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BEFORE THE ARIZONA CORPORATION COMMISSION

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KRISTIN K. MAYES  
Chairman

2010 MAY -7 P 3: 04

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Commissioner

AZ CORP COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

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Commissioner

MAY - 7 2010

SANDRA D. KENNEDY  
Commissioner

DOCKETED BY

BOB STUMP  
Commissioner

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, ITS SUN CITY WASTEWATER )  
DISTRICT AND ITS SUN CITY WEST )  
WASTEWATER DISTRICT. )

DOCKET NO. SW-01303A-09-0343

NOTICE OF FILING TESTIMONY

Attached is the Redacted Version of the Testimony of James Jenkins filed on behalf of Arizona-American Water Company. The confidential version will be provided to a party upon execution of an Exhibit A to the Protective Order issued May 6, 2010.

1 RESPECTFULLY SUBMITTED this 7th day of May, 2010.

2 LEWIS AND ROCA LLP

3 

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9 Attorneys for Arizona-American Water Company

10 ORIGINAL and thirteen (13) copies  
11 of the foregoing filed this 7th day  
12 of May, 2010, with:

13 The Arizona Corporation Commission  
14 Utilities Division – Docket Control  
15 1200 W. Washington Street  
16 Phoenix, Arizona 85007

17 Copy of the foregoing hand-delivered  
18 this 7th day of May, 2010, to:

19 Steve Olea  
20 Utilities Division  
21 Arizona Corporation Commission  
22 1200 W. Washington Street  
23 Phoenix, Arizona 85007

24 Teena Wolfe, Administrative Law Judge  
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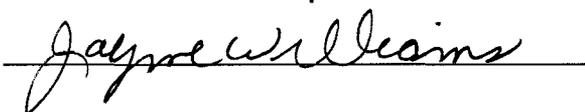
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman  
GARY PIERCE  
BOB STUMP  
PAUL NEWMAN  
SANDRA D. KENNEDY

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 AND SUN CITY WATER DISTRICTS

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, SUN CITY WASTEWATER AND SUN CITY WEST WASTEWATER DISTRICTS

DOCKET NO. SW-01303A-09-0343

**PRE-FILED TESTIMONY  
OF  
JAMES M. JENKINS  
ON BEHALF OF  
ARIZONA AMERICAN WATER COMPANY  
MAY 7, 2009**

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**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. James M. Jenkins, 727 Craig Road, Creve Coeur, Missouri 63141.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I hold the position of Vice President, Finance for American Water's Western Division. The subsidiaries within the Western Division include utilities in Illinois, Iowa, Missouri, Texas, Arizona, New Mexico, Hawaii, and California.

**Q. WHAT ARE YOUR RESPONSIBILITIES AS VICE PRESIDENT, FINANCE?**

A. In this position, I am responsible for leading the finance, accounting, budgeting and rate administration functions within the Western Division.

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

A. I graduated from the University of Illinois, at Urbana/Champaign in 1983 with a Bachelor of Science Degree in Accounting, and in 1992 received a M.B.A. Degree, with highest honors, from the University of Illinois, at Springfield. I am a Certified Public Accountant (CPA).

**Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

A. I have more than twenty-five years of utility experience. I joined American Water Works Company ("American Water") in June 1999.

My utility experience began in 1984 when I joined the Illinois Commerce Commission (ICC) as an accountant. While at the ICC, which is responsible for the rate regulation of state public utilities, I worked on a wide range of regulatory issues in the electric, gas, telephone, and water industries. During my eight year career at the ICC, I held positions of increasing responsibility, including the position of Director of Accounting before joining St. Louis County Water Company in 1993.

1 At St. Louis County Water Company, I started as the Assistant Manager in Corporate  
2 Accounting and was promoted to Manager of Rates in 1994. I was responsible for the  
3 financial areas contained within company rate case filings, and assisted with budget  
4 preparation. In June 1999, St. Louis County Water Company was acquired by American  
5 Water Works, at which time I joined American Water.

6 At American Water, I have held several positions of increasing responsibility. I was  
7 elected Vice President and Treasurer for Missouri-American in June 1999. In this  
8 position, I directed the state finance activities for Missouri until 2002. In 2002, I joined  
9 the American Water finance team in Voorhees, New Jersey to assist executive  
10 management team with the RWE acquisition. In 2004, I was promoted to Vice  
11 President, Finance and since this time, I have led several state finance teams within the  
12 American system. Today, I lead the finance teams within the Western Division.

13 I am a member of the American Institute of Certified Public Accountants and have  
14 served as Chairperson of the Financial Research Institute of the University of Missouri.  
15 I have also served as the Vice Chairperson of the Rates and Revenue Committee of the  
16 National Association of Water Companies

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

18 A. To explain the impact on Arizona-American Water Company (the "Company") of Mr.  
19 Neidlinger's phase-in proposal filed on behalf of the Anthem Community Council.

20 **Q. HAVE YOU REVIEWED MR. NEIDLINGER'S PHASE-IN PROPOSAL?**

21 A. Yes. Anthem Community Council witness Dan L. Neidlinger proposes to "phase-in" the  
22 Pulte Advance Repayments made during the 2008 test year (\$20.2M) and March 2010  
23 (\$6.7M) to alleviate rate shock. This is the first time these specific payments have been  
24 subject to a rate determination. Mr. Neidlinger recommends removal of Anthem water

1 and wastewater investment from Utility Plant in Service and to account for that  
2 investment as Plant Held for Future Use and cease depreciation on that plant. Future  
3 transfers from Plant Held for Future Use to Utility Plant in Service would occur  
4 annually, but without rate relief absent some future action on the part of the Company  
5 and the Commission.

6 Mr. Neidlinger's proposal would immediately remove depreciation from the Company's  
7 current cost of service and it does not allow the Company to collect any of the costs  
8 associated with the Pulte Advance Repayments.

9 **Q. CAN YOU DESCRIBE THE ACCOUNTING STANDARDS APPLICABLE TO**  
10 **MR. NEIDLINGER'S PROPOSAL?**

11 A. The phase-in proposal, as mentioned by Mr. Neidlinger, would be subject to applicable  
12 accounting guidance including the ASC 980-340 (formerly SFAS 92) pertaining to  
13 Phase-In Plans and ASC 980-360 (formerly SFAS 90) pertaining to Plant Disallowances.

14 The Company is a rate regulated utility and does not have the option or election to avoid  
15 ASC Topic 980(formerly SFAS 71 and other regulated operations guidance). Topic 980  
16 must be applied to general-purpose external financial statements of an enterprise that has  
17 regulated operations if all of the following criteria are met:

- 18 • The enterprise's rates for regulated services or products provided to its customers  
19 are established by or are subject to approval by an independent, third-party  
20 regulator or by its own governing board empowered by statute or contract to  
21 establish rates that bind customers.
- 22 • The regulated rates are designed to recover the specific enterprise's costs of  
23 providing the regulated services or products.

- 1           • In view of the demand for the regulated services or products and the level of  
2           competition, direct and indirect, it is reasonable to assume that rates set at levels  
3           that will recover the enterprise's costs can be charged to and collected from  
4           customers. This criterion requires consideration of anticipated changes in levels  
5           of demand or competition during the recovery period for any capitalized costs.

6           SFAS 71 was amended by SFAS 92, *Regulated Enterprises - Accounting for Phase-in*  
7           *Plans*. SFAS 92 deals with the accounting and financial reporting for phase-in plans, so  
8           it is applicable to all rate-regulated utilities subject to SFAS 71. It also clarifies the  
9           accounting rules on the capitalization of an equity return for financial reporting purposes.  
10          A phase-in plan, as defined in SFAS 92, is a method of ratemaking that meets all of the  
11          following criteria:

- 12          • Adopted in connection with a major, newly completed plant of the utility or one  
13          of its suppliers or a major plant scheduled for completion in the future.
- 14          • Defers the rates intended to recover allowable costs beyond the period in which  
15          those allowable costs would be charged to expense under GAAP applicable to  
16          enterprises in general.
- 17          • Defers the rates intended to recover allowable costs beyond the period in which  
18          those rates would have been ordered under ratemaking methods routinely used  
19          prior to 1982 by that regulator for similar allowable costs of that utility.

20          The phase-in definition includes all cost deferrals, including carrying costs (return of and  
21          on investment) associated with major completed plant for first time inclusion in rate  
22          determination. Phase-in guidance applies to rate leveling proposals, alternative methods  
23          of depreciation such as a sinking fund approach, and rate treatment of capital leases as

1 operating leases. Under the accounting provisions of SFAS 92, cost deferrals for  
2 financial reporting purposes under a phase-in plan are not permitted if substantial  
3 physical construction had not been performed before January 1, 1988. This provision  
4 effectively bars the creation of regulatory assets for financial reporting purposes in  
5 connection with a phase-in plan ordered today by a regulator.

6 ASC 980-360-35-12 (formerly SFAS 90) provides guidance on cost disallowances.  
7 When it becomes probable that part of the cost of a recently completed plant will be  
8 disallowed for rate-making purposes and a reasonable estimate of the amount of the  
9 disallowance can be made, the estimated amount of the probable disallowance shall be  
10 deducted from the reported cost of the plant and recognized as a loss. Section 450-20-55  
11 provides guidance for making a reasonable estimate of the amount of a loss. If part of the  
12 cost is explicitly, but indirectly, disallowed (for example, by an explicit disallowance of  
13 return on investment on a portion of the plant), an equivalent amount of cost shall be  
14 deducted from the reported cost of the plant and recognized as a loss.

15 **[BEGIN CONFIDENTIAL]**

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11 **[END CONFIDENTIAL]**

12 Q Does this conclude your surrebuttal testimony?

13 A Yes, it does.

**EXHIBIT JMJ-1**

**[BEGIN CONFIDENTIAL]**

**[END CONFIDENTIAL]**