



0000096446

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

- 2 KRISTIN K. MAYES
CHAIRMAN
- 3 GARY PIERCE
COMMISSIONER
- 4 SANDRA KENNEDY
COMMISSIONER
- 5 PAUL NEWMAN
COMMISSIONER
- 6 BOB STUMP
COMMISSIONER

2009 MAY -1 A 9:39

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

7

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

15 FOR UTILITY SERVICE BY ITS AGUA FRIA

16 WATER DISTRICT, ANTHEM WATER

17 DISTRICT, HAVASU WATER DISTRICT,

18 MOHAVE WATER DISTRICT, PARADISE

19 VALLEY WATER DISTRICT, SUN CITY

20 WEST WATER DISTRICT AND TUBAC

21 WATER DISTRICT.

Docket No. W-01303A-08-0227

Arizona Corporation Commission

DOCKETED

MAY - 1 2009

DOCKETED BY	<i>MM</i>
-------------	-----------

22

23

24

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

19 VALUE OF ITS UTILITY PLANT AND

20 PROPERTY AND FOR INCREASES IN ITS

21 RATES AND CHARGES BASED THEREON

22 FOR UTILITY SERVICE BY ITS AGUA FRIA

23 WASTEWATER DISTRICT, ANTHEM

24 WASTEWATER DISTRICT AND MOHAVE

WASTEWATER DISTRICT.

Docket No. SW-01303A-08-0227

RUCO'S CLOSING BRIEF

1 **INTRODUCTION**

2 The Residential Utility Consumer Office (“RUCO”) submits this Brief in response to
3 Arizona-American Water Company’s (“Arizona-American” or “Company”) request that the
4 Arizona Corporation Commission (“Commission”) authorize a rate increase of \$15,944,301
5 for the Company’s Agua Fria Water District, Havasu Water District, Mohave Water District,
6 Paradise Valley Water District, Sun City West Water District, Tubac Water District and
7 Mohave Wastewater Districts. The parties have narrowed down the number of issues in
8 dispute. Among the more significant, RUCO and the Company disagree with the Company’s
9 proposed ratemaking treatment of the White Tanks Plant in the Agua Fria District. The
10 Company is proposing to place \$25 million of Construction Work In Progress (“CWIP”)
11 associated with the White Tanks plant into ratebase. A-20 at 4¹. The Company’s proposed
12 ratemaking treatment of CWIP has historically been rejected by the Commission and the
13 circumstances in this case do not warrant extraordinary ratemaking. Other, larger issues
14 which remain in dispute and will be addressed in this Brief include the Company’s proposal to
15 recover the unamortized rate case expenses associated with the Company’s Mohave Water
16 and Wastewater District and its Sun City West Water District’s last rate case, advances and
17 contributions associated with construction work in progress (“CWIP”) in the various districts
18 and the recovery of post-test-year plant associated with the Mohave Wastewater District’s
19 Wishing Well plant.

20
21 ...
22 ...

23 _____

24 ¹ For ease of reference, trial exhibits will be identified similar to their identification in the transcript of proceedings. The transcript volume number will identify references to the transcript.

1 **RATE BASE ADJUSTMENTS**

2 **RATE BASE ADJUSTMENT – WHITE TANK CWIP**

3 The Company is proposing to place \$25 million of CWIP associated with the White
4 Tanks plant into ratebase. This type of ratemaking, while not unprecedented, has only been
5 allowed where there have been exceptional and/or extraordinary circumstances. The
6 circumstances in this case are not exceptional and/or extraordinary and the Commission
7 should reject the Company's recommendation.

8 The precedent for allowing CWIP into ratebase involved the costs associated with the
9 building of the Palo Verde Nuclear Generating Station by APS in the late 1970's and early
10 1980's. R-12 at 13. In that case, it was universally understood that the up-front costs were
11 prohibitive and the project could not go forward unless the Commission allowed for an
12 exception to its standard ratemaking practices. In its last rate case, the Company proposed
13 to fund the construction of the White Tank Plant through an increase in the Company's
14 existing hook-up fees. Id. at 10. The Commission approved the Company's request in
15 Decision No. 69914. See Decision No. 69914 at 28.

16 Since Decision No. 69914, the Company has concluded that it is unlikely to recover
17 the costs through hook-up fees. A-20 at 11. The Company projected in its last rate case that
18 it would recover the entire \$60 million cost to build the plant by the end of 2013. Id. In or
19 about May of 2008, the Company revised its estimate to \$23 million for the five-year period of
20 2009 through 2013. Id. Now the Company estimates that it will only collect \$8 million for the
21 same time period and is likely never to recover its costs if it has to rely on hook-up fees². Id.
22 at 7.

23 _____

24 ² This assumes that the Company continues to record post in-service AFUDC, and defers depreciation. A-20
at 7.

1 Dismayed with its new projections, the Company seeks to include CWIP as an
2 alternative to recovery through the increased hook-up fees. Again, the circumstances are not
3 unusual or extraordinary. The Company has failed to explain why the Commission should
4 treat this case differently than how all the other utilities in Arizona recover for plant
5 expenditures -- the utility fronts the costs, builds the plant, and then seeks recovery after the
6 plant is in service, used and useful, and the costs are known and measureable.

7 The reason the Commission typically allows recovery in this manner is because it is
8 consistent with sound ratemaking principles. Plant should not be recovered unless it is in
9 service, used and useful. This guarantees a matching between the costs and the other rate
10 case components associated with the plant. The plant in issue is estimated to be completed
11 in November 2009. Transcript at 408. In other words, it is not known for sure when it will be
12 completed, even if it will be completed, nor are the exact costs known at this time.

13 **RELIEF REQUESTED:** The Commission should reject the Company's proposal to
14 include the CWIP associated with the White Tank plant in ratebase.

15 **RATE BASE ADJUSTMENT – ACCUMULATED DEPRECIATION**

16 The dispute here concerns the methodology employed to determine the appropriate
17 levels of accumulated depreciation for each district. According to the Company, it employs
18 an end of the month methodology which it has employed since January 2003. A-26 at 9.
19 Prior to January 2003, the Company employed a mid-month methodology³. Id. The end of
20 the month methodology requires plant to be depreciated in the month it is added but not
21 depreciated in the month it is retired. Id.

22 _____
23 ³ In Commission Decision 67093, dated June 30, 2004, the Commission noted that the Company employed
24 a half month convention. Decision No. 67093 at 9, R-10 at 11.

1 RUCO recommends that the Commission adopt a mid-month depreciation convention.
2 R-9 at 9. RUCO's recommendation allows for one-half month of depreciation in the month
3 the asset enters service and one-half month of depreciation in the month it is retired. A-26 at
4 9.

5 RUCO's choice of depreciation methods works in the Company's favor. RUCO is less
6 concerned with the methodology used and more concerned with the ratemaking principle.
7 Generally Accepted Accounting Principles ("GAAP") recognize RUCO's methodology as well
8 as the Company's methodology "as long as it is applied consistently". John Wiley & Sons,
9 Inc. Intermediate Accounting, D. Kieso, J Weygandt, T. Warfield, 2001 at page 559. R-10 at
10 11. The Company has been inconsistent in the application of its depreciation methodology
11 since it purchased the Company from its prior owner. Id. at 11. The Commission should
12 reject the Company's depreciation methodology.

13 **RELIEF REQUESTED:** The Commission should approve RUCO's
14 recommendation of (\$1,102,677) for accumulated depreciation.

15 **RATE BASE ADJUSTMENT - ADVANCES IN AID OF CONSTRUCTION ("AIAC") AND**
16 **CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC") ASSOCIATED WITH CWIP.**

17 The Company seeks to exclude AIAC and CIAC associated with CWIP from ratebase
18 since CWIP is being excluded from ratebase. A-26 at 14. RUCO's position is that the AIAC
19 and CIAC are reductions to ratebase and should not be treated differently here. R-9 at 12.
20 Again, RUCO's position is consistent with the treatment that the Commission has historically
21 given to AIAC and CIAC, and there is no reason to treat this Company any different than the
22 way other utilities are treated in Arizona.

1 **RELIEF REQUESTED:** The Commission should approve RUCO's
2 recommendation to include test year AIAC and CIAC associated with CWIP. RUCO's
3 proposed downward adjustments to ratebase are the following:

	<u>AIAC</u>	<u>CIAC</u>
4		
5	Agua Fria	(\$ 3,432,286)
6	Havasu	(10,645)
7	Mohave Water	(\$ 291,910) (94,453)
8	Mohave WW	(65,395)
9	Paradise Valley	(322,588)
10	Sun City West	(17,318)
11	Tubac	(20,266)

12

13 **RATE BASE ADJUSTMENT – VARIOUS ADJUSTMENTS PERTAINING TO DIFFERENT**
14 **DISTRICTS**

15 There are various conforming adjustments which pertain to different districts. The
16 adjustments and the relief requested are as follows:

17 **RELIEF REQUESTED:** The Commission should approve RUCO's
18 recommendations for the following:

19 1) Adjustment for Agua Fria and Mohave Water Districts to conform with the
20 Company's response to Staff data request GB 18.7 where the Company admitted to an error
21 for reducing CIAC for the Mohave Water district which belonged in the Agua Fria Water
22 District. R-10 at 14. This adjustment decreases Agua Fria's CIAC balance by \$28,016 and
23 increases Mohave Water's CIAC balance by \$27,517.

24

1 2) Conforming adjustment for the Paradise Valley Water District for the
2 Company's removal of post-test-year plant, Well #12, which the Company later removed from
3 this case. Id. The Company never received the proper permits to begin construction. Id.
4 This adjustment reduces post-test-year plant by \$2,109,032.

5 3) Conforming adjustments - the Company mistakenly booked a \$70,000 retirement
6 to Sun City West that should have been booked to Paradise Valley and \$6,672 of retirements
7 which were booked to Sun City West that should have been booked to Sun City. Another
8 adjustment increased ratebase by \$18,851 for two projects that were actually in the Agua Fria
9 District but were mistakenly booked to the Sun City Water District. Id. At 15.

10 **RATE BASE ADJUSTMENT – WISHING WELL WASTEWATER TREATMENT**
11 **FACILITY**

12 The Wishing Well Wastewater Treatment Facility is a wastewater treatment plant built
13 to serve customers in the Company's Mohave Wastewater District. R-12 at 26. RUCO is
14 recommending that fifty percent of the cost of the expansion to the plant be removed from
15 ratebase at this time. R-9 at 16. RUCO's recommendation is based on the conclusion
16 reached by Staff's engineer, Dorothy Haines, that "based on the projected next five-year
17 growth rate and 2007 wastewater flow data, this project is more than 50% overbuilt." R-9 at
18 16. Ms. Haines verified her earlier conclusion on cross-examination noting that the Wishing
19 Well plant has excess capacity. Transcript at 756.

20 When asked what percentage of the plant is excess capacity, Ms. Haines testified:

21 "Plant right now have a capacity of .5 million gallons. And then test
22 year, they showed the peak day flow was .27 MGD, and that's a year
23 ago data. I do not know '08 until now what the flow looks like. So
24 based on .27 versus the .5, that's more close to almost 48 percent."
Transcript at 756.

1 Accordingly, RUCO recommends that fifty percent of the Wishing Well Wastewater
2 Treatment Facility be excluded from ratebase until such time as the Commission determines
3 that it is used and useful. The Company's current ratepayers should not be burdened with
4 the cost of the excess capacity until such time as the developments are built out and the
5 excess comes into use.

6 **RELIEF REQUESTED:** The Commission should approve RUCO's
7 recommendation to exclude 50% or (\$2,138,020) of the costs associated with the Wishing
8 Well Treatment Plant expansion.

9
10 **RATE BASE ADJUSTMENT - CASH WORKING CAPITAL**

11 A company's cash working capital requirement represents the amount of cash the
12 company must have on hand to cover any differences in the time period between when
13 revenues are received and expenses must be paid. R-9 at 21. The most accurate way to
14 measure the cash working capital requirement is via a lead/lag study. Id. The lead/lag study
15 measures the actual lead and lag days attributable to individual revenue and expense items.
16 Id.

17 In this case, the Company did perform a lead/lag study. Id. For the most part, RUCO
18 and the Company do not have a disagreement on the inputs that were used in the lead/lag
19 study. There are, however, a few points that remain at issue and do have a significant
20 impact on the results. First, the Company has included in all of its systems an allocated
21 amount of regulatory expense which should be excluded. R-10 at 19. RUCO disagrees with
22 the inclusion of regulatory expense, or any non cash items for that matter, in the calculation
23 of cash working capital. The Commission has historically denied the inclusion of non cash
24 items from working capital calculations. R-10 at 19. For example, in 1995, the Commission

1 decided the Paradise Valley Water Company rate case (Docket No. U-1303-94-182). The
2 Commission disallowed the Company's predecessor's (Citizens Utilities Company – Arizona
3 Electric Division) request to include depreciation and amortization expense in its calculation
4 of cash working capital. (Decision No. 59079, dated May 5, 1995). The Commission stated:

5 As we have stated in numerous other decisions, the calculation is
6 for "cash working capital" and not "cash and non-cash working
7 capital". Similarly, the Commission recently indicated in Decision
8 58360, dated July 23, 1993, that it was appropriate to remove rate
9 case expenditures from the cash working capital requirement.

10 Decision No. 59079 at 7 (emphasis added). The Commission should not include non-cash
11 regulatory expense in the Company's working capital requirement.

12 Second, the Company's revenue lag days for each of its divisions are excessive. The
13 Company calculated a range of 46.42 to 49.65 revenue lag days for the seven districts in this
14 case. A-30 at 3. The more excessive the number of lag days, the greater the cash working
15 capital requirement.

16 The total revenue lag days is the sum of the 1) mid-point of the service period –2)
17 billing lag days, and 3) pay lag days. R-10 at 23. The disagreement concerns the third
18 component – pay lag days. Id at 26. Pay lag calculations involve the calculation of average
19 daily revenue. Id. To arrive at the average daily revenue for each district, the Company
20 divided the total annual revenues for each district by 365 days. Id. At 26. Whereas, this
21 calculation should be calculated by dividing the total annual revenues by the average number
22 of days of daily balances of accounts receivable. Id. at 27. For this calculation, the
23 Company should not be including weekends and holidays because the Company is not open
24 for business and collecting receivables or paying payables. Id.

 The use of the average number of days, as RUCO recommends, results in revenue
lag days similar to what the Company had determined in its prior rate cases where it did a

1 lead/lag study – Paradise Valley (Decision No. 68858 – 38.30 revenue lag days), Mohave
2 Water and Wastewater (Decision No. 69940 – 39.15 days for Mohave Water). Id. at 29. In
3 this case, RUCO calculated 38.90 days for Paradise Valley, while the Company calculated
4 47.97433. R-10 at 29, A-30 at 3. The Commission approved a revenue lag of 37.11 days in
5 the Company’s Mohave Wastewater district’s last rate case, and RUCO is recommending
6 39.77 revenue lag days for this system. Id. at 29. By comparison, the Company calculated
7 46.42606 revenue lag days in this case. A-30 at 3. The Company has failed to provide an
8 explanation that justifies the use of excessive revenue lag days.

9 The Company’s pay lag days are excessive by approximately eight to ten days for
10 each district. The Company admits that nothing has changed in its billing practices since the
11 Paradise Valley and Mohave cases. Transcript at 599. There is no other reason to explain
12 the need for excessive revenue lag days as part of the lead lag calculation. The Commission
13 should reject the Company’s use of excessive revenue lag days.

14 **RELIEF REQUESTED:** The Commission should approve RUCO’s
15 recommendation of (\$242,028) for cash working capital.

16 **OPERATING ADJUSTMENTS**

17 **RUCO OPERATING ADJUSTMENT – RATE CASE EXPENSE**

18 The Company and RUCO disagree with the Company’s proposal to include recovery
19 of the unamortized portion of the prior rate case expenses for Mohave Water, Mohave
20 Wastewater and Sun City West Water Districts. RUCO recommends the Commission reject
21 the Company’s proposal to include the unamortized rate case expense for a number of
22 reasons. First, the normal practice of the Commission is to attempt to set rates at a normal
23 recurring level of expenses. The amortization of rate case expense of two separate rate
24

1 cases in the same rate case is not a normal recurring expense, and should not be treated as
2 such. R-6 at 6.

3 Second, the reamortization of prior rate case expenses allows the Company to
4 recover expenses associated with rates that are no longer in effect. In effect, this is
5 retroactive ratemaking which is illegal in Arizona. Id. Finally, the Commission typically only
6 allows recovery of those assets and expenses that provide some current benefit to
7 ratepayers. Id. The reamortization of prior years' rate case expense does not provide a
8 benefit to current ratepayers.

9 In sum, allowing the Company to recover the unamortized portion of the prior rate
10 case expense will result in current ratepayers being charged with expenditures related to
11 rates that are no longer in effect, creating intergenerational inequities and retroactive rates.
12 Id. It has never been this Commission's practice, nor should it become the practice of this
13 Commission, to include an expense that was authorized but not collected in a prior case.
14 The Commission should reject the Company's request to recover the unamortized portion of
15 rate case expense incurred in the Company's last rate case in the Mohave Water,
16 Wastewater and the Sun City West Water Districts.

17 **RELIEF REQUESTED:** The Commission should approve RUCO's total adjustment
18 to rate case expense of (\$124,996).⁴

19
20
21
22
23 ⁴ Sun City West Water District (\$9,737), Mohave Wastewater District (\$19,159), Mohave Water District
24 (\$96,100).

1 **RUCO OPERATING ADJUSTMENT – WHITE TANKS DEFERRAL MECHANISM**

2 The Company is proposing to recover its operating and maintenance (“O&M”) costs
3 associated with the White Tanks Plant through an Arsenic Cost Recovery Mechanism
4 (“ACRM”)-like adjuster mechanism⁵. The Company admits that it could come in after the
5 plant is completed and seek recovery, which is the traditional way such costs are recovered.
6 Transcript at 411-412. However, the Company argues regulatory lag makes the traditional
7 option financially problematic. Id.

8 This is a classic example of a Company’s request for extraordinary ratemaking
9 treatment for an ordinary cost. Regulatory lag is not unique to this Company, and is faced by
10 all utilities in Arizona. Regulatory lag in this case works against the Company, but there are
11 situations where regulatory lag works in the Company’s favor. To change the regulatory
12 paradigm to address an issue that is common to all utilities, and hardly unique in this case,
13 would be unfair to ratepayers and contrary to good public policy.

14 Unlike the situation that resulted in the ACRM, there is no change in federal law that
15 requires compliance with a drinking water standard. The EPA’s revised drinking water
16 standard was an unfunded mandate from the federal government that impacted many
17 Arizona water utilities that had no choice but to comply. R-12 at 15. The reality for many of
18 Arizona’s water utilities, in the absence of some sort of funding mechanism, was a federal
19 mandate that they could not afford. The Commission recognized the need to act and the
20 ACRM was the result of the regulatory community coming together to resolve a critical
21

22
23 ⁵ It is not exactly clear what the Company is requesting. The Company’s President Paul Townsley explains
24 that the Company is requesting that the Commission allow it to capture the O&M costs on the Company’s
balance sheets as a regulatory asset and the Company will ask for ratemaking treatment in its next rate
case. Transcript at 415. Either way, RUCO opposes the collection of the costs through any type of adjuster
mechanism.

1 financial hardship that effected Arizona's water community as a whole. Here, the costs at
2 issue will be incurred for the expansion of the White Tanks Plant. The White Tanks Plant
3 treats Central Arizona Project ("CAP") water. A-18 at 7. While CAP water is required to be
4 treated to meet state and federal drinking-water standards, these standards have not recently
5 changed significantly and the costs associated with CAP water treatment are routine and
6 expected, and not the type of costs which an adjustor mechanism is generally permitted.

7 **RELIEF REQUESTED:** The Commission should reject the Company's request to
8 defer the O&M costs associated with the White Tanks Plant.

9
10 **RUCO OPERATING ADJUSTMENT - ACHIEVEMENT INCENTIVE PAY ("AIP")**

11 The Company does not oppose RUCO's proposed AIP adjustment. A-29 at 10.

12 **RUCO OPERATING ADJUSTMENT - FUEL AND POWER SUPPLY ADJUSTMENT**
13 **MECHANISM**

14 RUCO continues to oppose a Fuel and Power Supply Adjustor Mechanism. The
15 Company does not currently have a fuel and power supply adjustor. R-12 at 30. The
16 Company argues that a fuel and power supply adjustment mechanism would shield the
17 Company from electric and natural gas rate increases and help eliminate earnings erosion.
18 Id.

19 In only limited circumstances may the Commission establish rates without
20 simultaneously determining the effect of changed rates on a utility's rate of return. One of
21 those circumstances is when the Commission has established an automatic adjustor
22 mechanism. *Scates v. Arizona Corp. Comm'n*, 118 Ariz. 531, 535, 578 P.2d 612, 616;
23 *Residential Util. Consumer Office v. Arizona Corp. Comm'n ("Rio Verde")*, 199 Ariz. 588, 591
24 ¶ 11, 20 P.3d 1169, 1172. An automatic adjustor mechanism permits rates to adjust up or

1 down "in relation to fluctuations in certain, narrowly defined, operating expenses." *Scates* at
2 535, 616. An automatic adjustor permits a utility's rate of return to remain relatively constant
3 despite fluctuations in the relevant cost. An automatic adjustor clause can only be
4 implemented as part of a full rate hearing. *Rio Verde* at 592 ¶ 19, 1173, *citing Scates* at 535,
5 616.

6 The Commission has also defined adjustment mechanisms as applying to expenses
7 that routinely fluctuate widely. In a prior decision in which it eliminated APS' fuel and power
8 adjustor, the Commission stated:

9 The principle justification for a fuel adjustor is volatility in fuel prices. A fuel
10 adjustor allows the Commission to approve changes in rates for a utility in
11 response to volatile changes in fuel or purchased power prices without
having to conduct a rate case. (Decision No. 56450, page 6, April 13, 1989).

12 The Commission went on to discuss the undesirability of such adjustors because they can
13 cause piecemeal regulation that is inefficient and undesirable. *Id.* at 8. *See also Scates* at
14 534, 615.

15 An adjustor mechanism is an extraordinary ratemaking tool which is appropriate only
16 for narrowly-defined operating expenses that fluctuate widely and have a significant impact
17 on a company's return. *Scates* at 535, 616. Electric and natural gas increases are normal
18 operating expenses that virtually all business and residential customers have to make
19 allowances for in their budgets. R-12 at 31. Shielding a utility from increases in their gas
20 and fuel expenses or normal earning erosions is not an appropriate legal basis for an
21 adjuster mechanism. The approval of such a mechanism in this case would also provide a
22 disincentive for the Company to control costs since it could simply pass utility rate increases
23 through to its captive customers.

1 **RELIEF REQUESTED:** The Commission should reject the Company's request
2 for a fuel and power supply adjustor mechanism.

3 **RATE DESIGN**

4 **THE TOWN OF PARADISE VALLEY PUBLIC SAFETY SURCHARGE**

5 RUCO and the Company are in agreement on this issue. RUCO recommends that the
6 Commission adopt the Company's request to eliminate the High Block Usage Surcharge at
7 the conclusion of this case and to leave the Public Safety Surcharge set at zero.

8 **PARADISE VALLEY SYSTEMS BENEFIT SURCHARGE**

9 RUCO recommends the implementation of the Company proposed Paradise Valley
10 System Benefits Surcharge. However, RUCO is sensitive to the Town of Paradise Valley's
11 arguments in opposition to the System Benefits Surcharge. Transcript at 41. Accordingly,
12 RUCO still recommends the implementation of the surcharge, but would not file exceptions
13 should the Judge recommend to the Commission that the Commission reject the surcharge.
14 Transcript at 703.

15 **RATE CONSOLIDATION**

16 RUCO prepared an analysis of rate consolidation for the all of the districts in question.
17 R-4 at 4-5, Exhibit A. As a policy matter, RUCO considers rate consolidation on a case by
18 case basis. In this case, the Commission is only considering seven of the Company's
19 thirteen water and wastewater districts. It does not make sense, from RUCO's perspective,
20 to consider consolidation of only seven of the districts at this time. RUCO believes the better
21 approach would be to consider the issue when all of the districts are the subject of a rate
22 case. This will provide the Commission with the opportunity to consider all of the factors
23
24

1 necessary to make the best decision. These factors include, but are not limited to, the
2 operational and financial information of all of the Districts, the interconnectivity of the
3 systems, and the financial impact on each system. It will also help mitigate some of the
4 unintended consequences that will result should the Commission make the decision at this
5 time.

6 **COST OF CAPITAL**

7 The Commission should adopt RUCO's recommended rate of return of 7.00 percent,
8 which is the weighted cost of RUCO's recommended costs of debt and equity capital. R-2 at
9 5.

10 The Company is advocating an 11.75 percent return on common equity. R-2 at 6.
11 The Company's request is high, to say the least, in light of the current economic
12 environment. In fact, the Company has discounted the current financial environment and its
13 effects on the Company's cost of equity. The Company has not changed its recommendation
14 of an 11.75 percent cost of equity since it filed its case in May of 2008. Id.

15 Moreover, the Company's 11.75 percent cost of equity recommendation was derived
16 from the same after-tax weighted average cost of capital ("ATWACC") methodology that the
17 Commission has rejected time and time again. Id. Whereas, the Company continues to
18 advocate a technical methodology that has the effect of raising the cost of equity, RUCO's
19 approach is more traditional and more sensitive to the industry and the current economic
20 climate. RUCO believes that the 8.80 percent cost of common equity that it is recommending
21 is appropriate given the current environment of low inflation and low interest rates that the
22 Company is operating in. R-1 at 52.

1 RUCO believes that its cost of common equity estimated by RUCO witness William A.
2 Rigsby is very reasonable when the Company's capital structure of 46.75 percent equity and
3 53.25 percent debt is compared with the capital structures of other publicly traded water
4 providers which averaged 50.2 percent equity and 49.8 percent debt. R-1 at 53. RUCO has
5 not made an upward adjustment to its cost of equity recommendation or recommended a
6 hypothetical capital structure. R-2 at 9. Investments in water utilities like Arizona-American
7 are attractive in the current economic climate. R-2 at 9. Investments that pay over 5 percent
8 are hard to come by these days. Ratepayers should not have to subsidize utilities through
9 equity risk adjustments or hypothetical capital structures.

10 **RELIEF REQUESTED:** RUCO recommends the Commission adopt its
11 recommended cost of equity of 8.80 percent and weighted average Cost of Capital of 7.00%.
12 The Company's proposed cost of equity of 11.75% is unreasonably high and not warranted
13 under the circumstance. Likewise the Company's weighted average Cost of Capital
14 recommendation of 8.40% should also be rejected.

15 **CONCLUSION**

16 The Commission should not authorize a rate increase of more than \$15,944,301
17 for the Company's Agua Fria Water District, Havasu Water District, Mohave Water District,
18 Paradise Valley Water District, Sun City West Water District, Tubac Water District and
19 Mohave Wastewater Districts. RUCO recommends the Commission adopt its remaining
20 recommendations to the following:

21 1) Rate base:

22 - The Commission should reject the Company's proposal to include the CWIP
23 associated with the White Tank plant in ratebase.
24

1 -The Commission should approve RUCO's recommendation of (\$1,102,677) for
2 accumulated depreciation.

3 - The Commission should approve RUCO's recommendation to include test year AIAC
4 and CIAC associated with CWIP. RUCO's proposed downward adjustments to ratebase are
5 the following:

	<u>AIAC</u>	<u>CIAC</u>
6		
7	Agua Fria	(\$ 3,432,286)
8	Havasu	(10,645)
9	Mohave Water	(\$ 291,910) (94,453)
10	Mohave WW	(65,395)
11	Paradise Valley	(322,588)
12	Sun City West	(17,318)
13	Tubac	(20,266)

14
15 - The Commission should approve RUCO's adjustment for Agua Fria and Mohave
16 Water Districts to conform with the Company's response to Staff data request GB 18.7 which
17 decreases Agua Fria's CIAC balance by \$28,016 and increases Mohave Water's CIAC
18 balance by \$27,517.

19 - The Commission should approve RUCO's conforming adjustment for the Paradise
20 Valley Water District for the Company's removal of post-test-year plant, which reduces post
21 test year plant by \$2,109,032.

22 - The Commission should approve RUCO's conforming adjustments - the Company
23 mistakenly booked a \$70,000 retirement to Sun City West that should have been booked to
24 Paradise Valley and \$6,672 of retirements which were booked to Sun City West that should

1 have been booked to Sun City. Another adjustment increased ratebase by \$18,851 for two
2 projects that were actually in the Agua Fria District, but were mistakenly booked to the Sun
3 City Water District. Id. At 15.

4 - The Wishing Well Treatment Facility - the Commission should approve RUCO's
5 recommendation to exclude 50% or (\$2,138,020) of the costs associated with the Wishing
6 Well Treatment Plant expansion.

7 - Cash working capital - the Commission should approve RUCO's recommendation of
8 (\$299,676) for cash working capital.

9
10 2) Operating Adjustments:

11 - Unamortized portion of the prior rate case expenses for Mohave Water, Mohave
12 Wastewater and Sun City West - the Commission should approve RUCO's cumulative
13 adjustment to rate case expense of (\$124,996)

14 - Operating and maintenance ("O&M") costs associated with the White Tanks Plant -
15 the Commission should reject the Company's request to defer the O&M costs associated
16 with the White Tanks Plant.

17 - Fuel and Power Supply Mechanism - the Commission should reject the Company's
18 request for a fuel and power supply adjustor mechanism.

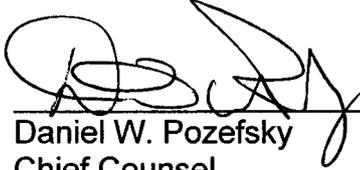
19 3) Rate Design

20 - RUCO recommends the implementation of the Company proposed Paradise Valley
21 System Benefits Surcharge.

1 4) Cost of Capital:

2 - RUCO recommends the Commission adopt its recommended cost of equity of 8.80
3 percent and weighted average Cost of Capital of 7.00%. The Company's proposed cost of
4 equity of 11.75% is unreasonably high and not warranted under the circumstance. Likewise,
5 the Company's weighted average Cost of Capital recommendation of 8.40% should also be
6 rejected.

7 RESPECTFULLY SUBMITTED this 1st day of May, 2009.

8
9 
10 Daniel W. Pozefsky
11 Chief Counsel

11 AN ORIGINAL AND FIFTEEN COPIES
12 of the foregoing filed this 1st day
13 of May, 2009 with:

14 Docket Control
15 Arizona Corporation Commission
16 1200 West Washington
17 Phoenix, Arizona 85007

18 COPIES of the foregoing hand delivered/
19 mailed this 1st day of May, 2009 to:

20 Teena Wolfe
21 Administrative Law Judge
22 Hearing Division
23 Arizona Corporation Commission
24 1200 West Washington
Phoenix, Arizona 85007

Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Craig A. Marks, Esq.
Craig A. Marks, PLC
10645 N. Tatum Blvd.
Suite 200-676
Phoenix, Arizona 85028

1 Thomas M. Broderick
Director, Rates & Regulation
2 Arizona-American Water Company
19820 N. 77th Street, Suite 200
3 Phoenix, AZ 85024

4 George E. Cocks and Patricia A. Cocks
1934 East Shasta Lake Drive
5 Ft. Mohave, Arizona 86426-6712
**DOES NOT WISH TO RECEIVE COPIES
6 OF FILINGS MADE BY ANY PARTY IN
THIS DOCKET**

7 Michael W. Patten
8 Timothy J. Sabo
Roshka DeWulf & Patten, PLC
9 One Arizona Center
400 E. Van Buren Street, Suite 800
10 Phoenix, Arizona 85004

11 Andrew Miller, Esq.
Town Attorney
12 Town of Paradise Valley
6401 E. Lincoln Drive
13 Paradise Valley, AZ 85253

14 Paul E. Gilbert
Franklyn D. Jeans
15 Beaus Gilbert PLLC
4800 N. Scottsdale Road, Suite 6000
16 Scottsdale, Arizona 85251

17 Nicholas Wright
1942 Desert Greens Drive
18 Fort Mohave, AZ 86426

19 Marshall Magruder
P. O. Box 1267
20 Tubac, Arizona 85646-1267

21 Jeff Crockett, Esq.
Robert Metli, Esq.
22 Snell & Wilmer L.L.P.
One Arizona Center
23 400 East Van Buren Street
Phoenix, Arizona 85004-2202
24

Raymond Goldy
1948 E. Desert Greens Drive
Fort Mohave, AZ 86426-8883
**DOES NOT WISH TO RECEIVE COPIES
OF FILINGS MADE BY ANY PARTY IN
THIS DOCKET**

Lance Ryerson
1956 E. Desert Greens Drive
Fort Mohave, AZ 86426-8883

Patricia Elliott
1980 E. Desert Greens Drive
Fort Mohave, AZ 86426-8883
**DOES NOT WISH TO RECEIVE COPIES
OF FILINGS MADE BY ANY PARTY IN
THIS DOCKET**

Boyd Taylor
1965 E. Desert Greens Drive
Fort Mohave, AZ 86426-8884
**DOES NOT WISH TO RECEIVE COPIES
OF FILINGS MADE BY ANY PARTY IN
THIS DOCKET**

Keith Doner
1964 Sunset Drive
Fort Mohave, AZ 86426-6733

Hallie McGraw
1976 Sunset Drive
Fort Mohave, AZ 86426-6733

Rebecca M. Szimhardt
1930 E. Desert Greens Drive
Fort Mohave, AZ 86426
**DOES NOT WISH TO RECEIVE COPIES
OF FILINGS MADE BY ANY PARTY IN
THIS DOCKET**

Wilma E. Miller
1915 E. Desert Greens Drive
Fort Mohave, AZ 86426-8802
**DOES NOT WISH TO RECEIVE COPIES
OF FILINGS MADE BY ANY PARTY IN
THIS DOCKET**

1 Joe M. Souza
1915 E. Desert Greens Drive
2 Fort Mohave, AZ 86426-8802
3 **DOES NOT WISH TO RECEIVE COPIES**
4 **OF FILINGS MADE BY ANY PARTY IN**
5 **THIS DOCKET**

Louis Wilson
1960 Fairway Drive
Fort Mohave, AZ 86426-8873
DOES NOT WISH TO RECEIVE COPIES
OF FILINGS MADE BY ANY PARTY IN
THIS DOCKET

6 Steven D. Colburn
7 1932 E. Desert Greens Drive
8 Fort Mohave, AZ 86426-6724

Ikuko Whiteford
1834 Fairway Bend
Fort Mohave, AZ 86426-6726

9 Shanni Ramsay
10 1952 E. Desert Greens Drive
11 Fort Mohave, AZ 86426-6724
12 **DOES NOT WISH TO RECEIVE COPIES**
13 **OF FILINGS MADE BY ANY PARTY IN**
14 **THIS DOCKET**

Tom Sockwell
Mohave County Board of Supervisors
1130 Hancock Road
Bullhead City, AZ 86442-5903
DOES NOT WISH TO RECEIVE COPIES
OF FILINGS MADE BY ANY PARTY IN
THIS DOCKET

15 Dennis Behmer
16 1966 E. Desert Greens Drive
17 Fort Mohave, AZ 86426-6724

Andy Panasuk
1929 E. Desert Greens Lane
Ft. Mohave, AZ 86426-6725

18 Ann Robinett
19 1984 E. Desert Greens Drive
20 Fort Mohave, AZ 86426-6724

Thomas J. Ambrose
7326 E. Montebello Ave.
Scottsdale, AZ 85250-6045

21 Betty Newland
22 2000 Crystal Drive
23 Fort Mohave, AZ 86426-8816
24 **DOES NOT WISH TO RECEIVE COPIES**
OF FILINGS MADE BY ANY PARTY IN
THIS DOCKET

By 
Ernestine Gamble
Secretary to Daniel Pozefsky

25 Don Grubbs and Liz Grubbs
26 5894 Mt. View Road
27 Fort Mohave, AZ 86426-8862
28 **DOES NOT WISH TO RECEIVE COPIES**
29 **OF FILINGS MADE BY ANY PARTY IN**
30 **THIS DOCKET**

31 Mike Kleman
32 5931 S. Desert Lakes Drive
33 Fort Mohave, AZ 86426-9105

34 Jacquelyn Valentino
35 5924 S. Desert Lakes Drive
36 Fort Mohave, AZ 86426-9105