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DMB White Tank, LLC

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

GARY PIERCE, Chairman

SANDRA D. KENNEDY

PAUL NEWMAN

BOB STUMP

BRENDA BURNS

IN THE MATTER OF THE APPLICATION  
OF ARIZONA-AMERICAN WATER  
ARIZONA-AMERICAN, 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 AGUA FRIA WATER DISTRICT,  
HAVASU WATER DISTRICT, AND  
MOHAVE WATER DISTRICT

Docket No. W-01303A-10-0448

**Verrado Community Association,  
Inc.'s and DMB White Tank, LLC's  
Witness Testimony Summaries**

Verrado Community Association, Inc. and DMB White Tank, LLC, through their undersigned counsel, hereby provide notice of filing the attached witness testimony summaries pursuant to the June 15, 2011, Procedural Order Modifying Testimony Filing Schedule.

DATED this 30<sup>th</sup> day of November, 2011.

RYLEY CARLOCK & APPLEWHITE

Arizona Corporation Commission

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1 ORIGINAL and 13 copies of the foregoing filed  
2 this 30<sup>th</sup> day of November, 2011, with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 W. Washington  
6 Phoenix, Arizona 85007

7 Copies of the foregoing hand delivered this  
8 30<sup>th</sup> day of November, 2011, to:

9 Dwight Nodes, Administrative Law Judge  
10 Legal Division  
11 Arizona Corporation Commission  
12 1200 W. Washington Street  
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1 COPY of the foregoing mailed this  
2 30<sup>th</sup> day of November, 2011, to:

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1 be sufficiently mitigated by additional conservation. Ms. Gulick describes the steps the  
2 Association has already taken to conserve water.

3 The Association agrees with the flat commodity rate design proposed by Arizona-  
4 American Water Company for the new irrigation rates. Adding tiers to irrigation rates would  
5 not encourage further conservation by the Association because the Association already has  
6 economic incentive to conserve water.

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### Summary of Kent Simer's Testimony

Kent Simer is a rate consultant for K. R. Saline & Associates, PLC ("KRSA"), which provides ongoing consulting and engineering services for numerous irrigation and electrical districts, municipal utilities and tribal utilities located throughout the Southwest. On behalf of Verrado Community Association, Inc., Mr. Simer addresses a number of issues.

**Rate Shock.** Mr. Simer testifies that the proposed rate has significant rate shock implications stemming from the placement of the White Tanks Regional Water Treatment Plant into the rate base. Without a sufficient customer base, the increase in revenue requirements will result in an 82.89% rate increase for the average residential customer in the Agua Fria Water District.

Mr. Simer testifies that Arizona-American's original stated primary purpose for constructing the White Tanks Plant was to provide additional capacity for customer growth. Consistent with that purpose, Arizona-American proposed to use water hook-up fees to finance the construction of the plant as an equitable solution to the need for additional capacity. Existing customers do not benefit from this plant as they were already adequately served by an existing well system. There is a significant over investment in facilities to serve the existing customer base and at any given time a significant portion of the total plant is not used or needed. Mr. Simer testifies that the construction of the White Tanks Plant was built on the premise that rates would not be impacted, and that plan should not change. He proposes that the plant be funded primarily through hook-up fees as they become available.

In addition, to mitigate the impact of the requested rate increase, Mr. Simer testifies that a phase-in of the rate increase would be appropriate. A phase-in would require Arizona-American to bear more of the cost risk for the White Tanks Plant, and would provide more time for recovery in the housing industry, potentially spreading the rate increase across additional customers.

**Declining Use Adjustment.** Arizona-American is proposing to adopt a declining residential usage mechanism to account for under collections due to conservation efforts made by the utility. Mr. Simer testifies on the likely cause of declining residential usage and whether it constitutes the need for the requested adjustment. Mr. Simer testifies that the proposed declining usage adjustment should be rejected by the Commission because there is insufficient proof that conservation caused the declining usage and insufficient indication the declining usage will continue when economic conditions improve. In addition, the declining use is not of sufficient magnitude to warrant extraordinary rate treatment.

1           **Depreciation Rates.** Mr. Simer testifies against the request to change depreciation rates at  
2 this time. The adoption of new depreciation rates at this time would only increase the severity  
3 of the rate shock impact on the customers. Insufficient evidence has been provided that would  
4 demonstrate the need for new depreciation rates at this time. Rejecting the changes now will  
5 help to address rate shock.

6           **Infrastructure System Replacement Surcharge.** Mr. Simer testifies that the proposed  
7 infrastructure system replacement surcharge ("ISRS") should not be accepted by the  
8 Commission because (1) there is nothing extraordinary that would warrant the extraordinary  
9 ratemaking device and (2) the surcharge would allow Arizona-American to temporarily  
10 circumvent the Commission's responsibility to review plant placed into rate base, allowing  
11 Arizona-American to earn a greater return than what might be allowed.

12           **Capital Structure.** Mr. Simer testifies that short term debt should be included in the  
13 capital structure, but that updated balances should be used. Mr. Simer recommends the  
14 Commission adopt the capital structure as currently outlined in Rebuttal Exhibit TMB-1 of  
15 60.55% debt and 39.45% equity.

16           **Fuel and Power Expense.** Arizona-American's proposed updated Fuel and Power  
17 Expense should be adjusted to remove the projected average bill increase of 6.6% anticipated to  
18 result from an APS rate application filed on June 1, 2011 in Docket No. E-01345A-11-0224.  
19 This change is not known and measurable since that rate application has not yet been decided by  
20 the Commission.  
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