-1									
42	08 AZ MEGA\Common\Workpapers\CZN AZAM									
43	08 AZ MEGA\08 Agua Fria Water\Workpapers\R									
44	08 AZ MEGA\08 Agua Fria Water\Workpapers\R									

Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2 Rebuttal
Page 2
Witness: Gutowski

Line No.		[J] Reject RUCO RB # 1 Accum Depr	[K] Reject RUCO RB #2 CIAC for CWIP	[L] Accept RUCO RB # 3 Amtzn CIAC	[M] Correct RUCO RB # 4 Trsf SCW Plant	[N] Reject RUCO RB # 6 Working Capital	[O] Reject RUCO RB # 7 White Tanks	[P] Total Rebuttal Pro Forma Adjustments	[Q] Rebuttal Adjusted End of Test Year
1	Gross Utility								
2	Plant in Service				$ 18,581			$ 18,581	$ 211,163,735
3	CWIP for the White Tanks Project						-	-	25,000,000
4									
5	**Less:**								
6	Accumulated Depreciation	-			2,446			2,446	20,035,879
7									
8	Net Utility Plant								
9	in Service	$ -	$ -	$ -	$ 16,135		$ -	$ 16,135	$ 216,127,856
10									
11	**Less:**								
12	Advances in Aid of								
13	Construction							-	98,233,813
14	Contributions in Aid of							-	-
15	Construction - Net		-	(28,019)				(28,019)	28,243,244
16	Imputed Regulatory Advances							-	-
17	Imputed Regulatory Contributions							-	796,965
18	Customer Meter Deposits							-	19,040
19	Deferred Income Taxes							-	(2,839,311)
20	Investment Tax Credits							-	-
21								-	-
22								-	-
23	**Plus:**							-	-
24	Deferred Debits							(3,321,116)	208,401
25	Working capital							(1,349,754)	467,174
26	Utility Plant Acquisition Adjustment							-	-
27									
28	Total	$ -	$ -	$ 28,019	$ 16,135		$ -	$ (4,626,716)	$ 92,349,679
29									
30									
31									
32									
33	[1] RUCO RB Adjustment #5 is								
34	the same dollar amount.								
35									
36									
37									
38									
39	Supporting Schedules:								
40	B-5								
41	E-1								
42	08 AZ MEGA\Common\Workpapers\CZN AZAM |								
43	08 AZ MEGA\08 Agua Fria Water\Workpapers\R								
44	08 AZ MEGA\08 Agua Fria Water\Workpapers\R								

Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Computation of Working Capital

Exhibit
Schedule B-5 Rebuttal
Page 1
Witness: Gutowski

Line No.		Company Rebuttal
1		
2	Working Cash Requirement	$ 60,105
3	Material and Supplies Inventories	192,139 [1]
4	Prepayments	214,929
5		
6		
7	Total Working Capital Allowance, Rebuttal	$ 467,174
8		
9	Total Adjusted Test Year Working Capital Allowance	$ 1,816,928
10		
11	Increase (Decrease in Working Capital Allowance	$(1,349,754)
12		
13	Increase (Decrease in Working Capital Allowance	$(1,349,754)
14		
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43	Supporting Schedules:	Recap Schedules:
44	E-1	B-1
45	Workpapers & Supporting Documents:	
46	[1]Thirteen-month average	
47		
48		
49		
50	\Schedules\2007 Agua Fria Water Sch. A-F.xls\	

Arizona American Water Company
Test Year Ended December 31, 2007
Lead/Lag Study - Working Cash Requirement

Exhibit
Schedule B-6 Rebuttal
Page 1
Witness: Hubbard

AGUA FRIA WATER

Line No.		Company Rebuttal Test Year Adjusted Results	Revenue Lag Days	Expense Lag Days	Net Lag Days	Lead/ Lag Factor	Cash Working Capital Required
1	OPERATING EXPENSES						
2	**P08** Labor	$ 1,369,604	48.94335	12.0000	36.9434	0.1012	$ 138,624
3	**P09** Purchased Water	901,467	48.94335	86.8700	(37.9266)	(0.1039)	(93,670)
4	**P10** Fuel & Power	1,954,815	48.94335	32.4200	16.5234	0.0453	88,493
5	**P11** Chemicals	981,930	48.94335	28.4700	20.4734	0.0561	55,078
6	**P12** Waste Disposal	-	48.94335	30.0000	30.0000	0.0822	-
7	**P13** Management Fees	2,775,604	48.94335	(3.8800)	52.8234	0.1447	401,690
8	**P14** Group Insurance	396,645	48.94335	(4.6445)	53.5879	0.1468	58,234
9	**P15** Pensions	240,413	48.94335	45.0000	3.9434	0.0108	2,597
10	**P17** Insurance Other Than Group	158,153	48.94335	45.0000	3.9434	0.0108	1,709
11	**P18** Customer Accounting	370,806	48.94335	7.4600	41.4834	0.1137	42,143
12	**P19** Rents	63,217	48.94335	(10.6818)	59.6252	0.1634	10,327
13	**P27-** Depreciation & Amortization		-	-	-	-	-
14	Other Operating Expenses[1]	1,283,596	48.94335	30.0000	18.9434	0.0519	66,618
15	TAXES						
16	**P29** Taxes Other than Income	128,923	48.94335	15.6511	33.2923	0.0912	11,759
17	**P29** Property Taxes	803,072	48.94335	212.5000	(163.5566)	(0.4481)	(359,857)
18	**P30-** Income Tax[2]	3,187,177	48.94335	42.0402	6.9032	0.0189	60,279
19							
20	**P56-** Interest	2,687,376	48.94335	106.5200	(57.5766)	(0.1577)	(423,918)
21							
22							
23							
24							
25							
26							
27	WORKING CASH REQUIREMENT	$ 17,302,797					$ 60,105
28							
29							

30 [1]All Other Operating Expenses are assumed to be paid by the 15th of the month following the receipt of goods and services.
31 [2]At proposed rates.

Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Rate Base Adjustment LJG-R1 - Rebuttal

Exhibit
Schedule B-2 Rebuttal
Page 14
Witness: Gutowski

Line No.

1 Post Test Year Additions to Plant:

2

3 The Company expects to complete the Agua Fria Water Distribution System Improvements
4 Phase 2 projects consisting of the Cool Well Waterline Connection, the Waddell Haciendas
5 project, and the Reems Road Bypass. This work is expected to be completed by
6 October, 2008. Projected project costs are:

		Project Costs	Annual Deprec Expense	Post TY Annual Depreciation Expense
304400	Struct & Imp TD	$ 192,154	1.67%	$ 3,209
331200	TD Mains 6in to 8in	205,286	1.53%	3,141
331300	TD Mains 10in to 16in	748,152	1.53%	11,447
346190	Remote Control & Instrumentatior	21,676	4.93%	1,069
		$ 1,167,268		$ 18,865

The Company also expects to completed the Sierra Montana 2.2MG Reservoir. This project
is expected to be completed by August, 2008. Projected project costs are:

		Project Costs	Annual Deprec Expense	Post TY Annual Depreciation Expense
330000	Dist Reservoirs & Standpipe	$ 1,647,404	1.67%	$ 27,512
331400	TD Mains 18in and Grtr.	399,361	2.34%	9,345
		$ 2,046,765		$ 36,857
	Total of both Projects	$ 3,214,033		$ 55,722

The actual costs for the Sierra Montana Reservoir are in and are less than the estimate, as follows:

		Project Costs	Annual Deprec Expense	Post TY Annual Depreciation Expense	
304400	Struct & Imp TD	$ 31,447	1.67%	$ 525	
309000	Supply Mains	140,717	2.00%	2,814	New Rate
330000	Dist Reservoirs & Standpipe	1,456,245	1.67%	24,319	
331100	TD Mains 4in & Less	33	1.53%	1	
331400	TD Mains 18in and Grtr.	165,853	2.34%	3,881	
		$ 1,794,295		$ 31,540	
	New Total for both Projects	$ 2,961,563		$ 50,405	
	Original Total for both Projects	$ 3,214,033		$ 55,722	
Decrease in Plant and Depreciation Exp		$ (252,470)		$ (5,316)	

Workpapers & Supporting Documents:
\Schedules\2007 Agua Fria Water Sch. A-F.xls\

C Schedules

Agua Fria Water

Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 1
Witness: Hubbard

Line No.			Company Rebuttal								
			[A] Test Year Adjusted Results	[B] ADJ LJG-1R	[C] ADJ SLH-1R Correct Waste Disposal Exp	[D] ADJ SLH-2R Correct Chemical Exp	[E] ADJ SLH-3R Amortize Rate Case Exp	[F] ADJ SLH-4R Accept RUCO's Corp Labor Adj	[G] ADJ SLH-5 Tank Maintenance Exp	[H] ADJ SLH-6R Water Testing Exp (Staff)	[I] ADJ SLH-7R Adjust Deprec Expense
1	**Revenues**										
2	**P02**	Water Revenues	$ 17,913,497								
3	**P04**	Other Revenues	905,117								
4			-								
5			$ 18,818,613	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	**Operating Expenses**										
7	**P08**	Labor	$ 1,440,677					$ (37,665)			
8	**P09**	Purchased Water	$ 901,467								
9	**P10**	Fuel & Power	$ 1,954,815								
10	**P11**	Chemicals	$ 1,121,555			(139,625)					
11	**P12**	Waste Disposal	$ (870)		870						
12	**P13**	Management Fees	$ 2,775,604								
13	**P14**	Group Insurance	$ 396,645								
14	**P15**	Pensions	$ 240,413								
15	**P16**	Regulatory Expense	$ 64,012				5,212				
16	**P17**	Insurance Other Than Group	$ 158,153								
17	**P18**	Customer Accounting	$ 370,806								
18	**P19**	Rents	$ 63,217								
19	**P20**	General Office Expense	$ 161,107								
20	**P21**	Miscellaneous	$ 787,967							74	
21	**P25**	Maintenance Expense	$ 591,329						(320,655)		
22	**P27-2**	Depreciation & Amortization	$ 4,397,190								(5,316)
23	**P29**	Taxes Other Than Income-Property Taxes	$ 803,071								
24	**P29**	Taxes Other Than Income-Other	$ 128,923								
25	**P30-3**	Income Taxes	$ (138,756)								
26											
27	**Total Operating Expenses**		$ 16,217,325	$ -	$ 870	$ (139,625)	$ 5,212	$ (37,665)	$ (320,655)	$ 74	$ (5,316)
28	**Utility Operating Income**		$ 2,601,288	$ -	$ (870)	$ 139,625	$ (5,212)	$ 37,665	$ 320,655	$ (74)	$ 5,316
29	**Other Income & Deductions**										
30	**P39-4**	Other Income & Deductions	-								
31	**P56-6**	Interest Expense	2,822,013								
32	**P48-5**	Other Expense	(1,034)								
33	**P43**	Gain/Loss Sale of Fixed Assets	251,993								
34	**Total Other Income & Deductions**		$ (2,568,986)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**		$ 32,302	$ -	$ (870)	$ 139,625	$ (5,212)	$ 37,665	$ 320,655	$ (74)	$ 5,316
36											
37											
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42											
43	Supporting Schedules:										

Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 2
Witness: Hubbard

Line No.		Company Rebuttal [J] ADJ SLH-8R Accept RUCO's AIP Adj	[K] ADJ SLH-9R Accept RUCO's Line 21 Adjs.	[L] ADJ SLH-10R Property Tax Expense	[M] ADJ SLH-11R Income Tax Expense	[N] ADJ SLH-12R Interest Synchronization	[O] Total Rebuttal Pro Forma Adjustments	[P] Rebuttal Test Year Adjusted Results	[Q] Rebuttal Proposed Rate Increase	[R] Rebuttal Adjusted with Rate Increase
1	**Revenues**									
2	**P02** Water Revenues						$ -	$ 17,913,497	$ 8,076,102	$ 25,989,598
3	**P04** Other Revenues						-	905,117		905,117
4							-	-		-
5		$ -	$ -	$ -	$ -	$ -	$ -	$ 18,818,613	$ 8,076,102	$ 26,894,715
6	**Operating Expenses**									
7	**P08** Labor	$ (33,408)					(71,073)	$ 1,369,604		$ 1,369,604
8	**P09** Purchased Water						-	901,467		$ 901,467
9	**P10** Fuel & Power						-	1,954,815		$ 1,954,815
10	**P11** Chemicals						(139,625)	981,930		$ 981,930
11	**P12** Waste Disposal						870	-		$ -
12	**P13** Management Fees						-	2,775,604		$ 2,775,604
13	**P14** Group Insurance						-	396,645		$ 396,645
14	**P15** Pensions						-	240,413		$ 240,413
15	**P16** Regulatory Expense						5,212	69,224		$ 69,224
16	**P17** Insurance Other Than Group						-	158,153		$ 158,153
17	**P18** Customer Accounting						-	370,806		$ 370,806
18	**P19** Rents						-	63,217		$ 63,217
19	**P20** General Office Expense						-	161,107		$ 161,107
20	**P21** Miscellaneous		(5,450)				(5,376)	782,591	19,349	$ 801,940
21	**P25** Maintenance Expense						(320,655)	270,674		$ 270,674
22	**P27-2** Depreciation & Amortization						(5,316)	4,391,874		$ 4,391,874
23	**P29** Taxes Other Than Income-Property Taxes			1			1	803,072	110,697	$ 913,769
24	**P29** Taxes Other Than Income-Other						-	128,923		$ 128,923
25	**P30-3** Income Taxes				$ 258,844		258,844	120,088	3,067,088	$ 3,187,177
26										
27	**Total Operating Expenses**	$ (33,408)	$ (5,450)	$ 1	$ 258,844	$ -	$ (277,118)	$ 15,940,207	$ 3,197,135	$ 19,137,342
28	**Utility Operating Income**	$ 33,408	$ 5,450	$ (1)	$ (258,844)	$ -	$ 277,118	$ 2,878,406	$ 4,878,967	$ 7,757,373
29	**Other Income & Deductions**									
30	**P39-4** Other Income & Deductions						-	-		-
31	**P56-6** Interest Expense					(134,637)	(134,637)	2,687,376		2,687,376
32	**P48-5** Other Expense						-	(1,034)		(1,034)
33	**P43** Gain/Loss Sale of Fixed Assets							251,993		251,993
34	**Total Other Income & Deductions**	$ -	$ -	$ -	$ -	$ 134,637	$ 134,637	$ (2,434,349)	$ -	$ (2,434,349)
35	**Net Profit (Loss)**	$ 33,408	$ 5,450	$ (1)	$ (258,844)	$ 134,637	$ 411,756	$ 444,057	$ 4,878,967	$ 5,323,024
36										
37										
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42										
43	Supporting Schedules:								0.00239589	

Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Adjustment LJG-1R

Exhibit
Schedule C-2 Rebuttal
Page 3
Witness: Gutowski

Line No.	
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45	Workpapers & Supporting Documents:
46	\Schedules\2007 Agua Fria Water Sch. A-F.xls\
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Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Adjustment Adjustment SLH-1R

Exhibit
Schedule C-2 Rebuttal
Page 4
Witness: Hubbard

Line No.			
1	**Adjusted Test Year Expense-Waste Disposal**		
2			
3	Waste Disposal Exp (A/C 511000) - AZ Corporate		(3,768)
4			
5	Total Adjusted Test Year Expense		
6			
7	4 Factor Allocation to Agua Fria Water		23.0946%
8			
9	Total Adjusted Test Year Waste Disposal Expense - Agua Fria	$	(870)
10			
11	RUCO Recommended Expense (RMoore)		870
12			
13	**Adjusted Test Year Waste Disposal Expense - Rebuttal**	$	-
14			
15	Less: Adjusted Test Year Waste Disposal Expense (Line 9 Above)	$	(870)
16			
17	Increase (Decrease) in Waste Disposal Expense	$	870
18			
19	Increase (Decrease) in Waste Disposal Expense	$	870
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45	Workpapers & Supporting Documents:		
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50	\Schedules\2007 Agua Fria Water Sch. A-F.xls\		

Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-2R

Exhibit
Schedule C-2 Rebuttal
Page 5
Witness: Hubbard

Line No.			
1	Normalize & Adjust Chemicals Expense		
2			
3	Revised Pro Forma Chemicals Expense (work paper) - Agua Fria Water		$ 981,930
4			
5	Adjusted Test Year 2007 Chemicals Expense - Agua Fria Water	1,121,555	
6			
7	Less: Arsenic Costs Deferred in ACRM (02/08)	0	
8			
9	Adjusted Test Year Chemicals Expense - Agua Fria Water		1,121,555
10			
11	Increase/(Decrease) in Chemicals Expense		(139,625)
12			
13	Adjustment to Revenue and/or Expense		(139,625)
14			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Agua Fria Water Sch. A-F.xls\		
47	\Common\Workpapers\Chemicals\Pro Forma Adj-Chemicals.xls		
48			
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Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-3R

Exhibit
Schedule C-2 Rebuttal
Page 6
Witness: Hubbard

Line No.			
1	Regulatory Expense		
2			
3	Estimated Rate Case Expense	$	456,275
4			
5	Estimated Amortization Period in Years		3
6			
7	Annual Rate Case Expense	$	152,092
8			
9	4 Factor - Agua Fria Water		45.5148%
10			
11	Allocated Rate Case Expense		69,224
12			
13	Unamortized Balance from Last Decision (Dec. 67093)		-
14			
15	Pro Forma Rate Case Expense		69,224
16			
17	Adjusted Test Year Rate Case Expense	$	64,012
18			
19	Increase/(Decrease) Rate Case Expense	$	5,212
20			
21	Adjustment to Revenue and/or Expense	$	5,212
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Agua Fria Water Sch. A-F.xls\		
47	\Common\Workpapers\Expenses\EXHIBIT TMB-3 Rate Case Expense.xls		
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Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-4R

Exhibit
Schedule C-2 Rebuttal
Page 7
Witness: Hubbard

Line No.			
1	Normalize test year Labor expense-Correct Corporate Labor		
2			
3	Total normalized Test Year Labor expense (Workpaper) - Agua Fria Water		$ 1,340,731
4			
5	Test Year Incentive Plan - Agua Fria Water		99,946
6			
7	Total Pro Forma Test Year Labor expense - Agua Fria Water		$ 1,440,677
8			
9	Adjusted Test Year Booked Labor Expense	$ 1,440,677	
10			
11	Adjusted Test Year Labor - Booked		$ 1,440,677
12			
13	Correction to Corporate Labor Expense	$ (163,092)	
14			
15	4 Factor Allocation to Agua Fria Water	23.0946%	
16			
17	Total Corporate disallowance		($37,665)
18			
19	Adjusted Test Year Labor Expense, Rebuttal		$1,403,012
20			
21	Increase (Decrease) in Labor Expense		$ (37,665)
22			
23	Increase (Decrease) in Labor Expense		$ (37,665)
24			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Agua Fria Water Sch. A-F.xls\		
47	\Common\Workpapers\Labor\AZ 2007 Labor with Annualizations.xls		
48	\08 Agua Fria Water\Workpapers\Expenses\A of I - Agua Fria Water.xls		
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Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-5R

Exhibit
Schedule C-2 Rebuttal
Page 8
Witness: Hubbard

Line No.			
1	Reserve for Future Tank Maintenance		
2			
3	Company Revised Reserve for Tank Maintenance Request	$	117,164
4			
5	Reserve for Future Tank Maintenance, Adjusted Test Year	$	437,819
6			
7	Increase (Decrease) in Reserve for Tank Maintenance Request	$	(320,655)
8			
9	Increase (Decrease) in Reserve for Tank Maintenance Request	$	(320,655)
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45	Workpapers & Supporting Documents:		
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50	\Schedules\2007 Agua Fria Water Sch. A-F.xls\		

Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-6R

Exhibit
Schedule C-2 Rebuttal
Page 9
Witness: Hubbard

Line No.					
1	Adjust Water Testing Expense to District-Specific Expense				
2					
3	Contract Service-Lab Testing SS (A/C 536000.11)	$	103,296		
4					
5	Misc Operating Expense WT(A/C 575000.13)	$	5,018		
6					
7	Total Water Testing Expense - Arizona Corporate		$108,314		
8					
9	4 Factor Allocation to Agua Fria Water		23.0946%		
10					
11	Total Test Year Water Testing Expense - Agua Fria			$	25,015
12					
13	Total Water Testing Expense - Agua Fria			$	25,089
14					
15	Increase/(Decrease) in Water Testing Expense			$	74
16					
17	Increase/(Decrease) in Water Testing Expense			$	74
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45	Workpapers & Supporting Documents:				
46	\Schedules\2007 Agua Fria Water Sch. A-F.xls\				
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Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-7R

Exhibit
Schedule C-2 Rebuttal
Page 10
Witness: Hubbard

Line No.			
1	Adjust Depreciation Expense to Reflect Test Year Adjusted Plant:		
2			
3	Annualized Depreciation Expense on Test Year UPIS	$	4,993,947
4	Depreciation Expense on Post-Test Year Plant Additions		50,405
5	Depreciation Expense on Acquisition Adjustment		230,973
6	Amortization of Regulatory Assets		2,918
7			
8			
9	Less: Amortization of Contributions		689,025
10	Amortization of Imputed Regulatory CIAC		197,344
11			
12	Total Depreciation Expense	$	4,391,874
13			
14	Adjusted Test Year Depreciation Expense		4,397,190
15			
16	Increase (Decrease) in Depreciation Expense		(5,316)
17			
18	Adjustment to Revenues and/or Expenses	$	(5,316)
19			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Agua Fria Water Sch. A-F.xls\		
47	\08 Agua Fria Water\Workpapers\Expenses\A of I - Agua Fria Water.xls		
48	\Common\Workpapers\Expenses\RegAssets04RateCase.xls		
49	\08 Agua Fria Water\Workpapers\Rate Base\Imputed AIAC and CIAC.xls		
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Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-8R

Exhibit
Schedule C-2 Rebuttal
Page 11
Witness: Hubbard

Line No.		
1	Adjust Labor for AIP Disallowance	
2		
3	Corporate AIP Expense	$ 482,198
4		
5	Proposed Disallowance	-30%
6		
7	Total Proposed AIP Disallowance - Arizona Corporate	($144,659)
8		
9	4 Factor Allocation to Agua Fria Water	23.0946%
10		
11	Total Proposed Disallowance AIP Expense - Agua Fria	$ (33,408)
12		
13		
14		
15	Increase/(Decrease) in Water Testing Expense	$ (33,408)
16		
17	Increase/(Decrease) in Water Testing Expense	$ (33,408)
18		
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45	Workpapers & Supporting Documents:	
46	\Schedules\2007 Agua Fria Water Sch. A-F.xls\	
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Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-9R

Exhibit
Schedule C-2 Rebuttal
Page 12
Witness: Hubbard

Line No.

1 Adjust for Line21 Miscellaneous Expense Clean Up-Accept RUCO's Adjustment

2

3 The Company went through the Corporate Miscellaneous General Expense account and removed
4 those items which it anticipated the Commission would likely disallow for ratemaking purposes,
5 such as Community Relations expense and membership dues. The Company performed the
6 same study of the Agua Fria Water account.

7

8

9	Pro forma adjustment to Line 21 Miscellaneous Expense:		
10	Agua Fria Water		($2,307)
11			
12	Corporate Office amount	($13,608)	
13		($13,608)	
14			
15	4 Factor Allocation to Agua Fria Water	23.0946%	
16			
17	Total Corporate disallowance		($3,143)
18			
19	Pro forma disallowance to Miscellaneous Expense		($5,450)
20			
21	Adjustment to Revenue and/or Expense		($5,450)

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45 Workpapers & Supporting Documents:
46 \Schedules\2007 Agua Fria Water Sch. A-F.xls\
47 \Common\Workpapers\Line21.xls
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Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-10R

Exhibit
Schedule C-2 Rebuttal
Page 13
Witness: Hubbard

Line No.		[A] Property Tax Expense	[B] Property Tax Expense For Conversion Factor
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended Dec. 2007	$ 18,818,613	$ 18,818,613
4	Adjusted Revenues in year ended Dec. 2007	18,818,613	18,818,613
5	Proposed Revenues	$ 18,818,613	$ 26,894,715
6	Average of three year's of revenue	$ 18,818,613	$ 21,510,647
7	Average of three year's of revenue, times 2	$37,637,226	$43,021,294
8	Add:		
9	Construction Work in Progress at 10%	1,422,630	1,422,630
10	Deduct:		
11	Net Book Value of Transportation Equipment	$ -	$ -
12			
13	Full Cash Value	$ 39,059,856	$ 44,443,924
14	Assessment Ratio	23%	23%
15	Assessed Value	8,983,767	10,222,102
16	Property Tax Rate	8.939151%	8.939151%
17			
18	Property Tax	803,072	913,769
19	Tax on Parcels	-	-
20			
21	Total Property Tax at Proposed Rates	$ 803,072	$ 913,769
22	Adjusted Test Year Property Taxes	803,071	803,072
23	Adjustment to Revenues and/or Expenses	$ 1	$ 110,697
24			
25			
26			
27			
28	Increase in Property Tax Due to Increase in Revenue Requirement (Line 23 Col [B])		$ 110,697
29			
30	Increase in Revenue Requirement (From Sch. A1)		$ 8,076,102
31			
32	Increase in Property Tax Per Dollar Increase in Revenue (Line 32/Line 34)		1.3707%
33			
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43	Workpapers & Supporting Documents:		
44	\Schedules\2007 Agua Fria Water Sch. A-F.xls\		
45	\Common\Workpapers\Property Taxes\2007 pd in 07-08 AZ Tax Payment .xls		
46	\08 Agua Fria Water\Workpapers\Expenses\A of I - Agua Fria Water.xls		
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Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-11R

Exhibit
Schedule C-2 Rebuttal
Page 14
Witness: Hubbard

Line No.	Calculation of Income Taxes at Proposed Rates		Test Year Adjusted Results	Adjusted with Rate Increase
1	Calculation of Income Taxes at Proposed Rates			
2				
3				
4	Operating Income Before Inc. Taxes		$ 2,998,494	$ 10,944,550
5	Interest Expense		$ 2,687,376	$ 2,687,376
6	Arizona Taxable Income		311,119	8,257,174
7				
8	Less Arizona Income Tax		$ 21,679	$ 575,360
9	Arizona Income Tax Rate =	6.968%		
10				
11	Federal Income Before Taxes		$ 311,119	$ 8,257,174
12	Less Arizona Income Taxes		21,679	575,360
13	Federal Taxable Income		$ 289,440	$ 7,681,814
14				
15	Federal Income Taxes:	34.000%	$ 98,410	$ 2,611,817
16				
17				
18	Total Income Tax		$ 120,088	$ 3,187,177
19				
20	Tax Rate		38.60%	38.60%
21				
22	Effective Income Tax Rates			
23	State		6.968%	6.968%
24	Federal		31.63%	31.63%
25				
26				
27	Adjusted Test Year Income Taxes		$ (138,756)	
28	Increase in Income Taxes		258,844	
29				
30	Adjustment to Revenues and/or Expense		$ 258,844	
31				
32	Adjusted Test Year Income Taxes, Rebuttal			$ 120,088
33	Increase in Income Taxes			3,067,088
34				
35	Adjustment to Revenues and/or Expense			3,067,088
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45	Workpapers & Supporting Documents:			
46	\Schedules\2007 Agua Fria Water Sch. A-F.xls\			
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Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-12R

Exhibit
Schedule C-2 Rebuttal
Page 15
Witness: Hubbard

Line No.			
1	Interest Synchronization with Rate Base		
2			
3	Original Cost Rate Base (Sch. B-1, Ln. 24)		$92,349,679
4	Weighted Cost of Debt from Schedule D-1		2.91%
5	Synchronized Interest Expense		2,687,376
6	Test Year Interest Expense	2,822,013	
7			
8	Adjusted Test Year Interest Expense		2,822,013
9			
10	Increase (decrease) in Interest Expense		$ (134,637)
11			
12	Adjustment to Revenues and/or Expense		(134,637)
13			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Agua Fria Water Sch. A-F.xls\		
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Arizona American Water Company - Agua Fria Water
Test Year Ended December 31, 2007
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3 Rebuttal
Page 1
Witness: Hubbard

Company Rebuttal

Line No.	Description					Percentage of Incremental Gross Revenues
1	Federal Income Taxes					31.63%
2						
3	State Income Taxes					6.97%
4				Combined	38.60%	
5	Property Taxes	Effective Rate =	1.3707%	One Minus Combined	61.40%	0.84%
6						
7	Bad Debt Expense	Effective Rate =	0.24%	One Minus Combined	61.40%	0.15%
8						
9	Total Tax Percentage					39.59%
10						
11	Operating Income % = 100% - Tax Percentage					60.41%
12						
13						
14						
15						
16	1	= Gross Revenue Conversion Factor				
17	Operating Income %					1.6553
18						
19						
20						
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43	Supporting Schedules:				Recap Schedules:	
44					A-1	
45						
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A Schedules

Havasu Water

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

Exhibit
Schedule A-1 Rebuttal
Page 1
Witness: Broderick

Company Rebuttal

Line No.		
1	Original Cost Rate Base	$ 3,224,575
2		
3	Adjusted Operating Income	47,158
4		
5	Current Rate of Return	1.46%
6		
7	Required Operating Income	$ 270,864
8		
9	Required Rate of Return	8.40%
10		
11	Operating Income Deficiency	$ 223,706
12		
13	Gross Revenue Conversion Factor	1.6682
14		
15	Increase in Gross Revenue	
16	Requirement	$ 373,185
17		

18 Customer 19 Classification	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
20				
21 Residential	$1,023,138			0.00%
22 Commercial	131,273			0.00%
23				
24 Total Water Revenues	$1,154,411	$1,527,597	$ 373,185	32.33%
25				
26 Other Revenues	23,110	23,110	-	0.00%
27				
28 Total Revenues	$1,177,522	$1,550,707	$373,185	31.69%

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40 Supporting Schedules:
41 B-1
42 C-1
43 H-1
44
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46
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50 \Schedules\2007 Havasu Water Sch. A-F.xls\

B Schedules

Havasu Water

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2 Rebuttal
Page 1
Witness: Gutowski

Line No.		[A] Adjusted End of Test Year	[B] COMPANY LJG - 1R Adj for Dep Rates 6/30/2004	[C] COMPANY LJG - 2R Removal of Gateway Facilities	[D] Reject/Correct STAFF RB # 1 Working Capital	[E] Reject STAFF RB # 2 Imputed Advances	[F] Accept STAFF RB # 3 Dfd DR[1] error	[G] Reject RUCO RB # 1 Accum Deprec	[H] Reject RUCO RB # 2 CIAC in CWIP	[I] Reject RUCO RB # 6 Working Capital	[J] Total Rebuttal Pro Forma Adjustments	[K] Rebuttal Adjusted End of Test Year
					Company Rebuttal							
1	Gross Utility											
2	Plant in Service	$ 9,837,304		(816,311)							$ (816,311)	$ 9,020,993
3		-									-	-
4	**Less:**	-										
5		-										
6	Accumulated Depreciation	1,327,687	(6,540)	(14,000)							(20,541)	1,307,146
7												
8	Net Utility Plant											
9	in Service	$ 8,509,617	$ 6,540	$ (802,311)	$ -	$ -	$ -	$ -	$ -	$ -	$ (795,770)	$ 7,713,847
10												
11	**Less:**											
12	Advances in Aid of											
13	Construction	3,217,334									-	3,217,334
14	Contributions in Aid of	-									-	-
15	Construction - Net	1,355,090							-		-	1,355,090
16	Imputed Regulatory Advances	-				-					-	-
17	Imputed Regulatory Contributions	113,427									-	113,427
18	Customer Meter Deposits	512									-	512
19	Deferred Income Taxes	(131,385)									-	(131,385)
20	Investment Tax Credits	-									-	-
21		-									-	-
22		-									-	-
23	**Plus:**	-									-	-
24	Deferred Debits	155,374					(145,701)				(145,701)	9,673
25	Working capital	111,462			(55,428)						(55,428)	56,033
26	Utility Plant Acquisition Adjustment	-									-	-
27												
28	Total	$ 4,221,474	$ 6,540	$ (802,311)	$ (55,428)	$ -	$ (145,701)	$ -	$ -	$ -	$ (996,899)	$ 3,224,575
29												
30												
31												
32												
33	[1] RUCO RB Adjustment #5 is											
34	the same dollar amount.											
35												
36												
37												
38												
39	Supporting Schedules:											
40	B-5											
41	E-1											
42	08 AZ MEGA\08 Havasu Water\Work Papers\Rat											
43	08 AZ MEGA\08 Havasu Water\Work Papers\Rat											
44	08 AZ MEGA\Common\Workpapers\Corp Rate B											
45	08 AZ MEGA\Common\Workpapers\Corp Rate B											

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Rate Base Adjustment LJG-1, LJG-2, LJG-3 - Rebuttal LJG - 1R

Exhibit
Schedule B-2 Rebuttal
Page 3
Witness: Gutowski

Reconcile Sun City Water Plant & Accum. Depr. to Amounts Previously Approved

Line No.	Object Account	Sub. Account	Description	Annual Depr. Rate	Monthly Depr. Rate	Approved Dec. 67093 December 2001	Add back Staff's Plant Not Used	Remove Post-T.Y. Plant Incld'd in Decision	Adjusted Balance December 2001	Booked versus Last Case Differences	Starting Balances December 2001
6	101000	301000	Organization	0.00%	0.00%	10,144	-	-	10,144	-	10,144
7	101000	302000	Franchises	0.00%	0.00%	-	-	-	-	-	-
8	101000	303200	Land & Land Rights SS	0.00%	0.00%	7,771	5,746	(2,972)	10,545	(0)	10,545
9	101000	303300	Land & Land Rights P	0.00%	0.00%		-	-	-	-	
10	101000	303500	Land & Land Rights TD	0.00%	0.00%		-	-	-	-	
11	101000	303600	Land & Land Rights AG	0.00%	0.00%	25	-	-	25	(25)	-
12	101000	304100	Struct & Imp SS	2.58%	0.215%	63,763	401	(38,587)	25,577	(0)	25,577
13	101000	304200	Struct & Imp P	0.00%	0.00%		-	-	-	-	
14	101000	304300	Struct & Imp WT	0.00%	0.00%		-	-	-	-	
15	101000	304400	Struct & Imp TD	0.00%	0.00%		-	-	-	-	
16	101000	304600	Struct & Imp Offices	2.58%	0.22%	10,577	-	-	10,577	(10,558)	19
17	101000	304800	Struct & Imp Misc	0.00%	0.00%		-	-	-	-	
18	101000	305000	Collect & Impounding	2.58%	0.215%	148,253	-	-	148,253	(0)	148,253
19	101000	307000	Wells & Springs	2.54%	0.212%	36,089	70,928	-	107,017	0	107,017
20	101000	310100	Power Generation Equip Other	3.83%	0.319%	22,738	-	-	22,738	-	22,738
21	101000	311200	Pump Equip Electric	3.83%	0.319%	254,730	244	-	254,974	(0)	254,974
22	101000	311300	Pump Equip Diesel	0.00%	0.00%		-	-	-	-	
23	101000	311500	Pump Equip Other	0.00%	0.00%		-	-	-	-	
24	101000	320100	WT Equip Non-Media	12.00%	1.00%	25,315	-	-	25,315	0	25,315
25	101000	330000	Dist Reservoirs & Standpipe	2.33%	0.19%	225,871	-	(74,786)	151,085	0	151,085
26	101000	331001	TD Mains Not Classified by Size	2.10%	0.18%	774,027	-	(60,041)	713,986	7,826	721,812
27	101000	331100	TD Mains 4in & Less	2.10%	0.18%		-	-	-	-	
28	101000	331200	TD Mains 6in to 8in	2.10%	0.18%		-	-	-	-	
29	101000	331300	TD Mains 10in to 16in	2.10%	0.18%		-	-	-	-	
30	101000	333000	Services	2.89%	0.24%	182,275	-	-	182,275	0	182,275
31	101000	334100	Meters	3.52%	0.29%	176,386	-	-	176,386	0	176,386
32	101000	334200	Meter Installations	3.52%	0.29%		-	-	-	-	
33	101000	335000	Hydrants	1.99%	0.17%		-	-	-	-	
34	101000	339100	Othber P/E Intangible	0.00%	0.00%		-	-	-	-	
35	101000	3392500	Other P/E SS	0.00%	0.00%		-	-	-	-	
36	101000	340100	Office Furniture & Equip	4.47%	0.373%	22,445	-	(12,353)	10,092	(6,838)	3,254
37	101000	340200	Comp & Periph Equip	4.47%	0.373%	33,449	-	-	33,449	(22,482)	10,967
38	101000	341100	Trans Equip Lt Duty Trks	25.00%	2.08%	45,234	-	-	45,234	39,652	84,886
39	101000	341200	Trans Equip Hvy Duty Trks	25.00%	2.08%		-	-	-	-	
40	101000	342000	Stores Equipment	3.93%	0.33%	247	-	-	247	(247)	-
41	101000	343000	Tools,Shop,Garage Equip	4.49%	0.37%	10,104	-	-	10,104	1,737	11,841
42	101000	344000	Laboratory Equipment	3.06%	0.26%	627	-	-	627	(627)	-
43	101000	345000	Power Operated Equipment	2.55%	0.21%	11,684	-	(5,540)	6,144	26,949	33,093
44	101000	346100	Comm Equip Non-Telephone	8.37%	0.70%	7,477	-	-	7,477	1,740	9,217
45	101000	346300	Comm Equip Other	6.19%	0.52%	934	-	-	934	(354)	580
46											
47			Utility Plant			2,070,165	77,319	(194,279)	1,953,205	36,774	1,989,979
48			Less:			-					
49			Total Plant			2,070,165			1,953,205		1,989,979
50											
51			Monthly Depreciation Expense								
52			Retirements								
53			Accum. Depr. - Apprvd'/Calculated			537,411	(18,120)		519,291		519,291
54			Total Salvage								
55			Total Approved/Calculated								
56			Total Per Books (\Trial Balance\Column DE\)							(3,682)	515,609
57			Total Over/(Under) Depreciated								(3,682)
58											
59											
60											

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Rate Base Adjustment LJG-1, LJG-2, LJG-3 - Rebuttal LJG - 1R

Exhibit
Schedule B-2 Rebuttal
Page 4
Witness: Gutowski

Reconcile Sun City Water Plant & Accum. Depr.
to Amounts Previously Approved

Line No.	Object Account	Sub. Account	Description	Additions 2002	Retirements 2002	Adjustments 2002	Depr. Expense 2002	Plant Balances 2002	Additions 2003	Retirements 2003
6	101000	301000	Organization	-	-	-	-	10,144	-	-
7	101000	302000	Franchises	-	-	-	-	-	-	-
8	101000	303200	Land & Land Rights SS	-	-	-	-	10,545	36,798	-
9	101000	303300	Land & Land Rights P	-	-	-	-	-	-	-
10	101000	303500	Land & Land Rights TD	-	-	-	-	-	-	-
11	101000	303600	Land & Land Rights AG	-	-	-	-	-	-	-
12	101000	304100	Struct & Imp SS	-	-	-	660	25,577	-	-
13	101000	304200	Struct & Imp P	-	-	-	-	-	-	-
14	101000	304300	Struct & Imp WT	-	-	-	-	-	-	-
15	101000	304400	Struct & Imp TD	-	-	-	-	-	-	-
16	101000	304600	Struct & Imp Offices	-	-	-	0	19	-	-
17	101000	304800	Struct & Imp Misc	-	-	-	-	-	-	-
18	101000	305000	Collect & Impounding	-	-	-	3,825	148,253	-	-
19	101000	307000	Wells & Springs	-	-	-	2,718	107,017	367,197	-
20	101000	310100	Power Generation Equip Other	-	-	-	871	22,738	50,355	-
21	101000	311200	Pump Equip Electric	6,101	(1,444)	-	8,341	259,631	66,826	-
22	101000	311300	Pump Equip Diesel	-	-	-	-	-	-	-
23	101000	311500	Pump Equip Other	-	-	-	-	-	-	-
24	101000	320100	WT Equip Non-Media	-	-	-	3,038	25,315	-	-
25	101000	330000	Dist Reservoirs & Standpipe	74,786	-	-	3,665	225,871	356,772	-
26	101000	331001	TD Mains Not Classified by Size	(11,995)	-	-	-	709,817	-	-
27	101000	331100	TD Mains 4in & Less	45,748	-	-	14,986	45,748	182,727	-
28	101000	331200	TD Mains 6in to 8in	356,449	-	-	624	356,449	212,869	-
29	101000	331300	TD Mains 10in to 16in	169,080	-	-	296	169,080	-	-
30	101000	333000	Services	1,548	-	-	5,271	183,823	3,400	-
31	101000	334100	Meters	1,308	-	-	6,213	177,694	677	-
32	101000	334200	Meter Installations	5,547	-	-	20	5,547	3,636	-
33	101000	335000	Hydrants	-	-	-	-	-	-	-
34	101000	339100	Othber P/E Intangible	-	-	-	-	-	-	-
35	101000	3392500	Other P/E SS	-	-	-	-	-	82,582	-
36	101000	340100	Office Furniture & Equip	-	-	-	145	3,254	-	-
37	101000	340200	Comp & Periph Equip	5,898	-	-	512	16,866	3,247	-
38	101000	341100	Trans Equip Lt Duty Trks	-	-	-	21,222	84,886	-	-
39	101000	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-	-
40	101000	342000	Stores Equipment	-	-	-	-	-	-	-
41	101000	343000	Tools,Shop,Garage Equip	-	-	-	532	11,841	-	-
42	101000	344000	Laboratory Equipment	-	-	-	-	-	-	-
43	101000	345000	Power Operated Equipment	-	-	-	844	33,093	-	-
44	101000	346100	Comm Equip Non-Telephone	2,565	-	-	789	11,781	-	-
45	101000	346300	Comm Equip Other	-	-	-	36	580	-	-
47			Utility Plant	657,035	(1,444)	-		2,645,570	1,367,085	-
48			Less:							
49			Total Plant							
51			Monthly Depreciation Expense				74,609		1,367,085	
52			Retirements							
53			Accum. Depr. - Apprvd'/Calculated				74,609	593,900		
54			Total Salvage				[illegible]	692,456		
55			Total Approved/Calculated							
56			Total Per Books (\Trial Balance\Column DE\)				74,516	590,125		
57			Total Over/(Under) Depreciated					(3,775)		

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Rate Base Adjustment LJG-1, LJG-2, LJG-3 - Rebuttal LJG - 1R

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06/30/04

Reconcile Sun City Water Plant & Accum. Depr.
to Amounts Previously Approved

Line No.	Object Account	Sub. Account	Description	Adjustments 2003	Original Depr. Expense 2003	Plant Balances 2003	Additions 2004	Retirements 2004	Adjustments 2004	Original Depr. Expense 2004	Revised Depr Expense 2004
6	101000	301000	Organization	-	-	10,144	-	-	-	-	-
7	101000	302000	Franchises	-	-	-	-	-	-	-	-
8	101000	303200	Land & Land Rights SS	-	-	47,343	-	-	-	-	-
9	101000	303300	Land & Land Rights P	-	-	-	-	-	-	-	-
10	101000	303500	Land & Land Rights TD	-	-	-	-	-	-	-	-
11	101000	303600	Land & Land Rights AG	-	-	-	-	-	-	-	-
12	101000	304100	Struct & Imp SS	-	660	25,577	60,441	-	-	793	832
13	101000	304200	Struct & Imp P	-	-	-	-	-	-	-	-
14	101000	304300	Struct & Imp WT	-	-	-	-	-	-	-	-
15	101000	304400	Struct & Imp TD	-	-	-	-	-	-	-	-
16	101000	304600	Struct & Imp Offices	-	0	19	-	-	-	0	0
17	101000	304800	Struct & Imp Misc	-	-	-	-	-	-	-	-
18	101000	305000	Collect & Impounding	-	3,825	148,253	-	-	-	3,825	3,798
19	101000	307000	Wells & Springs	-	9,708	474,214	142,131	-	-	12,354	12,364
20	101000	310100	Power Generation Equip Other	-	2,317	73,093	(24,279)	-	-	2,722	3,169
21	101000	311200	Pump Equip Electric	-	11,547	326,457	279,394	-	-	13,477	13,248
22	101000	311300	Pump Equip Diesel	-	-	-	-	-	-	-	-
23	101000	311500	Pump Equip Other	-	-	-	-	-	-	-	-
24	101000	320100	WT Equip Non-Media	-	3,038	25,315	-	-	-	3,038	3,038
25	101000	330000	Dist Reservoirs & Standpipe	-	11,071	582,643	158,873	-	-	13,884	13,878
26	101000	331001	TD Mains Not Classified by Size	-	1,537	709,817	-	-	8,324	6,412	5,835
27	101000	331100	TD Mains 4in & Less	-	14,906	228,475	196,249	-	-	23,318	23,318
28	101000	331200	TD Mains 6in to 8in	-	10,324	569,318	(85,158)	(8,324)	-	3,523	3,523
29	101000	331300	TD Mains 10in to 16in	-	3,551	169,080	51,771	-	-	3,892	3,892
30	101000	333000	Services	-	5,321	187,223	(13,824)	-	-	5,374	5,376
31	101000	334100	Meters	-	6,257	178,371	832	(326)	-	5,948	5,945
32	101000	334200	Meter Installations	-	227	9,183	1,822	-	-	343	343
33	101000	335000	Hydrants	-	-	-	-	-	-	-	-
34	101000	339100	Othber P/E Intangible	-	-	-	-	-	-	-	-
35	101000	3392500	Other P/E SS	-	-	82,582	(41,330)	-	-	-	1,254
36	101000	340100	Office Furniture & Equip	-	145	3,254	-	-	-	145	140
37	101000	340200	Comp & Periph Equip	-	839	20,112	-	-	-	899	862
38	101000	341100	Trans Equip Lt Duty Trks	-	21,222	84,886	-	-	-	21,222	21,220
39	101000	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-	-	-
40	101000	342000	Stores Equipment	-	-	-	-	-	-	-	-
41	101000	343000	Tools,Shop,Garage Equip	-	532	11,841	-	-	-	532	713
42	101000	344000	Laboratory Equipment	-	-	-	-	-	-	-	-
43	101000	345000	Power Operated Equipment	-	844	33,093	-	-	-	844	1,949
44	101000	346100	Comm Equip Non-Telephone	-	986	11,781	-	-	-	986	986
45	101000	346300	Comm Equip Other	-	36	580	-	-	-	36	36
46											
47			Utility Plant	-		4,012,655	726,922	(8,650)	8,324		
48			Less:			-					
49			Total Plant								
50											
51			Monthly Depreciation Expense		108,892	4,012,655				123,568	125,718
52			Retirements								
53			Accum. Depr. - Apprvd'/Calculated		108,892	702,792				123,568	125,393
54			Total Salvage		108,892	701,348				123,242	1,825
55			Total Approved/Calculated								
56			Total Per Books (\Trial Balance\Column DE\)		108,222	698,347				118,526	
57			Total Over/(Under) Depreciated			(4,445)					
58											
59											
60											

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
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Reconcile Sun City Water Plant & Accum. Depr.
to Amounts Previously Approved

Line No.	Object Account	Sub. Account	Description	Plant Balances 2004	Additions 2005	Retirements 2005	Adjustments 2005	Original Depr. Expense 2005	Revised Depr Expense 2005 (Dec 67093 06/30/04)	Plant Balances 2005	Additions 2006
6	101000	301000	Organization	10,144	-	-	-	-	-	10,144	-
7	101000	302000	Franchises	-	-	-	-	-	-	-	-
8	101000	303200	Land & Land Rights SS	47,343	-	-	-	-	-	47,343	-
9	101000	303300	Land & Land Rights P	-	-	-	-	-	-	-	-
10	101000	303500	Land & Land Rights TD	-	-	-	-	-	-	-	-
11	101000	303600	Land & Land Rights AG	-	-	-	-	-	-	-	-
12	101000	304100	Struct & Imp SS	86,018	-	-	-	2,219	2,405	86,018	3,410,895
13	101000	304200	Struct & Imp P	-	-	-	-	-	-	-	-
14	101000	304300	Struct & Imp WT	-	-	-	-	-	-	-	-
15	101000	304400	Struct & Imp TD	-	-	-	-	-	-	-	-
16	101000	304600	Struct & Imp Offices	19	-	-	-	0	0	19	20,637
17	101000	304800	Struct & Imp Misc	-	-	-	-	-	-	-	-
18	101000	305000	Collect & Impounding	148,253	-	-	-	3,825	3,772	148,253	-
19	101000	307000	Wells & Springs	616,346	-	-	-	15,655	15,680	616,346	27,773
20	101000	310100	Power Generation Equip Other	48,814	-	-	-	1,870	2,501	48,814	2,117
21	101000	311200	Pump Equip Electric	605,851	-	-	(10,589)	12,479	11,745	595,262	111,965
22	101000	311300	Pump Equip Diesel	-	-	-	-	-	-	-	-
23	101000	311500	Pump Equip Other	-	-	-	-	-	-	-	-
24	101000	320100	WT Equip Non-Media	25,315	(86,183)	-	-	(4,718)	(4,718)	(60,868)	8,720
25	101000	330000	Dist Reservoirs & Standpipe	741,517	-	-	10,589	27,949	27,934	752,106	110,799
26	101000	331001	TD Mains Not Classified by Size	718,141	(8,720)	-	-	10,648	8,873	709,421	49,123
27	101000	331100	TD Mains 4in & Less	424,724	7,606	-	-	15,094	15,094	432,330	-
28	101000	331200	TD Mains 6in to 8in	475,836	70,533	-	-	10,481	10,481	546,369	24,904
29	101000	331300	TD Mains 10in to 16in	220,851	336,154	-	-	5,226	5,226	557,006	-
30	101000	333000	Services	173,398	2,416	-	-	5,049	5,052	175,814	1,783
31	101000	334100	Meters	178,877	2,126	(2,964)	-	3,305	3,297	178,039	-
32	101000	334200	Meter Installations	11,004	5,573	-	-	439	439	16,577	(267)
33	101000	335000	Hydrants	-	-	-	-	-	-	-	-
34	101000	339100	Othber P/E Intangible	-	-	-	-	-	-	-	-
35	101000	3392500	Other P/E SS	41,252	-	-	-	-	1,366	41,252	3,768
36	101000	340100	Office Furniture & Equip	3,254	-	-	-	145	134	3,254	-
37	101000	340200	Comp & Periph Equip	20,112	-	-	-	(7,602)	(7,666)	20,112	-
38	101000	341100	Trans Equip Lt Duty Trks	84,886	-	(8,376)	-	21,222	21,218	76,510	-
39	101000	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-	-	-
40	101000	342000	Stores Equipment	-	-	-	-	-	-	-	-
41	101000	343000	Tools,Shop,Garage Equip	11,841	-	-	-	533	897	11,841	-
42	101000	344000	Laboratory Equipment	-	460	-	-	-	-	460	-
43	101000	345000	Power Operated Equipment	33,093	-	-	-	844	3,054	33,093	-
44	101000	346100	Comm Equip Non-Telephone	11,781	-	-	-	986	987	11,781	-
45	101000	346300	Comm Equip Other	580	-	-	-	36	36	580	63,001
46											
47			Utility Plant	4,739,252	329,965	(11,341)	-			5,057,876	3,835,219
48			Less:				-				
49			Total Plant								
50											
51			Monthly Depreciation Expense	4,739,252				125,686	127,808	5,057,876	
52			Retirements								
53			Accum. Depr. - Apprvd'/Calculated	826,360				125,686	116,467	952,046	
54			Total Salvage	826,741				114,345	(9,219)	943,208	
55			Total Approved/Calculated								
56			Total Per Books (\Trial Balance\Column DE\)	816,873				126,380		943,253	
57			Total Over/(Under) Depreciated	(9,487)						(8,793)	
58											
59											
60											

Arizona American Water Company - Havasu Water
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Line No.							Dec 67093 06/30/04				
1	Reconcile Sun City Water Plant & Accum. Depr.										
2	to Amounts Previously Approved					Original	Revised				
3						Depr.	Depr	Plant			
4	Object	Sub.		Retirements	Adjustments	Expense	Expense	Balances	Additions	Retirements	Adjustments
5	Account	Account	Description	2006	2006	2006	2006	2006	2007	2007	2007
6	101000	301000	Organization	-	-	-	-	10,144	-	-	-
7	101000	302000	Franchises	-	-	-	-	-	-	-	-
8	101000	303200	Land & Land Rights SS	-	-	-	-	47,343	-	-	-
9	101000	303300	Land & Land Rights P	-	-	-	-	-	-	-	-
10	101000	303500	Land & Land Rights TD	-	-	-	-	-	-	-	-
11	101000	303600	Land & Land Rights AG	-	-	-	-	-	-	-	-
12	101000	304100	Struct & Imp SS	-	-	32,967	33,038	3,496,913	(1,399,617)	-	-
13	101000	304200	Struct & Imp P	-	-	-	-	-	99,968	-	-
14	101000	304300	Struct & Imp WT	-	-	-	-	-	-	-	-
15	101000	304400	Struct & Imp TD	-	-	-	-	-	-	-	-
16	101000	304600	Struct & Imp Offices	-	-	69	68	20,656	42	-	-
17	101000	304800	Struct & Imp Misc	-	-	-	-	-	-	-	-
18	101000	305000	Collect & Impounding	-	-	3,766	3,772	148,253	-	-	-
19	101000	307000	Wells & Springs	-	-	15,950	15,975	644,119	54	-	-
20	101000	310100	Power Generation Equip Other	-	-	2,544	2,546	50,931	4	-	-
21	101000	311200	Pump Equip Electric	-	-	23,825	23,812	707,227	645,971	-	-
22	101000	311300	Pump Equip Diesel	-	-	-	-	-	-	-	-
23	101000	311500	Pump Equip Other	-	-			-	4,202	-	-
24	101000	320100	WT Equip Non-Media	-	-	(6,432)	(6,432)	(52,148)	311,090	-	-
25	101000	330000	Dist Reservoirs & Standpipe	-	-	18,600	18,584	862,905	493,107	-	-
26	101000	331001	TD Mains Not Classified by Size	-	-	9,166	9,166	758,544	9	-	-
27	101000	331100	TD Mains 4in & Less	-	-	15,241	15,241	432,330	10,445	-	-
28	101000	331200	TD Mains 6in to 8in	-	-	11,692	11,692	571,273	387,791	-	-
29	101000	331300	TD Mains 10in to 16in	-	-	11,697	11,697	557,006	173,660	-	-
30	101000	333000	Services	-	-	5,108	5,112	177,597	101,318	-	-
31	101000	334100	Meters	(1,606)	-	4,628	4,621	176,433	1,407	(2,254)	-
32	101000	334200	Meter Installations	(706)	-	(142)	(143)	15,604	1,649	-	-
33	101000	335000	Hydrants	-	-	-	-	-	-	-	-
34	101000	339100	Othber P/E Intangible	-	-	-	-	-	-	-	-
35	101000	3392500	Other P/E SS	-	-	-	1,415	45,020	71,025	-	-
36	101000	340100	Office Furniture & Equip	-	-	193	134	3,254	563	(563)	-
37	101000	340200	Comp & Periph Equip	-	-	474	482	20,112	-	(2,591)	-
38	101000	341100	Trans Equip Lt Duty Trks	-	-	21,222	21,218	76,510	-	-	-
39	101000	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-	-	-
40	101000	342000	Stores Equipment	-	-	-	-	-	-	-	-
41	101000	343000	Tools,Shop,Garage Equip	-	-	552	928	11,841	5,980	-	-
42	101000	344000	Laboratory Equipment	-	-	-	-	460	-	-	-
43	101000	345000	Power Operated Equipment	-	-	844	3,054	33,093	-	-	-
44	101000	346100	Comm Equip Non-Telephone	-	-	986	987	11,781	4,550	(4,629)	-
45	101000	346300	Comm Equip Other	-	-	1,311	1,312	63,580	(19,167)	-	-
46											
47		Utility Plant		(2,312)	-			8,890,783	894,050	(10,037)	-
48		Less:		-							
49		Total Plant									
50											
51		Monthly Depreciation Expense				174,261	178,279	8,890,783			
52		Retirements									
53		Accum. Depr. - Apprvd'/Calculated				174,261	175,968	1,126,307			
54		Total Salvage				171,950	1,706	1,119,175			
55		Total Approved/Calculated									
56		Total Per Books (\Trial Balance\Column DE\)				200,921		1,144,174			
57		Total Over/(Under) Depreciated						17,867			
58											
59											
60											

Arizona American Water Company - Havasu Water
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Line No.	Object Account	Sub. Account	Description	Original Depr. Expense 2007	Dec 67093 06/30/04 Revised Depr Expense 2007	Plant Balances 2007	LJG-2 Remove Staff's Plant Not Used Dec. 67093	LJG-2 6 Years Deprec Exp on Removal	LJG-3 Spread Corp JE to Districts Dec-07	LJG-10 Post TY Arsenic Deferral	Annual Depreciation Expense times TYE UPIS Col [E] * [AT + AU + AW + AXT]	Rebuttal Depreciation Expense 6/30/04 Rates times TYE UPIS Col [BC] * [AT + AU + AW + AX]	
1	Reconcile Sun City Water Plant & Accum. Depr.												
2	to Amounts Previously Approved												
6	101000	301000	Organization			10,144	-				-	-	
7	101000	302000	Franchises			-	-				-	-	
8	101000	303200	Land & Land Rights SS			47,343	(5,746)	-			-	-	
9	101000	303300	Land & Land Rights P	-	-	-	-				-	-	0.00%
10	101000	303500	Land & Land Rights TD	-	-	-	-				-	-	0.00%
11	101000	303600	Land & Land Rights AG	-	-	-	-				-	-	0.00%
12	101000	304100	Struct & Imp SS	52,134	52,246	2,097,296	(401)	62			54,100	58,503	2.79%
13	101000	304200	Struct & Imp P	-	-	99,968	-				-	-	0.00%
14	101000	304300	Struct & Imp WT	-	-	-	-				-	-	0.00%
15	101000	304400	Struct & Imp TD	-	-	-	-				-	-	0.00%
16	101000	304600	Struct & Imp Offices	420	420	20,698	-				534	420	2.03%
17	101000	304800	Struct & Imp Misc	-	-	-	-				-	-	0.00%
18	101000	305000	Collect & Impounding	3,766	3,772	148,253	-				3,825	3,766	2.54%
19	101000	307000	Wells & Springs	16,362	16,388	644,173	(70,928)	10,809			14,560	14,560	2.54%
20	101000	310100	Power Generation Equip Other	2,608	2,610	50,935	-				1,951	2,608	5.12%
21	101000	311200	Pump Equip Electric	30,230	30,214	1,353,198	(244)	56			51,818	50,195	3.71%
22	101000	311300	Pump Equip Diesel	-	-	-	-				-	-	0.00%
23	101000	311500	Pump Equip Other	-	-	4,202	-				-	-	0.00%
24	101000	320100	WT Equip Non-Media	3	3	258,942	-			94,996	42,473	42,473	12.00%
25	101000	330000	Dist Reservoirs & Standpipe	22,021	22,002	1,356,012	-				31,595	31,595	2.33%
26	101000	331001	TD Mains Not Classified by Size	9,768	9,768	758,554	-				15,930	15,930	2.10%
27	101000	331100	TD Mains 4in & Less	15,369	15,369	442,775	-				9,298	9,298	2.10%
28	101000	331200	TD Mains 6in to 8in	13,365	13,365	959,064	-				20,140	20,140	2.10%
29	101000	331300	TD Mains 10in to 16in	12,305	12,305	730,665	-				15,344	15,344	2.10%
30	101000	333000	Services	5,688	5,692	278,916	-				8,061	8,061	2.89%
31	101000	334100	Meters	3,957	3,950	175,586	-				6,181	6,181	3.52%
32	101000	334200	Meter Installations	602	602	17,253	-				607	607	3.52%
33	101000	335000	Hydrants	-	-	-	-				-	-	1.99%
34	101000	339100	Othber P/E Intangible	-	-	-	-				-	-	0.00%
35	101000	3392500	Other P/E SS	-	1,678	116,045	-				-	3,841	3.31%
36	101000	340100	Office Furniture & Equip	(337)	(406)	3,254	-				145	133	4.10%
37	101000	340200	Comp & Periph Equip	(2,117)	(2,109)	17,522	-		6,156		1,058	971	4.10%
38	101000	341100	Trans Equip Lt Duty Trks	21,222	21,218	76,510	-				19,128	19,128	25.00%
39	101000	341200	Trans Equip Hvy Duty Trks	-	-	-	-				-	-	25.00%
40	101000	342000	Stores Equipment	-	-	-	-				-	-	3.93%
41	101000	343000	Tools,Shop,Garage Equip	619	1,041	17,822	-				800	1,346	7.55%
42	101000	344000	Laboratory Equipment	-	-	460	-				14	14	3.06%
43	101000	345000	Power Operated Equipment	844	3,054	33,093	-				844	3,054	9.23%
44	101000	346100	Comm Equip Non-Telephone	(3,262)	(3,261)	11,702	-				980	979	8.37%
45	101000	346300	Comm Equip Other	2,088	2,089	44,413	-				2,749	2,749	6.19%
46													
47			Utility Plant			9,774,796	(77,319)		6,156				
48			Less:										
49			Total Plant										
50													
51			Monthly Depreciation Expense	207,656	212,009	9,774,796							
52			Retirements										
53			Accum. Depr. - Apprvd'/Calculated	207,656	201,971	1,333,963	18,120	10,927			302,135	311,896	
54			Total Salvage	197,618	(5,684)	1,321,147	Revised A/D for Rate Change					9,761	
55			Total Approved/Calculated										
56			Total Per Books (\Trial Balance\Column DE\)	210,598	Orig Adj TYE	1,327,687	1,354,772	LJG-1					
57			Total Over/(Under) Depreciated		LJG-1R	(6,540)	20,809	See ACC DEP Havasu 2002-2007.xls for errors on Books					
58													
59													
60													

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Rate Base Adjustment LJG-1, LJG-2, LJG-3 - Rebuttal LJG - 2R

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Reconcile Sun City Water Plant & Accum. Depr.
to Amounts Previously Approved

Line No.	Object Account	Sub. Account	Description	Annual Depr. Rate	Monthly Depr. Rate	Approved Dec. 67093 December 2001	Add back Staff's Plant Not Used	Remove Post-T.Y. Plant Incld'd in Decision	Adjusted Balance December 2001	Booked versus Last Case Differences	Starting Balances December 2001
6	101000	301000	Organization	0.00%	0.00%	10,144	-	-	10,144	-	10,144
7	101000	302000	Franchises	0.00%	0.00%	-	-	-	-	-	-
8	101000	303200	Land & Land Rights SS	0.00%	0.00%	7,771	5,746	(2,972)	10,545	(0)	10,545
9	101000	303300	Land & Land Rights P	0.00%	0.00%		-	-	-	-	
10	101000	303500	Land & Land Rights TD	0.00%	0.00%		-	-	-	-	
11	101000	303600	Land & Land Rights AG	0.00%	0.00%	25	-	-	25	(25)	-
12	101000	304100	Struct & Imp SS	2.58%	0.215%	63,763	401	(38,587)	25,577	(0)	25,577
13	101000	304200	Struct & Imp P	0.00%	0.00%		-	-	-	-	
14	101000	304300	Struct & Imp WT	0.00%	0.00%		-	-	-	-	
15	101000	304400	Struct & Imp TD	0.00%	0.00%		-	-	-	-	
16	101000	304600	Struct & Imp Offices	2.58%	0.22%	10,577	-	-	10,577	(10,558)	19
17	101000	304800	Struct & Imp Misc	0.00%	0.00%		-	-	-	-	
18	101000	305000	Collect & Impounding	2.58%	0.215%	148,253	-	-	148,253	(0)	148,253
19	101000	307000	Wells & Springs	2.54%	0.212%	36,089	70,928	-	107,017	0	107,017
20	101000	310100	Power Generation Equip Other	3.83%	0.319%	22,738	-	-	22,738	-	22,738
21	101000	311200	Pump Equip Electric	3.83%	0.319%	254,730	244	-	254,974	(0)	254,974
22	101000	311300	Pump Equip Diesel	0.00%	0.00%		-	-	-	-	
23	101000	311500	Pump Equip Other	0.00%	0.00%		-	-	-	-	
24	101000	320100	WT Equip Non-Media	12.00%	1.00%	25,315	-	-	25,315	0	25,315
25	101000	330000	Dist Reservoirs & Standpipe	2.33%	0.19%	225,871	-	(74,786)	151,085	0	151,085
26	101000	331001	TD Mains Not Classified by Size	2.10%	0.18%	774,027	-	(60,041)	713,986	7,826	721,812
27	101000	331100	TD Mains 4in & Less	2.10%	0.18%		-	-	-	-	
28	101000	331200	TD Mains 6in to 8in	2.10%	0.18%		-	-	-	-	
29	101000	331300	TD Mains 10in to 16in	2.10%	0.18%		-	-	-	-	
30	101000	333000	Services	2.89%	0.24%	182,275	-	-	182,275	0	182,275
31	101000	334100	Meters	3.52%	0.29%	176,386	-	-	176,386	0	176,386
32	101000	334200	Meter Installations	3.52%	0.29%		-	-	-	-	
33	101000	335000	Hydrants	1.99%	0.17%		-	-	-	-	
34	101000	339100	Othber P/E Intangible	0.00%	0.00%		-	-	-	-	
35	101000	3392500	Other P/E SS	0.00%	0.00%		-	-	-	-	
36	101000	340100	Office Furniture & Equip	4.47%	0.373%	22,445	-	(12,353)	10,092	(6,838)	3,254
37	101000	340200	Comp & Periph Equip	4.47%	0.373%	33,449	-	-	33,449	(22,482)	10,967
38	101000	341100	Trans Equip Lt Duty Trks	25.00%	2.08%	45,234	-	-	45,234	39,652	84,886
39	101000	341200	Trans Equip Hvy Duty Trks	25.00%	2.08%		-	-	-	-	
40	101000	342000	Stores Equipment	3.93%	0.33%	247	-	-	247	(247)	-
41	101000	343000	Tools,Shop,Garage Equip	4.49%	0.37%	10,104	-	-	10,104	1,737	11,841
42	101000	344000	Laboratory Equipment	3.06%	0.26%	627	-	-	627	(627)	-
43	101000	345000	Power Operated Equipment	2.55%	0.21%	11,684	-	(5,540)	6,144	26,949	33,093
44	101000	346100	Comm Equip Non-Telephone	8.37%	0.70%	7,477	-	-	7,477	1,740	9,217
45	101000	346300	Comm Equip Other	6.19%	0.52%	934	-	-	934	(354)	580
46											
47			Utility Plant			2,070,165	77,319	(194,279)	1,953,205	36,774	1,989,979
48			Less:			-					
49			Total Plant			2,070,165			1,953,205		1,989,979
50											
51			Monthly Depreciation Expense								
52			Retirements								
53			Accum. Depr. - Apprvd'/Calculated			537,411	(18,120)		519,291		519,291
54			Total Salvage								
55			Total Approved/Calculated								
56			Total Per Books (\Trial Balance\Column DE\)							(3,682)	515,609
57			Total Over/(Under) Depreciated								(3,682)
58											
59											
60											

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Rate Base Adjustment LJG-1, LJG-2, LJG-3 - Rebuttal LJG - 2R

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Reconcile Sun City Water Plant & Accum. Depr.
to Amounts Previously Approved

Line No.	Object Account	Sub. Account	Description	Additions 2002	Retirements 2002	Adjustments 2002	Depr. Expense 2002	Plant Balances 2002	GATEWAY Rebuttal Additions 2003	Retirements 2003
6	101000	301000	Organization	-	-	-	-	10,144	-	-
7	101000	302000	Franchises	-	-	-	-	-	-	-
8	101000	303200	Land & Land Rights SS	-	-	-	-	10,545	36,798	-
9	101000	303300	Land & Land Rights P	-	-	-	-	-	-	-
10	101000	303500	Land & Land Rights TD	-	-	-	-	-	-	-
11	101000	303600	Land & Land Rights AG	-	-	-	-	-	-	-
12	101000	304100	Struct & Imp SS	-	-	-	660	25,577	-	-
13	101000	304200	Struct & Imp P	-	-	-	-	-	-	-
14	101000	304300	Struct & Imp WT	-	-	-	-	-	-	-
15	101000	304400	Struct & Imp TD	-	-	-	-	-	-	-
16	101000	304600	Struct & Imp Offices	-	-	-	0	19	-	-
17	101000	304800	Struct & Imp Misc	-	-	-	-	-	-	-
18	101000	305000	Collect & Impounding	-	-	-	3,825	148,253	-	-
19	101000	307000	Wells & Springs	-	-	-	2,718	107,017	278,365	-
20	101000	310100	Power Generation Equip Other	-	-	-	871	22,738	-	-
21	101000	311200	Pump Equip Electric	6,101	(1,444)	-	8,341	259,631	14,193	-
22	101000	311300	Pump Equip Diesel	-	-	-	-	-	-	-
23	101000	311500	Pump Equip Other	-	-	-	-	-	-	-
24	101000	320100	WT Equip Non-Media	-	-	-	3,038	25,315	-	-
25	101000	330000	Dist Reservoirs & Standpipe	74,786	-	-	3,665	225,871	55,940	-
26	101000	331001	TD Mains Not Classified by Size	(11,995)	-	-	-	709,817	-	-
27	101000	331100	TD Mains 4in & Less	45,748	-	-	14,986	45,748	0	-
28	101000	331200	TD Mains 6in to 8in	356,449	-	-	624	356,449	37,269	-
29	101000	331300	TD Mains 10in to 16in	169,080	-	-	296	169,080	-	-
30	101000	333000	Services	1,548	-	-	5,271	183,823	3,400	-
31	101000	334100	Meters	1,308	-	-	6,213	177,694	677	-
32	101000	334200	Meter Installations	5,547	-	-	20	5,547	3,636	-
33	101000	335000	Hydrants	-	-	-	-	-	-	-
34	101000	339100	Othber P/E Intangible	-	-	-	-	-	-	-
35	101000	3392500	Other P/E SS	-	-	-	-	-	-	-
36	101000	340100	Office Furniture & Equip	-	-	-	145	3,254	-	-
37	101000	340200	Comp & Periph Equip	5,898	-	-	512	16,866	3,247	-
38	101000	341100	Trans Equip Lt Duty Trks	-	-	-	21,222	84,886	-	-
39	101000	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-	-
40	101000	342000	Stores Equipment	-	-	-	-	-	-	-
41	101000	343000	Tools,Shop,Garage Equip	-	-	-	532	11,841	-	-
42	101000	344000	Laboratory Equipment	-	-	-	-	-	-	-
43	101000	345000	Power Operated Equipment	-	-	-	844	33,093	-	-
44	101000	346100	Comm Equip Non-Telephone	2,565	-	-	789	11,781	-	-
45	101000	346300	Comm Equip Other	-	-	-	36	580	-	-
46										
47			Utility Plant	657,035	(1,444)	-		2,645,570	433,525	-
48			Less:							
49			Total Plant							
50										
51			Monthly Depreciation Expense				74,609		433,525	
52			Retirements							
53			Accum. Depr. - Apprvd'/Calculated				74,609	593,900		
54			Total Salvage				73,165	592,456		
55			Total Approved/Calculated							
56			Total Per Books (\Trial Balance\Column DE\)				74,516	590,125		
57			Total Over/(Under) Depreciated					(3,775)		
58										
59										
60										

Arizona American Water Company - Havasu Water
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Line No.	Object Account	Sub. Account	Description	Adjustments 2003	Original Depr. Expense 2003	GATEWAY Rebuttal Depr. Expense 2003	Plant Balances 2003	GATEWAY Rebuttal Additions 2004	Retirements 2004	Adjustments 2004	Original Depr. Expense 2004	NEW RATES Dec 67093 06/30/04 & GATEWAY Revised Depr Expense 2004
1	Reconcile Sun City Water Plant & Accum. Depr.											
2	to Amounts Previously Approved											
6	101000	301000	Organization	-	-		10,144	-	-	-	-	
7	101000	302000	Franchises	-	-		-	-	-	-	-	
8	101000	303200	Land & Land Rights SS	-	-		47,343	-	-	-	-	
9	101000	303300	Land & Land Rights P	-	-		-	-	-	-	-	
10	101000	303500	Land & Land Rights TD	-	-		-	-	-	-	-	
11	101000	303600	Land & Land Rights AG	-	-		-	-	-	-	-	
12	101000	304100	Struct & Imp SS	-	660	660	25,577	1,410	-	-	793	
13	101000	304200	Struct & Imp P	-	-	-	-	-	-	-	-	
14	101000	304300	Struct & Imp WT	-	-	-	-	-	-	-	-	-
15	101000	304400	Struct & Imp TD	-	-	-	-	-	-	-	-	-
16	101000	304600	Struct & Imp Offices	-	0	0	19	-	-	-	0	0
17	101000	304800	Struct & Imp Misc	-	-	-	-	-	-	-	-	-
18	101000	305000	Collect & Impounding	-	3,825	3,825	148,253	-	-	-	3,825	3,798
19	101000	307000	Wells & Springs	-	9,708	8,016	385,383	357	-	-	12,354	12,064
20	101000	310100	Power Generation Equip Other	-	2,317	871	22,738	(24,279)	-	-	2,722	3,169
21	101000	311200	Pump Equip Electric	-	11,547	10,036	273,824	278,455	-	-	13,477	13,245
22	101000	311300	Pump Equip Diesel	-	-	-	-	-	-	-	-	-
23	101000	311500	Pump Equip Other	-	-	-	-	-	-	-	-	-
24	101000	320100	WT Equip Non-Media	-	3,038	3,038	25,315	-	-	-	3,038	3,038
25	101000	330000	Dist Reservoirs & Standpipe	-	11,071	5,408	281,811	343,594	-	-	13,884	14,236
26	101000	331001	TD Mains Not Classified by Size	-	1,537	1,153	709,817	-	-	8,324	6,412	6,043
27	101000	331100	TD Mains 4in & Less	-	14,906	14,906	45,749	320,487	-	-	23,318	23,318
28	101000	331200	TD Mains 6in to 8in	-	10,324	7,558	393,718	6,561	(8,324)	-	3,523	3,683
29	101000	331300	TD Mains 10in to 16in	-	3,551	3,551	169,080	51,771	-	-	3,892	3,892
30	101000	333000	Services	-	5,321	5,321	187,223	(13,824)	-	-	5,374	5,376
31	101000	334100	Meters	-	6,257	6,257	178,371	832	(326)	-	5,948	5,945
32	101000	334200	Meter Installations	-	227	227	9,183	1,822	-	-	343	343
33	101000	335000	Hydrants	-	-	-	-	-	-	-	-	-
34	101000	339100	Othber P/E Intangible	-	-	-	-	-	-	-	-	-
35	101000	3392500	Other P/E SS	-	-	-	-	(41,330)	-	-	-	1,254
36	101000	340100	Office Furniture & Equip	-	145	145	3,254	-	-	-	145	140
37	101000	340200	Comp & Periph Equip	-	839	839	20,112	-	-	-	899	862
38	101000	341100	Trans Equip Lt Duty Trks	-	21,222	21,222	84,886	-	-	-	21,222	21,220
39	101000	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-	-	-	-
40	101000	342000	Stores Equipment	-	-	-	-	-	-	-	-	-
41	101000	343000	Tools,Shop,Garage Equip	-	532	532	11,841	-	-	-	532	713
42	101000	344000	Laboratory Equipment	-	-	-	-	-	-	-	-	-
43	101000	345000	Power Operated Equipment	-	844	844	33,093	-	-	-	844	1,949
44	101000	346100	Comm Equip Non-Telephone	-	986	986	11,781	-	-	-	986	986
45	101000	346300	Comm Equip Other	-	36	36	580	-	-	-	36	36
46												
47		Utility Plant		-			3,079,095	925,853	(8,650)	8,324		
48		Less:					-					
49		Total Plant										
50												
51		Monthly Depreciation Expense			108,892	95,429	3,079,095				123,568	126,004
52		Retirements										
53		Accum. Depr. - Apprvd'/Calculated			108,892	689,329	702,792				123,568	828,470
54		Total Salvage			108,892	687,885	687,885				123,242	813,563
55		Total Approved/Calculated										
56		Total Per Books (\Trial Balance\Column DE\)			108,222						816,873	
57		Total Over/(Under) Depreciated										
58												
59												
60												

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
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Reconcile Sun City Water Plant & Accum. Depr.
to Amounts Previously Approved

Line No.	Object Account	Sub. Account	Description	Plant Balances 2004	Additions 2005	Retirements 2005	Adjustments 2005	Original Depr. Expense 2005	NEW RATES Dec 67093 06/30/04 Revised Depr Expense 2005	Plant Balances 2005	GATEWAY Rebuttal Additions 2006
6	101000	301000	Organization	10,144	-	-	-	-		10,144	-
7	101000	302000	Franchises	-	-	-	-	-		-	-
8	101000	303200	Land & Land Rights SS	47,343	-	-	-	-		47,343	-
9	101000	303300	Land & Land Rights P	-	-	-	-	-		-	-
10	101000	303500	Land & Land Rights TD	-	-	-	-	-		-	-
11	101000	303600	Land & Land Rights AG	-	-	-	-	-		-	-
12	101000	304100	Struct & Imp SS	26,986	-	-	-	2,219	2,405	26,986	3,406,410
13	101000	304200	Struct & Imp P	-	-	-	-	-		-	-
14	101000	304300	Struct & Imp WT	-	-	-	-	-	-	-	-
15	101000	304400	Struct & Imp TD	-	-	-	-	-	-	-	-
16	101000	304600	Struct & Imp Offices	19	-	-	-	0	0	19	20,637
17	101000	304800	Struct & Imp Misc	-	-	-	-	-	-	-	-
18	101000	305000	Collect & Impounding	148,253	-	-	-	3,825	3,772	148,253	-
19	101000	307000	Wells & Springs	385,739	-	-	-	15,655	15,680	385,739	(49)
20	101000	310100	Power Generation Equip Other	(1,541)	-	-	-	1,870	2,501	(1,541)	2,117
21	101000	311200	Pump Equip Electric	552,279	-	-	(10,589)	12,479	11,745	541,689	107,611
22	101000	311300	Pump Equip Diesel	-	-	-	-	-	-	-	-
23	101000	311500	Pump Equip Other	-	-	-	-	-	-	-	-
24	101000	320100	WT Equip Non-Media	25,315	(86,183)	-	-	(4,718)	(4,718)	(60,868)	8,720
25	101000	330000	Dist Reservoirs & Standpipe	625,404	-	-	10,589	27,949	27,934	635,994	95,540
26	101000	331001	TD Mains Not Classified by Size	718,141	(8,720)	-	-	10,648	8,873	709,421	44,310
27	101000	331100	TD Mains 4in & Less	366,236	7,606	-	-	15,094	15,094	373,841	-
28	101000	331200	TD Mains 6in to 8in	391,955	70,533	-	-	10,481	10,481	462,488	(44)
29	101000	331300	TD Mains 10in to 16in	220,851	336,154	-	-	5,226	5,226	557,006	-
30	101000	333000	Services	173,398	2,416	-	-	5,049	5,052	175,814	1,783
31	101000	334100	Meters	178,877	2,126	(2,964)	-	3,305	3,297	178,039	-
32	101000	334200	Meter Installations	11,004	5,573	-	-	439	439	16,577	(267)
33	101000	335000	Hydrants	-	-	-	-	-	-	-	-
34	101000	339100	Othber P/E Intangible	-	-	-	-	-	-	-	-
35	101000	3392500	Other P/E SS	(41,330)	-	-	-	-	1,366	(41,330)	3,768
36	101000	340100	Office Furniture & Equip	3,254	-	-	-	145	134	3,254	-
37	101000	340200	Comp & Periph Equip	20,112	-	-	-	(7,602)	(7,666)	20,112	-
38	101000	341100	Trans Equip Lt Duty Trks	84,886	-	(8,376)	-	21,222	21,218	76,510	-
39	101000	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-	-	-
40	101000	342000	Stores Equipment	-	-	-	-	-	-	-	-
41	101000	343000	Tools,Shop,Garage Equip	11,841	-	-	-	533	897	11,841	-
42	101000	344000	Laboratory Equipment	-	460	-	-	-	-	460	-
43	101000	345000	Power Operated Equipment	33,093	-	-	-	844	3,054	33,093	-
44	101000	346100	Comm Equip Non-Telephone	11,781	-	-	-	986	987	11,781	-
45	101000	346300	Comm Equip Other	580	-	-	-	36	36	580	63,001
46											
47			Utility Plant	4,004,622	329,965	(11,341)	-			4,323,246	3,753,538
48			Less:				-				
49			Total Plant								
50											
51			Monthly Depreciation Expense	4,004,622				125,686	127,808	4,323,246	
52			Retirements								
53			Accum. Depr. - Apprvd'/Calculated	826,360				125,686	942,827	952,046	
54			Total Salvage	813,563				114,345	930,030	930,030	
55			Total Approved/Calculated								
56			Total Per Books (\Trial Balance\Column DE\)	816,873				126,380		943,253	
57			Total Over/(Under) Depreciated	(9,487)						(8,793)	
58											
59											
60											

Arizona American Water Company - Havasu Water
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Reconcile Sun City Water Plant & Accum. Depr.
to Amounts Previously Approved

Line No.	Object Account	Sub. Account	Description	Retirements 2006	Adjustments 2006	Original Depr. Expense 2006	NEW RATES Dec 67093 06/30/04 GATEWAY Rebuttal Depr Expense 2006	Plant Balances 2006	Additions 2007	Retirements 2007	Adjustments 2007
6	101000	301000	Organization	-	-	-		10,144	-	-	-
7	101000	302000	Franchises	-	-	-		-	-	-	-
8	101000	303200	Land & Land Rights SS	-	-	-		47,343	-	-	-
9	101000	303300	Land & Land Rights P	-	-	-		-	-	-	-
10	101000	303500	Land & Land Rights TD	-	-	-		-	-	-	-
11	101000	303600	Land & Land Rights AG	-	-	-		-	-	-	-
12	101000	304100	Struct & Imp SS	-	-	32,967	32,966	3,433,396	(1,399,617)	-	-
13	101000	304200	Struct & Imp P	-	-	-		-	99,968	-	-
14	101000	304300	Struct & Imp WT	-	-	-	-	-	-	-	-
15	101000	304400	Struct & Imp TD	-	-	-	-	-	-	-	-
16	101000	304600	Struct & Imp Offices	-	-	69	68	20,656	42	-	-
17	101000	304800	Struct & Imp Misc	-	-	-	-	-	-	-	-
18	101000	305000	Collect & Impounding	-	-	3,766	3,772	148,253	-	-	-
19	101000	307000	Wells & Springs	-	-	15,950	15,680	385,691	54	-	-
20	101000	310100	Power Generation Equip Other	-	-	2,544	2,546	576	4	-	-
21	101000	311200	Pump Equip Electric	-	-	23,825	23,745	649,301	645,971	-	-
22	101000	311300	Pump Equip Diesel	-	-	-	-	-	-	-	-
23	101000	311500	Pump Equip Other	-	-			-	4,202	-	-
24	101000	320100	WT Equip Non-Media	-	-	(6,432)	(6,432)	(52,148)	311,090	-	-
25	101000	330000	Dist Reservoirs & Standpipe	-	-	18,600	18,436	731,534	493,107	-	-
26	101000	331001	TD Mains Not Classified by Size	-	-	9,166	9,124	753,731	9	-	-
27	101000	331100	TD Mains 4in & Less	-	-	15,241	15,241	373,841	10,445	-	-
28	101000	331200	TD Mains 6in to 8in	-	-	11,692	11,474	462,444	387,791	-	-
29	101000	331300	TD Mains 10in to 16in	-	-	11,697	11,697	557,006	173,660	-	-
30	101000	333000	Services	-	-	5,108	5,112	177,597	101,318	-	-
31	101000	334100	Meters	(1,606)	-	4,628	4,621	176,433	1,407	(2,254)	-
32	101000	334200	Meter Installations	(706)	-	(142)	(143)	15,604	1,649	-	-
33	101000	335000	Hydrants	-	-	-	-	-	-	-	-
34	101000	339100	Othber P/E Intangible	-	-	-	-	-	-	-	-
35	101000	3392500	Other P/E SS	-	-	-	1,415	(37,562)	71,025	-	-
36	101000	340100	Office Furniture & Equip	-	-	193	134	3,254	563	(563)	-
37	101000	340200	Comp & Periph Equip	-	-	474	482	20,112	-	(2,591)	-
38	101000	341100	Trans Equip Lt Duty Trks	-	-	21,222	21,218	76,510	-	-	-
39	101000	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-	-	-
40	101000	342000	Stores Equipment	-	-	-	-	-	-	-	-
41	101000	343000	Tools,Shop,Garage Equip	-	-	552	928	11,841	5,980	-	-
42	101000	344000	Laboratory Equipment	-	-	-	-	460	-	-	-
43	101000	345000	Power Operated Equipment	-	-	844	3,054	33,093	-	-	-
44	101000	346100	Comm Equip Non-Telephone	-	-	986	987	11,781	4,550	(4,629)	-
45	101000	346300	Comm Equip Other	-	-	1,311	1,312	63,580	(19,167)	-	-
46											
47			Utility Plant	(2,312)	-			8,074,472	894,050	(10,037)	-
48			Less:	-							
49			Total Plant								
50											
51			Monthly Depreciation Expense			174,261	177,456	8,074,472			
52			Retirements								
53			Accum. Depr. - Apprvd'/Calculated			174,261	1,127,190	1,126,307			
54			Total Salvage			171,950	1,105,175	1,105,175			
55			Total Approved/Calculated								
56			Total Per Books (\Trial Balance\Column DE\)			200,921		1,144,174			
57			Total Over/(Under) Depreciated					17,867			
58											
59											
60											

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Rate Base Adjustment LJG-1, LJG-2, LJG-3 - Rebuttal LJG - 2R

Exhibit
Schedule B-2 Rebuttal
Page 14
Witness: Gutowski

Line No.	Object Account	Sub. Account	Description	Original Depr. Expense 2007	NEW RATES Dec 67093 06/30/04 GATEWAY Rebuttal Depr Expense 2007	Rebuttal Plant Balances 2007	LJG-2 Remove Staff's Plant Not Used Dec. 67093	LJG-2 6 Years Deprec Exp on Removal	LJG-3 Spread Corp JE to Districts Dec-07	LJG-10 Post TY Arsenic Deferral	Annual Depreciation Expense times TYE UPIS Col [E] * [AU + AV + AX + AY]	GATEWAY Rebuttal Depreciation Expense 6/30/04 Rates times TYE UPIS Col [BD] * [AU + AV + AX + AY]	
1	Reconcile Sun City Water Plant & Accum. Depr.												
2	to Amounts Previously Approved												
3													
4													
5													
6	101000	301000	Organization			10,144	-				-	-	
7	101000	302000	Franchises			-	-				-	-	
8	101000	303200	Land & Land Rights SS			47,343	(5,746)	-			-	-	
9	101000	303300	Land & Land Rights P	-	-	-	-				-	-	0.00%
10	101000	303500	Land & Land Rights TD	-	-	-	-				-	-	0.00%
11	101000	303600	Land & Land Rights AG	-	-	-	-				-	-	0.00%
12	101000	304100	Struct & Imp SS	52,134	52,246	2,033,779	(401)	62			52,461	56,731	2.79%
13	101000	304200	Struct & Imp P	-	-	99,968	-				-	-	0.00%
14	101000	304300	Struct & Imp WT	-	-	-	-				-	-	0.00%
15	101000	304400	Struct & Imp TD	-	-	-	-				-	-	0.00%
16	101000	304600	Struct & Imp Offices	420	420	20,698	-				534	420	2.03%
17	101000	304800	Struct & Imp Misc	-	-	-	-				-	-	0.00%
18	101000	305000	Collect & Impounding	3,766	3,772	148,253	-				3,825	3,766	2.54%
19	101000	307000	Wells & Springs	16,362	16,388	385,744	(70,928)	10,809			7,996	7,996	2.54%
20	101000	310100	Power Generation Equip Other	2,608	2,610	580	-				22	30	5.12%
21	101000	311200	Pump Equip Electric	30,230	30,214	1,295,271	(244)	56			49,600	48,046	3.71%
22	101000	311300	Pump Equip Diesel	-	-	-	-				-	-	0.00%
23	101000	311500	Pump Equip Other	-	-	4,202	-				-	-	0.00%
24	101000	320100	WT Equip Non-Media	3	3	258,942	-			94,996	42,473	42,473	12.00%
25	101000	330000	Dist Reservoirs & Standpipe	22,021	22,002	1,224,641	-				28,534	28,534	2.33%
26	101000	331001	TD Mains Not Classified by Size	9,768	9,768	753,740	-				15,829	15,829	2.10%
27	101000	331100	TD Mains 4in & Less	15,369	15,369	384,286	-				8,070	8,070	2.10%
28	101000	331200	TD Mains 6in to 8in	13,365	13,365	850,235	-				17,855	17,855	2.10%
29	101000	331300	TD Mains 10in to 16in	12,305	12,305	730,665	-				15,344	15,344	2.10%
30	101000	333000	Services	5,688	5,692	278,916	-				8,061	8,061	2.89%
31	101000	334100	Meters	3,957	3,950	175,586	-				6,181	6,181	3.52%
32	101000	334200	Meter Installations	602	602	17,253	-				607	607	3.52%
33	101000	335000	Hydrants	-	-	-	-				-	-	1.99%
34	101000	339100	Othber P/E Intangible	-	-	-	-				-	-	0.00%
35	101000	3392500	Other P/E SS	-	1,678	33,463	-				-	1,108	3.31%
36	101000	340100	Office Furniture & Equip	(337)	(406)	3,254	-				145	133	4.10%
37	101000	340200	Comp & Periph Equip	(2,117)	(2,109)	17,522	-		6,156		1,058	971	4.10%
38	101000	341100	Trans Equip Lt Duty Trks	21,222	21,218	76,510	-				19,128	19,128	25.00%
39	101000	341200	Trans Equip Hvy Duty Trks	-	-	-	-				-	-	25.00%
40	101000	342000	Stores Equipment	-	-	-	-				-	-	3.93%
41	101000	343000	Tools,Shop,Garage Equip	619	1,041	17,822	-				800	1,346	7.55%
42	101000	344000	Laboratory Equipment	-	-	460	-				14	14	3.06%
43	101000	345000	Power Operated Equipment	844	3,054	33,093	-				844	3,054	9.23%
44	101000	346100	Comm Equip Non-Telephone	(3,262)	(3,261)	11,702	-				980	979	8.37%
45	101000	346300	Comm Equip Other	2,088	2,089	44,413	-				2,749	2,749	6.19%
46													
47			Utility Plant			8,958,485	(77,319)		6,156				
48			Less:			9,774,796	UPIS BEFORE THE REMOVAL OF GATEWAY						
49			Total Plant			(816,311)	REDUCTION TO UPIS						
50													
51			Monthly Depreciation Expense	207,656	212,009	8,958,485							
52			Retirements										
53			Accum. Depr. - Apprvd'/Calculated	207,656	1,328,278	1,333,963	18,120	10,927			283,110	289,423	
54			Total Salvage	197,618	1,307,146	1,307,146						311,896	
55			Total Approved/Calculated									(22,473)	
56			Total Per Books (\Trial Balance\Column DE\)	210,598	Rvd Rates	1,321,147	1,354,772	LJG-1					
57			Total Over/(Under) Depreciated		LJG - 2R	(14,000)	20,809	See 08 Havasu Water\Workpapers\Rate Base\ACC DEP Havasu 2002-2007.xls					
58								for an explanation of Company errors and errors in corrections.					
59													
60													

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Computation of Working Capital

Exhibit
Schedule B-5 Rebuttal
Page 1
Witness: Gutowski

Company Rebuttal		
Line No.		
1		
2	Working Cash Requirement	46,992
3	Material and Supplies Inventories	4,486 [1]
4	Prepayments	4,556
5		
6		
7	Total Working Capital Allowance	$ 56,033
8		
9	Total Adjusted Test Year Working Capital Allowance	$ 111,462
10		
11	Increase (Decrease in Working Capital Allowance	$ (55,428)
12		
13	Increase (Decrease in Working Capital Allowance	$ (55,428)
14		
15		
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43	Supporting Schedules:	Recap Schedules:
44	E-1	B-1
45	Workpapers & Supporting Documents:	
46	[1]Thirteen-month average	
47		
48		
49		
50	\Schedules\2007 Havasu Water Sch. A-F.xls\	

Arizona American Water Company
Test Year Ended December 31, 2007
Lead/Lag Study - Working Cash Requirement

Exhibit
Schedule B-6 Rebuttal
Page 1
Witness: Hubbard

HAVASU WATER

Line No.		Test Year Adjusted Results	Revenue Lag Days	Expense Lag Days	Net Lag Days	Lead/ Lag Factor	Cash Working Capital Required
		Company Rebuttal					
1	OPERATING EXPENSES						
2	**P08** Labor	$ 202,482	46.25427	12.0000	34.2543	0.0938	$ 19,002
3	**P09** Purchased Water	-	46.25427	86.8700	(40.6157)	(0.1113)	-
4	**P10** Fuel & Power	111,139	46.25427	32.4200	13.8343	0.0379	4,212
5	**P11** Chemicals	96,165	46.25427	28.4700	17.7843	0.0487	4,686
6	**P12** Waste Disposal	-	46.25427	30.0000	16.2543	0.0445	-
7	**P13** Management Fees	164,457	46.25427	(3.8800)	50.1343	0.1374	22,589
8	**P14** Group Insurance	63,729	46.25427	(4.6445)	50.8988	0.1394	8,887
9	**P15** Pensions	35,586	46.25427	45.0000	1.2543	0.0034	122
10	**P17** Insurance Other Than Group	8,974	46.25427	45.0000	1.2543	0.0034	31
11	**P18** Customer Accounting	22,062	46.25427	7.4600	38.7943	0.1063	2,345
12	**P19** Rents	5,059	46.25427	(10.6818)	56.9361	0.1560	789
13	**P27-** Depreciation & Amortization		46.25427	-	46.2543	0.1267	-
14	Other Operating Expenses[1]	103,211	46.25427	30.0000	16.2543	0.0445	4,596
15	TAXES						
16	**P29** Taxes Other than Income	17,638	46.25427	15.6511	30.6032	0.0838	1,479
17	**P29** Property Taxes	50,566	46.25427	212.5000	(166.2457)	(0.4555)	(23,031)
18	**P30-** Income Tax[2]	111,287	46.25427	42.0402	4.2141	0.0115	1,285
19							
20	**P56-** Interest	93,835		106.5200			
21							
22							
23							
24							
25							
26	WORKING CASH REQUIREMENT	$ 1,086,189					$ 46,992
27							
28							
29	[1]All other Operating Expenses are assumed to be paid by the 15th of the month following the receipt of goods and services.						
30	[2]At proposed rates.						

C Schedules

Havasu Water

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 1
Witness: Hubbard

Line No.			Company Rebuttal								
			[A] Test Year Adjusted Results	[B] ADJ LJG-1R Annualize Step 2 ACRM	[C] ADJ SLH-1R Correct Waste Disposal Exp	[D] ADJ SLH-2R Correct Chemical Exp	[E] ADJ SLH-3R Amortize Rate Case Exp	[F] ADJ SLH-4R Accept RUCO's Corp Labor Adj	[G] ADJ SLH-5 Tank Maintenance Exp	[H] ADJ SLH-6R Water Testing Exp (Staff)	[I] ADJ SLH-7R Depreciation Expense
1	**Revenues**										
2	**P02**	Water Revenues	$ 1,003,476	$ 150,935							
3	**P04**	Other Revenues	23,110								
4			-								
5			$ 1,026,587	$ 150,935	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	**Operating Expenses**										
7	**P08**	Labor	$ 204,741					$ (2,259)			
8	**P09**	Purchased Water	$ -								
9	**P10**	Fuel & Power	$ 111,139								
10	**P11**	Chemicals	$ 88,249			-					
11	**P12**	Waste Disposal	$ (52)		52						
12	**P13**	Management Fees	$ 166,461								
13	**P14**	Group Insurance	$ 63,729								
14	**P15**	Pensions	$ 35,586								
15	**P16**	Regulatory Expense	$ 3,840				380				
16	**P17**	Insurance Other Than Group	$ 8,974								
17	**P18**	Customer Accounting	$ 22,062								
18	**P19**	Rents	$ 5,059								
19	**P20**	General Office Expense	$ 13,616								
20	**P21**	Miscellaneous	$ 42,644							3,794	
21	**P25**	Maintenance Expense	$ 198,697						(159,572)		
22	**P27-2**	Depreciation & Amortization	$ 291,351								(12,712)
23	**P29**	General Taxes-Property Taxes	$ 44,112								
24	**P29**	General Taxes-Other	$ 17,638								
25	**P30-3**	Income Taxes	$ (159,839)								
26											
27	**Total Operating Expenses**		$ 1,158,005	$ -	$ 52	$ -	$ 380	$ (2,259)	$ (159,572)	$ 3,794	$ (12,712)
28	**Utility Operating Income**		$ (131,419)	$ 150,935	$ (52)	$ -	$ (380)	$ 2,259	$ 159,572	$ (3,794)	$ 12,712
29	**Other Income & Deductions**										
30	**P39-4**	Other Income & Deductions	-								
31	**P56-6**	Interest Expense	122,845								
32	**P48-5**	Other Expense	(62)								
33	**P43**	Gain/Loss Sale of Fixed Assets	15,113								
34	**Total Other Income & Deductions**		$ (107,670)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**		$ (239,088)	$ 150,935	$ (52)	$ -	$ (380)	$ 2,259	$ 159,572	$ (3,794)	$ 12,712
36											

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 2
Witness: Hubbard

Line No.		Company Rebuttal									
		[J] ADJ SLH-8R Accept RUCO's AIP Adj	[K] ADJ SLH-9R Accept RUCO's Line 21 Adjs.	[L] ADJ SLH-10R Property Tax Expense	[M] ADJ SLH-11R Income Tax Expense	[N] ADJ SLH-12R Interest Synchronization	[O] ADJ SLH-13R Amortize Deferred Media	[P] Total Rebuttal Pro Forma Adjustments	[Q] Rebuttal Test Year Adjustec Results	[R] Rebuttal Proposed Rate Increase	[S] Rebuttal Adjusted with Rate Increase
1	**Revenues**										
2	**P02** Water Revenues							$ 150,935	$ 1,154,411	$ 373,185	$ 1,527,597
3	**P04** Other Revenues							-	23,110		23,110
4								-	-		-
5		$ -	$ -	$ -	$ -	$ -	$ -	$ 150,935	$ 1,177,522	$ 373,185	$ 1,550,707
6	**Operating Expenses**										
7	**P08** Labor							(2,259)	$ 202,482		$ 202,482
8	**P09** Purchased Water							-	-		$ -
9	**P10** Fuel & Power							-	111,139		$ 111,139
10	**P11** Chemicals						7,916	7,916	96,165		$ 96,165
11	**P12** Waste Disposal							52	-		$ -
12	**P13** Management Fees	(2,004)						(2,004)	164,457		$ 164,457
13	**P14** Group Insurance							-	63,729		$ 63,729
14	**P15** Pensions							-	35,586		$ 35,586
15	**P16** Regulatory Expense							380	4,220		$ 4,220
16	**P17** Insurance Other Than Group							-	8,974		$ 8,974
17	**P18** Customer Accounting							-	22,062		$ 22,062
18	**P19** Rents							-	5,059		$ 5,059
19	**P20** General Office Expense							-	13,616		$ 13,616
20	**P21** Miscellaneous		(188)					3,606	46,250	3,531	$ 49,781
21	**P25** Maintenance Expense							(159,572)	39,125		$ 39,125
22	**P27-2** Depreciation & Amortization							(12,712)	278,639		$ 278,639
23	**P29** General Taxes-Property Taxes			6,454				6,454	50,566	5,319	$ 55,885
24	**P29** General Taxes-Other							-	17,638		$ 17,638
25	**P30-3** Income Taxes				$ 130,496			130,496	(29,343)	140,629	$ 111,287
26											
27	**Total Operating Expenses**	$ (2,004)	$ (188)	$ 6,454	$ 130,496	$ -	$ 7,916	$ (27,642)	$ 1,130,363	$ 149,480	$ 1,279,843
28	**Utility Operating Income**	$ 2,004	$ 188	$ (6,454)	$ (130,496)	$ -	$ (7,916)	$ 178,577	$ 47,158	$ 223,706	$ 270,864
29	**Other Income & Deductions**										
30	**P39-4** Other Income & Deductions							-	-		-
31	**P56-6** Interest Expense					(29,010)		(29,010)	93,835		93,835
32	**P48-5** Other Expense							-	(62)		(62)
33	**P43** Gain/Loss Sale of Fixed Assets								15,113		15,113
34	**Total Other Income & Deductions**	$ -	$ -	$ -	$ -	$ 29,010	$ -	$ 29,010	$ (78,660)	$ -	$ (78,660)
35	**Net Profit (Loss)**	$ 2,004	$ 188	$ (6,454)	$ (130,496)	$ 29,010	$ (7,916)	$ 207,587	$ (31,502)	$ 223,706	$ 192,204
36											

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment LJG-1R

Exhibit
Schedule C-2 Rebuttal
Page 3
Witness: Gutowski

Line No.

1 Annualize Revenue for ACRM Surcharge:

2

3 In Decision Nos. 67093, 68183, 68310, and 69181, Havasu District was allowed to implement a Phase I
4 Arsenic Recovery Cost Mechanism ("ACRM"). The ACRM began December 5, 2006.
5 In Decision No. 70626 effective November 19, 2008, Havasu District began the collection of the
6 Step 2 ACRM. The adjustment below is to increase Present Rate Revenue for the annualization
7 of the Step 2 ACRM.

Present Rate Revenue with Step 1 ACRM included	$1,003,476
Present Rate Revenue with Step 2 ACRM included	$1,154,411
Increase due to Step 2 ACRM for Rebuttal	$150,935
Increase / (Decrease) Water Revenue	$150,935

45 Workpapers & Supporting Documents:
46 \Schedules\2007 Havasu Water Sch. A-F.xls\
47 \08 Havasu Water\Work Papers\Revenue\2352 Havasu Water.XLS

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment Adjustment SLH-1R

Exhibit
Schedule C-2 Rebuttal
Page 4
Witness: Hubbard

Line No.			
1	**Adjusted Test Year Expense-Waste Disposal**		
2			
3	Waste Disposal Exp (A/C 511000) - AZ Corporate		(3,768)
4			
5	Total Adjusted Test Year Expense		
6			
7	4 Factor Allocation to Havasu Water		1.3850%
8			
9	Total Adjusted Test Year Waste Disposal Expense - Havasu Water	$	(52)
10			
11	RUCO Recommended Expense (RMoore)		52
12			
13	**Adjusted Test Year Waste Disposal Expense - Rebuttal**	$	-
14			
15	Less: Adjusted Test Year Waste Disposal Expense (Line 9 Above)	$	(52)
16			
17	Increase (Decrease) in Waste Disposal Expense	$	52
18			
19	Increase (Decrease) in Waste Disposal Expense	$	52
20			
21			
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45	Workpapers & Supporting Documents:		
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50	\Schedules\2007 Havasu Water Sch. A-F.xls\		

Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-2R

Exhibit
Schedule C-2 Rebuttal
Page 5
Witness: Hubbard

Line No.			
1	Annualize Chemicals Expense		
2			
3	Pro Forma Chemicals Expense (work paper) - Havasu Water	$	88,249
4			
5	Adjusted Test Year 2007 Chemicals Expense - Havasu Water		88,249
6			
7	Increase/(Decrease) in Chemicals Expense		-
8			
9	Adjustment to Revenue and/or Expense		-
10			
11			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Havasu Water Sch. A-F.xls\		
47	\Common\Workpapers\Chemicals\[Pro Forma Adj-Chemicals.xls		
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Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-3R

Exhibit
Schedule C-2 Rebuttal
Page 6
Witness: Hubbard

Line No.			
1	Regulatory Expense		
2			
3	Estimated Rate Case Expense	$	456,275
4			
5	Estimated Amortization Period in Years		3
6			
7	Annual Rate Case Expense	$	152,092
8			
9	4 Factor - Havasu Water		2.7744%
10			
11	Allocated Rate Case Expense		4,220
12			
13	Test Year Rate Case Expense	$	3,840
14			
15	Increase/(Decrease) Rate Case Expense	$	380
16			
17	Adjustment to Revenue and/or Expense	$	380
18			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Havasu Water Sch. A-F.xls\		
47	\Common\Workpapers\Expenses\EXHIBIT TMB-3 Rate Case Expense.xls		
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Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-4R

Exhibit
Schedule C-2 Rebuttal
Page 7
Witness: Hubbard

Line No.			
1	Normalize test year Labor expense		
2			
3	Total normalized Test Year Labor expense (Workpaper) - Havasu Water		$ 198,820
4			
5	Test Year Incentive Plan - Havasu Water		5,921
6			
7	Total Pro Forma Test Year Labor expense - Havasu Water		$ 204,741
8			
9	Adjusted Test Year Booked Labor Expense	$ 204,741	
10			
11	Adjusted Test Year Labor - Booked		$ 204,741
12			
13	Correction to Corporate Labor Expense	$ (163,092)	
14			
15	4 Factor Allocation to Havasu Water	1.3850%	
16			
17	Total Corporate disallowance		($2,259)
18			
19	Adjusted Test Year Labor Expense, Rebuttal		$202,482
20			
21	Increase (Decrease) in Labor Expense		$ (2,259)
22			
23	Increase (Decrease) in Labor Expense		$ (2,259)
24			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Havasu Water Sch. A-F.xls\		
47	\Common\Workpapers\Labor\AZ 2007 Labor with Annualizations.xls		
48	\08 Havasu Water\Work Papers\Expenses\A of I - Havasu Water.xls		
49			
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Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-5R

Exhibit
Schedule C-2 Rebuttal
Page 8
Witness: Hubbard

Line No.			
1	Reserve for Future Tank Maintenance		
2			
3	Company Revised Reserve for Tank Maintenance Request	$	30,259
4			
5	Reserve for Future Tank Maintenance, Adjusted Test Year	$	189,831
6			
7	Increase (Decrease) in Reserve for Tank Maintenance Request	$	(159,572)
8			
9	Increase (Decrease) in Reserve for Tank Maintenance Request	$	(159,572)
10			
11			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Havasu Water Sch. A-F.xls\		
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Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-6R

Exhibit
Schedule C-2 Rebuttal
Page 9
Witness: Hubbard

Line No.					
1	Adjust Water Testing Expense to District-Specific Expense				
2					
3	Contract Service-Lab Testing SS (A/C 536000.11)	$	103,296		
4					
5	Misc Operating Expense WT(A/C 575000.13)	$	5,018		
6					
7	Total Water Testing Expense - Arizona Corporate		$108,314		
8					
9	4 Factor Allocation to Havasu Water		1.3850%		
10					
11	Total Test Year Water Testing Expense - Havasu			$	1,500
12					
13	Total Water Testing Expense - Havasu			$	5,295
14					
15	Increase/(Decrease) in Water Testing Expense			$	3,795
16					
17	Increase/(Decrease) in Water Testing Expense			$	3,795
18					
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45	Workpapers & Supporting Documents:				
46	\Schedules\2007 Havasu Water Sch. A-F.xls\				
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Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-7R

Exhibit
Schedule C-2 Rebuttal
Page 10
Witness: Hubbard

Line No.			
1	Adjust Depreciation Expense to Reflect Test Year Adjusted Plant:		
2			
3	Annualized Depreciation Expense on Test Year UPIS	$	298,051
4	Depreciation Expense on Post-Test Year Plant Additions		-
5	Depreciation Expense on Acquisition Adjustment		13,852
6	Amortization of Regulatory Assets (Decision No. 67093)		834
7			
8			
9	Less: Amortization of Contributions		6,011
10	Amortization of Imputed Regulatory CIAC		28,087
11			
12	Total Depreciation Expense	$	278,639
13			
14	Adjusted Test Year Depreciation Expense		291,351
15			
16	Increase (decrease) in Depreciation Expense		(12,712)
17			
18	Adjustment to Revenues and/or Expenses	$	(12,712)
19			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Havasu Water Sch. A-F.xls\		
47	\Common\Workpapers\Expenses\RegAssets04RateCase.xls		
48	\08 Havasu Water\Work Papers\Expenses\A of I - Havasu Water.xls		
49	\08 Havasu Water\Work Papers\Rate Base\Imputed AIAC and CIAC.xls		
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Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-8R

Exhibit
Schedule C-2 Rebuttal
Page 11
Witness: Hubbard

Line No.		
1	Adjust Labor for AIP Disallowance	
2		
3	Corporate AIP Expense	$ 482,198
4		
5	Proposed Disallowance	-30%
6		
7	Total Proposed AIP Disallowance - Arizona Corporate	($144,659)
8		
9	4 Factor Allocation to Havasu Water	1.3850%
10		
11	Total Proposed Disallowance AIP Expense - Havasu Water	$ (2,004)
12		
13		
14		
15	Increase/(Decrease) in Water Testing Expense	$ (2,004)
16		
17	Increase/(Decrease) in Water Testing Expense	$ (2,004)
18		
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45	Workpapers & Supporting Documents:	
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Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-9R

Exhibit
Schedule C-2 Rebuttal
Page 12
Witness: Hubbard

Line No.

1 Adjust for Line21 Miscellaneous Expense Clean Up-Accept RUCO's Adjustment

2

3 The Company went through the Corporate Miscellaneous General Expense account and removed
4 those items which it anticipated the Commission would likely disallow for ratemaking purposes,
5 such as Community Relations expense and membership dues. The Company performed the
6 same study of the Havasu Water account.

7

8

9	Pro forma adjustment to Line 21 Miscellaneous Expense:		
10	Havasu Water		$ -
11			
12	Corporate Office amount	(13,608)	
13		($13,608)	
14			
15	4 Factor Allocation to Havasu Water	1.3850%	
16			
17	Total Corporate disallowance		($188)
18			
19	Pro forma disallowance to Miscellaneous Expense		($188)
20			
21	Adjustment to Revenue and/or Expense		($188)

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45 Workpapers & Supporting Documents:
46 \Schedules\2007 Havasu Water Sch. A-F.xls\
47 \Common\Workpapers\Line21.xls
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Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-10R

Exhibit
Schedule C-2 Rebuttal
Page 13
Witness: Hubbard

Line No.		[A] Property Tax Expense	[B] Property Tax Expense For Conversion Factor
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended Dec. 2007	$ 1,177,522	$ 1,177,522
4	Adjusted Revenues in year ended Dec. 2007	1,177,522	1,177,522
5	Proposed Revenues	1,177,522	1,550,707
6	Average of three year's of revenue	$ 1,177,522	$ 1,301,917
7	Average of three year's of revenue, times 2	$2,355,044	$2,603,834
8	Add:		
9	Construction Work in Progress at 10%	10,080	10,080
10	Deduct:		
11	Net Book Value of Transportation Equipment	$ -	$ -
12			
13	Full Cash Value	$ 2,365,124	$ 2,613,914
14	Assessment Ratio	23%	23%
15	Assessed Value	543,978	601,200
16	Property Tax Rate	9.295630%	9.295630%
17			
18	Property Tax	50,566	55,885
19	Tax on Parcels	-	-
20			
21	Total Property Tax at Proposed Rates	$ 50,566	$ 55,885
22	Adjusted Test Year Property Taxes	44,112	50,566
23	Adjustment to Revenues and/or Expenses	$ 6,454	$ 5,319
24			
25			
26			
27			
28	Increase in Property Tax Due to Increase in Revenue Requirement (Line 23 Col [B])		$ 5,319
29			
30	Increase in Revenue Requirement (From Sch. A1)		$ 373,185
31			
32	Increase in Property Tax Per Dollar Increase in Revenue (Line 32/Line 34)		1.4253%
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43	Workpapers & Supporting Documents:		
44	\Schedules\2007 Havasu Water Sch. A-F.xls\		
45	\Common\Workpapers\Property Taxes\2007 pd in 07-08 AZ Tax Payment .xls		
46	\08 Agua Fria Water\Workpapers\Expenses\A of I - Agua Fria Water.xls		
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Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-11R

Exhibit
Schedule C-2 Rebuttal
Page 14
Witness: Hubbard

Line No.	Calculation of Income Taxes at Proposed Rates		Test Year Adjusted Results	Adjusted with Rate Increase
1	Calculation of Income Taxes at Proposed Rates			
2				
3				
4	Operating Income Before Inc. Taxes		$ 17,816	$ 382,151
5	Interest Expense		$ 93,835	$ 93,835
6	Arizona Taxable Income		(76,019)	288,316
7				
8	Less Arizona Income Tax		$ (5,297)	$ 20,090
9	Arizona Income Tax Rate =	6.968%		
10				
11	Federal Income Before Taxes		$ (76,019)	$ 288,316
12	Less Arizona Income Taxes		(5,297)	20,090
13	Federal Taxable Income		$ (70,722)	$ 268,226
14				
15	Federal Income Taxes:	34.000%	$ (24,046)	$ 91,197
16				
17				
18	Total Income Tax		$ (29,343)	$ 111,287
19				
20	Tax Rate		38.60%	38.60%
21				
22	Effective Income Tax Rates			
23	State		6.968%	6.968%
24	Federal		31.63%	31.63%
25				
26				
27	Adjusted Test Year Income Taxes		$ (159,839)	
28	Increase in Income Taxes		130,496	
29				
30	Adjustment to Revenues and/or Expense		$ 130,496	
31				
32	Adjusted Test Year Income Taxes, Rebuttal			$ (29,343)
33	Increase in Income Taxes			140,629
34				
35	Adjustment to Revenues and/or Expense			140,629
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45	Workpapers & Supporting Documents:			
46	\Schedules\2007 Havasu Water Sch. A-F.xls\			
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Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-12R

Exhibit
Schedule C-2 Rebuttal
Page 15
Witness: Hubbard

Line No.			
1	Interest Synchronization with Rate Base		
2			
3	Original Cost Rate Base (Sch. B-1, Ln. 24)		$3,224,575
4	Weighted Cost of Debt from Schedule D-1		2.91%
5	Synchronized Interest Expense		93,835
6	Test Year Interest Expense	122,845	
7			
8	Adjusted Test Year Interest Expense		122,845
9			
10	Increase (decrease) in Interest Expense		$ (29,010)
11			
12	Adjustment to Revenues and/or Expense		(29,010)
13			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Havasu Water Sch. A-F.xls\		
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Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-13R

Exhibit
Schedule C-2 Rebuttal
Page 16
Witness: Hubbard

Line No.

1 Amortization of Post Test Year Arsenic O&M Deferral:

2

3 In Decision No. 69162, dated December 5, 2006, the Company received a deferral of the O&M costs
4 associated with the Havasu Arsenic Cost Recovery for media replacement until the next rate case
5 to mitigate the impact of the ACRM on the Havasu system by reducing the amount of the
6 expected Step 2 increase by capitalizing, and thereby deferring, recovery of eligible O&M costs.

7

8

9 **Deferral Data from Direct Testimony of Linda Gutowski Schedule B-2 Adj LJG-10:**

10

11 Cost for Media Replacement in Havasu (March, 2008)		$88,300
12		
13 Estimated effective date of ACRM Step 2 Rates	8/1/2008	
14		
15 Monthly AFUDC rate from Decision No. 67093	0.542%	
16		
17 Estimated effective date of rates in this case	9/30/2009	
18		
19 No. of months to collect AFUDC	14	
20		
21 Add AFUDC - Cost times rate times # of months		$6,696
22		
23 Total Post Test Year Arsenic O&M Deferral		$94,996
24		
25 Proposed Amortization Period		
26 12 Years		12
27		
28 Annual Amortization		$7,916
29		
30 Increase (Decrease) Chemical Expense		$7,916

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45 Workpapers & Supporting Documents:

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Arizona American Water Company - Havasu Water
Test Year Ended December 31, 2007
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3 Rebuttal
Page 1
Witness: Hubbard

Company Rebuttal

Line No.	Description					Percentage of Incremental Gross Revenues
1	Federal Income Taxes					31.63%
2						
3	State Income Taxes					6.97%
4				Combined	38.60%	
5	Property Taxes	Effective Rate =	1.4253%	One Minus Combined	61.40%	0.88%
6						
7	Bad Debt Expense	Effective Rate =	0.95%	One Minus Combined	61.40%	0.58%
8						
9	Total Tax Percentage					40.06%
10						
11	Operating Income % = 100% - Tax Percentage					59.94%
12						
13						
14						
15						
16	1	= Gross Revenue Conversion Factor				
17	Operating Income %					1.6682
18						
19						
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43	Supporting Schedules:				Recap Schedules:	
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A Schedules

Mohave Water

Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

Exhibit
Schedule A-1 Rebuttal
Page 1
Witness: Broderick

Company Rebuttal

Line No.					
1	Original Cost Rate Base			$ 10,889,904	
2					
3	Adjusted Operating Income			305,753	
4					
5	Current Rate of Return			2.81%	
6					
7	Required Operating Income			$ 914,752	
8					
9	Required Rate of Return			8.40%	
10					
11	Operating Income Deficiency			$ 608,999	
12					
13	Gross Revenue Conversion Factor			1.6807	
14					
15	Increase in Gross Revenue				
16	Requirement			$ 1,023,549	
17					
18	Customer	Present	Proposed	Dollar	Percent
19	Classification	Rates	Rates	Increase	Increase
20					
21	Residential	$ 3,816,354			0.00%
22	Commercial	915,183			0.00%
23	OPA	176,051			0.00%
24	Private Fire	25,081			0.00%
25					
26	Total Water Revenues	$ 4,932,669	$ 5,956,157	$ 1,023,488	20.75%
27					
28	Other Revenue	181,023	181,023	-	0.00%
29					
30	Total Water Revenues	$5,113,692	$6,137,180	$1,023,488	20.01%
31					
32					
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40	Supporting Schedules:				
41	B-1				
42	C-1				
43	H-1				
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50	\Schedules\2007 Mohave Water Sch. A-F.xls\				

B Schedules

Mohave Water

Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2 Rebuttal
Page 1
Witness: Gutowski

Line No.		[A] Adjusted End of Test Year	[B] COMPANY LJG - 1R Actual Costs for Big Bend Reservoir	[C] COMPANY LJG - 2R Move Gateway Water Plant to Mohave	[D] Rejct STAFF RB # 1 3 Proj w/ no Inv	[E] Reject/Correct STAFF RB # 2 Working Capital	[F] Reject STAFF RB # 3 Imputed AIAC	[G] Accept Staff RB # 4 Dfd DR[1] error	[H] Reject STAFF RB # 5 Big Bend Acres	[I] Reject RUCO RB # 1 Accum Deprec	[J] Reject RUCO RB # 2 CIAC/AIAC in CWIP	[K] Accept RUCO RB # 3 AF/Moh CIAC Amrtzn	[L] Reject RUCO RB # 6 Working Capital	[M] Total Rebuttal Pro Forma Adjustments	[N] Rebuttal Adjusted End of Test Year
								Accept RUCO RB # 5 same							
								Company Rebuttal							
1	Gross Utility														
2	Plant in Service	$ 28,800,225	$ 32,395	$ 721,333	$ -				$ -					$ 753,728	$ 29,553,954
3		-												-	-
4	**Less:**														
5															
6	Accumulated Depreciation	13,084,198	-	45,790	-					-				45,790	13,129,988
7															
8	Net Utility Plant														
9	in Service	$ 15,716,027	$ 32,395	$ 675,543	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 707,938	$ 16,423,966
10															
11	**Less:**														
12	Advances in Aid of														
13	Construction	5,947,009									-			-	5,947,009
14	Contributions in Aid of	-												-	-
15	Construction - Net	107,545									-	27,517		27,517	135,062
16	Imputed Regulatory Advances	-					-							-	-
17	Imputed Regulatory Contributions	1,157,044												-	1,157,044
18	Customer Meter Deposits	7,800												-	7,800
19	Deferred Income Taxes	(1,360,455)												-	(1,360,455)
20	Investment Tax Credits	-												-	-
21		-												-	-
22		-												-	-
23	**Plus:**	-												-	-
24	Deferred Debits	1,749,805						(1,649,972)						(1,649,972)	99,833
25	Working capital	434,422				(181,855)								(181,855)	252,567
26	Utility Plant Acquisition Adjustment	-												-	-
27															
28	Total	$ 12,041,310	$ 32,395	$ 675,543	$ -	$ (181,855)	$ -	$ (1,649,972)	$ -	$ -	$ -	$ (27,517)	$ -	$ (1,151,406)	$ 10,889,904
29															
30															
31															
32															
33	[1] RUCO RB Adjustment #5														
34	is the same dollar amount														
35															
36															
37															

Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Rate Base Adjustment LJG-1R

Exhibit
Schedule B-2 Rebuttal
Page 10
Witness: Gutowski

Line No.

1 Post Test Year Additions to Plant:

2

3 The Company completed the Mohave Water District's Big Bend Acres 0.25MG Reservoir
4 in November, 2008. The actual project costs are:

5

Line No.	Actual Costs:	Project Costs	Annual Deprec Rate	Post TY Annual Depreciation Expense
6				
7				
8				
9				
10	304400 Struct & Imp TD	$ 1,728	1.81%	$ 31
11	309000 Supply Mains	885	2.00%	18
12	330000 Dist Reservoirs & Standpipe	21,268	1.81%	385
13	330100 Elevated Tanks & Standpipes	614,573	1.81%	11,124
14	331100 TD Mains 4in & Less	64	2.61%	2
15	331300 TD Mains 10in to 16in	1,227	2.61%	32
16	331400 TD Mains Greater than 18"	3,382	2.61%	88
17		$ 643,127		$ 11,680
18				
19				
20	Projected Costs			
21	330000 Dist Reservoirs & Standpipe	$ 490,772	1.81%	$ 8,883
22	331300 TD Mains 10in to 16in	60,084	2.61%	1,568
23	331400 TD Mains Greater than 18"	59,875	2.61%	1,563
24		$ 610,732		$ 12,014
25				
26				
27	Increase in UPIS	$ 32,395		
28	Decrease in Depreciation Expense			$ (334)

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45 Workpapers & Supporting Documents:
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50 \Schedules\2007 Mohave Water Sch. A-F.xls\

Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Rate Base Adjustment LJG-1 - 2R

Exhibit
Schedule B-2 - Rebuttal
Page 3
Witness: Gutowski

Line No.	Object Account	Sub. Account	Description	Approved Dec. 69440 June, 2005	Remove Common Plant Allocations	Remove Post-T.Y. Plant Incld'd in Decision	Add Back Staff Proposed Adj to Post TY (a)	REVISED TO ADD GATEWAY Company Books June 2005	REVISED TO ADD GATEWAY Accum Deprec Balance 6/24/2005	Additions Jul - Dec 2005	Retirements Jul - Dec 2005	Adjustment Jul - Dec 2005	REVISED TO ADD GATEWAY Depr. Expense Jul - Dec 2005	Plant Balance December 2005	REVISED TO ADD GATEWAY Additions 2006	Retirements 2006	Adjustment 2006	REVISED TO ADD GATEWAY Depr. Expense 2006
1	Reconcile Sun City Water Plant & Accum. Depr.																	
2	to Amounts Previously Approved																	
3																		
6	101000	301000	Organization	34,004	-	-		34,004	-	-	-	-	-	34,004	-	-	-	-
7	101000	302000	Franchises	37,061	-	-		37,061	-	-	-	-	-	37,061	-	-	-	-
8	101000	303200	Land & Land Rights SS	245,942	-	-		245,942	-	38,104	-	-	-	284,046	6,732	-	-	-
9	101000	303300	Land & Land Rights P	2,361	-	-		2,361	-	-	-	-	-	2,361	-	(10)	-	(10)
10	101000	303500	Land & Land Rights TD	9,609	-	-		9,609	-	-	-	-	-	9,609	-	-	-	-
11	101000	303600	Land & Land Rights AG	26,850	(26,520)	-		330	-	-	-	-	-	330	-	-	-	-
12	101000	304100	Struct & Imp SS	387,473	-	-		446,505	127,038	1,793	-	-	6,322	448,297	4,485	-	-	12,740
13	101000	304200	Struct & Imp P	1,687	-	-		1,687	(2,504)	-	-	-	20	1,687	-	-	-	40
14	101000	304300	Struct & Imp WT	47,846	-	-		47,846	10,419	-	-	-	598	47,846	-	-	-	1,196
15	101000	304400	Struct & Imp TD	4,583	-	-		4,583	2,289	-	-	-	41	4,583	-	-	-	83
16	101000	304510	Struct & Imp AG Cap Lease	14,614	(14,614)			-	-	-	-	-	-	-	-	-	-	-
17	101000	304600	Struct & Imp Offices	453,659	-	-		453,659	69,489	3,481	-	-	4,611	457,140	-	-	-	9,280
18	101000	304700	Struct & Imp Store, Shop, Garage	29,223	-	-		29,223	3,382	-	-	-	677	29,223	-	-	-	1,353
19	101000	305000	Collect & Impounding	663,944	-	-		663,944	135,632	-	-	-	8,432	663,944	-	-	-	16,864
20	101000	307000	Wells & Springs	807,515	-	(18,329)	2,134	1,021,926	362,811	18,329	-	-	13,960	1,040,255	27,822	-	-	28,400
21	101000	310100	Power Generation Equip Other	-	-	-		50,355	5,455	-	-	-	1,259	50,355	-	-	-	2,518
22	101000	311200	Pump Equip Electric	2,006,278	-	(7,266)	2,781	2,055,366	1,251,195	92,398	-	-	53,263	2,147,763	62,194	-	-	111,166
23	101000	311300	Pump Equip Diesel	-	-	-		-	-	-	-	-	-	-	-	-	-	-
24	101000	311500	Pump Equip Other	-	-	-		-	-	-	-	-	-	-	-	-	-	-
25	101000	320100	WT Equip Non-Media	50,870	-	-		50,870	65,161	-	-	-	3,052	50,870	-	-	-	6,104
26	101000	330000	Dist Reservoirs & Standpipe	1,584,351	-	-		1,676,652	346,010	-	-	-	15,174	1,676,652	7,394	-	-	30,403
27	101000	331001	TD Mains Not Classified by Size	49,470	-	-		49,470	3,471	-	-	-	646	49,470	-	-	-	1,291
28	101000	331100	TD Mains 4in & Less	11,674,016	-	-		11,674,016	4,537,588	30,737	-	-	152,435	11,704,753	9,621	-	-	305,607
29	101000	331200	TD Mains 6in to 8in	531,949	-	-		615,830	35,843	1,226,551	-	-	10,704	1,842,381	559,931	-	-	53,187
30	101000	331300	TD Mains 10in to 16in	26,108	-	-		26,108	140	1,019	-	-	342	27,127	668	-	-	710
31	101000	333000	Services	3,028,460	-	-		3,028,460	1,895,297	85,864	-	-	82,792	3,114,324	205,400	-	-	173,207
32	101000	334100	Meters	1,764,595	-	-		1,764,595	838,696	14,572	(744)	-	57,054	1,778,423	15,472	(1,065)	-	115,581
33	101000	334200	Meter Installations	146,773	-	-		146,773	11,077	35,625	(10,991)	-	(5,854)	171,408	66,567	(13,053)	-	58
34	101000	335000	Hydrants	941	-	-		941	2	35,446	-	-	68	36,387	453	-	-	730
35	101000	339100	Other P/E Intangible	-	-	-		-	-				-	-	-	-	-	-
36	101000	339200	Other P/E SS	-	-	-		82,582	-				-	82,582	-	-	-	-
37	101000	340100	Office Furniture & Equip	237,516	(57,948)	-		179,568	33,872	-	(4,046)	-	(487)	175,522	-	-	-	7,091
38	101000	340200	Comp & Periph Equip	347,155	(7,138)	-		340,017	(51,232)	-	(81,744)	-	(76,251)	258,273	-	-	-	10,434
39	101000	340300	Computer Software	89,958	(89,958)			-	68	-	-	-	-	-	-	-	-	-
40	101000	341100	Trans Equip Lt Duty Trks	528,511	-	-		528,511	763,169	-	(34,838)	-	30,500	493,673	17,532	(168,094)	-	(70,572)
41	101000	341200	Trans Equip Hvy Duty Trks	-	-	-		-	-	-	-	-	-	-	-	-	-	-
42	101000	342000	Stores Equipment	3,232	-	-		3,232	2,583	-	-	-	64	3,232	-	-	-	127
43	101000	343000	Tools,Shop,Garage Equip	89,873	-	-		89,873	113,587	45,767	-	-	5,704	135,640	-	(31)	-	15,837
44	101000	344000	Laboratory Equipment	7,623	-	-		7,623	6,693	-	-	-	126	7,623	-	-	-	252
45	101000	345000	Power Operated Equipment	97,186	-	(49,848)		47,338	70,775	49,848	-	-	6,185	97,186	-	-	-	13,509
46	101000	346100	Comm Equip Non-Telephone	159,024	(17,505)	-		141,519	28,785	641	-	-	2,591	142,160	27,499	-	-	6,149
47	101000	346200	Comm Equip Telephone	42,884	(42,884)			-	2,424	-	-	-	-	-	-	-	-	-
48	101000	346300	Comm Equip Other	19,203	(7,255)	-		11,948	12,708	-	-	-	370	11,948	-	-	4,902	765
49																		
50		Utility Plant		25,252,347	(263,822)	(75,443)	4,915	25,570,327		1,680,173	(132,362)	-		27,118,138	1,011,770	(182,253)	4,902	
51		Less:																
52		Total Plant		25,252,347	(263,822)	(75,443)	4,915	25,570,327						27,118,138				
53																		
54		Monthly Depreciation Expense							10,681,921				374,396					854,102
55		Retirements													-			
56		Accum. Depr. - Apprvd'/Calculated		10,906,920	(112,263)		(4,915)	25,570,327	10,789,742				11,164,138	27,118,138				12,018,240
57		Total Salvage						24,917,997						26,465,808				
58		Total Approved/Calculated						652,330						652,330				
59		Total Per Books (\Trial Balance\Column DE\)							10,639,223				11,001,794					11,840,516
60		Total Over/(Under) Depreciated							(150,519)				(162,343)					(177,724)

(a) In the Engineer's report in the Staff Dinated to retire the 10" column pipe at Well 24-1 at ($2,134) to reduce the estimate of Post TY Plant Springs.

(b) In the Engineer's report in the Staff Dire repair to mechanical seals on a Well were made in Agua Fria, not in Mohave

Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Rate Base Adjustment LJG-1 - 2R

Exhibit
Schedule B-2 - Rebuttal
Page 4
Witness: Gutowski

Line No.	Object Account	Sub. Account	Description	Plant Balance December 2006	Additions 2007	Retirements 2007	Adjustment 2007	REVISED TO ADD GATEWAY Depr. Expense 2007	REVISED TO ADD GATEWAY Plant Balance December 2007	REVISED TO ADD GATEWAY Accum Deprec Balance 2007	LJG-2 Staff Proposed Adj to Post TY (a)	LJG-3 Spread Dec '07 Corp JE to Districts	REVISED TO ADD GATEWAY Annual Depreciation Expense times TYE UPIS Col [E] * [AA+ AC + AD]
1	Reconcile Sun City Water Plant & Accum. Depr.												
2	to Amounts Previously Approved												
6	101000	301000	Organization	34,004	-	-	-	-	34,004	-			-
7	101000	302000	Franchises	37,061	-	-	-	-	37,061	-			-
8	101000	303200	Land & Land Rights SS	290,778	14	-	-	-	290,792	-			-
9	101000	303300	Land & Land Rights P	2,351	-	-	-	-	2,351	(10)			-
10	101000	303500	Land & Land Rights TD	9,609	-	-	-	-	9,609	-			-
11	101000	303600	Land & Land Rights AG	330	30,722	-	-	-	31,052	-			-
12	101000	304100	Struct & Imp SS	452,783	-	-	-	12,814	452,783	158,913			12,814
13	101000	304200	Struct & Imp P	1,687	-	-	-	40	1,687	(2,403)			40
14	101000	304300	Struct & Imp WT	47,846	-	-	-	1,196	47,846	13,409			1,196
15	101000	304400	Struct & Imp TD	4,583	-	-	-	83	4,583	2,496			83
16	101000	304510	Struct & Imp AG Cap Lease	-	-	-	-	-	-	-			-
17	101000	304600	Struct & Imp Offices	457,140	7	-	-	9,280	457,148	92,660			9,280
18	101000	304700	Struct & Imp Store, Shop, Garage	29,223	-	-	-	1,353	29,223	6,765			1,353
19	101000	305000	Collect & Impounding	663,944	-	-	-	16,864	663,944	177,792			16,864
20	101000	307000	Wells & Springs	1,068,077	-	-	-	28,838	1,068,077	434,009	(2,134)		28,780
21	101000	310100	Power Generation Equip Other	50,355	137,874	-	-	3,092	188,229	12,324			-
22	101000	311200	Pump Equip Electric	2,209,957	117,239	(2,138)	-	112,929	2,325,058	1,528,553	(2,781)	448	118,924
23	101000	311300	Pump Equip Diesel	-	-	-	-	-	-	-			-
24	101000	311500	Pump Equip Other	-	1,009	-	-	-	1,009	-			-
25	101000	320100	WT Equip Non-Media	50,870	-	-	-	6,104	50,870	80,422			6,104
26	101000	330000	Dist Reservoirs & Standpipe	1,684,046	-	(222)	-	30,259	1,683,824	421,845			30,477
27	101000	331001	TD Mains Not Classified by Size	49,470	-	-	-	1,291	49,470	6,699			1,291
28	101000	331100	TD Mains 4in & Less	11,714,374	4,476	(27)	(178)	305,772	11,718,645	5,301,402			305,857
29	101000	331200	TD Mains 6in to 8in	2,402,312	73,802	-	-	64,666	2,476,114	164,401			64,627
30	101000	331300	TD Mains 10in to 16in	27,794	188,956	-	-	2,569	216,751	3,760			5,657
31	101000	333000	Services	3,319,724	154,141	(5,852)	(20,182)	177,959	3,447,830	2,329,255			186,528
32	101000	334100	Meters	1,792,830	47,969	(54,614)	(15,543)	62,386	1,770,642	1,073,716			115,623
33	101000	334200	Meter Installations	224,922	11,775	-	-	15,720	236,697	21,001			15,456
34	101000	335000	Hydrants	36,839	(366)	-	-	727	36,473	1,527			726
35	101000	339100	Other P/E Intangible	-	-	-	-	-	-	-			-
36	101000	339200	Other P/E SS	82,582	-	-	-	-	82,582	-			-
37	101000	340100	Office Furniture & Equip	175,522	-	(37,314)	(563)	(30,372)	137,645	10,105			5,561
38	101000	340200	Comp & Periph Equip	258,273	-	(191,431)	-	(181,641)	66,842	(298,690)			2,700
39	101000	340300	Computer Software	-	-	-	833	314	833	382			314
40	101000	341100	Trans Equip Lt Duty Trks	343,112	35	-	-	85,787	343,147	808,884			85,787
41	101000	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-	-			-
42	101000	342000	Stores Equipment	3,232	-	(832)	-	(708)	2,400	2,066			94
43	101000	343000	Tools,Shop,Garage Equip	135,609	(1,471)	-	-	15,665	134,138	150,793			15,694
44	101000	344000	Laboratory Equipment	7,623	-	-	-	252	7,623	7,322			252
45	101000	345000	Power Operated Equipment	97,186	75,343	-	-	17,872	172,529	108,342			23,982
46	101000	346100	Comm Equip Non-Telephone	169,659	14,226	(3,351)	-	3,363	180,533	40,888			6,608
47	101000	346200	Comm Equip Telephone	-	49,678	-	-	4,849	49,678	7,273			4,849
48	101000	346300	Comm Equip Other	16,850	-	(19,725)	7,985	(18,289)	5,110	(4,446)			316
50		Utility Plant		27,952,558	905,429	(315,507)	(27,648)		28,514,832		(4,915)	448	
51		Less:											
52		Total Plant		27,952,558					28,514,832		(4,915)		
54		Monthly Depreciation Expense						751,034	28,514,832	12,661,453			1,067,837
55		Retirements											(1,051,451)
56		Accum. Depr. - Apprvd'/Calculated		27,952,558				12,769,274	28,514,832	12,769,274	4,915		16,386
57		Total Salvage		27,231,224					27,793,499	12,723,484	without Gateway		
58		Total Approved/Calculated		721,333					721,333				
59		Total Per Books (\Trial Balance\Column DE\)						12,584,156					
60		Total Over/(Under) Depreciated						(185,119)					

	721,333	45,790 Additional Deprec due to addition of Gateway

(a) In the Engineer's report in the Staff Dire
to reduce the estimate of Post TY Plant

(b) In the Engineer's report in the Staff Dire
were made in Agua Fria, not in Mohave

Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Computation of Working Capital

Exhibit
Schedule B-5 Rebuttal
Page 1
Witness: Gutowski

Company Rebuttal

Line No.			
1			
2	Working Cash Requirement	$	185,707
3	Material and Supplies Inventories		8,897 [1]
4	Prepayments		57,963
5			
6			
7	Total Working Capital Allowance	$	252,567
8			
9	Total Adjusted Test Year Working Capital Allowance	$	434,422
10			
11	Increase (Decrease in Working Capital Allowance	$	(181,855)
12			
13	Increase (Decrease in Working Capital Allowance	$	(181,855)
14			
15			
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18			
19			
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43	Supporting Schedules:	Recap Schedules:	
44	E-1	B-1	
45	Workpapers & Supporting Documents:		
46	[1]Thirteen-month average		
47			
48			
49			
50	\Schedules\2007 Mohave Water Sch. A-F.xls\		

Arizona American Water Company
Test Year Ended December 31, 2007
Lead/Lag Study - Working Cash Requirement

Exhibit
Schedule B-6 Rebuttal
Page 1
Witness: Hubbard

MOHAVE WATER

Line No.		Company Rebuttal Test Year Adjusted Results	Revenue Lag Days	Expense Lag Days	Net Lag Days	Lead/ Lag Factor	Cash Working Capital Required
1	OPERATING EXPENSES						
2	**P08** Labor	$ 887,205	48.23919	12.0000	36.2392	0.0993	$ 88,086
3	**P09** Purchased Water	44,384	48.23919	86.8700	(38.6308)	(0.1058)	(4,698)
4	**P10** Fuel & Power	501,877	48.23919	32.4200	15.8192	0.0433	21,751
5	**P11** Chemicals	7,846	48.23919	28.4700	19.7692	0.0542	425
6	**P12** Waste Disposal	-	48.23919	30.0000	18.2392	0.0500	-
7	**P13** Management Fees	929,574	48.23919	(3.8800)	52.1192	0.1428	132,736
8	**P14** Group Insurance	209,312	48.23919	(4.6445)	52.8837	0.1449	30,327
9	**P15** Pensions	127,879	48.23919	45.0000	3.2392	0.0089	1,135
10	**P17** Insurance Other Than Group	51,991	48.23919	45.0000	3.2392	0.0089	461
11	**P18** Customer Accounting	132,002	48.23919	7.4600	40.7792	0.1117	14,748
12	**P19** Rents	15,559	48.23919	(10.6818)	58.9210	0.1614	2,512
13	**P27-:** Depreciation & Amortization		48.23919	-	48.2392	0.1322	-
14	Other Operating Expenses[1]	710,341	48.23919	30.0000	18.2392	0.0500	35,496
15	TAXES						
16	**P29** Taxes Other than Income	75,809	48.23919	15.6511	32.5881	0.0893	6,768
17	**P29** Property Taxes	221,817	48.23919	212.5000	(164.2608)	(0.4500)	(99,824)
18	**P30-:** Income Tax[2]	375,833	48.23919	42.0402	6.1990	0.0170	6,383
19							
20	**P56-(** Interest	316,896	48.23919	106.5200	(58.2808)	(0.1597)	(50,600)
21							
22							
23							
24							
25							
26	WORKING CASH REQUIREMENT	$ 4,608,326					$ 185,707
27							
28							
29	[1]All other Operating Expenses are assumed to be paid by the 15th of the month following the receipt of goods and services.						
30	[2]At proposed rates.						

C Schedules

Mohave Water

Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 1
Witness: Hubbard

Line No.			Company Rebuttal									
			[A] Test Year Adjusted Results	[B] ADJ LJG-1R	[C] ADJ SLH-1R Correct Waste Disposal Exp	[D] ADJ SLH-2R Correct Chemical Exp	[E] ADJ SLH-3R Amortize Rate Case Exp	[F] ADJ SLH-4R Accept RUCO's Corp Labor Adj	[G] ADJ SLH-5 Tank Maintenance Exp	[H] ADJ SLH-6R Water Testing Exp (Staff)	[I] ADJ SLH-7R Depreciation Expense	[J] ADJ SLH-8R Accept RUCO's AIP Adj
1	**Revenues**											
2	**P02**	Water Revenues	$ 4,932,608									
3	**P04**	Other Revenues	181,023									
4			-									
5			$ 5,113,631	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	**Operating Expenses**											
7	**P08**	Labor	$ 899,973					$ (12,768)				
8	**P09**	Purchased Water	$ 44,384									
9	**P10**	Fuel & Power	$ 501,877									
10	**P11**	Chemicals	$ 7,846			(0)						
11	**P12**	Waste Disposal	$ (295)		295							
12	**P13**	Management Fees	$ 940,899									(11,325)
13	**P14**	Group Insurance	$ 209,312									
14	**P15**	Pensions	$ 127,879									
15	**P16**	Regulatory Expense	$ 119,303				(76,362)					
16	**P17**	Insurance Other Than Group	$ 51,991									
17	**P18**	Customer Accounting	$ 132,002									
18	**P19**	Rents	$ 15,559									
19	**P20**	General Office Expense	$ 103,944									
20	**P21**	Miscellaneous	$ 354,017							8,627		
21	**P25**	Maintenance Expense	$ 583,888						(381,669)			
22	**P27-2**	Depreciation & Amortization	$ 883,235								16,052	
23	**P29**	General Taxes-Property Taxes	$ 221,795									
24	**P29**	General Taxes-Other	$ 75,809									
25	**P30-3**	Income Taxes	$ (196,927)									
26												
27	**Total Operating Expenses**		$ 5,076,491	$ -	$ 295	$ (0)	$ (76,362)	$ (12,768)	$ (381,669)	$ 8,627	$ 16,052	$ (11,325)
28	**Utility Operating Income**		$ 37,140	$ -	$ (295)	$ 0	$ 76,362	$ 12,768	$ 381,669	$ (8,627)	$ (16,052)	$ 11,325
29	**Other Income & Deductions**											
30	**P39-4**	Other Income & Deductions	-									
31	**P56-6**	Interest Expense	350,402									
32	**P48-5**	Other Expense	(351)									
33	**P43**	Gain/Loss Sale of Fixed Assets	85,423									
34	**Total Other Income & Deductions**		$ (264,628)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**		$ (227,488)	$ -	$ (295)	$ 0	$ 76,362	$ 12,768	$ 381,669	$ (8,627)	$ (16,052)	$ 11,325
36												
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41	Supporting Schedules:											
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45	Workpapers & Supporting Documents:											
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50	\Schedules\2007 Mohave Water Sch. A-F.xls\											

Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 2
Witness: Hubbard

Line No.		[K] ADJ SLH-9R Accept RUCO's Line 21 Adjs.	[L] ADJ SLH-10R Property Tax Expense	[M] ADJ SLH-11R Income Tax Exp	[N] ADJ SLH-12R Interest Synchronization	[O] Total Rebuttal Pro Forma Adjustments	[P] Rebuttal Test Year Adjusted Results	[Q] Rebuttal Proposed Rate Increase	[R] Rebuttal Adjusted with Rate Increase
1	**Revenues**								
2	**P02** Water Revenues					$ -	$ 4,932,608	$ 1,023,549	$ 5,956,157
3	**P04** Other Revenues					-	181,023		181,023
4									-
5		$ -	$ -	$ -	$ -	$ -	$ 5,113,631	$ 1,023,549	$ 6,137,180
6	**Operating Expenses**								
7	**P08** Labor					(12,768)	$ 887,205		$ 887,205
8	**P09** Purchased Water					-	44,384		$ 44,384
9	**P10** Fuel & Power					-	501,877		$ 501,877
10	**P11** Chemicals					(0)	7,846		$ 7,846
11	**P12** Waste Disposal					295	-		$ -
12	**P13** Management Fees					(11,325)	929,574		$ 929,574
13	**P14** Group Insurance					-	209,312		$ 209,312
14	**P15** Pensions					-	127,879		$ 127,879
15	**P16** Regulatory Expense					(76,362)	42,941		$ 42,941
16	**P17** Insurance Other Than Group					-	51,991		$ 51,991
17	**P18** Customer Accounting					-	132,002		$ 132,002
18	**P19** Rents					-	15,559		$ 15,559
19	**P20** General Office Expense					-	103,944		$ 103,944
20	**P21** Miscellaneous	(1,407)				7,220	361,237	16,984	$ 378,221
21	**P25** Maintenance Expense					(381,669)	202,219		$ 202,219
22	**P27-2** Depreciation & Amortization					16,052	899,286		$ 899,286
23	**P29** General Taxes-Property Taxes		22			22	221,817	14,728	$ 236,545
24	**P29** General Taxes-Other					-	75,809		$ 75,809
25	**P30-3** Income Taxes			$ 189,923		189,923	(7,005)	382,838	$ 375,833
26									
27	**Total Operating Expenses**	$ (1,407)	$ 22	$ 189,923	$ -	$ (268,613)	$ 4,807,878	$ 414,550	$ 5,222,428
28	**Utility Operating Income**	$ 1,407	$ (22)	$ (189,923)	$ -	$ 268,613	$ 305,753	$ 608,999	$ 914,752
29	**Other Income & Deductions**								
30	**P39-4** Other Income & Deductions					-	-		-
31	**P56-6** Interest Expense				(33,506)	(33,506)	316,896		316,896
32	**P48-5** Other Expense					-	(351)		(351)
33	**P43** Gain/Loss Sale of Fixed Assets						85,423		85,423
34	**Total Other Income & Deductions**	$ -	$ -	$ -	$ 33,506	$ 33,506	$ (231,122)	$ -	$ (231,122)
35	**Net Profit (Loss)**	$ 1,407	$ (22)	$ (189,923)	$ 33,506	$ 302,119	$ 74,631	$ 608,999	$ 683,630
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41	Supporting Schedules:								
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45	Workpapers & Supporting Documents:								
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Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Adjustment LJG-1R

Exhibit
Schedule C-2 Rebuttal
Page 3
Witness: Gutowski

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45	Workpapers & Supporting Documents:
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Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Adjustment Adjustment SLH-1R

Exhibit
Schedule C-2 Rebuttal
Page 4
Witness: Hubbard

Line No.			
1	**Adjusted Test Year Expense-Waste Disposal**		
2			
3	Waste Disposal Exp (A/C 511000) - AZ Corporate		(3,768)
4			
5	Total Adjusted Test Year Expense		
6			
7	4 Factor Allocation to Mohave Water		7.8288%
8			
9	Total Adjusted Test Year Waste Disposal Expense - Mohave Water	$	(295)
10			
11	RUCO Recommended Expense (RMoore)		295
12			
13	**Adjusted Test Year Waste Disposal Expense - Rebuttal**	$	-
14			
15	Less: Adjusted Test Year Waste Disposal Expense (Line 9 Above)	$	(295)
16			
17	Increase (Decrease) in Waste Disposal Expense	$	295
18			
19	Increase (Decrease) in Waste Disposal Expense	$	295
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Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-4R

Exhibit
Schedule C-2 Rebuttal
Page 5
Witness: Hubbard

Line No.			
1	Correct Chemicals Expense		
2			
3	Pro Forma Chemicals Expense (work paper) - Mohave Water	$	7,846
4			
5	Test Year 2007 Chemicals Expense - Mohave Water		7,846
6			
7			
8			
9	Test Year Chemicals Expense - Mohave Water		7,846
10			
11	Increase/(Decrease) in Chemicals Expense		(0)
12			
13	Adjustment to Revenue and/or Expense		(0)
14			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Mohave Water Sch. A-F.xls\		
47	\Common\Workpapers\Chemicals\Pro Forma Adj-Chemicals.xls		
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Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-3R

Exhibit
Schedule C-2 Rebuttal
Page 6
Witness: Hubbard

Line No.			
1	Regulatory Expense		
2			
3	Estimated Rate Case Expense (Exhibit TMB-3)		$ 456,275
4			
5	Estimated Amortization Period in Years (Exhibit TMB-3)		3
6			
7	Annual Rate Case Expense		$ 152,092
8			
9	4 Factor - Mohave Water		0.16098
10			
11	Allocated Annual Rate Case Expense		$ 24,483
12			
13	Unamortized Rate Case Expense Decision No.69440 (5/07)	$ 55,374	
14	Estimated Amortization Period in Years	3	
15	Additional Annual Rate Case Expense		$ 18,458
16			
17	Pro Forma Rate Case Expense		$ 42,941
18			
19	Adjusted Test Year Rate Case Expense (less true up in May 07)		$ 119,303
20			
21	Increase/(Decrease) Rate Case Expense		$ (76,362)
22			
23	Adjustment to Revenue and/or Expense		$ (76,362)
24			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Mohave Water Sch. A-F.xls\		
47	\Common\Workpapers\Expenses\EXHIBIT TMB-3 Rate Case Expense.xls		
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Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-4R

Exhibit
Schedule C-2 Rebuttal
Page 7
Witness: Hubbard

Line No.			
1	Normalize test year Labor expense-Correct Corporate Labor		
2			
3	Total normalized Test Year Labor expense (Workpaper) - Mohave Water		$ 857,963
4			
5	Test Year Incentive Plan - Mohave Water		42,010
6			
7	Total Pro Forma Test Year Labor expense - Mohave Water		$ 899,973
8			
9	Adjusted Test Year Booked Labor Expense	$ 899,973	
10			
11	Adjusted Test Year Labor - Booked		$ 899,973
12			
13	Correction to Corporate Labor Expense	$ (163,092)	
14			
15	4 Factor Allocation to Mohave Water	7.8288%	
16			
17	Total Corporate disallowance		($12,768)
18			
19	Adjusted Test Year Labor Expense, Rebuttal		$887,205
20			
21	Increase (Decrease) in Labor Expense		$ (12,768)
22			
23	Increase (Decrease) in Labor Expense		$ (12,768)
24			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Mohave Water Sch. A-F.xls\		
47	\Common\Workpapers\Labor\AZ 2007 Labor with Annualizations.xls		
48	\08 Mohave Water\Work Papers\Expenses\A of I - Mohave Water.xls		
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Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-5R

Exhibit
Schedule C-2 Rebuttal
Page 8
Witness: Hubbard

Line No.			
1	Reserve for Future Tank Maintenance		
2			
3	Company Revised Reserve for Tank Maintenance Request	$	106,819
4			
5	Reserve for Future Tank Maintenance, Adjusted Test Year	$	488,488
6			
7	Increase (Decrease) in Reserve for Tank Maintenance Request	$	(381,669)
8			
9	Increase (Decrease) in Reserve for Tank Maintenance Request	$	(381,669)
10			
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45	Workpapers & Supporting Documents:		
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50	\Schedules\2007 Mohave Water Sch. A-F.xls\		

Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-6R

Exhibit
Schedule C-2 Rebuttal
Page 9
Witness: Hubbard

Line No.					
1	Adjust Water Testing Expense to District-Specific Expense				
2					
3	Contract Service-Lab Testing SS (A/C 536000.11)	$	103,296		
4					
5	Misc Operating Expense WT(A/C 575000.13)	$	5,018		
6					
7	Total Water Testing Expense - Arizona Corporate		$108,314		
8					
9	4 Factor Allocation to Mohave Water		7.8288%		
10					
11	Total Test Year Water Testing Expense - Mohave Water			$	8,480
12					
13	Total Water Testing Expense - Mohave Water			$	17,107
14					
15	Increase/(Decrease) in Water Testing Expense			$	8,627
16					
17	Increase/(Decrease) in Water Testing Expense			$	8,627
18					
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45	Workpapers & Supporting Documents:				
46	\Schedules\2007 Mohave Water Sch. A-F.xls\				
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Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-7R

Exhibit
Schedule C-2 Rebuttal
Page 10
Witness: Hubbard

Line No.			
1	Adjust Depreciation Expense to Reflect Test Year Adjusted Plant:		
2			
3	Depreciation Expense on Test Year UPIS	$	1,157,168
4	Depreciation Expense on Post-Test Year Plant Additions		11,680
5	Amortization of Deferred Regulatory Assets		9,384
6			
7			
8			
9	Less: Amortization of Contributions		(7,561)
10	Amortization of Imputed Regulatory CIAC		286,506
11			
12	Total Depreciation Expense	$	899,286
13			
14	Adjusted Test Year Depreciation Expense		883,235
15			
16	Increase (Decrease) in Depreciation Expense		16,052
17			
18	Adjustment to Revenues and/or Expenses	$	16,052
19			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Mohave Water Sch. A-F.xls\		
47	\08 Mohave Water\Work Papers\Expenses\A of I - Mohave Water.xls		
48	\Common\Workpapers\Expenses\RegAssets04RateCase.xls		
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Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-8R

Exhibit
Schedule C-2 Rebuttal
Page 11
Witness: Hubbard

Line No.		
1	Adjust Labor for AIP Disallowance	
2		
3	Corporate AIP Expense	$ 482,198
4		
5	Proposed Disallowance	-30%
6		
7	Total Proposed AIP Disallowance - Arizona Corporate	($144,659)
8		
9	4 Factor Allocation to Mohave Water	7.8288%
10		
11	Total Proposed Disallowance AIP Expense - Mohave Water	$ (11,325)
12		
13		
14		
15	Increase/(Decrease) in Water Testing Expense	$ (11,325)
16		
17	Increase/(Decrease) in Water Testing Expense	$ (11,325)
18		
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45	Workpapers & Supporting Documents:	
46	\Schedules\2007 Mohave Water Sch. A-F.xls\	
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Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-9R

Exhibit
Schedule C-2 Rebuttal
Page 12
Witness: Hubbard

Line No.

1 Adjust for Line21 Miscellaneous Expense Clean Up-Accept RUCO's Adjustment

2

3 The Company went through the Corporate Miscellaneous General Expense account and removed
4 those items which it anticipated the Commission would likely disallow for ratemaking purposes,
5 such as Community Relations expense and membership dues. The Company performed the
6 same study of the Mohave Water account.

7

8

9	Pro forma adjustment to Line 21 Miscellaneous Expense:		
10	Mohave Water		($342)
11			
12	Corporate Office amount	($13,608)	
13		($13,608)	
14			
15	4 Factor Allocation to Mohave Water	7.8288%	
16			
17	Total Corporate disallowance		($1,065)
18			
19	Pro forma disallowance to Miscellaneous Expense		($1,407)
20			
21	Adjustment to Revenue and/or Expense		($1,407)

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45 Workpapers & Supporting Documents:
46 \Schedules\2007 Mohave Water Sch. A-F.xls\
47 \Common\Workpapers\Line21.xls
48 \Common\Workpapers\2007 4 Factor.xls
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Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-10R

Exhibit
Schedule C-2 Rebuttal
Page 13
Witness: Hubbard

Line No.		[A] Property Tax Expense	[B] Property Tax Expense For Conversion Factor
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted 2007 Test Year Revenues	$ 5,113,631	$ 5,113,631
4	Adjusted 2007 Test Year Revenues	5,113,631	5,113,631
5	Proposed Revenues	$ 5,113,631	$ 6,137,180
6	Average of three year's of revenue	$ 5,113,631	$ 5,454,814
7	Average of three year's of revenue, times 2	$10,227,262	$10,909,628
8	Add:		
9	Construction Work in Progress at 10%	49,847	49,847
10	Deduct:		
11	Net Book Value of Transportation Equipment	$ -	$ -
12			
13	Full Cash Value	$ 10,277,109	$ 10,959,475
14	Assessment Ratio	23%	23%
15	Assessed Value	2,363,735	2,520,679
16	Property Tax Rate	9.384185%	9.384185%
17			
18	Property Tax	221,817	236,545
19	Tax on Parcels	-	-
20			
21	Total Property Tax at Proposed Rates	$ 221,817	$ 236,545
22	Property Taxes in the test year	221,795	221,817
23	Adjustment to Revenues and/or Expenses	$ 22	$ 14,728
24			
25			
26			
27			
28	Increase in Property Tax Due to Increase in Revenue Requirement (Line 23 Col [B])		$ 14,728
29			
30	Increase in Revenue Requirement (From Sch. A1)		$ 1,023,549
31			
32	Increase in Property Tax Per Dollar Increase in Revenue (Line 32/Line 34)		1.4389%
33			
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43	Workpapers & Supporting Documents:		
44	\Schedules\2007 Mohave Water Sch. A-F.xls\		
45	\Common\Workpapers\Property Taxes\2007 pd in 07-08 AZ Tax Payment .xls		
46	\08 Mohave Water\Workpapers\Expenses\A of I - Mohave Water.xls		
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Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-11R

Exhibit
Schedule C-2 Rebuttal
Page 14
Witness: Hubbard

Line No.			Test Year Adjusted Results	Adjusted with Rate Increase
1	Calculation of Income Taxes at Proposed Rates			
2				
3				
4	Operating Income Before Inc. Taxes		$ 298,748	$ 1,290,585
5	Interest Expense		$ 316,896	$ 316,896
6	Arizona Taxable Income		(18,148)	973,689
7				
8	Less Arizona Income Tax		$ (1,265)	$ 67,847
9	Arizona Income Tax Rate =	6.968%		
10				
11	Federal Income Before Taxes		$ (18,148)	$ 973,689
12	Less Arizona Income Taxes		(1,265)	67,847
13	Federal Taxable Income		$ (16,883)	$ 905,842
14				
15	Federal Income Taxes:	34.000%	$ (5,740)	$ 307,986
16				
17				
18	Total Income Tax		$ (7,005)	$ 375,833
19				
20	Tax Rate		38.60%	38.60%
21				
22	Effective Income Tax Rates			
23	State		6.968%	6.968%
24	Federal		31.63%	31.63%
25				
26				
27	Adjusted Test Year Income Taxes		$ (196,927)	
28	Increase in Income Taxes		189,923	
29				
30	Adjustment to Revenues and/or Expense		$ 189,923	
31				
32	Adjusted Test Year Income Taxes, Rebuttal			$ (7,005)
33	Increase in Income Taxes			382,838
34				
35	Adjustment to Revenues and/or Expense			382,838
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Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-12R

Exhibit
Schedule C-2 Rebuttal
Page 15
Witness: Hubbard

Line No.			
1	Interest Synchronization with Rate Base		
2			
3	Original Cost Rate Base (Sch. B-1, Ln. 24)		$10,889,904
4	Weighted Cost of Debt from Schedule D-1		2.91%
5	Synchronized Interest Expense		316,896
6	Adjusted Test Year Interest Expense	350,402	
7			
8	Adjusted Test Year Interest Expense		350,402
9			
10	Increase (decrease) in Interest Expense		$ (33,506)
11			
12	Adjustment to Revenues and/or Expense		(33,506)
13			
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45	Workpapers & Supporting Documents:		
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Arizona American Water Company - Mohave Water
Test Year Ended December 31, 2007
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3 Rebuttal
Page 1
Witness: Hubbard

Company Rebuttal

Line No.	Description					Percentage of Incremental Gross Revenues
1	Federal Income Taxes					31.63%
2						
3	State Income Taxes					6.97%
4				Combined	38.60%	
5	Property Taxes	Effective Rate =	1.4389%	One Minus Combined	61.40%	0.88%
6						
7	Bad Debt Expense	Effective Rate =	1.66%	One Minus Combined	61.40%	1.02%
8						
9	Total Tax Percentage					40.50%
10						
11	Operating Income % = 100% - Tax Percentage					59.50%
12						
13						
14						
15						
16	1	= Gross Revenue Conversion Factor				
17	Operating Income %					1.6807
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
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35						
36						
37						
38						
39						
40						
41						
42						
43	Supporting Schedules:				Recap Schedules:	
44					A-1	
45						
46						
47						
48						
49						

A Schedules

Paradise Valley Water

Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

Exhibit
Schedule A-1 Rebuttal
Page 1
Witness: Broderick

Company Rebuttal

Line No.					
1	Original Cost Rate Base			$ 37,436,060	
2					
3	Adjusted Operating Income			2,042,832	
4					
5	Current Rate of Return			5.46%	
6					
7	Required Operating Income			$ 3,144,629	
8					
9	Required Rate of Return			8.40%	
10					
11	Operating Income Deficiency			$ 1,101,798	
12					
13	Gross Revenue Conversion Factor			1.6487	
14					
15	Increase in Gross Revenue				
16	Requirement			$ 1,816,479	
17					
18	Customer	Present	Proposed	Dollar	Percent
19	Classification	Rates	Rates	Increase	Increase
20					
21	Residential	$ 6,373,788			0.00%
22	Commercial	1,775,919			0.00%
23	OPA	19,798			0.00%
24	Private Fire	3,830			0.00%
25	Sale for Resale	30,632			0.00%
26					
27	Total Water Revenues	$ 8,203,967	$10,020,445	$ 1,816,479	22.14%
28					
29	Other Revenue	16,619	16,619	-	0.00%
30					
31	Total Revenue	$ 8,220,586	$10,037,065	$ 1,816,479	22.10%
32					
33					
34					
35					
36					
37					
38					
39					
40	Supporting Schedules:				
41	B-1				
42	C-1				
43	H-1				
44					
45					
46					
47					
48					
49					
50	\Schedules\2007 Paradise Valley Sch. A-F.xls\				

B Schedules

Paradise Valley Water

Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2 Rebuttal
Page 1
Witness: Gutowski

Line No.		[A] Adjusted End of Test Year	[B] Accept STAFF RB # 1 Retirement Miller Rd	[C] Reject/Correct STAFF RB # 2 Working Capital	[D] Reject STAFF RB # 3 Imputed AIAC	[E] Accept STAFF RB # 4 Dfd DR[1] error	[F] Accept RUCO RB # 1 Accum Deprec	[G] Rejct RUCO RB # 2 CIAC in CWIP	[H] Correct RUCO RB # 3 Post TY Well # 12
								Company Rebuttal	
1	Gross Utility								
2	Plant in Service	$ 61,588,447	$(180,916)						$ (1,775,026)
3		-							
4	**Less:**								
5									
6	Accumulated Depreciation	12,099,985	(180,916)				100,554		
7									
8	Net Utility Plant								
9	in Service	$ 49,488,461	$ -	$ -	$ -	$ -	$ (100,554)	$ -	$ (1,775,026)
10									
11	**Less:**								
12	Advances in Aid of								
13	Construction	1,704,269							
14	Contributions in Aid of	-							
15	Construction - Net	7,250,116						-	
16	Imputed Regulatory Advances	-			-				
17	Imputed Regulatory Contributions	-							
18	Customer Meter Deposits	12,600							
19	Deferred Income Taxes	1,600,604							
20	Investment Tax Credits	-							
21		-							
22		-							
23	**Plus:**	-							
24	Deferred Debits	1,238,398				(1,083,637)			
25	Working capital	705,715		$ (469,708)					
26	Utility Plant Acquisition Adjustment	-							
27									
28	Total	$ 40,864,986	$ -	$ (469,708)	$ -	$(1,083,637)	$ (100,554)	$ -	$ (1,775,026)
29									
30									
31									
32									
33									
34	[1] RUCO RB Adjustment #6								
35	is the same dollar amount.								
36									
37									
38									
39									
40	Supporting Schedules:								
41	B-5								
42	E-1								
43	08 AZ MEGA\08 Paradise Valley\Work Papers\Rate								
44	08 AZ MEGA\08 Paradise Valley\Work Papers\Rate								
45	08 AZ MEGA\Common\Workpapers\Corp Rate Bas								
46	08 AZ MEGA\Common\Workpapers\Corp Rate Bas								
47									
48									
49									
50	\Schedules\2007 Paradise Valley Sch. A-F.xls\								

Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2 Rebuttal
Page 2
Witness: Gutowski

Line No.		[I] Reject RUCO RB # 4 Accum Deprec	[J] RUCO RB # 5 Retirement Miller Rd	[K] Reject RUCO RB # 7 Working Capital	[L] Total Rebuttal Pro Forma Adjustments	[M] Rebuttal Adjusted End of Test Year
1	Gross Utility					
2	Plant in Service		$ -		$ (1,955,942)	$ 59,632,504
3					-	-
4	**Less:**					
5						
6	Accumulated Depreciation	-	-		(80,362)	12,019,623
7						
8	Net Utility Plant					
9	in Service	$ -	$ -	$ -	$ (1,875,580)	$ 47,612,881
10						
11	**Less:**					
12	Advances in Aid of					
13	Construction				-	1,704,269
14	Contributions in Aid of				-	-
15	Construction - Net				-	7,250,116
16	Imputed Regulatory Advances				-	-
17	Imputed Regulatory Contributions				-	-
18	Customer Meter Deposits				-	12,600
19	Deferred Income Taxes				-	1,600,604
20	Investment Tax Credits				-	-
21					-	-
22					-	-
23	**Plus:**				-	-
24	Deferred Debits				(1,083,637)	154,761
25	Working capital				(469,708)	236,007
26	Utility Plant Acquisition Adjustment				-	-
27						
28	Total	$ -	$ -	$ -	$ (3,428,926)	$ 37,436,060
29						
30						
31						
32						
33						
34	[1] RUCO RB Adjustment #6					
35	is the same dollar amount.					
36						
37						
38						
39						
40	Supporting Schedules:					
41	B-5					
42	E-1					
43	08 AZ MEGA\08 Paradise Valley\Work Papers\Rate					
44	08 AZ MEGA\08 Paradise Valley\Work Papers\Rate					
45	08 AZ MEGA\Common\Workpapers\Corp Rate Bas					
46	08 AZ MEGA\Common\Workpapers\Corp Rate Bas					
47						
48						
49						
50	\Schedules\2007 Paradise Valley Sch. A-F.xls\					

Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Rate Base Adjustment LJG-1R

Exhibit
Schedule B-2 Rebuttal
Page 12
Witness: Gutowski

Line No.

1 Post Test Year Additions to Plant

3 The Well # 12 project is delayed until 2009.

21 In addition, the Company expects to rehabilitate Well #17 in Paradise Valley. We will be replacing a submersible pump and
22 motor with a turbine pump and motor. The project is expected to be completed within the next 6 months and the
23 project costs are estimated to be:

		Project Costs	Annual Deprec Rate	Post TY Annual Depreciation Expense
304620	Struct & Imp Leasehold	$ 650	3.99%	$ 26
304700	Struct & Imp Store, Shop, Gar	1,300	3.99%	52
307000	Wells & Springs	169,390	2.48%	4,201
309000	Supply Mains	8,450	2.52%	213
311200	Pump Equip Electric	83,200	4.39%	3,652
311500	Pump Equip Other	19,500	4.39%	856
334100	Meters	5,590	7.21%	403
		$ 288,080		$ 9,403
Original Cost Well #17 to be retired with the replacement above:				
307000	Wells & Springs	$ (163,649)	2.48%	$ (4,059)
311300	Pump Equip Diesel	(191)	0.00%	-
		$ (163,840)		$ (4,059)
	Total Net Post TY Additions	$ 124,240		$ 5,344

47 Workpapers & Supporting Documents:
48 \08 Paradise Valley\Workpapers\Rate Base\Well 12 Retirement est.xls
49 \08 Paradise Valley\Workpapers\Rate Base\Well 17 Retirement est.xls
50 \Schedules\2007 Paradise Valley Sch. A-F.xls\

Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Computation of Working Capital

Exhibit
Schedule B-5 Rebuttal
Page 1
Witness: Gutowski

Company Rebuttal		
Line No.		
1		
2	Working Cash Requirement	$ 79,326
3	Material and Supplies Inventories	38,726 [1]
4	Prepayments	117,955
5		
6		
7	Total Working Capital Allowance	$ 236,007
8		
9	Total Adjusted Test Year Working Capital Allowance	$ 705,715
10		
11	Increase (Decrease in Working Capital Allowance	$ (469,708)
12		
13	Increase (Decrease in Working Capital Allowance	$ (469,708)
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
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41		
42		
43	Supporting Schedules:	Recap Schedules:
44	E-1	B-1
45	Workpapers & Supporting Documents:	
46	[1]Thirteen-month average	
47		
48		
49		
50	\Schedules\2007 Paradise Valley Sch. A-F.xls\	

Arizona American Water Company
Test Year Ended December 31, 2007
Lead/Lag Study - Working Cash Requirement

Exhibit
Schedule B-6 Rebuttal
Page 1
Witness: Hubbard

PARADISE VALLEY

		Company Rebuttal					
Line No.		Test Year Adjusted Results [a]	Revenue Lag Days [b]	Expense Lag Days [c]	Net Lag Days [d]	Lead/ Lag Factor [e]	Cash Working Capital Required [f]
1	OPERATING EXPENSES						
2	**P08** Labor	$ 703,323	50.13931	12.0000	38.1393	0.1045	$ 73,491
3	**P09** Purchased Water	-	50.13931	86.8700	-	-	-
4	**P10** Fuel & Power	693,068	50.13931	32.4200	17.7193	0.0485	33,646
5	**P11** Chemicals	185,037	50.13931	28.4700	21.6693	0.0594	10,985
6	**P12** Waste Disposal	-	50.13931	30.0000	20.1393	0.0552	-
7	**P13** Management Fees	912,659	50.13931	(3.8800)	54.0193	0.1480	135,072
8	**P14** Group Insurance	184,827	50.13931	(4.6445)	54.7838	0.1501	27,741
9	**P15** Pensions	130,911	50.13931	45.0000	5.1393	0.0141	1,843
10	**P17** Insurance Other Than Group	45,435	50.13931	45.0000	5.1393	0.0141	640
11	**P18** Customer Accounting	123,742	50.13931	7.4600	42.6793	0.1169	14,469
12	**P19** Rents	21,467	50.13931	(10.6818)	60.8211	0.1666	3,577
13	**P27-:** Depreciation & Amortization		50.13931	-	50.1393	0.1374	-
14	Other Operating Expenses[1]	663,736	50.13931	30.0000	20.1393	0.0552	36,622
15	TAXES						
16	**P29** Taxes Other than Income	67,972	50.13931	15.6511	34.4882	0.0945	6,423
17	**P29** Property Taxes	282,306	50.13931	212.5000	(162.3607)	(0.4448)	(125,577)
18	**P30-:** Income Tax[2]	1,291,995	50.13931	42.0402	8.0991	0.0222	28,669
19							
20	**P56-(** Interest	1,089,389	50.13931	106.5200	(56.3807)	(0.1545)	(168,275)
21							
22							
23							
24							
25							
26	WORKING CASH REQUIREMENT	$6,395,869					$ 79,326
27							
28							
29	[1]All other Operating Expenses are assumed to be paid by the 15th of the month following the receipt of goods and services.						
30	[2]At proposed rates.						

C Schedules

Paradise Valley Water

Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 1
Witness: Hubbard

Line No.			COMPANY REBUTTAL								
			[A] Test Year Adjusted Results	[B] ADJ LJG-1R Annualization of Step 2 ACRM	[C] ADJ SLH-1R Correct Waste Disposal Exp	[D] ADJ SLH-2R Correct Chemical Exp	[E] ADJ SLH-3R Amortize Rate Case Exp	[F] ADJ SLH-4R Accept RUCO's Corp Labor Adj	[G] ADJ SLH-5 Tank Maintenance Exp	[H] ADJ SLH-6R Water Testing Exp (Staff)	[I] ADJ SLH-7R Depreciation Expense
1	**Revenues**										
2	**P02**	Water Revenues	$ 7,832,113	$ 371,853							
3	**P04**	Other Revenues	16,619								
4											
5			$ 7,848,732	$ 371,853	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	**Operating Expenses**										
7	**P08**	Labor	$ 715,859					$ (12,536)			
8	**P09**	Purchased Water	$ -								
9	**P10**	Fuel & Power	$ 693,068								
10	**P11**	Chemicals	$ 236,982			(51,945)					
11	**P12**	Waste Disposal	$ (290)		290						
12	**P13**	Management Fees	$ 923,778								
13	**P14**	Group Insurance	$ 184,827								
14	**P15**	Pensions	$ 130,911								
15	**P16**	Regulatory Expense	$ 21,283				1,918				
16	**P17**	Insurance Other Than Group	$ 45,435								
17	**P18**	Customer Accounting	$ 123,742								
18	**P19**	Rents	$ 21,467								
19	**P20**	General Office Expense	$ 87,860								
20	**P21**	Miscellaneous	$ 351,828							(6,293)	
21	**P25**	Maintenance Expense	$ 578,292						(367,350)		
22	**P27-2**	Depreciation & Amortization	$ 1,615,824								(51,921)
23	**P29**	General Taxes-Property Taxes	$ 268,996								
24	**P29**	General Taxes-Other	$ 67,972								
25	**P30-3**	Income Taxes	$ 228,400								
26											
27	**Total Operating Expenses**		$ 6,296,235	$ -	$ 290	$ (51,945)	$ 1,918	$ (12,536)	$ (367,350)	$ (6,293)	$ (51,921)
28	**Utility Operating Income**		$ 1,552,498	$ 371,853	$ (290)	$ 51,945	$ (1,918)	$ 12,536	$ 367,350	$ 6,293	$ 51,921
29	**Other Income & Deductions**										
30	**P39-4**	Other Income & Deductions	-								
31	**P56-6**	Interest Expense	1,189,171								
32	**P48-5**	Other Expense	(344)								
33	**P43**	Gain/Loss Sale of Fixed Assets	(954,224)								
34	**Total Other Income & Deductions**		$ (2,143,051)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**		$ (590,553)	$ 371,853	$ (290)	$ 51,945	$ (1,918)	$ 12,536	$ 367,350	$ 6,293	$ 51,921
36											
37											
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41											
42											
43	Supporting Schedules:										
44											
45	Workpapers & Supporting Documents:										
46	\08 Paradise Valley\Work Papers\Expenses\A of I - Paradise										
47											
48											
49											
50	\Schedules\2007 Paradise Valley Sch. A-F.xls\										

Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 2
Witness: Hubbard

Line No.		COMPANY REBUTTAL [J] ADJ SLH-8R Accept RUCO's AIP Adj	[K] ADJ SLH-9R Accept RUCO's Line 21 Adjs.	[L] ADJ SLH-10R Property Tax Expense	[M] ADJ SLH-11R Income Tax Exp	[N] ADJ SLH-12R Interest Synchronization	[O] Total Rebuttal Pro Forma Adjustments	[P] Rebuttal Test Year Adjusted Results	[Q] Rebuttal Proposed Rate Increase	[R] Rebuttal Adjusted with Rate Increase
1	**Revenues**									
2	**P02** Water Revenues						$ 371,853	$ 8,203,967	$ 1,816,479	$ 10,020,445
3	**P04** Other Revenues						-	16,619		16,619
4										
5		$ -	$ -	$ -	$ -	$ -	$ 371,853	$ 8,220,586	$ 1,816,479	$ 10,037,065
6	**Operating Expenses**									
7	**P08** Labor						(12,536)	$ 703,323		$ 703,323
8	**P09** Purchased Water						-	-		$ -
9	**P10** Fuel & Power						-	693,068		$ 693,068
10	**P11** Chemicals						(51,945)	185,037		$ 185,037
11	**P12** Waste Disposal						290	-		$ -
12	**P13** Management Fees	(11,119)					(11,119)	912,659		$ 912,659
13	**P14** Group Insurance						-	184,827		$ 184,827
14	**P15** Pensions						-	130,911		$ 130,911
15	**P16** Regulatory Expense						1,918	23,201		$ 23,201
16	**P17** Insurance Other Than Group						-	45,435		$ 45,435
17	**P18** Customer Accounting						-	123,742		$ 123,742
18	**P19** Rents						-	21,467		$ 21,467
19	**P20** General Office Expense						-	87,860		$ 87,860
20	**P21** Miscellaneous		(3,802)				(10,095)	341,733	1,440	$ 343,173
21	**P25** Maintenance Expense						(367,350)	210,942		$ 210,942
22	**P27-2** Depreciation & Amortization						(51,921)	1,563,903		$ 1,563,903
23	**P29** General Taxes-Property Taxes			13,311			13,311	282,306	20,613	$ 302,920
24	**P29** General Taxes-Other						-	67,972		$ 67,972
25	**P30-3** Income Taxes				$ 370,967		370,967	599,367	692,628	$ 1,291,995
26										
27	**Total Operating Expenses**	$ (11,119)	$ (3,802)	$ 13,311	$ 370,967	$ -	$ (118,480)	$ 6,177,754	$ 714,681	$ 6,892,435
28	**Utility Operating Income**	$ 11,119	$ 3,802	$ (13,311)	$ (370,967)	$ -	$ 490,334	$ 2,042,832	$ 1,101,798	$ 3,144,629
29	**Other Income & Deductions**									
30	**P39-4** Other Income & Deductions						-	-		-
31	**P56-6** Interest Expense					(99,782)	(99,782)	1,089,389		1,089,389
32	**P48-5** Other Expense						-	(344)		(344)
33	**P43** Gain/Loss Sale of Fixed Assets							(954,224)		(954,224)
34	**Total Other Income & Deductions**	$ -	$ -	$ -	$ -	$ 99,782	$ 99,782	$ (2,043,269)	$ -	$ (2,043,269)
35	**Net Profit (Loss)**	$ 11,119	$ 3,802	$ (13,311)	$ (370,967)	$ 99,782	$ 590,115	$ (438)	$ 1,101,798	$ 1,101,360
36										
37										
38										
39										
40										
41										
42										
43	Supporting Schedules:									
44										
45	Workpapers & Supporting Documents:									
46	\08 Paradise Valley\Work Papers\Expenses\A of I - Paradise									
47										
48										
49										
50	\Schedules\2007 Paradise Valley Sch. A-F.xls\									

Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Adjustment LJG-1R

Exhibit
Schedule C-2 Rebuttal
Page 3
Witness: Gutowski

Line No.

1 Annualize Revenue for ACRM Surcharge:

2

3 In Decision No. 69396, Paradise Valley was allowed to implement a Phase 1 Arsenic Recovery Cost Mechanism.
4 The ACRM began March 22, 2007.
5 In Decision No. 70560, effective September 3, 2008, Paradise Valley was allowed to implement Phase 2 of the
6 Arsenic Recovery Mechanism. This adjustment shows the effect on Present Rate Revenue of the Phase 2
7 ACRM as annualized.

10	Present Rate Revenue with Step 1 ACRM included	$7,832,113
11		
12	Present Rate Revenue with Step 2 ACRM included	$8,203,967
13		
14	Increase due to Step 2 ACRM for Rebuttal	$371,853
15		
16	Increase / (Decrease) Water Revenue	$371,853

45 Workpapers and Schedules
46 \Schedules\2007 Paradise Valley Sch. A-F.xls\
47 \08 Paradise Valley\Work Papers\Revenue\2310, 11, 20, 30 PV Water.XLs

Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Adjustment Adjustment SLH-1R

Exhibit
Schedule C-2 Rebuttal
Page 4
Witness: Hubbard

Line No.			
1	**Adjusted Test Year Expense-Waste Disposal**		
2			
3	Waste Disposal Exp (A/C 511000) - AZ Corporate		(3,768)
4			
5	Total Adjusted Test Year Expense		
6			
7	4 Factor Allocation to Paradise Valley Water		7.6863%
8			
9	Total Adjusted Test Year Waste Disposal Expense - Paradise Valley	$	(290)
10			
11	RUCO Recommended Expense (RMoore)		290
12			
13	**Adjusted Test Year Waste Disposal Expense - Rebuttal**	$	-
14			
15	Less: Adjusted Test Year Waste Disposal Expense (Line 9 Above)	$	(290)
16			
17	Increase (Decrease) in Waste Disposal Expense	$	290
18			
19	Increase (Decrease) in Waste Disposal Expense	$	290
20			
21			
22			
23			
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45	Workpapers & Supporting Documents:		
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49			
50	\Schedules\2007 Paradise Valley Sch. A-F.xls\		

Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-2R

Exhibit
Schedule C-2 Rebuttal
Page 5
Witness: Hubbard

Line No.			
1	Normalize & Adjust Chemicals Expense		
2			
3	Pro Forma Chemicals Expense (work paper) - Paradise Valley	$	185,037
4			
5	Adjusted Test Year 2007 Chemicals Expense - Paradise Valley		236,982
6			
7			
8			
9	Adjusted Test Year Chemicals Expense - Paradise Valley		236,982
10			
11	Increase/(Decrease) in Chemicals Expense		(51,945)
12			
13	Adjustment to Revenue and/or Expense		(51,945)
14			
15			
16			
17			
18			
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44			
45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Paradise Valley Sch. A-F.xls\		
47	\Common\Workpapers\Chemicals\Pro Forma Adj-Chemicals.xls		
48			
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Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-3R

Exhibit
Schedule C-2 Rebuttal
Page 6
Witness: Hubbard

Line No.			
1	Regulatory Expense		
2			
3	Estimated Rate Case Expense	$	456,275
4			
5	Unamortized Rate Case Expense-Last Decision		0
6			
7	Total Rate Case Expense	$	456,275
8			
9	Estimated Amortization Period in Years		3
10			
11	Annual Rate Case Expense	$	152,092
12			
13	4 Factor - Paradise Valley		15.2543%
14			
15	Pro Forma Rate Case Expense		23,201
16			
17	Adjusted Test Year Rate Case Expense	$	21,283
18			
19	Increase/(decrease) Rate Case Expense	$	1,918
20			
21	Adjustment to Revenue and/or Expense	$	1,918
22			
23			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Paradise Valley Sch. A-F.xls\		
47	\Common\Workpapers\Expenses\EXHIBIT TMB-3 Rate Case Expense.xls		
48			
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Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-4R

Exhibit
Schedule C-2 Rebuttal
Page 7
Witness: Hubbard

Line No.			
1	Normalize test year Labor expense		
2			
3	Total normalized Test Year Labor expense (Workpaper) - Paradise Valley Water		$ 754,708
4			
5	Test Year Incentive Plan - Paradise Valley Water		(38,849)
6			
7	Total Pro Forma Test Year Labor expense - Paradise Valley Water		$ 715,859
8			
9	Adjusted Test Year Booked Labor Expense	$ 715,859	
10			
11	Adjusted Test Year Labor - Booked		$ 715,859
12			
13	Correction to Corporate Labor Expense	$ (163,092)	
14			
15	4 Factor Allocation to Paradise Valley Water	7.6863%	
16			
17	Total Corporate disallowance		($12,536)
18			
19	Adjusted Test Year Labor Expense, Rebuttal		$703,323
20			
21	Increase (Decrease) in Labor Expense		$ (12,536)
22			
23	Increase (Decrease) in Labor Expense		$ (12,536)
24			
25			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Paradise Valley Sch. A-F.xls\		
47	\Common\Workpapers\Labor\[AZ 2007 Labor with Annualizations.xls		
48	\08 Paradise Valley\Work Papers\Expenses\A of I - Paradise Valley.xls		
49			
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Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-5R

Exhibit
Schedule C-2 Rebuttal
Page 8
Witness: Hubbard

Line No.			
1	Reserve for Future Tank Maintenance		
2			
3	Company Revised Reserve for Tank Maintenance Request	$	31,560
4			
5	Reserve for Future Tank Maintenance, Adjusted Test Year	$	398,910
6			
7	Increase (Decrease) in Reserve for Tank Maintenance Request	$	(367,350)
8			
9	Increase (Decrease) in Reserve for Tank Maintenance Request	$	(367,350)
10			
11			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Paradise Valley Sch. A-F.xls\		
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Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-6R

Exhibit
Schedule C-2 Rebuttal
Page 9
Witness: Hubbard

Line No.					
1	Adjust Water Testing Expense to District-Specific Expense				
2					
3	Contract Service-Lab Testing SS (A/C 536000.11)	$	103,296		
4					
5	Misc Operating Expense WT(A/C 575000.13)	$	5,018		
6					
7	Total Water Testing Expense - Arizona Corporate		$108,314		
8					
9	4 Factor Allocation to Paradise Valley Water		7.6863%		
10					
11	Total Test Year Water Testing Expense - Paradise Valley			$	8,326
12					
13	Total Water Testing Expense - Paradise Valley			$	2,033
14					
15	Increase/(Decrease) in Water Testing Expense			$	(6,293)
16					
17	Increase/(Decrease) in Water Testing Expense			$	(6,293)
18					
19					
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21					
22					
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24					
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45	Workpapers & Supporting Documents:				
46	\Schedules\2007 Paradise Valley Sch. A-F.xls\				
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Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-7R

Exhibit
Schedule C-2 Rebuttal
Page 10
Witness: Hubbard

Line No.			
1	Adjust Depreciation Expense to Reflect Test Year Adjusted Plant:		
2			
3	Depreciation Expense on Test Year UPIS	$	1,937,180
4	Depreciation Expense on Post-Test Year Plant Additions (Well 17 only)		9,403
5	Amortization of Regulatory Assets		72
6			
7			
8			
9	Less: Amortization of Contributions		382,752
10	Amortization of Imputed Regulatory CIAC		-
11			
12	Total Depreciation Expense	$	1,563,903
13			
14	Adjusted Test Year Depreciation Expense		1,615,824
15			
16	Increase (Decrease) in Depreciation Expense		(51,921)
17			
18	Adjustment to Revenues and/or Expenses	$	(51,921)
19			
20			
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22			
23			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Paradise Valley Sch. A-F.xls\		
47	\08 Paradise Valley\Work Papers\Expenses\A of I - Paradise Valley.xls		
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Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-8R

Exhibit
Schedule C-2 Rebuttal
Page 11
Witness: Hubbard

Line No.		
1	Adjust Labor for AIP Disallowance	
2		
3	Corporate AIP Expense	$ 482,198
4		
5	Proposed Disallowance	-30%
6		
7	Total Proposed AIP Disallowance - Arizona Corporate	($144,659)
8		
9	4 Factor Allocation to Paradise Valley Water	7.6863%
10		
11	Total Proposed Disallowance AIP Expense - Paradise Valley	$ (11,119)
12		
13		
14		
15	Increase/(Decrease) in Water Testing Expense	$ (11,119)
16		
17	Increase/(Decrease) in Water Testing Expense	$ (11,119)
18		
19		
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22		
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45	Workpapers & Supporting Documents:	
46	\Schedules\2007 Paradise Valley Sch. A-F.xls\	
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Line No.

1 Adjust for Line21 Miscellaneous Expense Clean Up-Correction and Accept RUCO's Adjustment

2

3 The Company went through the Corporate Miscellaneous General Expense account and removed
4 those items which it anticipated the Commission would likely disallow for ratemaking purposes,
5 such as Community Relations expense and membership dues. The Company performed the
6 same study of the Paradise Valley account.

7

8

9	Pro forma adjustment to Line 21 Miscellaneous Expense-Correction:		
10	Paradise Valley		($1,524)
11			
12	Corporate Office amount	($16,849)	
13		($16,849)	
14			
15	4 Factor Allocation to Paradise Valley	7.6863%	
16			
17	Total Corporate disallowance - Corrected		($1,295)
18			
19	Total Line 21 Disallowance Company Proposed - Corrected		($2,819)
20			
21	Less: Adjusted Test Year Adjustment		($229)
22			
23	Pro Forma Adjustment to Correct		($2,590)
24			
25	Plus: RUCO's Proposed Disallowance		($1,212)
26			
27	Pro forma disallowance to Miscellaneous Expense		($3,802)
28			
29	Adjustment to Revenue and/or Expense		($3,802)

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45 Workpapers & Supporting Documents:
46 \Schedules\2007 Paradise Valley Sch. A-F.xls\
47 \Common\Workpapers\Line21.xls
48 \Common\Workpapers\2007 4 Factor.xls
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Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-10R

Exhibit
Schedule C-2 Rebuttal
Page 13
Witness: Hubbard

Line No.		[A] Property Tax Expense For Conversion Factor	[B] Property Tax Expense
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted 2007 Test Year Revenues	$ 8,220,586	$ 8,220,586
4	Adjusted 2007 Test Year Revenues	8,220,586	8,220,586
5	Proposed Revenues	$ 8,220,586	$ 10,037,065
6	Average of three year's of revenue	$ 8,220,586	$ 8,826,079
7	Average of three year's of revenue, times 2	$16,441,172	$17,652,158
8	Add:		
9	Construction Work in Progress at 10%	143,802	143,802
10	Deduct:		
11	Net Book Value of Transportation Equipment	$ -	$ -
12			
13	Full Cash Value	$ 16,584,974	$ 17,795,959
14	Assessment Ratio	23%	23%
15	Assessed Value	3,814,544	4,093,071
16	Property Tax Rate	7.400793%	7.400793%
17			
18	Property Tax	282,306	302,920
19	Tax on Parcels	-	-
20			
21	Total Property Tax at Proposed Rates	$ 282,306	$ 302,920
22	Adjusted Test Year Property Taxes	268,996	282,306
23	Adjustment to Revenues and/or Expenses	$ 13,311	$ 20,613
24			
25			
26			
27			
28	Increase in Property Tax Due to Increase in Revenue Requirement (Line 23 Col [B])		$ 20,613
29			
30	Increase in Revenue Requirement (From Sch. A1)		$ 1,816,479
31			
32	Increase in Property Tax Per Dollar Increase in Revenue (Line 32/Line 34)		1.1348%
33			
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43	Workpapers & Supporting Documents:		
44	\Schedules\2007 Paradise Valley Sch. A-F.xls\		
45	\Common\Workpapers\Property Taxes\2007 pd in 07-08 AZ Tax Payment .xls		
46	\08 Paradise Valley\Workpapers\Expenses\A of I - Paradise Valley.xls		
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Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-11R

Exhibit
Schedule C-2 Rebuttal
Page 14
Witness: Hubbard

Line No.	Calculation of Income Taxes at Proposed Rates		Test Year Adjusted Results	Adjusted with Rate Increase
1				
2				
3				
4	Operating Income Before Inc. Taxes		$ 2,642,198	$ 4,436,624
5	Interest Expense		$ 1,089,389	$ 1,089,389
6	Arizona Taxable Income		1,552,809	3,347,235
7				
8	Less Arizona Income Tax		$ 108,200	$ 233,235
9	Arizona Income Tax Rate =	6.968%		
10				
11	Federal Income Before Taxes		$ 1,552,809	$ 3,347,235
12	Less Arizona Income Taxes		108,200	233,235
13	Federal Taxable Income		$ 1,444,609	$ 3,114,000
14				
15	Federal Income Taxes:	34.000%	$ 491,167	$ 1,058,760
16				
17				
18	Total Income Tax		$ 599,367	$ 1,291,995
19				
20	Tax Rate		38.60%	38.60%
21				
22	Effective Income Tax Rates			
23	State		6.968%	6.968%
24	Federal		31.63%	31.63%
25				
26				
27	Adjusted Test Year Income Taxes		$ 228,400	
28	Increase in Income Taxes		370,967	
29				
30	Adjustment to Revenues and/or Expense		$ 370,967	
31				
32	Adjusted Test Year Income Taxes, Rebuttal			$ 599,367
33	Increase in Income Taxes			692,628
34				
35	Adjustment to Revenues and/or Expense			692,628
36				
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44				
45	Workpapers & Supporting Documents:			
46	\Schedules\2007 Paradise Valley Sch. A-F.xls\			
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Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-12R

Exhibit
Schedule C-2 Rebuttal
Page 15
Witness: Hubbard

Line No.			
1	Interest Synchronization with Rate Base		
2			
3	Original Cost Rate Base (Sch. B-1, Ln. 24)		$37,436,060
4	Weighted Cost of Debt from Schedule D-1		2.91%
5	Synchronized Interest Expense		1,089,389
6	Test Year Interest Expense	1,189,171	
7			
8	Adjusted Test Year Interest Expense		1,189,171
9			
10	Increase (decrease) in Interest Expense		$ (99,782)
11			
12	Adjustment to Revenues and/or Expense		(99,782)
13			
14			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Paradise Valley Sch. A-F.xls\		
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Arizona American Water Company - Paradise Valley
Test Year Ended December 31, 2007
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3 Rebuttal
Page 1
Witness: Hubbard

Company Rebuttal

Line No.	Description					Percentage of Incremental Gross Revenues
1	Federal Income Taxes					31.63%
2						
3	State Income Taxes					6.97%
4				Combined	38.60%	
5	Property Taxes	Effective Rate =	1.1348%	One Minus Combined	61.40%	0.70%
6						
7	Bad Debt Expense	Effective Rate =	0.08%	One Minus Combined	61.40%	0.05%
8						
9	Total Tax Percentage					39.34%
10						
11	Operating Income % = 100% - Tax Percentage					60.66%
12						
13						
14						
15						
16	1	= Gross Revenue Conversion Factor				
17	Operating Income %					1.6487
18						
19						
20						
21						
22						
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43	Supporting Schedules:				Recap Schedules:	
44					A-1	
45						
46						
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A Schedules

Sun City West Water

Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

Exhibit
Schedule A-1 Rebuttal
Page 1
Witness: Broderick

Company Rebuttal

Line No.					
1	Original Cost Rate Base			$ 38,374,522	
2					
3	Adjusted Operating Income			736,193	
4					
5	Current Rate of Return			1.92%	
6					
7	Required Operating Income			$ 3,223,460	
8					
9	Required Rate of Return			8.40%	
10					
11	Operating Income Deficiency			$ 2,487,267	
12					
13	Gross Revenue Conversion Factor			1.6467	
14					
15	Increase in Gross Revenue				
16	Requirement			$ 4,095,776	
17					
18	Customer	Present	Proposed	Dollar	Percent
19	Classification	Rates	Rates	Increase	Increase
20					
21	Residential	$ 5,008,780			0.00%
22	Commercial	765,287			0.00%
23	Private Fire	42,798			0.00%
24					
25	Total Water Revenues	$5,816,865	$9,912,641	$4,095,776	70.41%
26					
27	Other Revenue	40,401	40,401	-	0.00%
28					
29					
30	Total Revenues	$5,857,266	$9,953,042	$4,095,776	69.93%
31					
32					
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40	Supporting Schedules:				
41	B-1				
42	C-1				
43	H-1				
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B Schedules

Sun City West Water

Arizona American Water Company - Sun City West Wat
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2 Rebuttal
Page 1
Witness: Gutowski

Line No.		[A] Adjusted End of Test Year	[B] Reject STAFF RB # 1 Adjust Retrmnts	[C] Reject/Correct STAFF RB # 2 Working Capital	[D] Reject STAFF RB # 3 Imputed AIAC	[E] Accept STAFF RB # 4 Dfd DR[1] error	[F] Reject RUCO RB # 1 1/2 Mo Deprec	[G] Reject RUCO RB # 2 CIAC in CWIP	[H] Correct RUCO RB # 3 Adjust Retrmnts	[I] Correct RUCO RB # 4 Wrong District	[J] Reject RUCO RB # 6 Working Capital	[K] Total Rebuttal Pro Forma Adjustments	[L] Rebuttal Adjusted End of Test Year
			Company Rebuttal										
1	Gross Utility												
2	Plant in Service	$ 48,893,385	$ -						$ 76,672	$ (18,581)		$ 58,091	$ 48,951,476
3		-										-	-
4	**Less:**												
5													
6	Accumulated Depreciation	10,514,488	-				-		76,364	(2,446)		73,918	10,588,406
7													
8	Net Utility Plant												
9	in Service	$ 38,378,897	$ -	$ -	$ -	$ -	$ -	$ -	$ 308	$ (16,135)	$ -	$ (15,827)	$ 38,363,070
10													
11	**Less:**												
12	Advances in Aid of												
13	Construction	1,175,373										-	1,175,373
14	Contributions in Aid of	-										-	-
15	Construction - Net	19,491						-				-	19,491
16	Imputed Regulatory Advances	-			-							-	-
17	Imputed Regulatory Contributions	392,368										-	392,368
18	Customer Meter Deposits	1,225										-	1,225
19	Deferred Income Taxes	(1,326,577)										-	(1,326,577)
20	Investment Tax Credits	-										-	-
21		-										-	-
22		-										-	-
23	**Plus:**	-										-	-
24	Deferred Debits	(777,486)				892,284						892,284	114,798
25	Working capital	561,556		(403,020)								(403,020)	158,536
26	Utility Plant Acquisition Adjustment	-										-	-
27													
28	Total	$ 37,901,085	$ -	$ (403,020)	$ -	$892,284	$ -	$ -	$ 308	$ (16,135)	$ -	$ 473,437	$ 38,374,522
29													
30													
31													
32													
33													
34													
35	[1] RUCO RB Adjustment #5 is												
36	the same dollar amount.												
37													
38	Supporting Schedules:												
39	B-5												
40	E-1												
41	08 AZ MEGA\08 Sun City West Water\Work Pap												
42	08 AZ MEGA\08 Sun City West Water\Work Pap												
43	08 AZ MEGA\Common\Workpapers\Corp Rate B												

Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Rate Base Adjustment LJG-1R

Exhibit
Schedule B-2 Rebuttal
Page 1
Witness: Gutowski

Line No.					
1	Calulation of Depreciation on Items to move out of Sun City West				
2					
3	Two projects are on the Sun City West Water books for plant in error.				
4	This adjustment removes the items and calculates the associated accumulate depreciation.				
5					
6					
7	January 2005	Replace Pump	($13,743.77)		
8	Accumulate Depreciation		36 months at	4.42% /year	($1,822.42)
9					
10	February 2005	Replace Pump	($2,800.00)		
11	Accumulate Depreciation		35 months at	4.42% /year	($360.97)
12					
13	February 2005	4" Meter	($2,037.49)		
14	Accumulate Depreciation		35 months at	4.42% /year	($262.67)
15					
16	Total Plant		($18,581.26)		
17	Total Accumulated Depreciation				($2,446)
18					
19					
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Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Computation of Working Capital

Exhibit
Schedule B-5 Rebuttal
Page 1
Witness: Gutowski

Company Rebuttal		
Line No.		
1		
2	Working Cash Requirement	$ 77,120
3	Material and Supplies Inventories	56,510 [1]
4	Prepayments	24,906
5		
6		
7	Total Working Capital Allowance	$ 158,536
8		
9	Total Adjusted Test Year Working Capital Allowance	$ 561,556
10		
11	Increase (Decrease in Working Capital Allowance	$ (403,020)
12		
13	Increase (Decrease in Working Capital Allowance	$ (403,020)
14		
15		
16		
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43	Supporting Schedules:	Recap Schedules:
44	E-1	B-1
45	Workpapers & Supporting Documents:	
46	[1]Thirteen-month average	
47		
48		
49		
50	\Schedules\2007 Sun City West Water Sch. A-F.xls\	

Arizona American Water Company
Test Year Ended December 31, 2007
Lead/Lag Study - Working Cash Requirement

Exhibit
Schedule B-6 Rebuttal
Page 1
Witness:

SUN CITY WEST WATER

Line No.			Company Rebuttal Test Year Adjusted Results	Revenue Lag Days	Expense Lag Days	Net Lag Days	Lead/ Lag Factor	Cash Working Capital Required
1	OPERATING EXPENSES							
2	**P08**	Labor	$ 689,649	47.10131	12.0000	35.1013	0.0962	$ 66,322
3	**P09**	Purchased Water	(2,690)	47.10131	86.8700	(39.7687)	(0.1090)	293
4	**P10**	Fuel & Power	830,074	47.10131	32.4200	14.6813	0.0402	33,388
5	**P11**	Chemicals	227,889	47.10131	28.4700	18.6313	0.0510	11,633
6	**P12**	Waste disposal	4,704	47.10131	30.0000	17.1013	0.0469	220
7	**P13**	Management Fees	987,868	47.10131	(3.8800)	50.9813	0.1397	137,980
8	**P14**	Group Insurance	191,120	47.10131	(4.6445)	51.7458	0.1418	27,095
9	**P15**	Pensions	137,699	47.10131	45.0000	2.1013	0.0058	793
10	**P17**	Insurance Other Than Group	58,622	47.10131	45.0000	2.1013	0.0058	337
11	**P18**	Customer Accounting	133,476	47.10131	7.4600	39.6413	0.1086	14,496
12	**P19**	Rents	14,331	47.10131	(10.6818)	57.7831	0.1583	2,269
13	**P27-2**	Depreciation & Amortization		47.10131	-	47.1013	0.1290	-
14		Other Operating Expenses[1]	510,464	47.10131	30.0000	17.1013	0.0469	23,917
15	TAXES							
16	**P29**	Taxes Other than Income	65,832	47.10131	15.6511	31.4502	0.0862	5,672
17	**P29**	Property Taxes	185,086	47.10131	212.5000	(165.3987)	(0.4531)	(83,871)
18	**P30-3**	Income Tax[2]	1,324,383	47.10131	42.0402	5.0611	0.0139	18,364
19								
20	**P56-6**	Interest	1,116,699	47.10131	106.5200	(59.4187)	(0.1628)	(181,788)
21								
22								
23								
24								
25								
26								
27	WORKING CASH REQUIREMENT		$ 6,475,207					$ 77,120
28								
29								

30 [1]All other Operating Expenses are assumed to be paid by the 15th of the month following the receipt of goods and services.

31 [2]At proposed rates.

C Schedules

Sun City West Water

Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 1
Witness: Hubbard

Line No.			Company Rebuttal								
			[A] Test Year Adjusted Results	[B] ADJ LJG-1R Annualization Step 2 ACRM	[C] ADJ SLH-1R Correct Waste Disposal Exp	[D] ADJ SLH-2R Correct Chemical Exp	[E] ADJ SLH-3R Amortize Rate Case Exp	[F] ADJ SLH-4R Accept RUCO's Corp Labor Adj	[G] ADJ SLH-5R Tank Maintenance Exp	[H] ADJ SLH-6R Water Testing Exp (Staff)	[I] ADJ SLH-7R Depreciation Expense
1	**Revenues**										
2	**P02**	Water Revenues	$ 5,661,030	$ 155,835							
3	**P04**	Other Revenues	40,401								
4			-								
5			$ 5,701,431	$ 155,835	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	**Operating Expenses**										
7	**P08**	Labor	$ 703,217					$ (13,568)			
8	**P09**	Purchased Water	$ (2,690)								
9	**P10**	Fuel & Power	$ 830,074								
10	**P11**	Chemicals	$ 227,889			-					
11	**P12**	Waste Disposal	$ 4,391		313						
12	**P13**	Management Fees	$ 999,903								
13	**P14**	Group Insurance	$ 191,120								
14	**P15**	Pensions	$ 137,699								
15	**P16**	Regulatory Expense	$ 33,802				(8,259)				
16	**P17**	Insurance Other Than Group	$ 58,622								
17	**P18**	Customer Accounting	$ 133,476								
18	**P19**	Rents	$ 14,331								
19	**P20**	General Office Expense	$ 57,226								
20	**P21**	Miscellaneous	$ 232,408							(3,393)	
21	**P25**	Maintenance Expense	$ 247,328						(47,349)		
22	**P27-2**	Depreciation & Amortization	$ 1,323,541								2,607
23	**P29**	General Taxes-Property Taxes	$ 179,896								
24	**P29**	General Taxes-Other	$ 65,832								
25	**P30-3**	Income Taxes	$ (324,059)								
26											
27	**Total Operating Expenses**		$ 5,114,006	$ -	$ 313	$ -	$ (8,259)	$ (13,568)	$ (47,349)	$ (3,393)	$ 2,607
28	**Utility Operating Income**		$ 587,425	$ 155,835	$ (313)	$ -	$ 8,259	$ 13,568	$ 47,349	$ 3,393	$ (2,607)
29	**Other Income & Deductions**										
30	**P39-4**	Other Income & Deductions	-								
31	**P56-6**	Interest Expense	1,102,922								
32	**P48-5**	Other Expense	(372)								
33	**P43**	Gain/Loss Sale of Fixed Assets	90,780								
34	**Total Other Income & Deductions**		$ (1,011,770)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**		$ (424,344)	$ 155,835	$ (313)	$ -	$ 8,259	$ 13,568	$ 47,349	$ 3,393	$ (2,607)
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43	Supporting Schedules:										
44											
45	Workpapers & Supporting Documents:										
46	\Schedules\2007 Sun City West Water Sch. A-F.xls\										
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Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 2
Witness: Hubbard

Line No.		Company Rebuttal [J] ADJ SLH-8R Accept RUCO's AIP Adj	[K] ADJ SLH-9R Accept RUCO's Line 21 Adjs.	[L] ADJ SLH-10R Property Tax Expense	[M] ADJ SLH-11R Income Tax Expense	[N] ADJ SLH-12R Interest Synchronization	[O] Total Rebuttal Pro Forma Adjustments	[P] Rebuttal Test Year Adjusted Results	[Q] Rebuttal Proposed Rate Increase	[R] Rebuttal Adjusted With Rate Increase
1	**Revenues**									
2	**P02** Water Revenues						$ 155,835	$ 5,816,865	$ 4,095,776	$ 9,912,641
3	**P04** Other Revenues						-	40,401		40,401
4							-	-		-
5		$ -	$ -	$ -	$ -	$ -	$ 155,835	$ 5,857,266	$ 4,095,776	$ 9,953,042
6	**Operating Expenses**									
7	**P08** Labor						(13,568)	$ 689,649		$ 689,649
8	**P09** Purchased Water						-	(2,690)		$ (2,690)
9	**P10** Fuel & Power						-	830,074		$ 830,074
10	**P11** Chemicals						-	227,889		$ 227,889
11	**P12** Waste Disposal						313	4,704		$ 4,704
12	**P13** Management Fees	(12,035)					(12,035)	987,868		$ 987,868
13	**P14** Group Insurance						-	191,120		$ 191,120
14	**P15** Pensions						-	137,699		$ 137,699
15	**P16** Regulatory Expense						(8,259)	25,543		$ 25,543
16	**P17** Insurance Other Than Group						-	58,622		$ 58,622
17	**P18** Customer Accounting						-	133,476		$ 133,476
18	**P19** Rents						-	14,331		$ 14,331
19	**P20** General Office Expense						-	57,226		$ 57,226
20	**P21** Miscellaneous		(1,299)				(4,692)	227,716	1,767	$ 229,483
21	**P25** Maintenance Expense						(47,349)	199,979		$ 199,979
22	**P27-2** Depreciation & Amortization						2,607	1,326,147		$ 1,326,147
23	**P29** General Taxes-Property Taxes			5,190			5,190	185,086	43,160	$ 228,246
24	**P29** General Taxes-Other						-	65,832		$ 65,832
25	**P30-3** Income Taxes				$ 84,860		84,860	(239,199)	1,563,582	$ 1,324,383
26										
27	**Total Operating Expenses**	$ (12,035)	$ (1,299)	$ 5,190	$ 84,860	$ -	$ 7,067	$ 5,121,073	$ 1,608,509	$ 6,729,582
28	**Utility Operating Income**	$ 12,035	$ 1,299	$ (5,190)	$ (84,860)	$ -	$ 148,768	$ 736,193	$ 2,487,267	$ 3,223,460
29	**Other Income & Deductions**									
30	**P39-4** Other Income & Deductions						-	-		-
31	**P56-6** Interest Expense					13,777	13,777	1,116,699		1,116,699
32	**P48-5** Other Expense						-	(372)		(372)
33	**P43** Gain/Loss Sale of Fixed Assets							90,780		90,780
34	**Total Other Income & Deductions**	$ -	$ -	$ -	$ -	$ (13,777)	$ (13,777)	$ (1,025,547)	$ -	$ (1,025,547)
35	**Net Profit (Loss)**	$ 12,035	$ 1,299	$ (5,190)	$ (84,860)	$ (13,777)	$ 134,991	$ (289,354)	$ 2,487,267	$ 2,197,913
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43	Supporting Schedules:									
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45	Workpapers & Supporting Documents:									
46	\Schedules\2007 Sun City West Water Sch. A-F.xls\									
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Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Adjustment LJG-1R

Exhibit
Schedule C-2 Rebuttal
Page 3
Witness: Gutowski

Line No.

1 Annualize Revenue for ACRM Surcharge:

2

3 In Decisions 67093, 68183, and 69173, Sun City West Water was allowed to implement a Phase 1 Arsenic Recovery Cost
4 Mechanism. The ACRM began December 1, 2006.
5 In Decision No. 70703, effective January 20, 2009, Sun City West Water began the collection of the Step 2 ACRM.
6 The ajdustment below is to increase Present Rate Revenue for the annualization of the Step 2 ACRM.

9	Present Rate Revenue with Step 1 ACRM included	$ 5,661,030
11	Present Rate Revenue with Step 2 ACRM included	5,816,865
13	Increase due to Step 2 ACRM for Rebuttal	$ 155,835
16	Increase / (Decrease) in Water Revenue	$ 155,835

45 Workpapers & Supporting Documents:
46 \Schedules\2007 Sun City West Water Sch. A-F.xls\
47 \08 Sun City West Water\Work Papers\Revenue\2342 SC West Water.XLs

Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Adjustment Adjustment SLH-1R

Exhibit
Schedule C-2 Rebuttal
Page 4
Witness: Hubbard

Line No.			
1	**Adjusted Test Year Expense-Waste Disposal**		
2			
3	Waste Disposal Exp (A/C 511000) - AZ Corporate		(3,768)
4			
5	Total Adjusted Test Year Expense		
6			
7	4 Factor Allocation to Sun City West Water		8.3198%
8			
9	Total Adjusted Test Year Waste Disposal Expense - Sun City West Water	$	(313)
10			
11	RUCO Recommended Adjustment (RMoore)		313
12			
13	**Adjusted Test Year Waste Disposal Expense - Rebuttal**	$	-
14			
15	Less: Adjusted Test Year Waste Disposal Expense (Line 9 Above)	$	(313)
16			
17	Increase (Decrease) in Waste Disposal Expense	$	313
18			
19	Increase (Decrease) in Waste Disposal Expense	$	313
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45	Workpapers & Supporting Documents:		
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50	\Schedules\2007 Sun City West Water Sch. A-F.xls\		

Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-2R

Exhibit
Schedule C-2 Rebuttal
Page 5
Witness: Hubbard

Line No.			
1	Normalize & Adjust Chemicals Expense		
2			
3	Pro Forma Chemicals Expense (work paper) - Sun City West Water	$	227,888
4			
5	T.Y. 2007 Chemicals Expense - Sun City West Water		227,889
6			
7			
8			
9	Test Year Chemicals Expense - Sun City West Water		227,889
10			
11	Increase/(Decrease) in Chemicals Expense		(0)
12			
13	Adjustment to Revenue and/or Expense		(0)
14			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Sun City West Water Sch. A-F.xls\		
47	\Common\Workpapers\Chemicals\[Pro Forma Adj-Chemicals.xls		
48			
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Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-3R

Exhibit
Schedule C-2 Rebuttal
Page 6
Witness: Hubbard

Line No.			
1	Regulatory Expense		
2			
3	Estimated Rate Case Expense	$	456,275
4			
5	Estimated Amortization Period in Years		3
6			
7	Annual Rate Case Expense	$	152,092
8			
9	4-Factor Allocation		0.16794
10			
11	Annual Rate Case Expense - Sun City West Water		25,543
12			
13			
14			
15	Total Regulatory Expense		25,543
16			
17	Adjusted Test Year Regulatory Expense		33,802
18			
19	Increase (Decrease) in Regulatory Expense	$	(8,259)
20			
21	Increase (Decrease) in Regulatory Expense	$	(8,259)
22			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Sun City West Water Sch. A-F.xls\		
47	\Common\Workpapers\Expenses\[EXHIBIT TMB-3 Rate Case Expense.xls		
48	\08 Sun City West Water\Work Papers\Expenses\A of I - Sun City West Water.xls		
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Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-4R

Exhibit
Schedule C-2 Rebuttal
Page 7
Witness: Hubbard

Line No.			
1	Normalize test year Labor expense		
2			
3	Total normalized Test Year Labor expense (Workpaper) - Sun City West Water		$ 667,648
4			
5	Test Year Incentive Plan - Sun City West Water		35,569
6			
7	Total Pro Forma Test Year Labor expense - Sun City West Water		$ 703,217
8			
9	Adjusted Test Year Booked Labor Expense	$ 703,217	
10			
11	Adjusted Test Year Labor - Booked		$ 703,217
12			
13	Correction to Corporate Labor Expense	$ (163,092)	
14			
15	4 Factor Allocation to Sun City West Water	8.3198%	
16			
17	Total Corporate disallowance		($13,568)
18			
19	Adjusted Test Year Labor Expense, Rebuttal		$689,649
20			
21	Increase (Decrease) in Labor Expense		$ (13,568)
22			
23	Increase (Decrease) in Labor Expense		$ (13,568)
24			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Sun City West Water Sch. A-F.xls\		
47	\Common\Workpapers\Labor\AZ 2007 Labor with Annualizations.xls		
48	\08 Sun City West Water\Work Papers\Expenses\A of I - Sun City West Water.xls		
49			
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Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-5R

Exhibit
Schedule C-2 Rebuttal
Page 8
Witness: Hubbard

Line No.			
1	Reserve for Future Tank Maintenance		
2			
3	Company Revised Reserve for Tank Maintenance Request	$	89,677
4			
5	Reserve for Future Tank Maintenance, Adjusted Test Year	$	137,026
6			
7	Increase (Decrease) in Reserve for Tank Maintenance Request	$	(47,349)
8			
9	Increase (Decrease) in Reserve for Tank Maintenance Request	$	(47,349)
10			
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45	Workpapers & Supporting Documents:		
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50	\Schedules\2007 Sun City West Water Sch. A-F.xls\		

Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-6R

Exhibit
Schedule C-2 Rebuttal
Page 9
Witness: Hubbard

Line No.					
1	Adjust Water Testing Expense to District-Specific Expense				
2					
3	Contract Service-Lab Testing SS (A/C 536000.11)	$	103,296		
4					
5	Misc Operating Expense WT(A/C 575000.13)	$	5,018		
6					
7	Total Water Testing Expense - Arizona Corporate		$108,314		
8					
9	4 Factor Allocation to Sun City West Water		8.3198%		
10					
11	Total Test Year Water Testing Expense - Sun City West Water			$	9,011
12					
13	Total Water Testing Expense - Sun City West Water			$	5,618
14					
15	Increase/(Decrease) in Water Testing Expense			$	(3,393)
16					
17	Increase/(Decrease) in Water Testing Expense			$	(3,393)
18					
19					
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45	Workpapers & Supporting Documents:				
46	\Schedules\2007 Sun City West Water Sch. A-F.xls\				
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Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-7R

Exhibit
Schedule C-2 Rebuttal
Page 10
Witness: Hubbard

Line No.			
1	Adjust Depreciation Expense to Reflect Test Year Adjusted Plant:		
2			
3	Depreciation Expense on Test Year UPIS	$	1,417,979
4	Depreciation Expense on Post-Test Year Plant Additions		-
5	Amortization of Deferred Debit - Y2k Costs (RegAsset04RateCase.xls)		5,841
6	Amortization of Deferred Debit		
7			
8			
9	Less: Amortization of Contributions (at 1.52%/yr)		515
10	Amortization of Imputed Regulatory CIAC		97,158
11			
12	Total Depreciation Expense	$	1,326,147
13			
14	Adjusted Test Year Depreciation Expense		1,323,541
15			
16	Increase (decrease) in Depreciation Expense		2,607
17			
18	Adjustment to Revenues and/or Expenses	$	2,607
19			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Sun City West Water Sch. A-F.xls\		
47	\Common\Workpapers\Expenses\RegAssets04RateCase.xls		
48	\08 Sun City West Water\Work Papers\Expenses\A of I - Sun City West Water.xls		
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Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-8R

Exhibit
Schedule C-2 Rebuttal
Page 11
Witness: Hubbard

Line No.		
1	Adjust Labor for AIP Disallowance	
2		
3	Corporate AIP Expense	$ 482,198
4		
5	Proposed Disallowance	-30%
6		
7	Total Proposed AIP Disallowance - Arizona Corporate	($144,659)
8		
9	4 Factor Allocation to Sun City West Water	8.3198%
10		
11	Total Proposed Disallowance AIP Expense - Sun City West Water	$ (12,035)
12		
13		
14		
15	Increase/(Decrease) in Water Testing Expense	$ (12,035)
16		
17	Increase/(Decrease) in Water Testing Expense	$ (12,035)
18		
19		
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45	Workpapers & Supporting Documents:	
46	\Schedules\2007 Sun City West Water Sch. A-F.xls\	
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Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-9R

Exhibit
Schedule C-2 Rebuttal
Page 12
Witness: Hubbard

Line No.

1 Adjust for Line21 Miscellaneous Expense Clean Up-Accept RUCO's Adjustment

2

3 The Company went through the Corporate Miscellaneous General Expense account and removed
4 those items which it anticipated the Commission would likely disallow for ratemaking purposes,
5 such as Community Relations expense and membership dues. The Company performed the
6 same study of the Sun City West Water account.

7

8

9	Pro forma adjustment to Line 21 Miscellaneous Expense:		
10	Sun City West Water		$ (167)
11			
12	Corporate Office amount	$ (13,608)	
13		($13,608)	
14			
15	4 Factor Allocation to Sun City West Water	8.3198%	
16			
17	Total Corporate disallowance		($1,132)
18			
19	Pro forma disallowance to Miscellaneous Expense		($1,299)
20			
21	Adjustment to Revenue and/or Expense		($1,299)

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45 Workpapers & Supporting Documents:
46 \Schedules\2007 Sun City West Water Sch. A-F.xls\
47 \Common\Workpapers\Line21.xls
48 \Common\Workpapers\2007 4 Factor.xls
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Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-10R

Exhibit
Schedule C-2
Page 13
Witness: Hubbard

Line No.		[A] Property Tax Expense	[B] Property Tax Expense For Conversion Factor
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended Dec. 2007	$ 5,857,266	$ 5,857,266
4	Adjusted Revenues in year ended Dec. 2007	5,857,266	5,857,266
5	Proposed Revenues	$ 5,857,266	$ 9,953,042
6	Average of three year's of revenue	$ 5,857,266	$ 7,222,525
7	Average of three year's of revenue, times 2	$11,714,532	$14,445,049
8	Add:		
9	Construction Work in Progress at 10%	(5,086)	(5,086)
10	Deduct:		
11	Net Book Value of Transportation Equipment	$ -	$ -
12			
13	Full Cash Value	$ 11,709,446	$ 14,439,964
14	Assessment Ratio	23%	23%
15	Assessed Value	2,693,173	3,321,192
16	Property Tax Rate	6.872427%	6.872427%
17			
18	Property Tax	185,086	228,246
19	Tax on Parcels	-	-
20			
21	Total Property Tax at Proposed Rates	$ 185,086	$ 228,246
22	Adjusted Test Year Property Tax Expense	179,896	185,086
23	Adjustment to Revenues and/or Expenses	$ 5,190	$ 43,160
24			
25			
26			
27			
28	Increase in Property Tax Due to Increase in Revenue Requirement (Line 23 Col [B])		$ 43,160
29			
30	Increase in Revenue Requirement (From Sch. A1)		$ 4,095,776
31			
32	Increase in Property Tax Per Dollar Increase in Revenue (Line 32/Line 34)		1.0538%
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43	Workpapers & Supporting Documents:		
44	\Schedules\2007 Sun City West Water Sch. A-F.xls\		
45	\Common\Workpapers\Property Taxes\2007 pd in 07-08 AZ Tax Payment .xls		
46	\08 Sun City West Water\Workpapers\Expenses\A of I - Sun City West Water.xls		
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Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-11R

Exhibit
Schedule C-2 Rebuttal
Page 14
Witness: Hubbard

Line No.	Calculation of Income Taxes at Proposed Rates		Test Year Adjusted Results	Adjusted with Rate Increase
1				
2				
3				
4	Operating Income Before Inc. Taxes		$ 496,994	$ 4,547,843
5	Interest Expense		$ 1,116,699	$ 1,116,699
6	Arizona Taxable Income		(619,705)	3,431,145
7				
8	Less Arizona Income Tax		$ (43,181)	$ 239,082
9	Arizona Income Tax Rate =	6.968%		
10				
11	Federal Income Before Taxes		$ (619,705)	$ 3,431,145
12	Less Arizona Income Taxes		(43,181)	239,082
13	Federal Taxable Income		$ (576,524)	$ 3,192,063
14				
15	Federal Income Taxes:	34.000%	$ (196,018)	$ 1,085,301
16				
17				
18	Total Income Tax		$ (239,199)	$ 1,324,383
19				
20	Tax Rate		38.60%	38.60%
21				
22	Effective Income Tax Rates			
23	State		6.968%	6.968%
24	Federal		31.63%	31.63%
25				
26				
27	Adjusted Test Year Income Taxes		$ (324,059)	
28	Increase in Income Taxes		84,860	
29				
30	Adjustment to Revenues and/or Expense		$ 84,860	
31				
32	Adjusted Test Year Income Taxes, Rebuttal			$ (239,199)
33	Increase in Income Taxes			1,563,582
34				
35	Adjustment to Revenues and/or Expense			1,563,582
36				
37				
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44				
45	Workpapers & Supporting Documents:			
46	\Schedules\2007 Sun City West Water Sch. A-F.xls\			
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Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-12R

Exhibit
Schedule C-2 Rebuttal
Page 15
Witness: Hubbard

Line No.			
1	Interest Synchronization with Rate Base		
2			
3	Original Cost Rate Base (Sch. B-1, Ln. 24)		$38,374,522
4	Weighted Cost of Debt from Schedule D-1		2.91%
5	Synchronized Interest Expense		1,116,699
6	Test Year Interest Expense	1,102,922	
7			
8	Adjusted Test Year Interest Expense		1,102,922
9			
10	Increase (decrease) in Interest Expense		$ 13,777
11			
12	Adjustment to Revenues and/or Expense		13,777
13			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Sun City West Water Sch. A-F.xls\		
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Arizona American Water Company - Sun City West Water
Test Year Ended December 31, 2007
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3 Rebuttal
Page 1
Witness: Hubbard

Company Rebuttal

Line No.	Description					Percentage of Incremental Gross Revenues
1	Federal Income Taxes					31.63%
2						
3	State Income Taxes					6.97%
4				Combined	38.60%	
5	Property Taxes	Effective Rate =	1.0538%	One Minus Combined	61.40%	0.65%
6						
7	Bad Debt Expense	Effective Rate =	0.04%	One Minus Combined	61.40%	0.03%
8						
9	Total Tax Percentage					39.27%
10						
11	Operating Income % = 100% - Tax Percentage					60.73%
12						
13						
14						
15						
16	1	= Gross Revenue Conversion Factor				
17	Operating Income %					1.6467
18						
19						
20						
21						
22						
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28						
29						
30						
31						
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43	Supporting Schedules:				Recap Schedules:	
44					A-1	
45						
46						
47						
48						
49						

A Schedules

Tubac Water

Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

Exhibit
Schedule A-1 Rebuttal
Page 1
Witness: Broderick

Company Rebuttal

Line No.					
1	Original Cost Rate Base			$ 1,457,349	
2					
3	Adjusted Operating Income			(40,106)	
4					
5	Current Rate of Return			-2.75%	
6					
7	Required Operating Income			$ 122,417	
8					
9	Required Rate of Return			8.40%	
10					
11	Operating Income Deficiency			$ 162,524	
12					
13	Gross Revenue Conversion Factor			1.6648	
14					
15	Increase in Gross Revenue				
16	Requirement			$ 270,575	
17					
18	Customer	Present	Proposed	Dollar	Percent
19	Classification	Rates	Rates	Increase	Increase
20					
21	Residential	$320,770			0.00%
22	Commercial	102,289			0.00%
23					
24	Total Water Revenues	$423,059	$693,636	$270,577	63.96%
25					
26	Other Revenue	-	-	-	0.00%
27					
28	Total Water Revenues	$423,059	$693,636	$270,577	63.96%
29					
30					
31					
32					
33					
34					
35					
36					
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40	Supporting Schedules:				
41	B-1				
42	C-1				
43	H-1				
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50	\Schedules\2007 Tubac Water Sch. A-F.xls\				

B Schedules

Tubac Water

Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2 Rebuttal
Page 1
Witness: Gutowski

Line No.		Company Rebuttal								
		[A] Adjusted End of Test Year	[B] Reject/Correct STAFF RB # 1 Working Capital	[C] Reject STAFF RB # 2 Imputed AIAC	[D] Accept STAFF RB # 3 Dfd DR[1] error	[E] Reject RUCO RB # 1 Accum Deprec	[F] Reject RUCO RB # 2 AIAC in CWIP	[G] Reject RUCO RB # 8 Working Capital	[H] Total Rebuttal Pro Forma Adjustments	[I] Rebuttal Adjusted End of Test Year
1	Gross Utility									
2	Plant in Service	$ 3,423,384							$ -	$ 3,423,384
3		-							-	-
4	**Less:**									
5										
6	Accumulated Depreciation	939,364				-			-	939,364
7										
8	Net Utility Plant									
9	in Service	$ 2,484,020	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,484,020
10										
11	**Less:**									
12	Advances in Aid of									
13	Construction	1,042,125					-		-	1,042,125
14	Contributions in Aid of	-							-	-
15	Construction - Net	178							-	178
16	Imputed Regulatory Advances	-		-					-	-
17	Imputed Regulatory Contributions	58,023							-	58,023
18	Customer Meter Deposits	540							-	540
19	Deferred Income Taxes	(46,088)							-	(46,088)
20	Investment Tax Credits	-							-	-
21		-							-	-
22		-							-	-
23	**Plus:**	-							-	-
24	Deferred Debits	54,503			(51,122)				(51,122)	3,381
25	Working capital	43,709	(18,982)						(18,982)	24,726
26	Utility Plant Acquisition Adjustment	-							-	-
27										
28	Total	$ 1,527,454	$ (18,982)	$ -	$(51,122)	$ -	$ -	$ -	$ (70,104)	$ 1,457,349
29										
30										
31										
32										
33	[1] RUCO RB Adjustment #5									
34	is the same dollar amount.									
35										
36										
37										
38	Supporting Schedules:									
39	B-5									
40	E-1									
41	08 AZ MEGA\08 Tubac\Work Papers\Rate Base\(									
42	08 AZ MEGA\08 Tubac\Work Papers\Rate Base\[									
43	08 AZ MEGA\Common\Workpapers\Corp Rate B:									
44	08 AZ MEGA\Common\Workpapers\Corp Rate B:									

Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Computation of Working Capital

Exhibit
Schedule B-5 Rebuttal
Page 1
Witness: Gutowski

Company Rebuttal		
Line No.		
1		
2	Working Cash Requirement	$ 21,683
3	Material and Supplies Inventories	1,445 [1]
4	Prepayments	1,598
5		
6		
7	Total Working Capital Allowance	$ 24,726
8		
9	Total Adjusted Test Year Working Capital Allowance	$ 43,709
10		
11	Increase (Decrease in Working Capital Allowance	$ (18,982)
12		
13	Increase (Decrease in Working Capital Allowance	$ (18,982)
14		
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43	Supporting Schedules:	Recap Schedules:
44	E-1	B-1
45	Workpapers & Supporting Documents:	
46	[1]Thirteen-month average	
47		
48		
49		
50	\Schedules\2007 Tubac Water Sch. A-F.xls\	

Arizona American Water Company
Test Year Ended December 31, 2007
Lead/Lag Study - Working Cash Requirement

Exhibit
Schedule B-6 Rebuttal
Page 1
Witness: Hubbard

TUBAC WATER

Line No.		Company Rebuttal Test Year Adjusted Results	Revenue Lag Days	Expense Lag Days	Net Lag Days	Lead/ Lag Factor	Cash Working Capital Required
1	OPERATING EXPENSES						
2	**P08** Labor	$ 130,440	49.65788	12.0000	37.6579	0.1032	$ 13,458
3	**P09** Purchased Water	-	49.65788	86.8700	-	-	-
4	**P10** Fuel & Power	25,631	49.65788	32.4200	17.2379	0.0472	1,210
5	**P11** Chemicals	2,190	49.65788	28.4700	21.1879	0.0580	127
6	**P12** Waste Disposal	-	49.65788	30.0000	19.6579	0.0539	-
7	**P13** Management Fees	86,131	49.65788	(3.8800)	53.5379	0.1467	12,634
8	**P14** Group Insurance	24,921	49.65788	(4.6445)	54.3024	0.1488	3,708
9	**P15** Pensions	28,546	49.65788	45.0000	4.6579	0.0128	364
10	**P17** Insurance Other Than Group	5,049	49.65788	45.0000	4.6579	0.0128	64
11	**P18** Customer Accounting	11,644	49.65788	7.4600	42.1979	0.1156	1,346
12	**P19** Rents	4,146	49.65788	(10.6818)	60.3397	0.1653	685
13	**P27-:** Depreciation & Amortization		49.65788	-	49.6579	0.1360	-
14	Other Operating Expenses[1]	81,073	49.65788	30.0000	19.6579	0.0539	4,366
15	TAXES						
16	**P29** Taxes Other than Income	11,078	49.65788	15.6511	34.0068	0.0932	1,032
17	**P29** Property Taxes	26,350	49.65788	212.5000	(162.8421)	(0.4461)	(11,756)
18	**P30-:** Income Tax[2]	50,296	49.65788	42.0402	7.6177	0.0209	1,050
19							
20	**P56-(** Interest	42,409	49.65788	106.5200	(56.8621)	(0.1558)	(6,607)
21							
22							
23							
24							
25							
26	WORKING CASH REQUIREMENT	$ 529,904					$ 21,683
27							
28							
29	[1]All other Operating Expenses are assumed to be paid by the 15th of the month following the receipt of goods and services.						
30	[2]At proposed rates.						

C Schedules

Tubac Water

Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 1
Witness: Hubbard

Line No.			Company Rebuttal								
			[A] Test Year Adjusted Results	[B] ADJ LJG-1R	[C] ADJ SLH-1R Correct Waste Disposal Exp	[D] ADJ SLH-2R Correct Chemical Exp	[E] ADJ SLH-3R Amortize Rate Case Exp	[F] ADJ SLH-4R Accept RUCO's Corp Labor Adj	[G] ADJ SLH-5 Tank Maintenance Exp	[H] ADJ SLH-6R Water Testing Exp (Staff)	[I] ADJ SLH-7R Depreciation Expense
1	**Revenues**										
2	**P02**	Water Revenues	$ 423,061								
3	**P04**	Other Revenues	3,839								
4			-								
5			$ 426,900	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	**Operating Expenses**										
7	**P08**	Labor	$ 131,623					$ (1,183)			
8	**P09**	Purchased Water	$ -								
9	**P10**	Fuel & Power	$ 25,631								
10	**P11**	Chemicals	$ 2,190			(0)					
11	**P12**	Waste Disposal	$ (27)		27						
12	**P13**	Management Fees	$ 87,180								
13	**P14**	Group Insurance	$ 24,921								
14	**P15**	Pensions	$ 28,546								
15	**P16**	Regulatory Expense	$ 1,480				760				
16	**P17**	Insurance Other Than Group	$ 5,049								
17	**P18**	Customer Accounting	$ 11,644								
18	**P19**	Rents	$ 4,146								
19	**P20**	General Office Expense	$ 8,811								
20	**P21**	Miscellaneous	$ 49,935							1,575	
21	**P25**	Maintenance Expense	$ 17,394						1,478		
22	**P27-2**	Depreciation & Amortization	$ 81,679								
23	**P29**	General Taxes-Property	$ 26,350								
24	**P29**	General Taxes-Other	$ 11,078								
25	**P30-3**	Income Taxes	$ (52,178)								
26											
27	**Total Operating Expenses**		$ 465,453	$ -	$ 27	$ (0)	$ 760	$ (1,183)	$ 1,478	$ 1,575	$ -
28	**Utility Operating Income**		$ (38,553)	$ -	$ (27)	$ 0	$ (760)	$ 1,183	$ (1,478)	$ (1,575)	$ -
29	**Other Income & Deductions**										
30	**P39-4**	Other Income & Deductions	-								
31	**P56-6**	Interest Expense	44,449								
32	**P48-5**	Other Expense	(33)								
33	**P43**	Gain/Loss Sale of Fixed Assets	7,915								
34	**Total Other Income & Deductions**		$ (36,501)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**		$ (75,054)	$ -	$ (27)	$ 0	$ (760)	$ 1,183	$ (1,478)	$ (1,575)	$ -
36											
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43	Supporting Schedules:										
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45	Workpapers & Supporting Documents:										
46	\Schedules\2007 Tubac Water Sch. A-F.xls\										
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Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 2
Witness: Hubbard

Line No.			Company Rebuttal								
			[J] ADJ SLH-8R Accept RUCO's AIP Adj	[K] ADJ SLH-9R Correction to Line 21 Adj	[L] ADJ SLH-10R Property Tax Expense	[M] ADJ SLH-11R Income Tax Expense	[N] ADJ SLH-12R Interest Synchronization	[O] Total Rebuttal Pro Forma Adjustments	[P] Rebuttal est Year Adjuste Results	[Q] Rebuttal Proposed Rate Increase	[R] Rebuttal Adjusted with Rate Increase
1	**Revenues**										
2	**P02**	Water Revenues						$ -	$ 423,061	$ 270,575	$ 693,636
3	**P04**	Other Revenues						-	3,839		3,839
4								-	-		-
5			$ -	$ -	$ -	$ -	$ -	$ -	$ 426,900	$ 270,575	$ 697,475
6	**Operating Expenses**										
7	**P08**	Labor						(1,183)	$ 130,440		$ 130,440
8	**P09**	Purchased Water						-	-		$ -
9	**P10**	Fuel & Power						-	25,631		$ 25,631
10	**P11**	Chemicals						(0)	2,190		$ 2,190
11	**P12**	Waste Disposal						27	-		$ -
12	**P13**	Management Fees	(1,049)					(1,049)	86,131		$ 86,131
13	**P14**	Group Insurance						-	24,921		$ 24,921
14	**P15**	Pensions						-	28,546		$ 28,546
15	**P16**	Regulatory Expense						760	2,240		$ 2,240
16	**P17**	Insurance Other Than Group						-	5,049		$ 5,049
17	**P18**	Customer Accounting						-	11,644		$ 11,644
18	**P19**	Rents						-	4,146		$ 4,146
19	**P20**	General Office Expense						-	8,811		$ 8,811
20	**P21**	Miscellaneous		(360)				1,215	51,150	612	$ 51,763
21	**P25**	Maintenance Expense						1,478	18,872		$ 18,872
22	**P27-2**	Depreciation & Amortization						-	81,679		$ 81,679
23	**P29**	General Taxes-Property			-			-	26,350	5,271	$ 31,621
24	**P29**	General Taxes-Other						-	11,078		$ 11,078
25	**P30-3**	Income Taxes				$ 306		306	(51,872)	102,168	$ 50,296
26											
27	**Total Operating Expenses**		$ (1,049)	$ (360)	$ -	$ 306	$ -	$ 1,554	$ 467,006	$ 108,051	$ 575,057
28	**Utility Operating Income**		$ 1,049	$ 360	$ -	$ (306)	$ -	$ (1,554)	$ (40,106)	$ 162,524	$ 122,417
29	**Other Income & Deductions**										
30	**P39-4**	Other Income & Deductions						-	-		-
31	**P56-6**	Interest Expense					(2,040)	(2,040)	42,409		42,409
32	**P48-5**	Other Expense						-	(33)		(33)
33	**P43**	Gain/Loss Sale of Fixed Assets							7,915		7,915
34	**Total Other Income & Deductions**		$ -	$ -	$ -	$ -	$ 2,040	$ 2,040	$ (34,461)	$ -	$ (34,461)
35	**Net Profit (Loss)**		$ 1,049	$ 360	$ -	$ (306)	$ 2,040	$ 486	$ (74,567)	$ 162,524	$ 87,956
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43	Supporting Schedules:										
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45	Workpapers & Supporting Documents:										
46	\Schedules\2007 Tubac Water Sch. A-F.xls\										
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Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Adjustment LJG-1R

Exhibit
Schedule C-2 Rebuttal
Page 3
Witness: Gutowski

Line No.	
1	Intentionally Left Blank
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45	Workpapers & Supporting Documents:
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Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Adjustment Adjustment SLH-1R

Exhibit
Schedule C-2 Rebuttal
Page 4
Witness: Hubbard

Line No.			
1	**Adjusted Test Year Expense-Waste Disposal**		
2			
3	Waste Disposal Exp (A/C 511000) - AZ Corporate		(3,768)
4			
5	Total Adjusted Test Year Expense		
6			
7	4 Factor Allocation to Tubac Water		0.7254%
8			
9	Total Adjusted Test Year Waste Disposal Expense - Tubac Water	$	(27)
10			
11	RUCO Recommended Adjustment (RMoore)		27
12			
13	**Adjusted Test Year Waste Disposal Expense - Rebuttal**	$	-
14			
15	Less: Adjusted Test Year Waste Disposal Expense (Line 9 Above)	$	(27)
16			
17	Increase (Decrease) in Waste Disposal Expense	$	27
18			
19	Increase (Decrease) in Waste Disposal Expense	$	27
20			
21			
22			
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45	Workpapers & Supporting Documents:		
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50	\Schedules\2007 Tubac Water Sch. A-F.xls\		

Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-2R

Exhibit
Schedule C-2 Rebuttal
Page 5
Witness: Hubbard

Line No.			
1	Normalize & Adjust Chemicals Expense		
2			
3	Adjusted Test Year 2007 Chemicals Expense - Tubac Water	$	2,190
4			
5	Corrections Proposed		-
6			
7	Revised Chemicals Expense		2,190
8			
9	Adjusted Test Year Chemicals Expense - Tubac Water		2,190
10			
11	Increase/(Decrease) in Chemicals Expense		(0)
12			
13	Adjustment to Revenue and/or Expense		(0)
14			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Tubac Water Sch. A-F.xls\		
47	\Common\Workpapers\Chemicals\[Pro Forma Adj-Chemicals.xls		
48			
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Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-3R

Exhibit
Schedule C-2 Rebuttal
Page 6
Witness: Hubbard

Line No.			
1	Regulatory Expense		
2			
3	Estimated Rate Case Expense	$	456,275
4			
5	Unamortized Balance from Last Decision		0
6			
7	Total Estimated Rate Case Expense	$	456,275
8			
9	Estimated Amortization Period in Years		3
10			
11	Annual Rate Case Expense	$	152,092
12			
13	4 Factor - Tubac Water (Corrected)		1.4729%
14			
15	Allocated Annual Rate Case Expense		2,240
16			
17	Adjusted Test Year Rate Case Expense	$	1,480
18			
19	Increase/(Decrease) Rate Case Expense	$	760
20			
21	Adjustment to Revenue and/or Expense	$	760
22			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Tubac Water Sch. A-F.xls\		
47	\Common\Workpapers\Expenses\EXHIBIT TMB-3 Rate Case Expense.xls		
48	\Common\Workpapers\2007 4 Factor.xls		
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Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-4R

Exhibit
Schedule C-2 Rebuttal
Page 7
Witness: Hubbard

Line No.			
1	Normalize test year Labor expense		
2			
3	Total normalized Test Year Labor expense (Workpaper) - Tubac Water		$ 128,522
4			
5	Test Year Incentive Plan - Tubac Water		3,101
6			
7	Total Pro Forma Test Year Labor expense - Tubac Water		$ 131,623
8			
9	Adjusted Test Year Booked Labor Expense	$ 131,623	
10			
11	Adjusted Test Year Labor - Booked		$ 131,623
12			
13	Correction to Corporate Labor Expense	$ (163,092)	
14			
15	4 Factor Allocation to Tubac Water	0.7254%	
16			
17	Total Corporate disallowance		($1,183)
18			
19	Adjusted Test Year Labor Expense, Rebuttal		$130,440
20			
21	Increase (Decrease) in Labor Expense		$ (1,183)
22			
23	Increase (Decrease) in Labor Expense		$ (1,183)
24			
25			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Tubac Water Sch. A-F.xls\		
47	\Common\Workpapers\Labor\AZ 2007 Labor with Annualizations.xls		
48	\08 Tubac\Work Papers\Expenses\A of I - Tubac Water.xls		
49			
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Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-5R

Exhibit
Schedule C-2 Rebuttal
Page 8
Witness: Hubbard

Line No.			
1	Reserve for Future Tank Maintenance		
2			
3	Company Revised Reserve for Tank Maintenance Request	$	1,478
4			
5	Reserve for Future Tank Maintenance, Adjusted Test Year	$	-
6			
7	Increase (Decrease) in Reserve for Tank Maintenance Request	$	1,478
8			
9	Increase (Decrease) in Reserve for Tank Maintenance Request	$	1,478
10			
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45	Workpapers & Supporting Documents:		
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50	\Schedules\2007 Tubac Water Sch. A-F.xls\		

Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-6R

Exhibit
Schedule C-2 Rebuttal
Page 9
Witness: Hubbard

Line No.					
1	Adjust Water Testing Expense to District-Specific Expense				
2					
3	Contract Service-Lab Testing SS (A/C 536000.11)	$	103,296		
4					
5	Misc Operating Expense WT(A/C 575000.13)	$	5,018		
6					
7	Total Water Testing Expense - Arizona Corporate		$108,314		
8					
9	4 Factor Allocation to Tubac Water		0.7254%		
10					
11	Total Test Year Water Testing Expense - Tubac Water			$	786
12					
13	Total Water Testing Expense - Tubac Water			$	2,361
14					
15	Increase/(Decrease) in Water Testing Expense			$	1,575
16					
17	Increase/(Decrease) in Water Testing Expense			$	1,575
18					
19					
20					
21					
22					
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45	Workpapers & Supporting Documents:				
46	\Schedules\2007 Tubac Water Sch. A-F.xls\				
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Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-7R

Exhibit
Schedule C-2 Rebuttal
Page 10
Witness: Hubbard

Line No.			
1	Adjust Depreciation Expense to Reflect Test Year Adjusted Plant:		
2			
3	Depreciation Expense on Test Year UPIS	$	96,046
4	Depreciation Expense on Post-Test Year Plant Additions		-
5			
6			
7			
8			
9	Less: Amortization of Contributions		-
10	Amortization of Imputed Regulatory CIAC		14,368
11			
12	Total Depreciation Expense	$	81,679
13			
14	Adjusted Test Year Depreciation Expense		81,679
15			
16	Increase (Decrease) in Depreciation Expense		-
17			
18	Adjustment to Revenues and/or Expenses	$	-
19			
20			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Tubac Water Sch. A-F.xls\		
47	\08 Tubac\Work Papers\Expenses\A of I - Tubac Water.xls		
48			
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Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-8R

Exhibit
Schedule C-2 Rebuttal
Page 11
Witness: Hubbard

Line No.		
1	Adjust Labor for AIP Disallowance	
2		
3	Corporate AIP Expense	$ 482,198
4		
5	Proposed Disallowance	-30%
6		
7	Total Proposed AIP Disallowance - Arizona Corporate	($144,659)
8		
9	4 Factor Allocation to Tubac Water	0.7254%
10		
11	Total Proposed Disallowance AIP Expense - Tubac Water	$ (1,049)
12		
13		
14		
15	Increase/(Decrease) in Water Testing Expense	$ (1,049)
16		
17	Increase/(Decrease) in Water Testing Expense	$ (1,049)
18		
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45	Workpapers & Supporting Documents:	
46	\Schedules\2007 Tubac Water Sch. A-F.xls\	
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Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-9R

Exhibit
Schedule C-2 Rebuttal
Page 12
Witness: Hubbard

Line No.

1 Adjust for Line21 Miscellaneous Expense Clean Up-Correction Plus RUCO's Additional Adjustment

2

3 The Company went through the Corporate Miscellaneous General Expense account and removed
4 those items which it anticipated the Commission would likely disallow for ratemaking purposes,
5 such as Community Relations expense and membership dues. The Company performed the
6 same study of the Tubac Water account.

7

8

9	Pro forma adjustment to Line 21 Miscellaneous General Expense:		
10	Tubac Water		(100)
11			
12	Corporate Office amount	($16,849)	
13		($16,849)	
14			
15	4 Factor Allocation to Tubac Water	0.7254%	
16			
17	Total Corporate disallowance - Corrected		($122)
18			
19	Total Line 21 Disallowance Company Proposed - Corrected		($222)
20			
21	Less: Adjusted Test Year Adjustment		$22
22			
23	Pro Forma Adjustment to Correct		($244)
24			
25	Plus: RUCO's Proposed Disallowance		($116)
26			
27	Pro forma disallowance to Miscellaneous Expense		($360)
28			
29	Adjustment to Revenue and/or Expense		($360)

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45 Workpapers & Supporting Documents:
46 \Schedules\2007 Tubac Water Sch. A-F.xls\
47 \08 AZ MEGA\Common\Workpapers\Line21.xls
48 \Common\Workpapers\2007 4 Factor.xls
49
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Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-10R

Exhibit
Schedule C-2 Rebuttal
Page 13
Witness: Hubbard

Line No.		[A] Property Tax Expense	[B] Property Tax Expense For Conversion Factor
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	2007 Adjusted Test Year Revenues	$ 426,900	$ 426,900
4	2007 Adjusted Test Year Revenues	426,900	426,900
5	Proposed Revenues	$ 426,900	$ 697,475
6	Average of three year's of revenue	$ 426,900	$ 517,092
7	Average of three year's of revenue, times 2	$853,800	$1,034,183
8	Add:		
9	Construction Work in Progress at 10%	47,960	47,960
10	Deduct:		
11	Net Book Value of Transportation Equipment	$ -	$ -
12			
13	Full Cash Value	$ 901,760	$ 1,082,143
14	Assessment Ratio	23%	23%
15	Assessed Value	207,405	248,893
16	Property Tax Rate	12.704496%	12.704496%
17			
18	Property Tax	26,350	31,621
19	Tax on Parcels	-	-
20			
21	Total Property Tax at Proposed Rates	$ 26,350	$ 31,621
22	Adjusted Test Year Property Taxes	26,350	26,350
23	Adjustment to Revenues and/or Expenses	$ -	$ 5,271
24			
25			
26			
27			
28	Increase in Property Tax Due to Increase in Revenue Requirement (Line 23 Col [B])		$ 5,271
29			
30	Increase in Revenue Requirement (From Sch. A1)		$ 270,575
31			
32	Increase in Property Tax Per Dollar Increase in Revenue (Line 32/Line 34)		1.9480%
33			
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43	Workpapers & Supporting Documents:		
44	\Schedules\2007 Tubac Water Sch. A-F.xls\		
45	\Common\Workpapers\Property Taxes\2007 pd in 07-08 AZ Tax Payment .xls		
46	\08 Tubac Water\Workpapers\Expenses\A of I - Tubac Water.xls		
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Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-11R

Exhibit
Schedule C-2 Rebuttal
Page 14
Witness: Hubbard

Line No.			Test Year Adjusted Results	Adjusted with Rate Increase
1	Calculation of Income Taxes at Proposed Rates			
2				
3				
4	Operating Income Before Inc. Taxes		$ (91,978)	$ 172,713
5	Interest Expense		$ 42,409	$ 42,409
6	Arizona Taxable Income		(134,387)	130,305
7				
8	Less Arizona Income Tax		$ (9,364)	$ 9,080
9	Arizona Income Tax Rate =	6.968%		
10				
11	Federal Income Before Taxes		$ (134,387)	$ 130,305
12	Less Arizona Income Taxes		(9,364)	9,080
13	Federal Taxable Income		$ (125,023)	$ 121,225
14				
15	Federal Income Taxes:	34.000%	$ (42,508)	$ 41,216
16				
17				
18	Total Income Tax		$ (51,872)	$ 50,296
19				
20	Tax Rate		38.60%	38.60%
21				
22	Effective Income Tax Rates			
23	State		6.968%	6.968%
24	Federal		31.63%	31.63%
25				
26				
27	Adjusted Test Year Income Taxes		$ (52,178)	
28	Increase in Income Taxes		306	
29				
30	Adjustment to Revenues and/or Expense		$ 306	
31				
32	Adjusted Test Year Income Taxes, Rebuttal			$ (51,872)
33	Increase in Income Taxes			102,168
34				
35	Adjustment to Revenues and/or Expense			102,168
36				
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45	Workpapers & Supporting Documents:			
46	\Schedules\2007 Tubac Water Sch. A-F.xls\			
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Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-12R

Exhibit
Schedule C-2 Rebuttal
Page 15
Witness: Hubbard

Line No.			
1	Interest Synchronization with Rate Base		
2			
3	Original Cost Rate Base (Sch. B-1, Ln. 24)		$1,457,349
4	Weighted Cost of Debt from Schedule D-1		2.91%
5	Synchronized Interest Expense		42,409
6	Test Year Interest Expense	44,449	
7			
8	Adjusted Test Year Interest Expense		44,449
9			
10	Increase (decrease) in Interest Expense		$ (2,040)
11			
12	Adjustment to Revenues and/or Expense		(2,040)
13			
14			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Tubac Water Sch. A-F.xls\		
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Arizona American Water Company - Tubac Water
Test Year Ended December 31, 2007
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3 Rebutt
Page 1
Witness: Hubbard

Company Rebuttal

Line No.	Description					Percentage of Incremental Gross Revenues
1	Federal Income Taxes					31.63%
2						
3	State Income Taxes					6.97%
4				Combined	38.60%	
5	Property Taxes	Effective Rate =	1.9480%	One Minus Combined	61.40%	1.20%
6						
7	Bad Debt Expense	Effective Rate =	0.23%	One Minus Combined	61.40%	0.14%
8						
9	Total Tax Percentage					39.93%
10						
11	Operating Income % = 100% - Tax Percentage					60.07%
12						
13						
14						
15						
16	1	= Gross Revenue Conversion Factor				
17	Operating Income %					1.6648
18						
19						
20						
21						
22						
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43	Supporting Schedules:				Recap Schedules:	
44					A-1	
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A Schedules

Mohave Wastewater

Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Computation of Increase in Gross Revenue Requirement

Exhibit
Schedule A-1 Rebuttal
Page 1
Witness: Broderick

Company Rebuttal

Line No.		
1	Original Cost Rate Base	$ 5,138,539
2		
3	Adjusted Operating Income	116,454
4		
5	Current Rate of Return	2.27%
6		
7	Required Operating Income	$ 431,637
8		
9	Required Rate of Return	8.40%
10		
11	Operating Income Deficiency	$ 315,184
12		
13	Gross Revenue Conversion Factor	1.6672
14		
15	Increase in Gross Revenue	
16	Requirement	$ 525,488
17		

18 Customer Classification	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
19				
20				
21 Residential	$ 722,719			0.00%
22 Commercial	19,460			0.00%
23 OPA	7,745			0.00%
24 Effluent Sales	41,299			0.00%
25				
26 Total of Water Revenues	$ 791,223	$ 1,316,766	$ 525,543	66.42%
27				
28 Other Revenue	4,882	4,882	-	0.00%
29				
30 Total Revenue	$ 796,105	$ 1,321,648	$ 525,543	66.01%

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40 Supporting Schedules:
41 B-1
42 C-1
43 H-1
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50 \Schedules\2007 Mohave Wastewater Sch. A-F.xls\

B Schedules

Mohave Wastewater

Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2 Rebuttal
Page 1
Witness: Gutowski

Line No.		[A] Adjusted End of Test Year	[B] COMPANY LJG - 1R Adjust for Dep Rates 5/1/2007	[C] COMPANY LJG - 2R Addition of Gateway Wastewater	[D] COMPANY LJG - 3R Adjust for Actual PTY Plant Costs	[E] Reject STAFF RB # 1 UPIS/Adv No inv	[F] Reject/Correct STAFF RB # 2 Working Capital	[G] Reject STAFF RB # 3 Imputed AIAC	[H] Accept STAFF RB # 4 Dfd DR[1] error	[I] Reject STAFF RB # 5 No Post TY Plt
							Company Rebuttal			
1	Gross Utility									
2	Plant in Service	$ 7,154,300		$ 94,978	$ 343,959	$ -				$ -
3		-								
4	**Less:**									
5										
6	Accumulated Depreciation	367,213	(17,306)	7,621		-				
7										
8	Net Utility Plant									
9	in Service	$ 6,787,087	$ 17,306	$ 87,357	$ 343,959	$ -	$ -	$ -	$ -	$ -
10										
11	**Less:**									
12	Advances in Aid of									
13	Construction	1,414,706				-				
14	Contributions in Aid of	-								
15	Construction - Net	668,945								
16	Imputed Regulatory Advances	-						-		
17	Imputed Regulatory Contributions	131,237								
18	Customer Meter Deposits	-								
19	Deferred Income Taxes	(105,590)								
20	Investment Tax Credits	-								
21	**Plus:**	-								
22	Unamortized Finance	-								
23	Charges	-								
24	Deferred Tax Assets	-							7,701	
25	Working capital	62,360					(57,933)			
26	Utility Plant Acquisition Adjustment	-								
27										
28	Total	$ 4,740,149	$ 17,306	$ 87,357	$ 343,959	$ -	$ (57,933)	$ -	$ 7,701	$ -
29										
30										
31										
32										
33	[1] RUCO RB Adjustment #5									
34	is the same dollar amount									
35										
36										
37										
38	Supporting Schedules:									
39	B-5									
40	E-1									
41	08 AZ MEGA\08 Mohave Sewer\Workpapers\Rate Base\UPIS M									
42	08 AZ MEGA\08 Mohave Sewer\Workpapers\Rate Base\DEP M									
43	08 AZ MEGA\Common\Workpapers\Corp Rate Base\UPIS Corp									
44	08 AZ MEGA\Common\Workpapers\Corp Rate Base\DEP Corp									

Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2 Rebuttal
Page 2
Witness: Gutowski

Line No.		[J] Reject RUCO RB # 1 Accum Depr	[K] Reject RUCO RB # 2 CIAC in CWIP	[L] Reject RUCO RB # 4 50% Wish Well	[M] Reject RUCO RB # 6 Working Capital	[N] Total Rebuttal Pro Forma Adjustments	[O] Rebuttal Adjusted End of Test Year
1	Gross Utility						
2	Plant in Service			$ -		$ 438,937	$ 7,593,237
3						-	-
4	**Less:**						
5							
6	Accumulated Depreciation	-				(9,686)	357,527
7							
8	Net Utility Plant						
9	in Service	$ -	$ -	$ -	$ -	$ 448,622	$ 7,235,709
10							
11	**Less:**						
12	Advances in Aid of						
13	Construction					-	1,414,706
14	Contributions in Aid of					-	-
15	Construction - Net		-			-	668,945
16	Imputed Regulatory Advances					-	-
17	Imputed Regulatory Contributions					-	131,237
18	Customer Meter Deposits					-	-
19	Deferred Income Taxes					-	(105,590)
20	Investment Tax Credits					-	-
21	**Plus:**					-	-
22	Unamortized Finance					-	-
23	Charges					-	-
24	Deferred Tax Assets					7,701	7,701
25	Working capital					(57,933)	4,427
26	Utility Plant Acquisition Adjustment					-	-
27							
28	Total	$ -	$ -	$ -	$ -	$ 398,390	$ 5,138,539
29							
30							
31							
32							
33	[1] RUCO RB Adjustment #5						
34	is the same dollar amount						
35							
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37							
38	Supporting Schedules:						
39	B-5						
40	E-1						
41	08 AZ MEGA\08 Mohave Sewer\Workpapers\Rate Base\UPIS M						
42	08 AZ MEGA\08 Mohave Sewer\Workpapers\Rate Base\DEP M						
43	08 AZ MEGA\Common\Workpapers\Corp Rate Base\UPIS Corp						
44	08 AZ MEGA\Common\Workpapers\Corp Rate Base\DEP Corp						

Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Rate Base Adjustment LJG - 1R

Exhibit
Schedule B-2 Rebuttal
Page 3
Witness: Gutowski

Line No.

1 Reconcile Mohave Wastewater Plant & Accum. Depr.
2 to Amounts Previously Approved

Object Account	Sub. Account	Description	Annual Depr. Rate	Monthly Depr. Rate	Approved Dec. 69440 June, 2005	Accum Deprec Balance 6/24/2005	Additions Jul - Dec 2005	Retirements Jul - Dec 2005	Adjustment Jul - Dec 2005	Depr. Expense Jul - Dec 2005	Plant Balance December 2005	Additions 2006	Retirements 2006	Adjustment 2006	Depr. Depr. Expense 2006
101000	301000	Organization	0.00%	0.00%	-	(1,082)	-	-	-	-	-	-	-	-	-
101000	352000	WW Franchises	0.00%	0.00%	364	-	-	-	-	-	364	-	-	-	-
101000	354200	WW Struct & Imp Coll	3.28%	0.27%	201,579	(34,558)	-	-	-	3,306	201,579	-	-	-	6,612
101000	360000	WW Collection Sewers Forced	2.28%	0.19%	5,382	(16,735)	-	-	-	61	5,382	-	-	-	123
101000	361100	WW Collecting Mains	2.04%	0.17%	1,222,426	188,731	225,046	-	-	12,846	1,447,472	21,655	-	-	29,712
101000	362000	WW Special Coll Struct	4.19%	0.35%	74,760	(1,657)	-	-	-	1,566	74,760	-	-	-	3,132
101000	363000	WW Services Sewer	2.40%	0.20%	300,003	(4,555)	-	-	-	3,600	300,003	14,311	-	-	7,343
101000	364000	WW Flow Measuring Devices	5.42%	0.45%	7,984	24,018	15,129	-	-	285	23,113	-	-	-	1,253
101000	371100	WW Pump Equip Elect	5.42%	0.45%	16,371	28,748	-	-	-	444	16,371	2,711	-	-	963
101000	380100	WW Equip Sed Tanks/Acc	5.27%	0.44%	745,415	(88,795)	12,397	-	-	19,845	757,812	45,887	-	-	40,946
101000	380300	WW TD Equip Sldge Dry/Filt	4.87%	0.41%	8,807	(1,101)	-	-	-	214	8,807	-	-	-	429
101000	380500	WW TD Equip Chem Trmt Plt	4.25%	0.35%	5,284	(661)	9,027	-	-	144	14,311	-	-	-	608
101000	380600	WW TD Equip Oth Disp	4.65%	0.39%	39,898	(4,987)	-	-	-	928	39,898	(8)	-	-	1,855
101000	393000	WW Tool Shop & Garage Equip	15.62%	1.30%	39,599	(7,212)	-	-	-	3,093	39,599	-	-	-	6,185
101000	394000	WW Laboratory Equipment	3.13%	0.26%	587	(120)	-	-	-	9	587	-	-	-	18
101000	396000	Communication Equipment	15.62%	1.30%	-	(72)	8,933	-	-	116	8,933	17,237	-	-	3,933
101000	398000	Other Plant	0.00%	0.00%	-	(677)	-	-	-	-	-	-	-	-	-
		Utility Plant			2,668,459		270,532	-	-		2,938,991	101,795	-	-	
		Less:													
		Total Plant			2,668,459						2,938,991				
		Monthly Depreciation Expense				80,367				46,457					103,112
		Retirements										-			
		Accum. Depr. - Apprvd'/Calculated			10,906,920	82,189				128,646					231,758
		Total Salvage				per RUCO									
		Total Approved/Calculated													
		Total Per Books (\Trial Balance\Column DE\)				(335,786)				(382,139)					(486,710)
		Total Over/(Under) Depreciated				253,597				253,493					254,952

Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Rate Base Adjustment LJG - 1R

Exhibit
Schedule B-2 Rebuttal
Page 4
Witness: Gutowski

Reconcile Mohave Wastewater Plant & Accum. Depr. to Amounts Previously Approved

Line No.	Object Account	Sub. Account	Description	Plant Balance December 2006	Additions 2007	Retirements 2007	Adjustment 2007	Original Depr. Expense 2007	Rebuttal Depr. Expense 2007 (39,203)	Plant Balance December 2007	Accum Deprec Balance 2007	Rebuttal Accum Deprec Balance 2007	Annual Depreciation Expense times TYE UPIS Col [E] * [W]	Rebuttal Annual Depreciation Expense times TYE UPIS Col [AC] * [W]	Rebuttal Dec 69440 Annual Deprec Rates 5/1/2007
6	101000	301000	Organization	-	-	-	-	-	-	-	(1,082)	(1,082)	-	-	0%
7	101000	352000	WW Franchises	364	-	-	-	-	-	364	-	-	-	-	0%
8	101000	354200	WW Struct & Imp Coll	201,579	-	-	-	6,612	5,967	201,579	(18,029)	(18,674)	6,612	5,644	2.80%
9	101000	360000	WW Collection Sewers Forced	5,382	-	-	-	123	113	5,382	(16,428)	(16,438)	123	108	2.00%
10	101000	361100	WW Collecting Mains	1,469,127	146,580	-	-	31,694	31,277	1,615,707	262,983	262,566	32,960	32,314	2.00%
11	101000	362000	WW Special Coll Struct	74,760	-	-	-	3,132	2,041	74,760	6,174	5,083	3,132	1,495	2.00%
12	101000	363000	WW Services Sewer	314,314	29	-	-	7,544	6,790	314,343	13,932	13,178	7,544	6,413	2.04%
13	101000	364000	WW Flow Measuring Devices	23,113	-	-	-	1,253	1,253	23,113	26,808	26,808	1,253	1,253	5.42%
14	101000	371100	WW Pump Equip Elect	19,082	(147)	-	-	1,027	1,027	18,935	31,181	31,181	1,026	1,026	5.42%
15	101000	380100	WW Equip Sed Tanks/Acc	803,699	89	-	-	42,360	33,411	803,788	14,355	5,406	42,360	28,936	3.60%
16	101000	380300	WW TD Equip Sldge Dry/Filt	8,807	-	-	-	429	437	8,807	(29)	(21)	429	440	5.00%
17	101000	380500	WW TD Equip Chem Trmt Plt	14,311	-	-	-	608	680	14,311	700	771	608	716	5.00%
18	101000	380600	WW TD Equip Oth Disp	39,891	(872)	-	-	1,818	1,909	39,019	(387)	(296)	1,814	1,951	5.00%
19	101000	393000	WW Tool Shop & Garage Equip	39,599	4,638	-	-	6,366	3,294	44,237	8,432	5,360	6,910	1,977	4.47%
20	101000	394000	WW Laboratory Equipment	587	-	-	-	18	21	587	(74)	(72)	18	22	3.71%
21	101000	396000	Communication Equipment	26,170	35	-	-	4,093	2,699	26,205	8,070	6,676	4,093	2,699	10.30%
22	101000	398000	Other Plant	-	-	-	-	-	-	-					
42			Utility Plant	3,040,786	150,353	-	-			3,191,139					
43			Less:												
44			Total Plant	3,040,786						3,191,139					
46			Monthly Depreciation Expense					107,077	90,916		337,690	321,529	District 108,883	84,994	
47			Retirements											(23,889)	
48			Accum. Depr. - Apprvd'/Calculated					338,835	322,674		338,835	(17,306)			
49			Total Salvage												
50			Total Approved/Calculated												
51			Total Per Books (\Trial Balance\Column DE\)					(564,578)			(564,578)				
52			Total Over/(Under) Depreciated					225,743			225,743	LJG-1			

Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Rate Base Adjustment LJG - 2R

Exhibit
Schedule B-2 Rebuttal
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Witness: Gutowski

Reconcile Mohave Wastewater Plant & Accum. Depr.
to Amounts Previously Approved

Line No.	Object Account	Sub. Account	Description	Annual Depr. Rate	Monthly Depr. Rate	Revised for Gateway Approved Dec. 69440 June, 2005	Revised for Gateway Accum Deprec Balance 6/24/2005	Additions Jul - Dec 2005	Retirements Jul - Dec 2005	Adjustment Jul - Dec 2005	Depr. Expense Jul - Dec 2005	Plant Balance December 2005	Additions 2006	Retirements 2006	Adjustment 2006	Depr. Depr. Expense 2006
6	101000	301000	Organization	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-
7	101000	352000	WW Franchises	0.00%	0.00%	364	-	-	-	-	-	364	-	-	-	-
8	101000	354200	WW Struct & Imp Coll	3.28%	0.27%	201,579	36,083	-	-	-	3,306	201,579	-	-	-	6,612
9	101000	360000	WW Collection Sewers Forced	2.28%	0.19%	5,382	670	-	-	-	61	5,382	-	-	-	123
10	101000	361100	WW Collecting Mains	2.04%	0.17%	1,280,915	102,592	225,046	-	-	13,443	1,505,961	26,469	-	-	30,945
11	101000	362000	WW Special Coll Struct	4.19%	0.35%	74,760	17,095	-	-	-	1,566	74,760	-	-	-	3,132
12	101000	363000	WW Services Sewer	2.40%	0.20%	300,003	36,615	-	-	-	3,600	300,003	14,311	-	-	7,343
13	101000	364000	WW Flow Measuring Devices	5.42%	0.45%	7,984	2,099	15,129	-	-	285	23,113	-	-	-	1,253
14	101000	371100	WW Pump Equip Elect	5.42%	0.45%	16,371	3,122	-	-	-	444	16,371	2,711	-	-	963
15	101000	380100	WW Equip Sed Tanks/Acc	5.27%	0.44%	769,226	109,518	12,397	-	-	20,472	781,622	53,752	-	-	42,373
16	101000	380300	WW TD Equip Sldge Dry/Filt	4.87%	0.41%	8,807	1,932	-	-	-	214	8,807	-	-	-	429
17	101000	380500	WW TD Equip Chem Trmt Plt	4.25%	0.35%	5,284	1,120	9,027	-	-	144	14,311	-	-	-	608
18	101000	380600	WW TD Equip Oth Disp	4.65%	0.39%	39,898	6,806	-	-	-	928	39,898	(8)	-	-	1,855
19	101000	393000	WW Tool Shop & Garage Equip	15.62%	1.30%	39,599	21,814	-	-	-	3,093	39,599	-	-	-	6,185
20	101000	394000	WW Laboratory Equipment	3.13%	0.26%	587	107	-	-	-	9	587	-	-	-	18
21	101000	396000	Communication Equipment	15.62%	1.30%	-	-	8,933	-	-	116	8,933	17,237	-	-	3,933
22	101000	398000	Other Plant	0.00%	0.00%	-	-	-	-	-	-	-	-	-	-	-
42			Utility Plant			2,750,759		270,532	-	-		3,021,291	114,473	-	-	
43			Less:													
44			Total Plant			2,750,759						3,021,291				
46			Monthly Depreciation Expense				339,573				47,681					105,773
47			Retirements										-			
48			Accum. Depr. - Apprvd'/Calculated			10,906,920	82,189				129,870					235,643
49			Total Salvage				per RUCO									
50			Total Approved/Calculated													
51			Total Per Books (\Trial Balance\Column DE\)				(335,786)				(382,139)					(486,710)
52			Total Over/(Under) Depreciated				253,597				252,269					251,067

Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Rate Base Adjustment LJG - 2R

Exhibit
Schedule B-2 Rebuttal
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Witness: Gutowski

Reconcile Mohave Wastewater Plant & Accum. Depr. to Amounts Previously Approved

Line No.	Object Account	Sub. Account	Description	Plant Balance December 2006	Additions 2007	Retirements 2007	Adjustment 2007	Original Depr. Expense 2007	Rebuttal Depr. Expense 2007	Plant Balance December 2007	Accum Deprec Balance 2007	Rebuttal Accum Deprec Balance 2007	Annual Depreciation Expense times TYE UPIS Col [E] * [W]	Rebuttal Annual Depreciation Expense times TYE UPIS Col [AC] * [W]	Rebuttal Dec 69440 Annual Deprec Rates 5/1/2007
6	101000	301000	Organization	-	-	-	-	-	-	-	-	-	-	-	0%
7	101000	352000	WW Franchises	364	-	-	-	-	-	364	-	-	-	-	0%
8	101000	354200	WW Struct & Imp Coll	201,579	-	-	-	6,612	5,967	201,579	52,612	51,967	6,612	5,644	2.80%
9	101000	360000	WW Collection Sewers Forced	5,382	-	-	-	123	113	5,382	977	967	123	108	2.00%
10	101000	361100	WW Collecting Mains	1,532,429	146,580	-	-	31,694	32,551	1,679,009	178,673	179,531	34,252	33,580	2.00%
11	101000	362000	WW Special Coll Struct	74,760	-	-	-	3,132	2,041	74,760	24,926	23,835	3,132	1,495	2.00%
12	101000	363000	WW Services Sewer	314,314	29	-	-	7,544	6,790	314,343	55,102	54,348	7,544	6,413	2.04%
13	101000	364000	WW Flow Measuring Devices	23,113	-	-	-	1,253	1,253	23,113	4,889	4,889	1,253	1,253	5.42%
14	101000	371100	WW Pump Equip Elect	19,082	(147)	-	-	1,027	1,027	18,935	5,555	5,555	1,026	1,026	5.42%
15	101000	380100	WW Equip Sed Tanks/Acc	835,375	89	-	-	42,360	34,727	835,463	214,723	207,091	44,029	30,077	3.60%
16	101000	380300	WW TD Equip Sldge Dry/Filt	8,807	-	-	-	429	437	8,807	3,004	3,012	429	440	5.00%
17	101000	380500	WW TD Equip Chem Trmt Plt	14,311	-	-	-	608	680	14,311	2,481	2,552	608	716	5.00%
18	101000	380600	WW TD Equip Oth Disp	39,891	(872)	-	-	1,818	1,909	39,019	11,406	11,497	1,814	1,951	5.00%
19	101000	393000	WW Tool Shop & Garage Equip	39,599	4,638	-	-	6,366	3,294	44,237	37,458	34,386	6,910	1,977	4.47%
20	101000	394000	WW Laboratory Equipment	587	-	-	-	18	21	587	153	155	18	22	3.71%
21	101000	396000	Communication Equipment	26,170	35	-	-	4,093	2,699	26,205	8,142	6,748	4,093	2,699	10.30%
22	101000	398000	Other Plant	-	-	-	-	-	-	-					

Line No.										
42	Utility Plant	3,135,764	150,353	-	-		3,286,117	with Gateway Additions		
43	Less:									
44	Total Plant	3,135,764					3,191,139	without Gateway		
45							94,978		District	
46	Monthly Depreciation Expense					107,077	93,507	600,104	586,533	111,844	87,401
47	Retirements										84,994
48	Accum. Depr. - Apprvd'/Calculated					342,720	329,149	321,529			2,406
49	Total Salvage						321,529	without Gateway and with Rate Change			
50	Total Approved/Calculated						7,621				
51	Total Per Books (\Trial Balance\Column DE\)										
52	Total Over/(Under) Depreciated										

Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Computation of Working Capital

Exhibit
Schedule B-5 Rebuttal
Page 1
Witness: Gutowski

Company Rebuttal			
Line No.			
1			
2	Working Cash Requirement	$	425
3	Material and Supplies Inventories		341 [1]
4	Prepayments		3,661
5			
6			
7	Total Working Capital Allowance	$	4,427
8			
9	Total Adjusted Test Year Working Capital Allowance	$	62,360
10			
11	Increase (Decrease in Working Capital Allowance	$	(57,933)
12			
13	Increase (Decrease in Working Capital Allowance	$	(57,933)
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
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31			
32			
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34			
35			
36			
37			
38			
39			
40			
41			
42			
43	Supporting Schedules:	Recap Schedules:	
44	E-1	B-1	
45	Workpapers & Supporting Documents:		
46	[1] Thirteen-month average		
47			
48			
49			
50	\Schedules\2007 Mohave Wastewater Sch. A-F.xls\		

Arizona American Water Company
Test Year Ended December 31, 2007
Lead/Lag Study - Working Cash Requirement

Exhibit
Schedule B-6 Rebuttal
Page 1
Witness: Hubbard

MOHAVE WASTEWATER

Line No.		Company Rebuttal Test Year Adjusted Results	Revenue Lag Days	Expense Lag Days	Net Lag Days	Lead/ Lag Factor	Cash Working Capital Required
1	OPERATING EXPENSES						
2	**P08** Labor	$ 107,318	48.23919	12.0000	36.2392	0.0993	$ 10,655
3	**P10** Fuel & Power	73,650	48.23919	31.6979	16.5413	0.0453	3,338
4	**P11** Chemicals	9,214	48.23919	33.3950	14.8442	0.0407	375
5	**P12** Waste Disposal	(13,733)	48.23919	30.0000	18.2392	0.0500	(686)
6	**P13** Management Fees	122,176	48.23919	(3.8800)	52.1192	0.1428	17,446
7	**P14** Group Insurance	24,046	48.23919	(4.6445)	52.8837	0.1449	3,484
8	**P15** Pensions	18,447	48.23919	45.0000	3.2392	0.0089	164
9	**P17** Insurance Other Than Group	7,294	48.23919	45.0000	3.2392	0.0089	65
10	**P18** Customer Accounting	16,497	48.23919	7.4600	40.7792	0.1117	1,843
11	**P19** Rents	1,613	48.23919	(10.6818)	58.9210	0.1614	260
12	**P27-:** Depreciation & Amortization		48.23919	-	48.2392	0.1322	-
13	Other Operating Expenses[1]	44,945	48.23919	30.0000	18.2392	0.0500	2,246
14	TAXES						
15	**P29** Taxes Other than Income	9,778	48.23919	15.6511	32.5881	0.0893	873
16	**P29** Property Taxes	41,714	48.23919	212.5000	(164.2608)	(0.4500)	(18,773)
17	**P30-:** Income Tax[2]	177,342	48.23919	42.0402	6.1990	0.0170	3,012
18							
19	**P56-I** Interest	149,531	48.23919	106.5200	(58.2808)	(0.1597)	(23,876)
20							
21							
22							
23							
24							
25							
26	WORKING CASH REQUIREMENT	$ 789,831					$ 425
27							
28							

29 [1]All other Operating Expenses are assumed to be paid by the 15th of the month following the receipt of goods and services.

30 [2]At proposed rates.

Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Rate Base Adjustment LJG - 3R

Exhibit
Schedule B-2
Page 10
Witness: Gutowski

Line No.

1 Post Test Year Additions to Plant:

2

3 The Company expects to complete an expansion of the sewage treatment plant, known as the
4 Wishing Well Wastewater Treatment Plant. It is estimated that the project will be completed
5 around May of 2008. Projected project costs are:

		Project Costs	Annual Deprec Rate [a]	Post TY Annual Depreciation Expense	
12	354500 WW Struct & Impr Gen	$765,906	2.80%	$21,445	
13	371100 WW Pump Equip Elect	813,581	5.42%	44,096	
14	380000 WW TD Equipment	2,352,593	5.00%	117,630	
15		$3,932,080		$183,171	

	Revised Plant Accts and Costs Data Request DH 16.1	Project Costs	Annual Deprec Rate [a]	Post TY Annual Depreciation Expense	
21	354400 WW Struct & Impr TDP	$976,644	2.80%	$27,346	
22	355400 WW Power Gen Eqpt TDP	$186,696	5.00%	$9,335	New Rate
23	361100 Collecting Mains	$146,946	2.00%	$2,939	
24	371100 WW Pump Equip Elect	$6,612	5.42%	358	
25	380000 WW TD Equipment	$2,838,002	5.00%	141,900	
26	396000 Communication Eqpt	$110,426	10.30%	11,374	
27	397000 Misc Eqpt	$10,713	5.10%	546	New Rate
28		$4,276,039		$193,798	

31	Increase in Utility Plant in Service	$343,959	
32	Increase in Annual Depreciation Expense		$10,627

45 Workpapers & Supporting Documents:

50 \Schedules\2007 Mohave Wastewater Sch. A-F.xls\

C Schedules

Mohave Wastewater

Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 1
Witness: Hubbard

Line No.			Company Rebuttal								
			[A] Test Year Adjusted Results	[B] ADJ LJG-1R	[C] ADJ SLH-1R Correct Waste Disposal Exp	[D] ADJ SLH-2R Correct Chemical Exp	[E] ADJ SLH-3R Amortize Rate Case Exp	[F] ADJ SLH-4R Accept RUCO's Corp Labor Adj	[G] ADJ SLH-5 Tank Maintenance Exp	[H] ADJ SLH-6R Water Testing Exp (Staff)	[I] ADJ SLH-7R Adjust Depreciation Exp
1	**Revenues**										
2	**P03**	Sewer Revenues	$ 791,279								
3	**P04**	Other Revenues	4,882								
4			-								
5			$ 796,161	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
6	**Operating Expenses**										
7	**P08**	Labor	$ 108,996					$ (1,678)			
8	**P10**	Fuel & Power	$ 73,650								
9	**P11**	Chemicals	$ 9,214			0					
10	**P12**	Waste Disposal	$ 126,228		(139,961)						
11	**P13**	Management Fees	$ 123,665								
12	**P14**	Group Insurance	$ 24,046								
13	**P15**	Pensions	$ 18,447								
14	**P16**	Regulatory Expense	$ 22,140				(16,864)				
15	**P17**	Insurance Other Than Group	$ 7,294								
16	**P18**	Customer Accounting	$ 16,497								
17	**P19**	Rents	$ 1,613								
18	**P20**	General Office Expense	$ 7,874								
19	**P21**	Miscellaneous	$ 16,726							10,288	
20	**P25**	Maintenance Expense	$ 4,948								
21	**P27-2**	Depreciation & Amortization	$ 248,398								(10,856)
22	**P29**	General Taxes-Property Taxes	$ 37,922								
23	**P29**	General Taxes-Other	$ 9,778								
24	**P30-3**	Income Taxes	$ (76,894)								
25											
26											
27	**Total Operating Expenses**		$ 780,542	$ -	$ (139,961)	$ 0	$ (16,864)	$ (1,678)	$ -	$ 10,288	$ (10,856)
28	**Utility Operating Income**		$ 15,619	$ -	$ 139,961	$ (0)	$ 16,864	$ 1,678	$ -	$ (10,288)	$ 10,856
29	**Other Income & Deductions**										
30	**P39-4**	Other Income & Deductions	-								
31	**P56-6**	Interest Expense	137,938								
32	**P48-5**	Other Expense	(46)								
33	**P43**	Gain/Loss Sale of Fixed Assets	11,227								
34	**Net Other Income & Deductions**		$ (126,665)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**		$ (111,046)	$ -	$ 139,961	$ (0)	$ 16,864	$ 1,678	$ -	$ (10,288)	$ 10,856
36											
37											
38											
39											
40											
41											
42											
43	Supporting Schedules:										
44											
45	Workpapers & Supporting Documents:										
46	\Schedules\2007 Mohave Wastewater Sch. A-F.xls\										
47											
48											
49											
50											

Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Pro Forma Adjustments

Exhibit
Schedule C-2 Rebuttal
Page 2
Witness: Hubbard

Line No.		Company Rebuttal [J] ADJ SLH-8R Accept RUCO's AIP Adj	[K] ADJ SLH-9R Accept RUCO's Line 21 Adjs.	[L] ADJ SLH-10R Property Tax Expense	[M] ADJ SLH-11R Income Tax Expense	[N] ADJ SLH-12R Interest Synchronization	[O] Total Rebuttal Pro Forma Adjustments	[P] Rebuttal Test Year Adjusted Results	[Q] Rebuttal Proposed Rate Increase	[S] Rebuttal Adjusted with Rate Increase
1	**Revenues**									
2	**P03** Sewer Revenues						$ -	$ 791,279	$ 525,488	$ 1,316,766
3	**P04** Other Revenues						-	4,882		4,882
4							-	-		-
5		$ -	$ -	$ -	$ -	$ -	$ -	$ 796,161	$ 525,488	$ 1,321,648
6	**Operating Expenses**									
7	**P08** Labor						(1,678)	$ 107,318		$ 107,318
8	**P10** Fuel & Power						-	73,650		$ 73,650
9	**P11** Chemicals						0	9,214		$ 9,214
10	**P12** Waste Disposal						(139,961)	(13,733)		$ (13,733)
11	**P13** Management Fees	(1,489)					(1,489)	122,176		$ 122,176
12	**P14** Group Insurance						-	24,046		$ 24,046
13	**P15** Pensions						-	18,447		$ 18,447
14	**P16** Regulatory Expense						(16,864)	5,276		$ 5,276
15	**P17** Insurance Other Than Group						-	7,294		$ 7,294
16	**P18** Customer Accounting						-	16,497		$ 16,497
17	**P19** Rents						-	1,613		$ 1,613
18	**P20** General Office Expense						-	7,874		$ 7,874
19	**P21** Miscellaneous		(167)				10,121	26,847		$ 26,847
20	**P25** Maintenance Expense						-	4,948	3,871	$ 8,819
21	**P27-2!** Depreciation & Amortization						(10,856)	237,542		$ 237,542
22	**P29** General Taxes-Property Taxes			3,792			3,792	41,714	8,297	$ 50,011
23	**P29** General Taxes-Other						-	9,778		$ 9,778
24	**P30-3·** Income Taxes				56,100		56,100	(20,794)	198,135	$ 177,342
25										
26										
27	**Total Operating Expenses**	$ (1,489)	$ (167)	$ 3,792	$ 56,100	$ -	$ (100,835)	$ 679,707	$ 210,304	$ 890,011
28	**Utility Operating Income**	$ 1,489	$ 167	$ (3,792)	$ (56,100)	$ -	$ 100,835	$ 116,454	$ 315,184	$ 431,637
29	**Other Income & Deductions**									
30	**P39-4;** Other Income & Deductions						-	-		-
31	**P56-6(** Interest Expense					$11,593	11,593	149,531		149,531
32	**P48-5·** Other Expense						-	(46)		(46)
33	**P43** Gain/Loss Sale of Fixed Assets							11,227		11,227
34	**Net Other Income & Deductions**	$ -	$ -	$ -	$ -	$ (11,593)	$ (11,593)	$ (138,258)	$ -	$ (138,258)
35	**Net Profit (Loss)**	$ 1,489	$ 167	$ (3,792)	$ (56,100)	$ (11,593)	$ 89,242	$ (21,805)	$ 315,184	$ 293,379
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43	Supporting Schedules:									
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45	Workpapers & Supporting Documents:									
46	\Schedules\2007 Mohave Wastewater Sch. A-F.xls\									
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Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Adjustment LJG-1R

Exhibit
Schedule C-2 Rebuttal
Page 3
Witness: Gutowski

Line No.	
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45	Workpapers & Supporting Documents:
46	\Schedules\2007 Mohave Wastewater Sch. A-F.xls\
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Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Adjustment Adjustment SLH-1R

Exhibit
Schedule C-2 Rebuttal
Page 4
Witness: Hubbard

Line No.			
1	**Adjusted Test Year Expense-Waste Disposal**		
2			
3	Waste Disposal Exp (A/C 511000) - AZ Corporate		(3,768)
4			
5	Total Adjusted Test Year Expense		
6			
7	4 Factor Allocation to Mohave Wastewater		1.0290%
8			
9	Total Adjusted Test Year Waste Disposal Expense - Mohave Wastewater	$	(39)
10			
11	RUCO Recommended Adjustment (RMoore)		39
12			
13	**Adjusted Test Year Waste Disposal Expense - Rebuttal**	$	-
14			
15	Less: Adjusted Test Year Waste Disposal Expense (Line 9 Above)	$	(39)
16			
17	Increase (Decrease) in Waste Disposal Expense	$	39
18			
19	Increase (Decrease) in Waste Disposal Expense	$	39
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45	Workpapers & Supporting Documents:		
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50	\Schedules\2007 Mohave Wastewater Sch. A-F.xls\		

Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-2R

Exhibit
Schedule C-2 Rebuttal
Page 5
Witness: Hubbard

Line No.			
1	Normalize & Adjust Chemicals Expense		
2			
3	Pro Forma Chemicals Expense (work paper) - Mohave Wastewater	$	9,214
4			
5			
6			
7			
8			
9	Total Pro Forma Chemicals Expense	$	9,214
10			
11	Adjusted Test Year Chemicals Expense - Mohave Wastewater	$	9,214
12			
13	Increase/(Decrease) in Chemicals Expense	$	0
14			
15	Adjustment to Revenue and/or Expense	$	0
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Mohave Wastewater Sch. A-F.xls\		
47	\Common\Workpapers\Chemicals\[Pro Forma Adj-Chemicals.xls		
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Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-3R

Exhibit
Schedule C-2 Rebuttal
Page 6
Witness: Hubbard

Line No.			
1	Regulatory Expense		
2			
3	Estimated Rate Case Expense (Workpaper)		$ 456,275
4			
5	Estimated Amortization Period in Years		3
6			
7	Annual Rate Case Expense		$ 152,092
8			
9	4 Factor - Mohave Wastewater		0.020916
10			
11	Allocated Rate Case Expense		3,181
12			
13	Unamortized Rate Case Expense @ 6/09 Authorized in Decision 69440 (5/07)	6,286	
14	Estimated Amortization Period in Years	3	
15	Additional Annual Rate Case Expense		2,095
16			
17	Pro Forma Rate Case Expense		5,276
18			
19	Adjusted Test Year Rate Case Expense		$ 22,140
20			
21	Increase/(Decrease) Rate Case Expense		$ (16,864)
22			
23	Adjustment to Revenue and/or Expense		$ (16,864)
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Mohave Wastewater Sch. A-F.xls\		
47	\Common\Workpapers\Expenses\EXHIBIT TMB-3 Rate Case Expense.xls		
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Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-4R

Exhibit
Schedule C-2 Rebuttal
Page 7
Witness: Hubbard

Line No.			
1	Normalize test year Labor expense-Correct Corporate Labor		
2			
3	Total normalized Labor expense (Workpaper) - Mohave Wastewater		$ 104,597
4			
5	Test Year Incentive Plan - Mohave Wastewater		4,399
6			
7	Total Pro Forma Labor expense - Mohave Wastewater		$ 108,996
8			
9	Adjusted Test Year Booked Labor Expense	$ 108,996	
10			
11	Adjusted Test Year Labor - Booked		$ 108,996
12			
13	Correction to Corporate Labor Expense	$ (163,092)	
14			
15	4 Factor Allocation to Mohave Wastewater	1.0290%	
16			
17	Total Corporate disallowance		($1,678)
18			
19	Adjusted Test Year Labor Expense, Rebuttal		$107,318
20			
21	Increase (Decrease) in Labor Expense		$ (1,678)
22			
23	Increase (Decrease) in Labor Expense		$ (1,678)
24			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Mohave Wastewater Sch. A-F.xls\		
47	\Common\Workpapers\Labor\AZ 2007 Labor with Annualizations.xls		
48	\08 Mohave Sewer\Workpapers\Expense\A of I - Mohave Wastewater.xls		
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Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-5R

Exhibit
Schedule C-2 Rebuttal
Page 8
Witness: Gutowski

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45	Workpapers & Supporting Documents:
46	\Schedules\2007 Mohave Wastewater Sch. A-F.xls\
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Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-6R

Exhibit
Schedule C-2 Rebuttal
Page 9
Witness: Hubbard

Line No.			
1	Adjust Water Testing Expense to District-Specific Expense		
2			
3	Contract Service-Lab Testing SS (A/C 536000.11)	$ 103,296	
4			
5	Misc Operating Expense WT(A/C 575000.13)	$ 5,018	
6			
7	Total Water Testing Expense - Arizona Corporate	$108,314	
8			
9	4 Factor Allocation to Mohave Wastewater	1.0290%	
10			
11	Total Test Year Water Testing Expense - Mohave Wastewater		$ 1,115
12			
13	Total Water Testing Expense - Mohave Wastewater		$ 11,403
14			
15	Increase/(Decrease) in Water Testing Expense		$ 10,288
16			
17	Increase/(Decrease) in Water Testing Expense		$ 10,288
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Mohave Wastewater Sch. A-F.xls\		
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Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-7R

Exhibit
Schedule C-2 Rebuttal
Page 10
Witness: Hubbard

Line No.			
1	Adjust Depreciation Expense to Reflect Test Year Adjusted Plant:		
2			
3	Annualized Depreciation Expense on Test Year UPIS	$	94,334
4	Depreciation Expense on Post-Test Year Plant Additions		193,798
5			
6	Amortization of Deferred Regulatory Assets		-
7			
8	Less: Amortization of Contributions		18,093
9	Amortization of Imputed Regulatory CIAC		32,497
10			
11	Total Depreciation Expense	$	237,542
12			
13	Test Year Depreciation Expense		248,398
14			
15	Increase (decrease) in Depreciation Expense		(10,856)
16			
17	Adjustment to Revenues and/or Expenses	$	(10,856)
18			
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45	Workpapers & Supporting Documents:		
46	\Schedules\2007 Mohave Wastewater Sch. A-F.xls\		
47	\08 Mohave Sewer\Workpapers\Expense\A of I - Mohave Wastewater.xls		
48	\08 Mohave Sewer\Workpapers\Rate Base\Imputed AIAC and CIAC.xls		
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Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-8R

Exhibit
Schedule C-2 Rebuttal
Page 11
Witness: Hubbard

Line No.			
1	Adjust Labor for AIP Disallowance		
2			
3	Corporate AIP Expense	$	482,198
4			
5	Proposed Disallowance		-30%
6			
7	Total Proposed AIP Disallowance - Arizona Corporate		($144,659)
8			
9	4 Factor Allocation to Mohave Wastewater		1.0290%
10			
11	Total Proposed Disallowance AIP Expense - Mohave Wastewater	$	(1,489)
12			
13			
14			
15	Increase/(Decrease) in Water Testing Expense	$	(1,489)
16			
17	Increase/(Decrease) in Water Testing Expense	$	(1,489)
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45	Workpapers & Supporting Documents:		
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Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-9R

Exhibit
Schedule C-2
Page 12
Witness: Hubbard

Line No.

1 Adjust for Line21 Miscellaneous Expense Clean Up-Accept RUCO's Adjustment

2

3 The Company went through the Corporate Miscellaneous General Expense account and removed
4 those items which it anticipated the Commission would likely disallow for ratemaking purposes,
5 such as Community Relations expense and membership dues. The Company performed the
6 same study of the Mohave Wastewater account.

7

8

9	Pro forma adjustment to Line 21 Miscellaneous Expense:		
10	Mohave Wastewater		$ (27)
11			
12	Corporate Office amount	$ (13,608)	
13		$ (13,608)	
14			
15	4 Factor Allocation to Mohave Wastewater	1.0290%	
16			
17	Total Corporate disallowance		$ (140)
18			
19	Pro forma disallowance to Miscellaneous Expense		$ (167)
20			
21	Adjustment to Revenue and/or Expense		$ (167)

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45 Workpapers & Supporting Documents:
46 \Schedules\2007 Mohave Wastewater Sch. A-F.xls\
47 \Common\Workpapers\Line21.xls
48 \Common\Workpapers\2007 4 Factor.xls
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Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-10R

Exhibit
Schedule C-2
Page 13
Witness: Hubbard

Line No.		[A] Property Tax Expense	[B] Property Tax Expense For Conversion Factor
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended Dec. 2007	$ 796,161	$ 796,161
4	Adjusted Revenues in year ended Dec. 2007	796,161	796,161
5	Proposed Revenues	$ 796,161	$ 1,321,648
6	Average of three year's of revenue	$ 796,161	$ 971,323
7	Average of three year's of revenue, times 2	$1,592,322	$1,942,647
8	Add:		
9	Construction Work in Progress at 10%	168,931	168,931
10	Deduct:		
11	Net Book Value of Transportation Equipment	$ -	$ -
12			
13	Full Cash Value	$ 1,761,253	$ 2,111,577
14	Assessment Ratio	23%	23%
15	Assessed Value	405,088	485,663
16	Property Tax Rate	10.297510%	10.297510%
17			
18	Property Tax	41,714	50,011
19	Tax on Parcels	-	-
20			
21	Total Property Tax at Proposed Rates	$ 41,714	$ 50,011
22	Adjusted Test Year Property Taxes	37,922	41,714
23	Adjustment to Revenues and/or Expenses	$ 3,792	$ 8,297
24			
25			
26			
27			
28	Increase in Property Tax Due to Increase in Revenue Requirement (Line 32 Col [B])		$ 8,297
29			
30	Increase in Revenue Requirement (From Sch. A1)		$ 525,488
31			
32	Increase in Property Tax Per Dollar Increase in Revenue (Line 32/Line 34)		1.5790%
33			
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43	Workpapers & Supporting Documents:		
44	\Schedules\2007 Mohave Wastewater Sch. A-F.xls\		
45	\Common\Workpapers\Property Taxes\2007 pd in 07-08 AZ Tax Payment .xls		
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Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-11R

Exhibit
Schedule C-2
Page 14
Witness: Hubbard

Line No.	Calculation of Income Taxes at Proposed Rates		[A] Test Year Adjusted Results	[B] Adjusted with Rate Increase
1	Calculation of Income Taxes at Proposed Rates			
2				
3				
4	Operating Income Before Inc. Taxes		$ 95,660	$ 608,979
5	Interest Expense		$ 149,531	$ 149,531
6	Arizona Taxable Income		(53,871)	459,448
7				
8	Less Arizona Income Tax		$ (3,754)	$ 32,014
9	Arizona Income Tax Rate =	6.968%		
10				
11	Federal Income Before Taxes		$ (53,871)	$ 459,448
12	Less Arizona Income Taxes		(3,754)	32,014
13	Federal Taxable Income		$ (50,118)	$ 427,433
14				
15	Federal Income Taxes:	34.000%	$ (17,040)	$ 145,327
16				
17				
18	Total Income Tax		$ (20,794)	$ 177,342
19				
20	Tax Rate		38.60%	38.60%
21				
22	Effective Income Tax Rates			
23	State		6.968%	6.968%
24	Federal		31.63%	31.63%
25				
26				
27	Adjusted Test Year Income Taxes		$ (76,894)	
28	Increase in Income Taxes		56,100	
29				
30	Adjustment to Revenues and/or Expense		$ 56,100	
31				
32	Adjusted Test Year Income Taxes, Rebuttal			$ (20,794)
33	Increase in Income Taxes			198,135
34				
35	Adjustment to Revenues and/or Expense			198,135
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45	Workpapers & Supporting Documents:			
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Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Income Statement Adjustment SLH-12R

Exhibit
Schedule C-2 Rebuttal
Page 15
Witness: Hubbard

Line No.		
1	Interest Synchronization with Rate Base	
2		
3	Original Cost Rate Base (Sch. B-1, Ln. 24)	$5,138,539
4	Weighted Cost of Debt from Schedule D-1	2.91%
5	Synchronized Interest Expense	149,531
6	Test Year Interest Expense	137,938
7	Increase (decrease) in Interest Expense	$ 11,593
8		
9	Adjustment to Revenues and/or Expense	11,593
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45	Workpapers & Supporting Documents:	
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Arizona American Water Company - Mohave Wastewater
Test Year Ended December 31, 2007
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3 Rebuttal
Page 1
Witness: Hubbard

Company Rebuttal

Line No.	Description					Percentage of Incremental Gross Revenues
1	Federal Income Taxes					31.63%
2						
3	State Income Taxes					6.97%
4				Combined	38.60%	
5	Property Taxes	Effective Rate =	1.5790%	One Minus Combined	61.40%	0.97%
6						
7	Bad Debt Expense	Effective Rate =	0.74%	One Minus Combined	61.40%	0.45%
8						
9	Total Tax Percentage					40.02%
10						
11	Operating Income % = 100% - Tax Percentage					59.98%
12						
13						
14						
15						
16	1 = Gross Revenue Conversion Factor					
17	Operating Income %					1.6672
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43	Supporting Schedules:				Recap Schedules:	
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