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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
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8 IN THE MATTER OF THE APPLICATION OF  
 9 ARIZONA-AMERICAN WATER COMPANY,  
 10 AN ARIZONA CORPORATION, FOR A  
 11 DETERMINATION OF THE CURRENT FAIR  
 12 VALUE OF ITS UTILITY PLANT AND  
 13 PROPERTY AND FOR INCREASES IN ITS  
 14 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

Arizona Corporation Commission

DOCKETED

MAR 23 2009

DOCKETED BY	<i>mn</i>
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15 IN THE MATTER OF THE APPLICATION OF  
 16 ARIZONA-AMERICAN WATER COMPANY,  
 17 AN ARIZONA CORPORATION, FOR A  
 18 DETERMINATION OF THE CURRENT FAIR  
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 FOR UTILITY SERVICE BY ITS AGUA FRIA  
 WASTEWATER DISTRICT, ANTHEM  
 WASTEWATER DISTRICT AND MOHAVE  
 WASTEWATER DISTRICT.

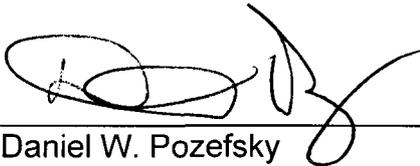
Docket No. SW-01303A-08-0227

NOTICE OF FILING  
TESTIMONY SUMMARIES

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- 23
- 24

1 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing  
2 the Testimony Summaries of William A. Rigsby, Rodney L. Moore and Timothy J. Coley in  
3 the above-referenced matter.

4 RESPECTFULLY SUBMITTED this 23<sup>rd</sup> day of March, 2009.

5  
6 

7 Daniel W. Pozefsky  
8 Chief Counsel

9 AN ORIGINAL AND FIFTEEN COPIES  
10 of the foregoing filed this 23<sup>rd</sup> day  
11 of March, 2009 with:

11 Docket Control  
12 Arizona Corporation Commission  
13 1200 West Washington  
14 Phoenix, Arizona 85007

15 COPIES of the foregoing hand delivered/  
16 mailed this 23<sup>rd</sup> day of March, 2009 to:

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18 Administrative Law Judge  
19 Hearing Division  
20 Arizona Corporation Commission  
21 1200 West Washington  
22 Phoenix, Arizona 85007

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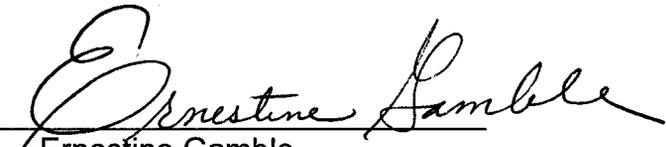
1 Commissioner Bob Stump  
Arizona Corporation Commission

2  
3 Meghaen Duger  
Advisor to Commissioner Stump

4

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By   
Ernestine Gamble  
Secretary to Daniel Pozefsky

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**Arizona-American Water Company, Inc.**  
**Docket No. WS-01303A-08-0227**  
**Rate Application**

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

The following is a summary of the issues set forth in both the direct and the surrebuttal testimony of RUCO witness Timothy J. Coley, for Arizona-American Water Company, Inc.’s (“Company”) application for a permanent rate increase for the Company’s water and wastewater services operation located in various locations of the State of Arizona. Complete discussions of the rate base issues are contained in the testimonies of Mr. Coley’s referenced documents. The unresolved rate base issues associated with the case are as follows:

**Original Cost Rate Base (“OCRB”) Adjustments:**

Acqua Fria District

Accumulated Depreciation - RUCO and the Company are in disagreement whether the method of accounting for accumulated depreciation can be changed from a previous authorized method without Commission authorization.

Advances in Aid of Construction (“AIAC”) and Contributions in Aid of Construction (“CIAC”) associated with Construction Work in Progress (“CWIP”) – The Company still proposes that any AIAC and/or CIAC related to CWIP be eliminated from the rate base computation.

Working Capital – RUCO does not agree with the Company's proposed revenue lag days utilized in its cash working capital lead/lag study.

White Tanks CWIP – The Company proposes to include the CWIP associated with the White Tanks Treatment Plant. RUCO recommends the Commission not approve the Company's proposal as CWIP is not a rate-based item.

Havasu District

Accumulated Depreciation - RUCO and the Company are in disagreement whether the method of accounting for accumulated depreciation can be changed from a previous authorized method without Commission authorization.

AIAC and CIAC associated with CWIP – The Company still proposes that any AIAC and/or CIAC related to CWIP be eliminated from the rate base computation.

Working Capital – RUCO does not agree with the Company's proposed revenue lag days utilized in its cash working capital lead/lag study.

...

Mohave Wastewater

Accumulated Depreciation - RUCO and the Company are in disagreement whether the method of accounting for accumulated depreciation can be changed from a previous authorized method without Commission authorization.

AIAC and CIAC associated with CWIP – The Company still proposes that any AIAC and/or CIAC related to CWIP be eliminated from the rate base computation.

Wishing Well Treatment Plant Expansion – The Company proposes to include the entire Wishing Well Treatment Plant in rate base. RUCO recommends the Commission find 50 percent as excess capacity.

Working Capital – RUCO does not agree with the Company's proposed revenue lag days utilized in its cash working capital lead/lag study.

Mohave Water

Accumulated Depreciation - RUCO and the Company are in disagreement whether the method of accounting for accumulated depreciation can be changed from a previous authorized method without Commission authorization.

AIAC and CIAC associated with CWIP – The Company still proposes that any AIAC and/or CIAC related to CWIP be eliminated from the rate base computation.

Working Capital – RUCO does not agree with the Company's proposed revenue lag days utilized in its cash working capital lead/lag study.

Paradise Valley

Accumulated Depreciation - RUCO and the Company are in disagreement whether the method of accounting for accumulated depreciation can be changed from a previous authorized method without Commission authorization.

AIAC and CIAC associated with CWIP – The Company still proposes that any AIAC and/or CIAC related to CWIP be eliminated from the rate base computation.

Working Capital – RUCO does not agree with the Company's proposed revenue lag days utilized in its cash working capital lead/lag study.

Sun City West

Accumulated Depreciation - RUCO and the Company are in disagreement whether the method of accounting for accumulated depreciation can be changed from a previous authorized method without Commission authorization.

Accumulated Depreciation Associated with Revised Adjustment #4 – The approximate \$100 difference between RUCO and the Company is due to RUCO's utilization of the mid-month depreciation convention rather than the Company's use of the full-month depreciation convention.

AIAC and CIAC associated with CWIP – The Company still proposes that any AIAC and/or CIAC related to CWIP be eliminated from the rate base computation.

Working Capital – RUCO does not agree with the Company's proposed revenue lag days utilized in its cash working capital lead/lag study.

#### Tubac

Accumulated Depreciation - RUCO and the Company are in disagreement whether the method of accounting for accumulated depreciation can be changed from a previous authorized method without Commission authorization.

AIAC and CIAC associated with CWIP – The Company still proposes that any AIAC and/or CIAC related to CWIP be eliminated from the rate base computation.

Working Capital – RUCO does not agree with the Company's proposed revenue lag days utilized in its cash working capital lead/lag study.

## Conclusions and Recommendations

RUCO concludes that the approval of this application will be reasonable and in the public interest if the Commission adopts the following recommendations:

### Recommended Revenue Requirement:

<u>Havasu Water</u>	\$ 1,446,126
<u>Mohave Wastewater</u>	\$ 828,938
<u>Mohave Water</u>	\$ 5,729,359

### Recommended OCRB/FVRB:

<u>Havasu Water</u>	\$ 3,175,404
<u>Mohave Wastewater</u>	\$ 2,631,542
<u>Mohave Water</u>	\$10,561,020

### Recommended Required Operating Income:

<u>Havasu Water</u>	\$ 222,156
<u>Mohave Wastewater</u>	\$ 184,107
<u>Mohave Water</u>	\$ 738,866

### Recommended Percentage Increase in Revenue Requirement:

<u>Havasu Water</u>	22.81%
<u>Mohave Wastewater</u>	4.12%
<u>Mohave Water</u>	12.04%

Arizona-American Water Company  
Docket Nos. W & SW-01303A-08-0227  
Rate Application

SUMMARY OF THE TESTIMONIES OF RODNEY L. MOORE  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

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The following is a summary of the Direct and Surrebuttal Testimonies given by Rodney L. Moore applicable to RUCO's recommended conditions for a permanent rate increase. A full disclosure of the issues and conditions are contained in the referenced documents.

The Company and RUCO are in substantial agreement with the adjustments to:

- Unbilled revenue;
- Eliminate Surcharges;
- Miscellaneous Revenue Adjustments;
- Annualize Arsenic Cost Recovery Mechanism ("ACRM") Surcharge;
- Annualize Year-End Customers;
- Annualize Payroll Expense;
- Annualize Power Expense;
- Annualize Purchased Water Expense;
- Annualize Chemicals Expense;
- Annualize Management Fees Expense;
- Annualize Pensions Expense;
- Annualize Insurance Expense;
- Tank Maintenance Accrual;
- Annualize 401(k) Expense;
- Line 21 Clean-Up;
- Remove Central Arizona Project ("CAP") Revenue and Expense;
- Interest Synchronization;
- Annualize Postage Increase;
- One-Time Service Company Charges;
- Adjust Conservation Expense;
- Adjustment To Remove Prior Period Labor Adjustment; and
- Remove Groundwater Savings Revenue and Expenses In SCWW.

The testimonies of Mr. Moore address the following outstanding issues:

### **Operating Income**

Amortize Rate Case Expense - This adjustment is based on RUCO's disagreement with the Company's proposal to include the unamortized portion of the prior rate case expenses for Mohave Water and Mohave Wastewater districts for recovery in the instant case.

Annualize Depreciation Expense and CIAC Amortization - This adjustment reflects changes in RUCO's adjusted gross plant in service and RUCO's acceptance of Staff's depreciation rates as stated in its direct testimony.

Property Tax Expense - This adjustment reflects changes in RUCO's adjusted and proposed revenues.

Federal and State Income Taxes Expense - This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

### **Rate Design**

Mr. Moore's proposed rate design is generally consistent with the Company's present rate design, but reflects RUCO's recommended revenue requirement and provides proof the design will produce the appropriate revenue requirement. For the Paradise Valley district, RUCO now recommends a three-tiered inverted block structure versus the five-tiered rate design proposed by the Company.

### Conclusions And Recommendations

Mr. Moore concludes that the approval of this application will be consistent with the public interest if the Commission adopts the following recommendations:

#### Percentage Increase In Average Typical Residential Customer's Monthly Bill:

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
<u>PV</u>	36.06%	15.14%
<u>SCW</u>	65.54%	68.26%
<u>Tubac</u>	55.94%	56.45%
Agua Fria	26.04%	23.60%

#### Recommended Revenue Requirement:

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
<u>PV</u>	\$1,636,188	\$1,120,911
<u>SCW</u>	\$3,375,778	\$3,368,882
<u>Tubac</u>	\$210,004	\$212,074
<u>Agua Fria</u>	\$3,582,770	\$3,110,665

Summary of the Testimonies of Rodney L. Moore  
Arizona-American Water Company  
Docket Nos. W & SW-01303A-08-0227

Recommended OCRB/FVRB:

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
<u>PV</u>	\$37,018,940	\$39,222,581
<u>SCW</u>	\$38,261,042	\$38,260,070
<u>Tubac</u>	\$1,433,161	\$1,436,261
<u>Agua Fria</u>	\$64,667,787	\$64,339,595

Recommended Required Operating Income:

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
<u>PV</u>	\$2,591,326	\$2,745,581
<u>SCW</u>	\$2,678,273	\$2,678,205
<u>Tubac</u>	\$100,321	\$100,538
<u>Agua Fria</u>	\$4,526,745	\$4,503,772

Recommended Percentage Increase In Revenue Requirement:

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
<u>PV</u>	20.85%	13.64%
<u>SCW</u>	59.21%	57.52%
<u>Tubac</u>	49.19%	49.68%
<u>Agua Fria</u>	19.04%	16.53%

**Arizona-American Water Company  
Docket No. W-01303A-08-0227  
Rate Case**

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

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness William A. Rigsby on Arizona-American Water Company's ("Arizona-American" or "Company") application for a permanent rate increase for seven of the Company's operating districts in the state of Arizona. Mr. Rigsby is providing testimony on a number of policy issues associated with Arizona-American's request for a rate increase. The underlying analyses and rationales for Mr. Rigsby's recommendations on these issues are contained in the above referenced documents. RUCO's positions on the following issues associated with the case are as follows:

Imputed AIAC – RUCO continues to recommend that the Commission adopt the Company proposed treatment of imputed advances-in-aid-of-construction ("AIAC").

White Tanks Plant CWIP – RUCO is recommending that the Commission deny Arizona-American's request for rate base treatment of \$25 million of construction work in progress ("CWIP") associated with the Company's White Tanks Plant.

## SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

White Tanks Plant O&M Deferral Mechanism – Consistent with RUCO's recommendation to deny rate base treatment of CWIP associated with the White Tanks Plant, RUCO recommends that the Commission deny the Company's request for an operations and maintenance ("O&M") cost deferral mechanism, which would be similar to the arsenic cost recovery mechanism ("ACRM") that the Commission has approved in prior cases.

White Tanks Plant Hook-up Fees – RUCO recommends that, with the exception of extending the collection period for the WHU-1 hook-up fees through 2020, the Company should continue to adhere to the provisions of Decision No. 69914 in regard to matters pertaining to the White Tanks Plant.

Tubac ACRM – RUCO continues to recommend that the Commission approve Arizona-American's request for an actual ACRM that will allow the Company to recover the costs associated with the removal of arsenic from water being provided to customers in Arizona-American's Tubac Water District. RUCO does not have a position on either the Central Plant or the Point-Of Use options for removing arsenic from water in the Tubac Water District; however, RUCO can see why the Company favors the less labor intensive and less customer intrusive Central Plant option.

## **SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)**

Existing ACRM Surcharges – RUCO is recommending that the Commission approve Arizona-American’s request to eliminate the existing ACRM surcharges for the Company’s Agua Fria, Havasu, Paradise Valley, and Sun City West Water Districts upon the conclusion of this case and the implementation of permanent rates.

Paradise Valley Public Safety Surcharge – After meeting with representatives of the Town of Paradise Valley, RUCO is withdrawing its recommended monthly public safety surcharge and is recommending that the Commission adopt Arizona-American’s request to eliminate the High Block Usage Surcharge at the conclusion of this case and to leave the Public Safety Surcharge set at zero.

Paradise Valley System Benefits Surcharge – RUCO is recommending that the Commission adopt the Company-proposed System Benefits Surcharge which will contribute to water conservation efforts in the Paradise Valley community.

Paradise Valley CAP Surcharge Modifications – RUCO has reviewed the Company’s testimony on this issue and is not making any recommended changes to the existing Central Arizona Project (“CAP”) surcharge.

## SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

Wishing Well Wastewater Treatment Facility – Based on its analysis, RUCO is recommending that the Commission allow rate base treatment of fifty percent of the costs associated with the facility. RUCO is also recommending that the Company be permitted to defer any remaining costs for consideration in a future rate case proceeding.

Tank Maintenance – RUCO recommends that the Commission adopt the revised Company-proposed tank maintenance program which will establish a reserve for the purpose of inspecting and maintaining water tanks covering a ten-year cycle.

Fuel and Power Supply Adjustment Mechanism – RUCO continues to recommend that the Commission deny Arizona-American's request for a fuel and power supply adjustment mechanism.