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AZ CORP COMMISSION  
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Arizona Corporation Commission

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Attorneys for the Class

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

9 GARY PIERCE, Chairman  
10 BOB STUMP  
11 SANDRA D. KENNEDY  
12 PAUL NEWMAN  
13 BRENDA BURNS

14 **IN THE MATTER OF THE**  
15 **APPLICATION OF ARIZONA-**  
16 **AMERICAN WATER COMPANY, AN**  
17 **ARIZONA CORPORATION, FOR A**  
18 **DETERMINATION OF THE CURRENT**  
19 **FAIR VALUE OF ITS UTILITY PLANT**  
20 **AND PROPERTY AND FOR INCREASES**  
21 **IN ITS RATES AND CHARGES BASED**  
22 **THEREON FOR UTILITY SERVICE BY**  
23 **ITS AGUA FRIA WATER DISTRICT,**  
24 **HAVASU WATER DISTRICT, AND**  
25 **MOHAVE WATER DISTRICT**

DOCKET NO. W-01303A-10-0448

INTERVENOR CLASS REPLY  
IN SUPPORT OF MOTION TO  
DISMISS

(Oral Argument Requested)

20 Sun City Grand Community Association ("SCGCA"), as the designated representative  
21 for the class of intervening homeowner associations (the "Class")<sup>1</sup>, hereby submits this  
22 Reply in Support of its Motion to Dismiss. For the reasons set forth below, the Commission  
23 must dismiss Arizona-American Water Company's ("Arizona-American" or the "Company")  
24 Application as premature.

<sup>1</sup> The Class currently represents 16 communities with a total of 24,000 ratepayers.

1 **I. INTRODUCTION**

2 The Company responds with essentially three arguments, each baseless.

3 First, the Company claims that the Class's Motion is untimely because Staff issued a  
4 Letter of Sufficiency following the Company's Application. Staff's Letter, however, was  
5 issued nearly three months before the Company filed an application with the Commission to  
6 approve the acquisition.

7 Second, the Company argues that the Class ignores the Commission's use of an  
8 historic test year in its ratemaking. However, the Class is not challenging the use of a test  
9 year as a method of ratemaking. The Class is challenging the use of a test year that is non-  
10 representative and based on data that will become immediately obsolete due to a change in  
11 ownership.

12 Likewise, the Class does not oppose the use of pro forma adjustments, so long as the  
13 adjustments are known and measurable. However, the Company concedes that any pro  
14 forma adjustments relating to the sale would be speculative at this time. In other words, the  
15 Company argues that pro forma adjustments would be the appropriate mechanism for  
16 accounting for post-sale data, but that such data is not known or measurable at this time. By  
17 the Company's own reasoning, therefore, this matter should be dismissed or postponed.

18 Third, the Company mischaracterizes Mr. Arndt's position. Mr. Arndt opposes pro  
19 forma adjustments to the extent those adjustments are conjectural and amount to a piecemeal  
20 attempt by the Company to replace very low cost debt with high cost equity. Nothing in Mr.  
21 Arndt's testimony suggests that he is in favor of using a non-representative test year or that  
22 pro forma adjustments can cure that defect in this case.

23 In sum, the Company's Application should be dismissed, or these proceedings  
24 continued, until there is substantial evidence upon which the Commission can determine the  
25 Company's revenue requirement.  
26

1 **II. ARGUMENT**

2 **A. The Test Year was Approved Before the Company Gave Notice of the**  
3 **Pending Sale.**

4 The Company argues that the Class’s Motion to Dismiss is untimely because the  
5 Commission issued a Letter of Sufficiency on December 22, 2010. *See* Response at 2.  
6 Tellingly, the Company neglects to mention that the pending sale was not disclosed until  
7 **after** the Company filed its Application and the Commission issued its Letter of Sufficiency.  
8 The Company filed its Application for an 83% rate increase on November 3, 2010, but did  
9 not file an application for approval of the sale until March 2, 2011. In short, neither the Staff  
10 nor the Commission had all the facts when the Commission made its determination regarding  
11 the sufficiency of the Company’s Application. The Company’s continued use of the term  
12 “untimely” in its Response does not create a bar date where one never existed.

13 The Company also suggests that the Class somehow waived any arguments not raised  
14 by SCGCA.<sup>2</sup> This claim fails for two reasons. First, the Class is not SCGCA. The Class  
15 currently consists of sixteen separate community associations, each of which is a separate  
16 non-profit corporation. Together, these associations represent over 20,000 ratepayers.  
17 Indeed, fifteen of the sixteen Class members intervened in this matter **less than 90 days ago**  
18 and have had no opportunity to present **any** testimony or evidence, much less complete  
19 discovery. Second, even if one could equate SCGCA to the Class, SCGCA did not waive  
20 this argument.<sup>3</sup> Discovery and investigation is ongoing. A party cannot waive an argument  
21 before it has had an opportunity to conduct discovery and assess the facts. There was no cut-  
22 off date by which a motion had to be filed. The Company’s “waiver” argument is simply  
23 one more attempt to deny ratepayers their due process rights.

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2 The Company fails to cite any legal support for this position. In fact, they never even mention when exactly this waiver occurred.

3 The Company argued this with respect to scheduling. However, the acceptance of such an argument would deny the Class its due process rights.

1           **B. The Company's Test Year is Non-Representative and the Company**  
2           **Concedes That Post-Sale Adjustments are not Possible at this Time.**

3           The Company argues that the Class ignores the necessity of an historic test year. This  
4 is false. The Class acknowledges that the Commission uses an historic test year for  
5 ratemaking purposes. By definition, however, a test year must be **representative** of the  
6 period in which new rates will be effective. *See, e.g., So. New England Tel. Co. v. Publ.*  
7 *Util. Comm'n*, 282 A.2d 915, 919 (Conn Super. 1970) (“... the **test year must be**  
8 **representative of the conditions which will prevail in the immediate future when the**  
9 **rates will be effective**”) (Emphasis added.); *People's Counsel v. Publ. Serv. Comm'n of*  
10 *D.C.*, 399 A.2d 43, 51 (Ct. App. D.C. 1979) (“**A test year must be representative of future**  
11 **conditions.**”) (Emphasis added.)<sup>4</sup>

12           The Company's reliance on historical costs under American Water Works' ownership  
13 makes its test year arbitrary and non-representative in light of the fact that EPCOR USA will  
14 be the owner of Arizona-American before the Commission makes its decision in this case.

15           The Company cites *Ariz. Corp. Comm'n v. Ariz. Publ. Serv. Co.*, 113 Ariz. 368, 555  
16 P.2d 326 (1976) for the proposition that parties may offer pro forma adjustments to the test  
17 year, and that the Commission may consider post-test year evidence. If anything, this case  
18 supports the Class's Motion to Dismiss. Material facts subsequent to the test year **should** be  
19 considered by the Commission, assuming they are based on market realities. The goal is to  
20 have a test year that actually represents the future costs. As the U.S. Supreme Court has  
21 held, due process often requires that material post-test year data be admitted, usually by  
22 means of pro forma adjustments.<sup>5</sup>

23  
24  
25           4 *See also Central Louisiana Elec. Co. v. Louisiana Publ. Serv. Comm'n*, 508 So. 2d 1361 (La. 1987); *Rhode Island*  
26 *Consumers' Council v. Smith*, 322 A.2d 17 (R.I. 1974); *Northwestern Publ. Serv. Co. v. Cities of Chamberlain, et al.*,  
265 N.W.2d 867 (S.D. 1978); *Agricultural Products Corp. v. Utah Power & Light Co.*, 557 P.2d 617 (Idaho 1976).

          5 *See West Ohio Gas Co. v. Public Utilities Comm'n*, 294 U.S. 79, 55 S.Ct. 324 (1935) (cited by *Ariz. Corp. Comm'n v.*  
*Citizens Util. Co.*, 120 Ariz. 184, 584 P.2d 1175 (Ariz. Ct. App. 1978)).

1 Here, however, the Company admits the effect of the Company's acquisition is not  
2 known at this time. Thus, the necessary pro forma adjustments **required** by due process  
3 cannot take place at this time.

4 **1. The Company Argues That Pro Forma Adjustments Related to the**  
5 **Pending Sale are Not Known and Measurable at this Time.**

6 The Company claims that accounting for the Company's change of ownership in the  
7 cost of capital and fair value is simply a matter of the parties preparing and submitting pro  
8 forma adjustments. In many cases not involving a sale, this would be fine. However, you  
9 cannot propose pro forma adjustments related to a sale that has yet to occur because the  
10 necessary adjustments are not known and measurable at this time. This is especially true  
11 where the purchaser and seller are different types of entities.

12 Significantly, the Company itself admits that any such adjustments would not be  
13 known and measurable until "six months or more after the closing." Specifically, the  
14 Company acknowledges that **"the costs under EPCOR's ownership will not reach any**  
15 **steady state until six or more months after the closing of this transaction,"** and **"[a]ny**  
16 **attempt to normalize these costs immediately after the closing of this transaction will**  
17 **not provide any meaningful adjustments to test year amounts and will lead to a mixed**  
18 **test year, which is fraught with issues."** See Response at 7.

19 Thus, the Company's argument actually supports the Class' Motion. First, the  
20 Company argues that the way to account for the sale is to use pro forma adjustments in this  
21 proceeding. But, the Company states that we cannot make any such adjustments now  
22 because "EPCOR's ownership will not reach any steady state until six or more months after  
23 the closing" and any such attempt would "lead to a mixed test year, which is fraught with  
24 issues." If we all know that significant adjustments are required, but everyone agrees that  
25 they cannot be made until the future, it makes no sense to expedite the proceedings now.

26

1           Indeed, the fact that a mixed test year is “fraught with issues” is not an argument for  
2 sticking with a schedule that ignores the impending change in ownership. **It is an argument**  
3 **for either not using the test year or continuing the hearing until the post-sale data can**  
4 **be used to adjust the test year.**

5           Again, the Company’s Application should be dismissed, or this matter should be  
6 continued until the Company can offer evidence that can be substantiated related to EPCOR  
7 USA’s ownership.

8                               **2.       Statements made in the EPCOR Proceeding Demonstrate that Cost**  
9                               **of Capital is Not Known and Measurable.**

10           The Company argues that “EPCOR has agreed to comply with Staff’s condition that  
11 any new debt be at rates and terms the same as or better than those currently in place.” *See*  
12 *Response at 4.* In other words, EPCOR USA told the Commission that its ownership will  
13 not **increase** cost of capital by adding more debt at higher rates.

14           However, this does not address the likely **decreases** in cost of debt under EPCOR  
15 USA’s ownership. The Company has current debt of \$253.1 million, 92% (or \$233 million)  
16 of which is owed to American Water Capital Corporation, an affiliate of American Water  
17 Works.<sup>6</sup>

18           EPCOR USA’s representations about replacing this substantial debt, even if true, do  
19 not address whether (1) the debt will be reduced or (2) whether rates will be lower. If either  
20 of these events (or both) occurs, the Company’s cost of debt will decrease. Indeed, under  
21 normal market conditions, EPCOR USA would have every incentive to lower the  
22 Company’s debt rate. Likewise, the fact that 92% of the Company’s debt is owed to an  
23 American Water Works affiliate will cause EPCOR USA to re-structure the Company’s debt.  
24 Either event would necessarily have a material effect on cost of debt, which would not be  
25 accounted for in this proceeding.  
26

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6 *See* Direct Testimony of Staff witness Gerald W. Becker, Pages 7 and 8, in Docket No. W-01303A-11-0101.

1           Moreover, in the United States, municipalities can raise low-cost capital through  
2 instruments not available to private water companies. If EPCOR Utilities issues the  
3 replacement debt, the effect of Canadian law on such debt issuances would also need to be  
4 examined. However, neither the Company, nor EPCOR USA, has disclosed whether  
5 EPCOR Utilities, EPCOR USA, or an altogether different affiliate will be issuing the  
6 replacement debt.

7                           **3.     The Company's Return on Equity Cannot Be Ascertained Until it is**  
8                           **Acquired by EPCOR USA.**

9           Finally, the Company dismisses any difference between the Company's current parent  
10 (American Water Works) and its expected future owner (EPCOR USA) in determining  
11 return on equity. This ignores the facts. American Water Works is a publicly-traded,  
12 domestic corporation; EPCOR is wholly owned by a foreign municipality.

13           The risks that apply to municipalities providing water systems do not parallel those of  
14 a publicly-traded corporation providing the same system. Therefore, the risk premium  
15 employed in calculating the Company's return on equity will undoubtedly change as a result  
16 of its acquisition by EPCOR USA. Again, this change in return on equity has not been  
17 accounted for in these proceedings.

18           Similarly, EPCOR files a municipal tax return in Canada, while American Water  
19 Works pays United States federal income taxes based on a consolidated federal income tax  
20 return. The difference in tax rates means that the revenue conversion factor for each  
21 company will be markedly different, leading to a non-representative pre-tax return on equity,  
22 and ultimately skewing the Company's required revenue.

23           Despite the differences in risk premiums and tax rates, there is no information in the  
24 record at this time regarding adjustments to return on equity under EPCOR USA's  
25 ownership. Equally, no data has been offered concerning the effect of the change in  
26 ownership on depreciation and its recovery.

1 Again, the differences between a publicly-traded company and a municipally-owned  
2 entity render the Company's requested return on equity irrelevant and its data non-  
3 representative. The Company's Application should be dismissed, or this matter should be  
4 continued until the Company can substantiate its requested return on equity under EPCOR  
5 USA's ownership.

6 **4. Any Pro Forma Adjustment Must Account for Sale of Capacity by**  
7 **EPCOR.**

8 The Company argues there is no proof that EPCOR USA intends to sell White Tanks  
9 plant capacity. Significantly, the Company has stated that accounting for changes under  
10 EPCOR USA's ownership at this time would be speculative.<sup>7</sup>

11 All evidence points to the likely sale of capacity. Though the Company **now** claims  
12 that the purpose of the White Tanks plant is to save 3.6 billion gallons of ground water  
13 annually, its full CAP allocation, the facts tell a different story. The plant is only treating 2.4  
14 billion gallons, or only 66% of the Company's full CAP allocation each year.<sup>8</sup> Since the  
15 plant, as built, has the ability to treat the Company's full CAP allocation and much more, it is  
16 highly unlikely that EPCOR will just accept this inefficiency. Indeed, the Company has  
17 already demonstrated its intention to sell capacity in the plant.<sup>9</sup>

18 In other words, there is a significant likelihood that EPCOR will sell capacity as soon  
19 as it can. We just don't know how much or how soon. It is unreasonable to proceed using  
20 the current data given this uncertainty and its enormous impact on rate base.

21 **C. The Company Mischaracterizes Mr. Arndt's Testimony.**

22 The Company relies heavily on Mr. Arndt's prior testimony. Specifically, the  
23 Company argues that Mr. Arndt must be against **all** pro forma adjustments because he  
24

25 <sup>7</sup> See Company Response to SCGCA DR No. 8.17 by Thomas Broderick [Motion to Dismiss, Exhibit E].

<sup>8</sup> See Company Response to SCGCA DR No. 9.5 by Jake Lenderking [attached as Exhibit A].

26 <sup>9</sup> See, e.g., Joint Development Agreement between Maricopa County Water Conservation District Number One ("MWD") and the Company dated November 15, 2007, in Docket No. 05-0718. ("Upon election by the MWD, Arizona-American and the MWD will enter into various ownership, cost sharing and operating agreements for both Phase 1A and 1B of the [White Tanks] Plant.") [portions attached as Exhibit B].

1 “opposed the Company’s pro forma adjustments to the amount of its short-term debt arguing  
2 that the importance of matching under the historic test year required a rejection of these  
3 updates.” See Response at 3. As noted in the Affidavit attached to this Reply as Exhibit C,  
4 this mischaracterizes Mr. Arndt’s testimony.

5 Mr. Arndt testified against the use of pro forma adjustments to the extent the  
6 adjustments include projections by the Company that are not known and measurable, and  
7 where the mismatch is a clear attempt by the Company to replace low-cost short-term debt  
8 with high-cost common equity.<sup>10</sup>

9 The point of Mr. Arndt’s prior testimony is simple. Given the current economic  
10 climate and the highly favorable interest rates available to the Company, it makes little sense  
11 to replace low-cost short-term debt with high-cost common equity. Specifically, there is no  
12 ratepayer benefit to replacing short-term debt at a 0.45% interest rate with common equity  
13 with a pre-tax cost rate of 19.10% (*i.e.*, 11.50% requested ROE x 1.6611 revenue conversion  
14 factor). Mr. Arndt never testified against pro forma adjustments, only adjustments that  
15 distort market realities. Most importantly, Mr. Arndt agrees that the current test year is not  
16 representative and agrees that the pro forma adjustments offered by the Company do not fix  
17 this problem.

18 **D. The Company Concedes it Will Not be Prejudiced by a Delay.**

19 The Company asserts it would actually benefit from a delay because the “White  
20 Tanks cost deferrals” are growing at approximately \$750,000 a month.<sup>11</sup> See Response at 7.  
21 The Company even suggests that its chief motivation in resisting the delay is to protect its  
22 customers. See Response at 7. This is both disingenuous and patronizing. In essence, the  
23 Company is urging the ratepayers to trust that the Company will do what is in their best  
24 interests. The Class, which represents more than 60% of the Agua Fria Water District

25 <sup>10</sup> See Surrebuttal Testimony of Michael Arndt dated August 2, 2011, at Page 12.

26 <sup>11</sup> The Company’s argument is based on the assumption that it has already met its burden of proving that the full cost of the White Tanks plant should be included in the rate base. However, the major issue in this proceeding is whether the enormously expensive White Tanks plant should be included, in whole or in part.

1 ratepayers, respectfully disagrees. In short, the benefit of postponement to the Class is to  
2 have sufficient time to analyze and challenge the massive increase in rate base proposed by  
3 the Company based on accurate, post-sale data.

4 In the same breath, the Company also argues that the Commission has ongoing  
5 jurisdiction to address any required changes to rates as a result of the acquisition in a future  
6 proceeding. *See* Response at 5. The Company fails to mention, however, that a future  
7 proceeding accounting for pertinent present events would not take place until several years  
8 from now. This type of delay prejudices ratepayers, since it would allow the Company to  
9 saddle them with exorbitant rates based on irrelevant data until the Company unilaterally  
10 decides to make its next filing. Unlike the Company, the ratepayers can never ask for this  
11 money back.

12 The Company claims it will actually make more money if this case is delayed because  
13 of deferred costs. The Commission should take the Company at its word, and should not  
14 prejudice ratepayers. Since the Company has claimed that they will not be prejudiced by any  
15 delay, the Motion to Dismiss should be granted.

16 **E. Once the Sale Occurs, American Water Works' Acquisition Premium**  
17 **Must Be Subtracted From Any Proposed Rate Base.**

18 According to Staff, American Water Works stands to realize a \$44 million gain on the  
19 sale of the Company.<sup>12</sup> The Company calculates the acquisition premium at \$18.6 million.

20 Whichever number one chooses, it would be inequitable to burden ratepayers with an  
21 enormous rate increase when American Water Works is profiting from the sale of its Arizona  
22 operations. Specifically, the Company's current investor (*i.e.*, its parent and the parent's  
23 shareholders) will realize a tremendous return on investment in the White Tanks plant, and it  
24

25 \_\_\_\_\_  
26 12 *See* Direct Testimony of Staff witness Gerald W. Becker, Page 11, in Docket No. W-01303A-11-010 (“... Staff also notes that the assets listed in the audited financial statements as of December 31, 2010, include a net acquisition adjustment of approximately \$25.3 million which relates to the acquisition by AAW from Citizens . . . For these reasons, Staff recalculates the acquisition premium for the Arizona component of the proposed transaction and increases it by \$25.3 million from \$18.683 million . . . to \$43.983 million . . .”)

1 would be double-dipping to then add the full cost of the White Tanks plant to the rate base  
2 for recovery on the backs of ratepayers.

3 The Company raises three arguments in order to reap the windfall it stands to realize,  
4 each without merit. The Company's first argument is that it also provides water to other  
5 districts, so the premium is not just for the Agua Fria Water District operations. Tellingly,  
6 this argument basically concedes that the acquisition premium is relevant. More importantly,  
7 the Company fails to note that none of its other districts includes a \$63 million water  
8 treatment plant. It is disingenuous to suggest that the Company does not view this plant as  
9 its chief asset and crown jewel. However, the Company's lack of disclosure of its financial  
10 condition makes it impossible to determine how much of the nearly \$44 million acquisition  
11 premium is attributable to the plant.

12 The Company's second argument is that Arizona-American lost more than \$32  
13 million since 2002. This argument fails for two reasons. First, the alleged past losses are  
14 irrelevant to determining the fair value of a utility right now (or, more accurately, as of a  
15 historical test year). Second, the alleged \$32 million in losses are belied by the \$43.9 million  
16 acquisition premium being paid to American Water Works. Why would EPCOR USA pay a  
17 nearly \$44 million premium for a Company with such an abject financial track record? The  
18 Company fails to explain this anomaly.

19 The Company's third argument is that American Water Works' gain on the sale of its  
20 stock in the Company "is not an issue ... any more than it is an issue when any shareholder  
21 in a public company ... makes a gain or loss on the sale of its stock." See Response at 5.  
22 This argument also misses the point. The Commission's mandate is to determine a rate that  
23 allows the Company's investors to realize a reasonable rate of return on their investment.  
24 Who are the Company's investors if not American Water Works and its shareholders? If  
25 American Water and its shareholders realize a net gain on the sale of their shares to EPCOR  
26 USA, is that not a return on their investment in the Company? And if the return on their

1 investment is based in large part on the price EPCOR USA was willing to pay to the  
2 Company and its \$63 million water plant, shouldn't the rate of return attributable to the water  
3 plant be quantified and removed from the rate base so that ratepayers are not forced to pay  
4 EPCOR USA for a return on an investment that has already been realized by American  
5 Water?

6 Accordingly, this matter should be dismissed, or continued until after the sale is  
7 completed and such time as when the Company and EPCOR USA can fully disclose the  
8 amount of the acquisition premium attributable to the Agua Fria District so that the precise  
9 impact of the acquisition premium on rate base can be assessed.

10 **III. CONCLUSION**

11 If the Commission forces the current hearing without having a representative test  
12 year, it will end up with a result that is flawed. By the Company's own admission, the  
13 necessary data will not be known for at least six months after the sale. Years will pass  
14 before this can be corrected by another decision by the Commission. All this time,  
15 thousands of ratepayers will be paying inflated rates. Since they will never be able to get this  
16 money back, they will suffer irreparable harm.

17 Why not wait the six months that the Company claims that it needs to provide the  
18 necessary data? The Company has already pointed out that they will not be prejudiced by  
19 the delay.

20 For the foregoing reasons, as well as the reasons set forth in the Motion to Dismiss,  
21 the Class respectfully requests that the Commission dismiss the Company's Application, or  
22 continue the hearings in this matter until the sale of Arizona-American to EPCOR USA is

23 ///

24 ///

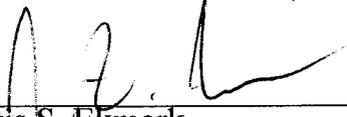
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1 concluded and there is known *and* measurable data upon which the Commission can  
2 determine the Company's revenue requirement.

3  
4 DATED this 25<sup>th</sup> day of October, 2011.

5 EKMARK & EKMARK, L.L.C.

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1 **Certificate of Service**

2 **ORIGINAL** and thirteen (13) copies  
3 of the foregoing filed this 25th day of  
4 October, 2011 with:

5 Docket Control  
6 Arizona Corporation Commission  
7 1200 West Washington Street  
8 Phoenix, AZ 85007

9 **COPY** of the foregoing hand-delivered  
10 this 25th day of October, 2011 to:

11 Dwight Nodes, Administrative Law Judge  
12 Legal Division  
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16 **COPIES** of the foregoing mailed  
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Surprise, AZ 85388

Sharon Wolcott  
20117 N. Painted Cove Lane  
Surprise, AZ 85387

Brian O'Neal  
21373 W. Brittle Bush Lane  
Buckeye, AZ 85396

Mike Albertson  
6634 N. 176<sup>th</sup> Ave.  
Waddell, AZ 85355

By: *Loni Cooper*

# EXHIBIT A

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-10-0448

**Response provided by:** Jake Lenderking

**Title:** Water Resources Manager

**Address:** 2355 W. Pinnacle Peak Rd., #300  
Phoenix, AZ 85027

**Company Response Number:** Sun City Grand 9.5

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**Q:** With regard to Arizona American's CAP allocation relating to the Agua Fria District, please provide the following monthly amounts during the last five years (if monthly values are unknown, please provide annually):

- (a) amount of surface water used for or placed into groundwater recharge/replenishment (acre feet and MG);
- (b) Amount of water used by the White Tanks Plant (MG); and,
- (c) Quantification of all other uses or results of CAP water that enable a reconciliation to total annual CAP allocation

**A:** Please see the attached spreadsheets. For 2006, only annual data was available. Monthly data was available thereafter. Of the period displayed, only in 2010 did the Company fully utilize its Agua Fria district CAP allocation.

Year	J	F	M	A	M	J	J	A	S	O	N	D	Total
2006													
MWD GSF													5,657
2007													
MWD GSF	0	0	429	430	430	430	430	430	430	430	0	0	3,439
TDRP USF	0	0	0	0	0	5,725	0	0	0	0	0	0	5,725
DMB	0	37	50	84	95	69	103	104	0	0	0	0	636
Total	0	37	479	514	525	6,224	533	534	430	430	0	0	9,800
2008													
MWD GSF	0	0	587	1,415	1,533	1,655	1,063	945	241	0	0	0	7,439
TDRP USF	0	0	396	395	395	395	395	395	395	395	0	0	3,161
DMB	0	0	0	0	0	24	21	70	73	69	5	0	262
Total	0	0	983	1,810	1,928	2,074	1,479	1,410	709	464	5	0	10,862
2009													
MWD GSF	0	0	787	1,715	1,833	1,955	1,363	1,245	541	0	0	0	9,439
WTTP	0	0	0	0	0	0	0	0	0	0	241	0	241
TDRP USF	0	0	0	441	0	0	0	0	0	0	0	0	441
DMB	0	0	0	5	30	13	25	33	57	17	0	0	180
Total	0	0	787	2,161	1,863	1,968	1,388	1,278	598	17	241	0	10,301
2010													
MWD GSF	0	0	288	503	364	444	446	881	650	0	0	0	3,576
WTTP	0	34	551	662	804	1,039	721	331	1,054	995	859	463	7,513
DMB	0	0	0	0	0	0	0	0	0	4	0	0	4
Total	0	34	839	1,165	1,168	1,483	1,167	1,212	1,704	999	859	463	11,093
2011													
MWD GSF	0	0	0	73	73	73	72	74	74	0	0	0	439
TDRP USF	0	239	0	0	0	0	0	0	0	0	0	0	239
WTTP	0	0	668	904	984	1,360	989	832	594	0	0	0	6,331
DMB	0	0	0	0	0	38	30	0	0	0	0	0	68
Total	0	239	668	977	1,057	1,471	1,091	906	668	0	0	0	7,077

MWD GSF - Maricopa Water District Groundwater Savings Facility  
 TDRP USF - Tonopah Desert Recharge Project Underground Storage Facility  
 DMB - Bulk Water Customer  
 WTTP - White Tanks Treatment Plant

SCG 9.5 Agua Fria CAP Water Deliveries in Million Gallons 2006 - 2010

	J	F	M	A	M	J	J	A	S	O	N	D	Total
2006													
MWD GSF	0	0	0	0	0	0	0	0	0	0	0	0	1843
2007													
J	0	0	0	0	0	0	0	0	0	0	0	0	0
MWD GSF	0	0	140	140	140	140	140	140	140	140	0	0	1121
TDRP USF	0	0	0	0	0	1865	0	0	0	0	0	0	1865
DMB	0	12	16	27	31	22	34	34	0	0	0	0	207
Total	0	12	156	167	171	2028	174	174	140	140	0	0	3193
2008													
J	0	0	191	461	500	539	346	308	79	0	0	0	2424
MWD GSF	0	0	129	129	129	129	129	129	129	129	0	0	1030
TDRP USF	0	0	0	0	0	8	7	23	24	22	2	0	85
DMB	0	0	320	590	628	676	482	459	231	151	2	0	3539
Total	0	0	511	1051	1128	1215	835	790	334	280	2	0	5028
2009													
J	0	0	256	559	597	637	444	406	176	0	0	0	3076
MWD GSF	0	0	0	0	0	0	0	0	0	0	79	0	79
WTTP	0	0	0	144	0	0	0	0	0	0	0	0	144
TDRP USF	0	0	0	2	10	4	8	11	19	6	0	0	59
DMB	0	0	256	704	607	641	452	416	195	6	79	0	3357
Total	0	0	256	1263	1204	1282	899	833	390	12	79	0	3537
2010													
J	0	0	94	164	119	145	145	287	212	0	0	0	1165
MWD GSF	0	11	180	216	262	339	235	108	343	324	280	151	2448
WTTP	0	0	0	0	0	0	0	0	0	1	0	0	1
DMB	0	0	273	380	381	483	380	395	555	326	280	151	3615
Total	0	11	273	380	381	483	380	395	555	326	280	151	3615
2011													
J	0	0	0	24	24	24	23	24	24	0	0	0	143
MWD GSF	0	78	0	0	0	0	0	0	0	0	0	0	78
TDRP USF	0	0	218	295	321	443	322	271	194	0	0	0	2063
WTTP	0	0	0	0	0	12	10	0	0	0	0	0	22
DMB	0	78	218	318	344	479	356	295	218	0	0	0	2306
Total	0	78	218	318	344	479	356	295	218	0	0	0	2306

MWD GSF - Maricopa Water District Groundwater Savings Facility  
 TDRP USF - Tonopah Desert Recharge Project Underground Storage Facility  
 DMB - Bulk Water Customer  
 WTTP - White Tanks Treatment Plant

# EXHIBIT B

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

COMMISSIONERS

MIKE GLEASON, Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

2008 FEB 14 P 4: 57

AZ CORP COMMISSION  
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
INC., AN ARIZONA CORPORATION, FOR  
APPROVALS ASSOCIATED WITH A  
PROPOSED TRANSACTION WITH MARICOPA  
COUNTY MUNICIPAL WATER  
CONSERVATION DISTRICT NUMBER ONE TO  
ALLOW THE CONSTRUCTION OF A SURFACE  
WATER TREATMENT FACILITY KNOWN AS  
THE WHITE TANKS PROJECT

DOCKET NO. W-01303A-05-0718

Arizona Corporation Commission  
DOCKETED

FEB 14 2008

DOCKETED BY 

1 Arizona-American Water Company ("Arizona-American") hereby files the attached  
2 executed **Joint Development Agreement Between Maricopa County Municipal Water**  
3 **Conservation District Number One and Arizona-American Water Company**  
4 **("Agreement")** and letter explaining of the Agreement from Paul G. Townsley, President of  
5 Arizona-American.

7 **RESPECTFULLY SUBMITTED** on February 14, 2008.

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17



Paul M. Li  
19820 N. 7<sup>th</sup> St. Suite 201  
Phoenix, Arizona 85024  
(623) 445-2442  
[Paul.Li@amwater.com](mailto:Paul.Li@amwater.com)  
Attorney for Arizona-American Water Company

February, 14 2008

Commissioner Mike Gleason  
Commissioner William Mundell  
Commissioner Jeff Hatch-Miller  
Commissioner Kristin Mayes  
Commissioner Gary Pierce

Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

Subject: Joint Development Agreement between Maricopa County Water Conservation District Number One and Arizona-American Water Company; White Tanks Regional Water Treatment Plant

Dear Chairman and Commissioners,

Arizona-American Water Company (“Arizona-American”) is pleased to docket a copy of the “Joint Development Agreement between Maricopa County Water Conservation District Number One and Arizona-American Water Company”, dated as of November 15, 2007 (“Agreement”). This landmark public-private partnership agreement to sustain Arizona’s water supply in the West Valley of Maricopa County could not have happened without the support of the Arizona Corporation Commission.

The Agreement involves a \$60 million investment by Arizona-American and Maricopa County Water Conservation District Number One (“MWD”) in building the White Tanks Regional Water Treatment Plant (“WTRWTP” or “Plant”). The WTRWTP, once completed, will reduce the reliance on groundwater by treating renewable Central Arizona Project water into high quality drinking water for the residents and businesses in the West Valley. The construction of the Plant is underway and will be in operation by early 2010.

Under the Agreement, Arizona-American will construct and own phase 1A of the WTRWTP until MWD elects to construct Phase 1B of the Plant. Upon election by the MWD, Arizona-American and the MWD will enter into various ownership, cost sharing and operating agreements for both Phase 1A and 1B of the Plant.

In conclusion, I would like to express my appreciation of the Commission's unwavering support of the WTRWTP.

Sincerely,



Paul Townsley, President  
Arizona-American Water Company

Cc: Docket Control Office, ACC (hard copy)  
Ernest Johnson, ACC (via email)  
Steve Olea, ACC (via email)  
Tom Broderick, Arizona-American (via email)  
Carrie Gleeson, Arizona-American (via email)  
Martin Stanek, Arizona-American (via email)  
Paul Li, Arizona-American (via email)  
Craig Marks, Craig A. Marks PLC (via email)

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JOINT DEVELOPMENT AGREEMENT

between

MARICOPA COUNTY MUNICIPAL WATER CONSERVATION DISTRICT NUMBER ONE

and

ARIZONA-AMERICAN WATER COMPANY

Dated as of November 15, 2007

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EXHIBIT C

**AFFIDAVIT OF MICHAEL L. ARNDT**

STATE OF IOWA            )  
                                  ) ss.  
County of Polk            )

MICHAEL L. ARNDT, being first duly sworn, upon his oath deposes and says:

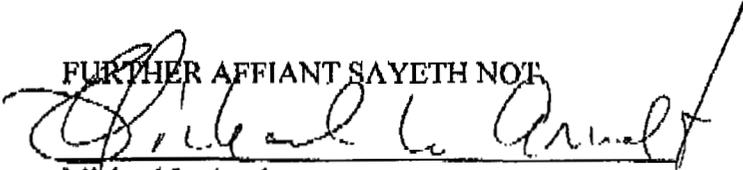
1. I am over the age of 21 and competent to make this Affidavit.
2. I am a public utility rate consultant and have testified in more than 100 public utility rate proceedings since 1974.
3. I prepared written direct and surrebuttal testimony on behalf of Sun City Grand Community Association in the Arizona-American Water Company (the "Company") rate case currently before the Arizona Corporation Commission as docket number W-01303A-10-0448 (the "Matter").
4. I have reviewed the Company's Response to the Motion Dismiss docketed on or about October 20, 2011, and the portions relating to my surrebuttal testimony in the Matter. The Company attempts to mischaracterize my testimony.
5. I do not have a blanket opposition to post-test year pro forma adjustments. Rather, I look at each case to determine whether it is appropriate under the circumstances.
6. In my surrebuttal testimony, I testified against the use of pro forma adjustments to the extent those adjustments included projections by the Company that were not known and measurable and related to a piecemeal change regarding the Company's replacement of low cost short-term debt with high cost common equity.
7. I agree that post-test year pro forma adjustments to the Company's cost of capital may be made in some situations when the adjustments are known and measurable and achieve proper matching.
8. In this case, however, the Company itself has said that "[a]ny attempt to normalize these costs immediately after the closing of this transaction will not provide any meaningful adjustments to test year amounts and will lead to a mixed test year, which is fraught with issues."

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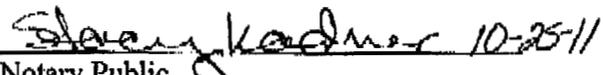
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9. I make this Affidavit upon my own personal knowledge of the matters stated herein.

FURTHER AFFIANT SAYETH NOT  
  
Michael L. Arndt

SUBSCRIBED AND SWORN to before me this 25<sup>th</sup> day of October, 2011.

  
Notary Public

