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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  
 15 FOR UTILITY SERVICE BY ITS ANTHEM  
 16 WATER DISTRICT AND ITS SUN CITY  
 WATER DISTRICT.

DOCKET NO. W-01303A-09-0343

17 IN THE MATTER OF THE APPLICATION OF  
 18 ARIZONA-AMERICAN WATER COMPANY,  
 19 AN ARIZONA CORPORATION, FOR A  
 20 DETERMINATION OF THE CURRENT FAIR  
 21 VALUE OF ITS UTILITY PLANT AND  
 22 PROPERTY AND FOR INCREASES IN ITS  
 23 RATES AND CHARGES BASED THEREON  
 24 FOR UTILITY SERVICE BY ITS  
 25 ANTHEM/AGUA FRIA WASTEWATER  
 26 DISTRICT AND ITS SUN CITY WEST  
 27 WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

**STAFF'S NOTICE OF FILING  
TESTIMONY SUMMARIES**

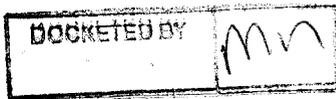
Staff of the Arizona Corporation Commission ("Staff") hereby files the Testimony Summaries of Dorothy Hains and Juan Manrique of the Utilities' Division in the above matter.

RESPECTFULLY SUBMITTED this 20<sup>th</sup> day of April 2010.

Arizona Corporation Commission

**DOCKETED**

APR 20 2010



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1 Original and thirteen (13) copies  
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3 Docket Control  
Arizona Corporation Commission  
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**EXECUTIVE SUMMARY OF DOROTHY HAINS  
ARIZONA-AMERICAN WATER COMPANY  
DOCKET NOS. W-01303A-09-0343; SW-01303A-09-0343**

**Anthem Water**

**RECOMMENDATIONS:**

- I. Staff recommends the depreciation rates presented in Figure 6 by National Association of Regulatory Commissioners' account.
- II. Staff recommends \$22,289.24 be reclassified from Account No. 304300 to the Water Treatment Equipment Non-media Account No.320100.
- III. Staff recommends that Arizona American – Anthem Water District (“Anthem Water,” “District” or “Company”) continue tracking its water loss in the system for two years and submit the data collected every six months. This reporting would begin once a final decision in this matter becomes effective. Staff further recommends that the first report be docketed as a compliance item within 180 days of the effective date of the order issued in this proceeding.
- IV. Staff recommends that the District reported annual water testing cost of \$4,469 be adopted for purposes of this proceeding.
- V. Staff recommends that the currently authorized meter and service line installation charges continue to be used as shown under the column headings “Staff Recommended” in Table 5.

**CONCLUSIONS:**

- I. Maricopa County Environmental Services Department (“MCESD”) has determined that Anthem Water is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
- II. Arizona Department of Water Resource (“ADWR”) has determined that Anthem Water is in compliance with the ADWR requirements governing water providers.
- III. Lost water for Anthem was calculated to be less than one percent which is within acceptable limits.
- IV. Anthem Water has an approved cross connection tariff.
- V. Anthem Water has adequate storage and production to serve its existing customers and reasonable growth.
- VI. Anthem Water has an approved curtailment tariff.
- VII. A check of the Commission Utilities Division Compliance database showed there is currently no delinquent compliance items for Anthem Water.

**EXECUTIVE SUMMARY OF DOROTHY HAINS  
ARIZONA-AMERICAN WATER COMPANY  
DOCKET NOS. W-01303A-09-0343; SW-01303A-09-0343**

**Sun City Water**

**RECOMMENDATIONS:**

- I. Staff recommends the depreciation rates presented in Figure 6 by National Association of Regulatory Commissioners' account.
- II. Staff recommends that the currently authorized meter and service line installation charges continue to be used as shown under the column headings "Staff Recommended" in Table 8.
- III. Staff recommends that the Arizona-American Water Company Sun City Water District ("Sun City Water" or "District") reported annual water testing cost of \$7,479 be adopted for purposes of this proceeding.
- IV. Staff recommends that the District reduce its water loss to below 10 percent in PWS No. 07-099 by December 31, 2010 or before it files next rate case and/or CC&N and/or financing application whichever comes first. Staff further recommends that the District continue tracking its water loss for three years and submit the data collected every six months. This reporting would begin once a final decision in this matter becomes effective. Staff further recommends that the first report be docketed as a compliance item within 180 days of the effective date of the order issued in this proceeding.
- V. The depreciation rate for Account No. 334100 (meters) for Sun City Water District should have been 6.67% instead of 2.51%. A revised Depreciation Rates Table for Sun City Water District is attached as Figure 6.

**CONCLUSIONS:**

- I. Maricopa County Environmental Services Department ("MCESD") has determined that both Sun City water systems (PWS Nos. 07-099 and 07-532) are currently in compliance with its requirements and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
- II. Sun City Water is within the Phoenix Active Management Area and is in compliance with the Arizona Department of Water Resource ("ADWR") monitoring and reporting rules.
- III. Sun City Water has an approved cross connection tariff.
- IV. Sun City Water has adequate storage and production to serve its existing customers and reasonable growth.
- V. Sun City Water has an approved curtailment tariff.

**EXECUTIVE SUMMARY OF DOROTHY HAINS  
ARIZONA-AMERICAN WATER COMPANY  
DOCKET NOS. W-01303A-09-0343; SW-01303A-09-0343**

- VI. Staff observed that the replacement Well Nos. 2.4 and 5.1 were in-service at the time of its inspection.
- VII. Staff observed that rehabilitated Well No. 6.4 was in-service at the time of its inspection.
- VIII. The plant items listed in Table 12 are plant items Staff observed and found to be in-service at the time of Staff's inspection.
- IX. A check of the Commission Utilities Division Compliance database showed there is currently no delinquent compliance items for Sun City Water.

**Anthem Wastewater**  
**CONCLUSIONS:**

- I. The Arizona - American Water Company Anthem Wastewater District ("Anthem Wastewater") is in full compliance with the Arizona Department of Environmental Quality ("ADEQ") for operation and maintenance, operator certification and discharge permit limits.
- II. Staff concludes that the Anthem Wastewater treatment plant has adequate capacity to treat the existing customers and reasonable growth in the Anthem Wastewater service area.
- III. A check of the Arizona Corporation Commission Utilities Division Compliance database showed there is currently no delinquent compliance item for the Anthem Wastewater.
- IV. Staff concludes that the Anthem Wastewater Treatment Plant Headwork Modification project had been completed and is in service. Staff further concludes that the project was used and useful at the time of Staff's inspection.

**Agua Fria Wastewater**  
**RECOMMENDATIONS:**

- I. It is recommended that the Anthem Wastewater use depreciation rates as delineated in Figure 5.
- II. Staff recommends an annual testing cost of \$62,642 for the Anthem Wastewater.
- III. Staff recommends \$30,900 be reclassified from the Structure and Improvement for Water Treatment Account No. 354200 to the Waste Water Power Generation Equipment Account No.355500.

**EXECUTIVE SUMMARY OF DOROTHY HAINS  
ARIZONA-AMERICAN WATER COMPANY  
DOCKET NOS. W-01303A-09-0343; SW-01303A-09-0343**

- IV. Staff recommends \$4,000 be reclassified from the Structure and Improvement for Water Treatment Account No. 354200 to the Waste Water Electric Pump Equipment Account No.371100.
- V. Staff recommends that the current Anthem Wastewater OFHF tariff be replaced with the attached modified OFHF tariff (See Figure 6). Staff further recommends that the District be required to comply with the Status Reporting Requirements contained in Paragraph J immediately.

**CONCLUSIONS:**

- I. Arizona Department of Environmental Quality ("ADEQ") regulates the Arizona American Water Company, Agua Fria Wastewater District ("Agua Fria Wastewater" or "District") under Permit Nos. 27395 and 36947 for the Verrado wastewater treatment plant ("WWTP") and Permit Nos. 26497 and 36953 for the Russell Ranch WWTP. Per the February 5, 2008, Compliance Status Reports issued by ADEQ, both systems are in full compliance for operation and maintenance, operator certification and discharge permit limits.
- II. Staff concludes that the Agua Fria WWTPs have adequate capacity to treat the existing customers and reasonable growth in the Agua Fria Wastewater service area.
- III. A check of the Arizona Corporation Commission Utilities Division Compliance database showed there is currently no delinquent compliance item for the Agua Fria Wastewater.

**RECOMMENDATIONS:**

- I. It is recommended that the Agua Fria Wastewater use depreciation rates as delineated in Figure 6.
- II. Staff recommends an annual testing cost of \$17,954 for the Agua Fria Wastewater.
- III. Staff recommends \$1,838,737 be adjusted from Verrado plant expansion expenses.
- IV. Staff recommends \$487,000 be reclassified from the Structure and Improvement for Water Treatment Account No. 354400 to the Waste Water Power Generation Equipment Account No.355500.
- V. Staff recommends that the current Agua Fria Wastewater OFHF tariff be replaced with the attached modified OFHF tariff (See Figure 7). Staff further recommends that the District be required to comply with the Status Reporting Requirements contained in Paragraph J immediately.

**EXECUTIVE SUMMARY OF DOROTHY HAINS  
ARIZONA-AMERICAN WATER COMPANY  
DOCKET NOS. W-01303A-09-0343; SW-01303A-09-0343**

**Sun City Wastewater**

**RECOMMENDATIONS:**

- I. Staff recommends that the depreciation rates by National Association of Regulatory Commissioners' account presented in Figure 6 be used for purposes of this proceeding.
- II. Staff recommends that \$12,242 in expense be reclassified to Sun City West Wastewater District's Account for Waste Water Force Mains (account #360000).

**CONCLUSIONS:**

- I. Staff concludes that the Arizona-American Water Company Sun City Wastewater District ("Sun City Wastewater" or "District") has adequate treatment capacity to serve its existing customer base and reasonable growth.
- II. A check of the Commission Utilities Division Compliance database showed there is currently no delinquent compliance item for the District.

**Sun City Wastewater**

**CONCLUSIONS:**

- I. The Arizona American Water Company, Sun City West Wastewater District ("Sun City West Wastewater") is in full compliance with the Arizona Department of Environmental Quality ("ADEQ") for operation and maintenance, operator certification and discharge permit limits.
- II. Staff concludes that the Sun City West Wastewater's treatment plant has adequate capacity to treat the Sun City West area and the Corte Bella area and reasonable growth.
- III. A check of the Commission Utilities Division Compliance database showed there is currently no delinquent compliance item for the Company.
- IV. Staff accepts the Company reported \$13,196 for water quality testing expense for this proceeding.

**RECOMMENDATIONS:**

- I. It is recommended that the Sun City West Wastewater use depreciation rates as delineated in Figure 6.

**EXECUTIVE SUMMARY OF JUAN MANRIQUE  
ARIZONA-AMERICAN WATER COMPANY  
DOCKET NOS. W-01303A-09-0343; SW-01303A-09-0343**

Capital Structure – Staff recommends that the Commission adopt a capital structure for Arizona-American Water Company (“Company”) for this proceeding consisting of 61.14 percent debt and 38.86 percent equity. Staff’s capital structure includes short-term debt excluded by the Company.

Cost of Equity – Staff recommends that the Commission adopt a 10.7 percent return on equity (“ROE”) for the Company. Staff’s estimated ROE for the Company is based on cost of equity estimates for the sample companies ranging from 9.7 percent for the discounted cash flow method (“DCF”) to 10.0 percent for the capital asset pricing model (“CAPM”). Staff’s ROE recommendation includes a 0.8 percent upward adjustment to reflect a higher financial risk in the Company’s capital structure compared to that of the sample companies.

Overall Rate of Return – Staff recommends that the Commission adopt a 7.2 percent overall rate of return (“ROR”).

Dr. Villadsen’s Testimony – The Commission should reject the Company’s proposed 12.25 percent ROE for the following reasons:

Dr. Villadsen’s DCF estimates rely exclusively on analyst’s forecasts, do not consider dividend per share growth, omit relevant water utility sample data and include a methodology that uses ROE as a dependent variable that is derived by inappropriately equating the sample companies’ market value capital structure weighted average costs of capital after-tax to the Company’s book value capital structure weighted average cost of capital after-tax.