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BEFORE THE ARIZONA CORPORATION COMMISSION

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7

8 IN THE MATTER OF THE APPLICATION OF
 9 ARIZONA WATER COMPANY, AN ARIZONA
 10 CORPORATION, FOR A DETERMINATION
 11 OF THE FAIR VALUE OF ITS UTILITY
 12 PLANT AND PROPERTY, AND FOR
 13 ADJUSTMENTS TO ITS RATES AND
 14 CHARGES FOR UTILITY SERVICE AND
 15 FOR CERTAIN RELATED APPROVALS
 16 BASED THEREON.

Docket No. W-01445A-08-0440

Arizona Corporation Commission
DOCKETED

SEP - 3 2009

EXAMINED BY 

**NOTICE OF FILING
TESTIMONY SUMMARIES**

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

RESPECTFULLY SUBMITTED this 1st day of September, 2009.



 Michelle L. Wood
 Counsel

1 An Original and Thirteen (13) Copies of
2 the foregoing were filed this 1st day
of September, 2009 with:

3 Docket Control
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8 mailed this 1st day of September, 2009 to:

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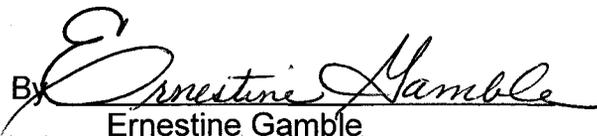
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By 
Ernestine Gamble

DOCKET NO. W-01445A-08-0440

RATE APPLICATION

**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 Water Company's ("AWC" or the "Company") application for a permanent rate increase for the Company's seventeen water operations in Arizona. A full discussion of the operating income and cost of capital issues associated with AWC's request for rate relief and the underlying theory and rationales for Mr. Rigsby's recommendations are contained in the referenced documents. The significant issues associated with the case are as follows:

OPERATING INCOME:

RUCO Operating Adjustment #1 – Labor Expense – This adjustment normalizes overtime hours that were incurred during the Test Year and reduces the Company's labor expense to reflect a more normal level of dollars paid for employee overtime. The adjustment is the first of four adjustments that affect all seventeen of AWC's operating systems. During the rebuttal phase of the proceeding, all four adjustments were revised to take capitalized expenditures into consideration.

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

RUCO Operating Adjustment #2 – Payroll Tax Expense – This is the second of four adjustments related to the level of employee overtime incurred during the Test Year. The adjustment normalizes payroll tax expense associated with the excess overtime labor expense removed in RUCO Operating Expense Adjustment #1. The adjustment affects all seventeen of AWC's operating systems.

RUCO Operating Adjustment #3 – Payroll 401(k) Expense – This is the third of four adjustments related to the level of employee overtime incurred during the Test Year. The adjustment normalizes Company 401(k) retirement program contributions incurred during the Test Year. The adjustment removes 401(k) expense dollars associated with the excess overtime labor expense removed in RUCO Operating Expense Adjustment #1. The adjustment affects all seventeen of AWC's operating systems.

RUCO Operating Adjustment #4 – Reverse Adjustment for Conservation – This adjustment reverses a Company adjustment designed to recover revenues that may be lost as a result of implementing a conservation-oriented, three-tiered inverted block rate design in this proceeding for the AWC's Northern Group. The adjustment affects the five operating systems that make up the Company's Northern Group.

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

RUCO Operating Adjustment #5 – Purchased Power Revenues – This adjustment originally reversed an adjustment made by the Company to remove revenues pursuant to AWC’s purchased power adjustment mechanism (“PPAM”) that is currently in effect for all five of the Company’s Northern Group systems. After further review during the rebuttal phase of the proceeding, RUCO made the decision to adopt the Company’s original position and is no longer advocating this adjustment.

RUCO Operating Adjustment #6 – Insurance Expense – This minor adjustment is the last of four adjustments related to overtime pay that was recorded during the Test Year. The adjustment removes a portion of long-term disability insurance expense that is associated with the excess overtime labor expense removed in RUCO Operating Expense Adjustment #1. The adjustment affects all seventeen of AWC’s operating systems.

RUCO Operating Adjustment #7 – Depreciation Expense – This adjustment calculates depreciation and amortization expense based on RUCO’s recommended plant levels. The adjustment affects all seventeen of AWC’s operating systems.

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

RUCO Operating Adjustment #8 – Property Tax Expense – This adjustment calculates property tax expense based on a modified Arizona Department of Revenue (“ADOR”) formula that has been adopted by the Commission in a number of prior rate cases. The adjustment affects all seventeen of AWC’s operating systems.

RUCO Operating Adjustment #9 – Rate Case Expense – This adjustment reflects RUCO’s best estimate of rate case expense, to be amortized over three years, for this proceeding based on updated information provided by the Company. The adjustment affects all seventeen of AWC’s operating systems. A final estimate, based on updated information from AWC, will be reflected in RUCO’s final schedules after the evidentiary hearing is concluded.

RUCO Operating Adjustment #10 – Income Tax Expense – This adjustment calculates the appropriate level of income tax expense given RUCO’s recommended operating income. The adjustment affects all seventeen of AWC’s operating systems. During the rebuttal phase of the proceeding RUCO applied the same tax rate to all of the Company’s systems as opposed to calculating taxes on a stand-alone basis.

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

ADJUSTOR MECHANISMS:

RUCO recommends that the Commission reject the Company's request for adjustor mechanisms for purchased power, water, fuel and an adjustor for earnings attrition. RUCO recommends that the Commission eliminate the Northern Group PPAM and reject AWC's proposal to reestablish PPAM's for the Company's Eastern and Western Group systems. RUCO also recommends that the Commission reject AWC's request to reestablish a purchased water adjustor mechanism ("PWAM") for the Company's Eastern and Western Groups. RUCO further recommends that the Commission deny AWC's request for a purchased fuel adjustor mechanism ("PFAM") for all of the Company's operating systems. Finally RUCO recommends that AWC's request for an attrition adjustor mechanism ("AAM") as an alternative to the aforementioned adjustor mechanisms also be denied.

COST of CAPITAL:

Original Cost of Equity Capital – The Residential Utility Consumer Office ("RUCO") recommends an 8.33 percent original cost of equity capital for AWC. This 8.33 percent original cost figure is based on the results obtained in a cost of equity analysis, which employed both the Discounted Cash Flow ("DCF") and Capital Asset Pricing Model ("CAPM") methodologies. RUCO's recommended

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

8.33 percent figure is 407 basis points lower than the Company-proposed cost of equity capital of 12.40 percent.

Cost of Short-Term Debt – RUCO recommends that the Company-proposed 3.00 percent cost of short-term debt be adopted by the Commission.

Cost of Long-Term Debt – Based on a review of the costs associated with AWC's various debt instruments, RUCO recommends that the Company-proposed 6.83 percent cost of debt be adopted by the Commission".

Capital Structure – RUCO recommends that the Company-proposed capital structure, comprised of 4.80 percent short-term debt, 49.35 percent long-term debt and 45.85 percent common equity be adopted by the Commission.

Original Cost Rate of Return – Based on the results of RUCO's recommended capital structure, original cost of equity capital, and cost of debt analyses, RUCO recommends a 7.33 percent original cost rate of return on invested capital for AWC. This figure represents the weighted average cost of RUCO's recommended 8.33 percent cost of equity capital, RUCO's 3.00 percent recommended cost of short-term debt, and RUCO's 6.49 percent recommended cost of long-term debt. RUCO's recommended 7.33 percent weighted average

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

cost of capital is 187 basis points lower than the Company-proposed 9.20 percent weighted average cost of capital.

Arizona Water Company
Docket No. W-01445A-08-0440
Rate Application

**SUMMARY OF THE TESTIMONIES OF RODNEY L. MOORE
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE (“RUCO”)**

The following is a summary of the direct and surrebuttal testimonies provided by RUCO witness Rodney L. Moore which present RUCO’s recommended rate design. A full discussion of the issues is contained in the referenced documents.

Rate Design

Mr. Moore was responsible for producing an accurate set of billing determinants in the instant case. Mr. Moore revised the original bill determinants as filed by the Company to reflect an updated analysis which included RUCO’s adjustments. Mr. Moore then imputed the revised billing determinants into a rate design that reflects RUCO’s recommended required revenue and proposed consolidation.

**Arizona Water Company
Docket No. W-01445A-08-0440
Rate Application**

**SUMMARY OF THE TESTIMONIES 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 surrebuttal testimonies of RUCO witness Timothy J. Coley for Arizona Water Company’s (“AWC” or the “Company”) application for a permanent rate increase for all the Company’s seventeen water systems located in the State of Arizona. A complete discussion of the rate base issues and Oracle System’s error in its depreciation expense schedule are contained in the referenced documents. The unresolved issues associated with the case are as follows:

Original Cost Rate Base (“OCRB”) Adjustments

Adjustment #1 – Reconstruction of Utility Plant in Service (“UPIS”) and Accumulated Depreciation since the Company’s Last Rate Application Decision

RUCO recommends adjustments to the appropriate UPIS accounts and accumulated depreciation balances that derives from RUCO’s plant and accumulated depreciation manual reconstruction.

Adjustment #2 – Variable Adjustment in Direct, Surrebuttal and Hearing Schedules

RUCO Direct Schedule Adjustment #2 contained an adjustment that removed post-test year Phoenix Office plant. In RUCO’s Surrebuttal, the Phoenix Office post-test year plant adjustment was reversed from its Direct Testimony position. Thus, RUCO allowed the associated post-test year Phoenix Office plant because it was placed into service just a few days after the test year. In RUCO’s Hearing Schedules, which will be presented as an exhibit at hearing to its Surrebuttal Schedules, this adjustment represents the retirements related to the Company’s response to Staff data request BKB 11.16.

Adjustment #3 – Plant Retirements and Plant Held for Future Use (“PHFFU”) Associated with Company’s Response to Staff Data Request BKB 11.16

In RUCO’s Direct and Surrebuttal Schedules, this adjustment represents the adjustments related to the plant retirements and PHFFU that the Company supplied to Staff data request 11.16. RUCO’s hearing schedules, which will be presented at hearing as an exhibit, breaks the plant retirements and PHFFU into two separate adjustments. The plant retirement adjustments will be represented in RUCO Hearing Schedules as adjustment #2. RUCO’s PHFFU adjustments will be reflected in RUCO Hearing Schedules adjustment #3.

Adjustment #4 – Variable Adjustment

In the Pinewood System, this adjustment represents a post-test year plant item relating to an electrical panel that was not in service until one and a half years post-test year.

In the Sedona System, this adjustment reflects two post-test year wells that the Company requested in its rate application. The Company has agreed to remove one of the wells, Carroll Canyon Well, from this rate proceeding. The other well that the Company still requests to be in rate base was not placed into service until November 2008.

Adjustment #5 – Customer Deposits with the Exception of the Sedona System's Arizona Department of Transportation ("ADOT") Highway 179 Project

The Company agreed to include the customer deposits in calculating the rate bases in its rebuttal testimony. RUCO's adjustment #5 removes a portion of the Company's pro-forma post-test year plant adjustment related to an ADOT project to relocate transmission and distribution mains on Highway 179. RUCO's ADOT project adjustment will be updated upon receipt of a data response issued the week before the start of the hearing.

Adjustment #6 – Working Capital Adjustment with the Exception of the Sedona System

This adjustment represents RUCO's calculation of cash working capital utilizing a lead/lag study and excludes the Company's request to include the cost of equity when calculating the allowance of cash working capital.

Company's Oracle System Depreciation Expense Schedule C-2

The Company's Oracle System depreciation expense schedule C-2 appendix, page 40 of 68, contains an error. The Company failed to remove the plant associated with the Saddlebrook System in the Oracle System. The error overstates Oracle's depreciation expense by approximately \$26,000. RUCO has identified this error to the Company in prior testimony but the Company has not made the correction.