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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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2010 APR 21 A 10: 56

ARIZONA CORP COMMISSION
DOCKET CONTROL

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 ANTHEM WATER DISTRICT AND ITS SUN CITY WATER DISTRICT.

DOCKET NO. W-01303A-09-0343

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 ANTHEM/AGUA FRIA WASTEWATER DISTRICT AND ITS SUN CITY WEST 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 Gary T. McMurry and Gerald W. Becker of the Utilities' Division in the above matter.

RESPECTFULLY SUBMITTED this 21st day of April 2010.

Arizona Corporation Commission

DOCKETED

APR 21 2010

DOCKETED BY *mm*

Maureen A. Scott

 Maureen A. Scott, Senior Staff Counsel
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 Legal Division

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1 Original and thirteen (13) copies
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21st day of April 2010 with:

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**EXECUTIVE SUMMARY OF GARY T. McMURRY
ARIZONA-AMERICAN WATER COMPANY
DOCKET NOS. W-01303A-09-0343; SW-01303A-09-0343**

DIRECT TESTIMONY

Arizona American Water Company Inc. ("AAWC" or "Company") is an Arizona for-profit Class A public service corporation that provides water and wastewater utility service in various communities throughout Arizona. This case is for the test year ended December 31, 2008.

On July 2, 2009, AAWC filed a general rate application. The Company has requested increases for five systems in this case. The testimony of Gary T. McMurry pertains to three of the five districts; Anthem/Agua Fria, Sun City, and Sun City West, all wastewater systems. Staff witness Gerald Becker is providing testimony for the remaining two districts.

Anthem/Agua Fria

The Company proposes a revenue increase of \$7,060,837, or 81.75 percent increase from \$8,637,123 to \$15,697,960 for the Anthem/Agua Fria wastewater district. The proposed rate increase would produce an operating income of \$4,071,858 for an 8.53 percent rate of return on an original cost rate base ("OCRB") of \$47,735,732. Staff's revenue requirement of \$13,953,752 represents an increase of \$5,316,629, or 61.56 percent, for a 7.60 percent rate of return on a Staff adjusted OCRB of \$44,377,622.

Sun City

The Company proposes a revenue increase of \$2,156,882, or 36.31 percent increase from \$5,940,381 to \$8,097,263 for the Sun City wastewater district. The proposed rate increase would produce an operating income of \$1,259,377 for an 8.53 percent rate of return on an original cost rate base ("OCRB") of \$14,764,087. Staff's revenue requirement of \$7,662,959 represents an increase of \$1,722,578 or 29.00 percent, for a 7.60 percent rate of return on a Staff adjusted OCRB of \$14,673,402.

Sun City West

The Company proposes a revenue increase of \$1,480,756, or 26.15 percent increase from \$5,661,710 to \$7,142,475 for the Sun City West wastewater district. The proposed rate increase would produce an operating income of \$1,520,155 for an 8.53 percent rate of return on an original cost rate base ("OCRB") of \$17,821,272. Staff's revenue requirement of \$7,364,796 represents an increase of \$1,703,086, or 30.08 percent, for a 7.60 percent rate of return on a Staff adjusted OCRB of \$18,207,763.

**EXECUTIVE SUMMARY OF GARY T. McMURRY
ARIZONA-AMERICAN WATER COMPANY
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SURREBUTTAL TESTIMONY

The Surrebuttal testimony of Staff witness Mr. Gary T. McMurry addresses rate base, operating income, and the revenue requirement for the Anthem Agua Fria, Sun City and Sun City West wastewater districts. Staff witness Gerald Becker addresses these issues for the Anthem and Sun City water districts.

Anthem Agua Fria - Wastewater

Staff's revenue requirement of \$13,686,519 represents an increase of \$5,049,396, or 58.46 percent, for a 7.20 percent rate of return on a Staff adjusted OCRB of \$45,116,389. Staff's Surrebuttal revenue requirement represents a \$41,290 increase from its direct testimony.

Sun City - Wastewater

Staff's revenue requirement of \$7,558,955 represents an increase of \$1,618,574 or 27.25 percent, for a 7.20 percent rate of return on a Staff adjusted OCRB of \$14,584,558. Staff's Surrebuttal revenue requirement represents a \$2,097 increase from its direct testimony.

Sun City West - Wastewater

Staff's revenue requirement of \$7,127,710 represents an increase of \$1,465,672, or 25.89 percent, for a 7.20 percent rate of return on a Staff adjusted OCRB of \$18,097,843. Staff's Surrebuttal revenue requirement represents a \$104,191 decrease from its direct testimony.

The Company's Rebuttal testimony accepted many of Staff's direct adjustments and suggested a number of additional corrections including adoption of adjustments proposed by the Residential Utility Consumer Office ("RUCO"). Staff's Surrebuttal recommendation is updated to reflect most of these additional suggestions. Outstanding differences remain between the Company and Staff on rate case issues addressed by Mr. McMurry's testimony in regard to cash working capital - lag-days for management fees, bad debt expense and depreciation expense. In addition, Mr. McMurry addresses Staff's opposition to the Company's proposal to defer the Sun City Wastewater district's proportionate share of certain replacement costs related to the 99th Avenue Interceptor project.

**EXECUTIVE SUMMARY OF GARY T. McMURRY
ARIZONA-AMERICAN WATER COMPANY
DOCKET NOS. W-01303A-09-0343; SW-01303A-09-0343**

RESPONSE TO THE REBUTTAL TESTIMONY OF LINDA J. GUTOWSKI

Cash Working Capital

Staff disagrees with the Company's Rebuttal proposal to adjust lag-days for payments to its affiliate at the date the affiliate requires payment. The affiliate controls the payment date and the Company payment date does not reflect to time the affiliate must pay for the services provided. Accordingly, the proposed lag-days to the management fees are inconsistent with a properly conducted lead-lag study. In the absence of the underlying data to determine the timing that the affiliate pays its costs, Staff recommends eliminating the management fees from the cash working capital analysis.

Bad Debt Expense

Staff and the Company continue to disagree on the method for determining a normalized amount of bad debt expense for each of the three wastewater districts. Staff has revised its method to include normalization of uncollectibles related to miscellaneous invoices. The Company's Rebuttal position is erroneous because its normalization method ignores that the actual test year recorded amount includes not only write-offs but also an accrual provision. The Company's Rebuttal amount also includes mathematical errors due use of incorrect signs of netted amounts.

Depreciation Expense

Staff and the Company continue to disagree on the depreciation rates for two plant accounts in the Anthem/Agua Fria Wastewater District. Staff has corrected errors in several other accounts in the remaining districts, mostly involving corporate allocated assets.

**EXECUTIVE SUMMARY OF GARY T. McMURRY
ARIZONA-AMERICAN WATER COMPANY
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RESPONSE TO THE REBUTTAL TESTIMONY OF MILES H. KIGER

In its Rebuttal testimony, the Company introduces a new request for authorization to defer the Sun City Wastewater District's proportionate share of replacement costs associated with the 99th Avenue Interceptor project pursuant to an agreement with the City of Glendale for consideration of recovery in a future rate case. Although the agreement was executed in 1985, the Company only recently received its first actual billing under the agreement and an estimate for 2010. The Company implies that it has not made payment as it is awaiting authorization to defer the costs, and it is discussing the amount invoiced with the City of Glendale. Rebuttal testimony is not the appropriate time or vehicle to propose this kind of special accounting treatment. Presenting a new request in Rebuttal testimony does not provide Staff sufficient time to analyze the request. In the event that the Commission ultimately would find that the Company's request for deferral is appropriate, it need only grant the request before the Company closes its books for the year ended December 31, 2010, for the Company to defer payments made in 2010, it is not necessary for the Company to obtain deferral authorization prior making payment. Accordingly, Staff recommends that the Company submit its deferral request in a separate docket, otherwise, Staff recommends denial.

**EXECUTIVE SUMMARY OF GERALD W. BECKER
ARIZONA-AMERICAN WATER COMPANY
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The Testimony of Staff witness Gerald W. Becker addresses the following issues:

Revenue Requirement

For Anthem Water, Staff recommends a revenue requirement of \$5,930,306, a 79.15 percent increase over test year revenues of \$7,492,744. For Sun City Water, Staff recommends a revenue requirement of \$1,908,222, a 20.56 percent increase over test year revenues of \$9,283,101.

Rate Base

For Anthem Water, Staff recommends a rate base of \$57,270,159, a \$159,865 reduction from the Company's proposed rate base. For Sun City Water, Staff recommends a rate base of \$27,828,924, a \$357,138 reduction from the Company's proposed rate base.

Test Year Operating Income

For Anthem Water, Staff's adjusted test year operating income is \$546,171, a \$31,722 increase over that proposed by the Company. For Sun City Water, Staff's adjusted test year operating income is \$840,282, a \$20,802 decrease from that proposed by the Company.

Response to the Rebuttal Testimony of Mr. Paul G. Townsley

1. **Non Account Water Cost Reduction for Sun City Water (only)** – Staff disagrees with the Company's rebuttal position not to impute expense reductions for water losses greater than 10 percent.

Staff Response to the Rebuttal Testimony of Ms. Linda J. Gutowski

2. **Cash Working Capital** - Subsequent to filing its application, the Company has changed its lead/lag days for Management expenses from a 14.77 day lag to an 11.25 day lead. Staff had agreed with the original lag days but disagrees with the Company's restated lead days.
3. **Bad Debt Expense** – Staff and the Company continue to disagree on the method for determining a normalized amount of bad debt expense for all of its districts. Staff has revised its method to include normalization of uncollectibles related to miscellaneous invoices. The Company's rebuttal position is erroneous because its normalization method ignores that the actual test year recorded amount includes not only write-offs

**EXECUTIVE SUMMARY OF GERALD W. BECKER
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but also an accrual provision. The Company's rebuttal amount also includes mathematical errors due use of incorrect signs of netted amounts.

Items shown on lines 7, 12, 15, and 19, below, have been updated, since the Surrebuttal Testimony.

Anthem Water - Staff accepts the following rebuttal positions.

4. **Customer Annualization** - The Company agrees with RUCO's correction to customer annualization. Staff agrees with this adjustment.
5. **Depreciation Annualization** - The Company agrees with RUCO's correction to depreciation annualization. Staff agrees with this adjustment.
6. **Annual Incentive Pay (AIP)** - The Company agrees with RUCO's adjustment to AIP. Staff agrees with this adjustment.
7. **Stock Compensation** - The Company agrees with RUCO's 30 percent adjustment to Stock Compensation. Staff agrees with this adjustment.
8. **Management Fees (AIP)** - The Company agrees with RUCO's adjustment to Management Fees for an AIP adjustment. Staff agrees with this adjustment.
9. **Other Expense** - The Company agrees with RUCO's adjustment to Management Fees for Other Expenses. Staff agrees with this adjustment.
10. **Business Development Expenses** - The Company agrees with RUCO's adjustment to Management Fees for business development expenses. Staff agrees with this adjustment.
11. **Dues and Donations** - The Company agrees with RUCO's adjustment to Management Fees for dues and donations. Staff agrees with this adjustment.
12. **Pension Expense Annualization** - Staff agrees with the Company's adjustment to pension expense and adopts this adjustment.

Sun City Water - Staff accepts the following rebuttal positions.

13. **Annual Incentive Pay (AIP)** - The Company agrees with RUCO's adjustment to AIP. Staff agrees with this adjustment.
14. **Stock Compensation** - The Company agrees with RUCO's adjustment to Stock Compensation. Staff agrees with this adjustment.

**EXECUTIVE SUMMARY OF GERALD W. BECKER
ARIZONA-AMERICAN WATER COMPANY
DOCKET NOS. W-01303A-09-0343 AND SW-01303A-09-0343**

15. **Management Fees (AIP)** - The Company agrees with RUCO's 30 percent adjustment to Management Fees for an AIP adjustment. Staff agrees with this adjustment.
16. **Other Expense** - The Company agrees with RUCO's adjustment to Management Fees for Other Expenses. Staff agrees with this adjustment.
17. **Business Development Expenses** - The Company agrees with RUCO's adjustment to Management Fees for business development expenses. Staff agrees with this adjustment.
18. **Dues and Donations** - The Company agrees with RUCO's adjustment to Management Fees for dues and donations. Staff agrees with this adjustment.
19. **Pension Expense Annualization** - Staff agrees with the Company's adjustment to pension expense and adopts this adjustment.