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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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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 THERON
FOR UTILITY SERVICE BY ITS AGUA FRIA
WATER DISTRICT, HAVASU WATER
DISTRICT, AND MOHAVE WATER
DISTRICT.

Docket No. W-01303A-10-0448

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
Testimony Summaries of William A. Rigsby, Rodney L. Moore, Thomas H. Fish and Royce A.
Duffett in the above-referenced matter.

RESPECTFULLY SUBMITTED this 2nd day of December, 2011.

Michelle Wood
Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
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2 of December, 2011 with:

3 Docket Control
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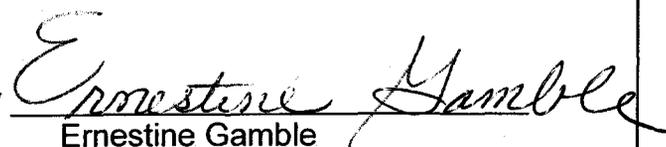
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Advisor to Commissioner Brenda Burns

By


Ernestine Gamble

Arizona-American Water Company
Docket No. W-01303A-10-0448
Rate Case

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the significant issues set forth in both the direct surrebuttal and second surrebuttal testimony of RUCO witness William A. Rigsby, CRRA, on Arizona-American Water Company's ("AAWC" or "Company") application for a permanent rate increase. Mr. Rigsby is providing testimony on the cost of capital, Infrastructure System Replacement Surcharge and certain White Tanks Plant issues associated with the case. The underlying theory and rationales for Mr. Rigsby's recommendations on these issues are contained in the above referenced documents. The significant issues associated with the case are as follows:

Capital Structure Mr. Rigsby is recommending that the Arizona Corporation Commission adopt his revised capital structure for AAWC comprised of 47.38 percent long-term debt, 11.35 percent short-term debt and 41.27 percent common equity.

Cost of Long-Term Debt Mr. Rigsby is recommending that the Arizona Corporation Commission adopt his recommended 5.66 percent cost of long-term debt which is the weighted cost of AAWC's various debt issuances.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA (Cont.)

Cost of Short-Term Debt Mr. Rigsby is recommending that the Arizona Corporation Commission adopt his recommended 0.41 percent cost of short-term debt.

Cost of Common Equity Mr. Rigsby is recommending that the Commission adopt his revised cost of equity capital of 10.00 percent.

Weighted Average Cost of Capital Mr. Rigsby recommends that the Commission adopt his revised weighted average cost of capital of 6.86 percent, which is 67 basis points higher than RUCO's original recommended weighted average cost of capital of 6.19 percent.

Infrastructure System Replacement Surcharge Mr. Rigsby is recommending that the Commission reject the Company-proposed Infrastructure System Replacement Surcharge.

White Tanks Treatment Plant In his second surrebuttal testimony, Mr. Rigsby takes exception to the Company's characterization of RUCO's position on the White Tanks Plant in a prior proceeding before the ACC and clarifies RUCO's position in that case that rate base treatment should not be granted for the White Tanks Plant until a general rate case proceeding is conducted.

Arizona-American Water Company
Docket No. W-01303A-10-0448
Rate Application

SUMMARY OF THE TESTIMONIES OF RODNEY L. MOORE
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the Direct, Surrebuttal and Second Surrebuttal Testimonies given by Rodney L. Moore applicable to RUCO's recommended conditions for a permanent rate increase. A full disclosure of the issues and conditions are contained in the referenced documents.

RUCO is in substantial agreement with the majority of the Company's pro-forma adjustments. The pro-forma adjustments RUCO and the Company are in substantial agreement with are identified as:

- Adjust Accumulated Depreciation for (Over) Under Depreciation;
- Allocate Corporate to Districts;
- Decrease CIAC for CWIP;
- Adjustment of Staff Removals per Decision 67093;
- Remove Acquisition Adjustment;
- White Tanks Plant Deferral;
- Reclassified Plant to the Correct Account Code in the Havasu Water District;
- Identify Assets transferred to the Havasu Water District;
- Unbilled Revenue;
- Annualize Rate Increase;
- Annualize Year-End Customers;
- Correct Billing Errors;
- Annualized Payroll Expense;
- Annualized Purchased Water Expense in Agua Fria;
- Annualized Purchased Power Expense;
- Annualized Management Fees Expense;
- Management Fees – Other Expense;

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SUMMARY OF THE TESTIMONIES OF RODNEY L. MOORE
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

Management Fees – One-Time Charge;
Annualized Group Insurance Expense;
Annualize Other Post Employment Benefits (“OPEBs”);
Annualized Pension Expense;
Insurance Other Than Group Expense;
Annualize Postage Increase;
Rents;
Line 21 Clean-Up;
Annualized 401(k) Expense;
Water Testing Expense;
Tank Maintenance Expense;
White Tanks Expenses; and
Annualize Purchased Water Expenses in Havasu and Mohave.

The testimonies of Mr. Moore address the following outstanding issues:

Rate Base

RUCO Rate Base Adjustment No. 4 - Purchase of New Vehicles – Agua Fria ONLY - Mr. Moore based this adjustment on the Company’s response to Staff data request 7.4 to recognize six pick-up trucks purchased in June 2010 for the White Tanks Regional Water Treatment Plant (“White Tanks”), but not recorded in the test-year plant balance. However, RUCO disallowed rate base treatment for one vehicle deemed unnecessary, since it was primarily used by the operator to commute to and from home.

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SUMMARY OF THE TESTIMONIES OF RODNEY L. MOORE
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

RUCO Rate Base Adjustment No. 6 - Lake Mohave Highlands Storage Tank – Mohave ONLY - Mr. Moore disallowed rate base treatment of the storage tank because it was placed in service post-test year as reflected in the testimonies of RUCO witnesses Royce A. Duffett, P.E. and Thomas H. Fish, Ph.D.

RUCO Rate Base Adjustment No. 7 – White Tanks Regional Water Treatment Plant – Agua Fria ONLY - Mr. Moore disallowed rate base treatment of 50 percent of the White Tanks plant because it was deemed excess capacity as reflected in the testimonies of RUCO witnesses Royce A. Duffett, P.E. and Thomas H. Fish, Ph.D.

RUCO Rate Base Adjustment No. 9 – Disallowed Deferred Debit Associated With Excess Capacity of White Tanks - Mr. Moore disallowed rate base treatment of 50 percent of the deferred debit associated with the excess capacity of the White Tanks as reflected in the testimonies of RUCO witnesses Royce A. Duffett, P.E. and Thomas H. Fish, Ph.D.

Operating Income

RUCO Income Adjustment No. 1A – Annualized Revenue – Agua Fria Only – The Company revealed in testimony filed November 14, 2011 that it discovered 30 (subject to verification) heretofore unknown irrigation meters. RUCO accepted the Company's increases to Agua Fria test year operating revenues for the irrigation meters. This adjustment increased Agua Fria's adjusted test year

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SUMMARY OF THE TESTIMONIES OF RODNEY L. MOORE
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

revenue by \$90,044, subject to verification. Adequate verification has not been provided to date. RUCO reserves the right to modify its adjusted test year revenue if the Company fails to provide a complete analysis of the estimated test year revenue for all 30 meters.

RUCO Income Adjustment No. 2 - Declining Usage Adjustment –Although Mr. Moore has not accepted the Company’s proposed declining use adjustor, Mr. Moore has accepted the Company’s updated annual average declining usage bill determinants through June 30, 2011.

RUCO Income Adjustment No. 16 - Disallowed Annual Incentive Pay – (The Company did not submit any rebuttal testimony to reject this adjustment) Mr. Moore based this adjustment on the removal of 70 percent of the incentive compensation expense for AZ-AM employees that the Company had included in the test year, which is consistent with several previous ACC Decisions.

RUCO Rate Base Adjustment No. 18 – Disallowed Vehicle Expenses –(The Company did not submit any rebuttal testimony to reject this adjustment) Mr. Moore disallowed the portion of the test-year operating expenses dedicated to the private use of Company vehicles by employees to compute to and from work.

RUCO Income Adjustment No. 19 - Property Tax Expense - Mr. Moore based this adjustment on property tax expenses calculated on RUCO’s recommended revenues and expenses.

Arizona-American Water Company
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SUMMARY OF THE TESTIMONIES OF RODNEY L. MOORE
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

RUCO Income Adjustment No. 20 - Income Tax Expense - Mr. Moore based this adjustment on income tax expenses calculated on RUCO's recommended revenues and expenses.

Rate Design

Mr. Moore proposed rate design schedules for each District are generally consistent with the Company's present rate design, but reflects RUCO's recommended revenue requirement and provides proof the design will produce the appropriate revenue requirement.

Other Issues

1. RUCO's witness William A. Rigsby provides an analysis from RUCO's perspective of the potential ratepayer benefits to be derived from the Company's proposed Infrastructure System Replacement Surcharge Program ("ISRS").
2. RUCO's witness William A. Rigsby provides an analysis of the cost of capital.

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SUMMARY OF THE TESTIMONIES OF RODNEY L. MOORE
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

Conclusions and Recommendations

Mr. Moore concludes that the approval of this application will be consistent with the public interest if the Commission adopts the following recommendations:

	<u>DIRECT</u>	<u>2nd SURREBUTTAL</u>
Percentage Increase In Average Typical Residential Customer's Monthly Bill:		
Agua Fria	35.40%	51.55%
Havasu	46.96%	49.48%
Mohave	40.32%	45.56%

Recommended Revenue Requirement:

Agua Fria	\$33,033,172	\$33,927,588
Havasu	\$1,856,229	\$1,874,700
Mohave	\$6,678,621	\$6,854,370

Recommended Percentage Increase In Revenue Requirement:

Agua Fria	35.41%	40.76%
Havasu	44.95%	47.18%
Mohave	34.07%	38.70%

Recommended OCRB/FVRB:

Agua Fria	\$99,675,677	\$93,189,591
Havasu	\$3,630,812	\$3,580,293
Mohave	\$10,292,864	\$10,844,822

Recommended Required Operating Income:

Agua Fria	\$6,172,881	\$6,388,373
Havasu	\$224,855	\$245,438
Mohave	\$637,434	\$743,439

ARIZONA AMERICAN WATER COMPANY

DOCKET NO. W-01303A-10-0448

TESTIMONY SUMMARY

OF

THOMAS H. FISH, Ph.D.

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

DECEMBER 2, 2011

SUMMARY

Arizona-American Water Co. (AAW) filed an Application 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. Among other things, the Company requested a revenue increase of \$20.8 million and seeks to put an additional \$74million of its capital investment into rate base. The White Tanks original cost amount rate base, according to Company witness Broderick is \$62,534,962.

My testimony describes and presents evaluations, observations and recommendations regarding whether the White Tanks treatment plant was a prudent investment and whether it is currently used and useful. My analysis is geared towards determining whether AAW's request to place the original cost of White Tanks in rate base is in the ratepayer's best interest. In addition, I reviewed and evaluated the Company's request to include four other capital projects in rate base.

As a result of my review and evaluation of the information available in this proceeding I have determined that no more than 50% of the White Tanks plant is used and useful. The decision to build the plant was made on the basis of mistakes as was the decision to use it as a stand-alone rather than a regional surface water treatment plant. Throughout the history of the plant the Company had opportunities to limit its financial risk, but chose not to do so. The current use of the plant is not in the best interest of current Agua Fria ratepayers compared to the original design and intent of the project. The decision to build and operate the White Tanks treatment plant was imprudent.

ARIZONA AMERICAN WATER CO.

DOCKET NO. W-01303A-10-0448

**TESTIMONY SUMMARY
OF
ROYCE A. DUFFETT, P.E.**

**ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE**

DECEMBER 2, 2011

TESTIMONY SUMMARY

The purpose of my testimony in this proceeding is to determine whether Arizona American Water Co.'s White Tanks surface water treatment plant requested to be placed in rate base in this proceeding is currently used and useful and whether it's operation is in the best interest of residential ratepayers.

The concept of used and useful matches the customers of a utility's plant with the owner's recovery of the cost of the plant. If part of a plant is not being used and is not required for current use then that part of the plant is not used and useful. I determined that the used and useful portion of the White Tanks plant is the ratio of the surface water available for processing to the total processing capacity. That ratio for the White Tanks plant is 49.45%, that is, the plant has twice the processing capacity required to process all Agua Fria's available CAP water. Therefore, only half the plant is used and useful and in the best interest of residential ratepayers.