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IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY, AND FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS.	Docket No. W-01445A-10-0517

NOTICE OF FILING

The RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO") hereby provides notice of filing the Settlement Testimony of William A. Rigsby and Jodi A. Jerich, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 21st day of February, 2012

Michelle L. Wood
Counsel

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ARIZONA WATER COMPANY

DOCKET NO. W-01445A-10-0517

SETTLEMENT TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 21, 2012

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EXECUTIVE SUMMARY

The Residential Utility Consumer Office ("RUCO") supports the proposed settlement agreement ("Agreement") reached between Arizona Water Company ("AWC" or "Company"), Staff of the Arizona Corporation Commission, RUCO, Abbott Laboratories ("Abbott"), and the Water Utilities Association of Arizona ("WUAA") (collectively referred to as the "Signatory Parties").

Under the Agreement, AWC has agreed to accept a Western Group fair value rate base ("FVRB") of $53,234,209 which is $838,586 lower than the $54,072,795 originally proposed by the Company in its amended application filed on May 9, 2011, and is $204,948 lower than the $53,439,157 FVRB recommended by RUCO.

The Agreement also contains a level of required increase in gross revenue for AWC's Western Group of $3,224,403, which is $1,339,707 lower than the $4,564,110 level of increase originally proposed by the Company and $75,423 higher than the $3,147,980 recommended by RUCO.

The Signatory Parties have agreed to a cost of long-term debt of 6.82 percent, a cost of common equity of 10.00 percent, and a capital structure comprised of 49.03 percent long-term debt and 50.97 percent common equity which produces a weighted average cost of capital, or rate of return, of 8.44 percent.

The Agreement adopts a rate design that excludes a declining use adjustment which was originally proposed by the Company, and has the full support of Abbott, which is one of AWC's large industrial customers in the Company's Casa Grande service area.

The Signatory Parties have also resolved or agreed to a number of other issues including AWC's request for rate consolidation within the Western Group and a Distribution System Improvement Charge ("DSIC").

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My Name is William A. Rigsby. I am the Chief of Accounting and Rates for the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. Yes, I filed direct testimony on RUCO's cost of capital recommendations for Arizona Water Company's ("AWC" or "Company") Western Group on December 5, 2011.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to provide support, from a ratemaking perspective, for the AWC Western Group proposed settlement agreement ("Agreement") that was filed with the Arizona Corporation Commission ("ACC" or "Commission") on February 15, 2012.

Q. Is RUCO is a signatory to the Agreement?

A. Yes. RUCO is a signatory to the Agreement.

...

Q. Will RUCO be filing testimony on the public policy aspects of the Agreement?

A. Yes. RUCO Director Jodi A. Jerich, Esq., will be offering testimony in support of the Agreement, which will explain why RUCO is a signatory and why RUCO believes that the Agreement is in the public interest.

Q. How is your testimony organized?

A. My testimony contains four sections: the introduction that I have just presented; a brief overview, from a ratemaking perspective, of the Agreement; a section that covers, in detail, the ratemaking aspects of the Agreement which will explain the agreed upon adjustments to rate base, the proposed levels of increased revenue for the Western Group and each of its operating systems, operating income and the agreed upon adjustments to the Company's operating revenues and expenses, cost of capital and rate design; a final section will address other issues that were resolved through the settlement process.

OVERVIEW OF THE AGREEMENT

Q. Please provide a brief overview of the Agreement from a ratemaking perspective.

A. The Agreement represents a reasonable compromise on a number of disputed ratemaking issues that arose between AWC, ACC Staff, RUCO, Abbott Laboratories ("Abbott"), and the Water Utilities Association of

Arizona ("WUAA") (collectively referred to as the "Signatory Parties") during the Company's rate case proceeding. Under the Agreement, AWC has agreed to accept a Western Group fair value rate base ("FVRB")[1] of $53,234,209 which is $838,586 lower than the $54,072,795 originally proposed[2] by the Company in its amended application filed on May 9, 2011, and $204,948 lower than the $53,439,157 FVRB recommended by RUCO in the direct testimony of Timothy J. Coley.

The Agreement also contains a level of required increase in gross revenue for AWC's Western Group of $3,224,403, which is $1,339,707 lower than the $4,564,110 level of increase originally proposed by the Company and is $75,423 higher than the $3,147,980 recommended by RUCO's Mr. Coley.

The Signatory Parties are in agreement on a cost of long-term debt of 6.82 percent and cost of common equity of 10.00 percent. The Agreement includes a weighted average cost of capital of 8.44 percent, which will provide the Western Group with operating income of $4,494,718.[3] The 8.44 percent weighted average cost of capital, or rate of return, reflects a capital structure comprised of 49.03 percent long-term debt and 50.97

[1] AWC agreed to use its original cost rate base as the Company's fair value rate base for ratemaking purposes in this proceeding (direct testimony of Joel M. Reiker, page 10).

[2] AWC subsequently filed rebuttal testimony on January 6, 2012 which revised the Company's requested level of revenue increase to $4,535,587 and the Company's FVRB to $53,798,518.

[3] FVRB x ROR = Operating Income = $53,234,209 x 8.44% = $4,494,718

percent common equity which produces a weighted cost of long-term debt of 3.34 percent, and a weighted average cost of common equity of 5.10 percent. Neither AWC's proposed capital structure nor the Company-proposed 6.82 percent cost of long-term debt were ever in dispute during the underlying rate case proceeding. AWC has agreed to accept ACC Staff's recommended 10.00 percent cost of common equity which is 210 basis points lower than the 12.10 percent cost of common equity originally proposed by the Company and 50 basis points higher than the 9.50 percent cost of common equity which I recommended on behalf of RUCO.

The Agreement adopts a rate design that excludes a declining use adjustment which was originally proposed by the Company, and has the full support of Abbott, which is one of AWC's large industrial customers in the Company's Casa Grande service area.

Q. Were other disputed issues resolved through the settlement process?

A. Yes. A number of disputed issues, which I will discuss later in my testimony, were resolved through the settlement process. The two main areas of contention involved AWC's request for rate consolidation, and the Company's request for a Distribution System Improvement Charge.

RATEMAKING ASPECTS OF THE PROPOSED SETTLEMENT AGREEMENT

Rate Base

Q. What are the agreed upon rate base amounts for the Western Group and each of its operating systems included in the Agreement?

A. The rate base amounts for the Western Group and each of its operating systems included in the Agreement can be seen below:

Pinal Valley System[4]	$46,638,551
White Tank System	$5,609,221
Ajo System	$986,437
Western Group	$53,234,209

Q. What are the dollar differences between the settlement amounts exhibited above, and the rate base amounts originally proposed by AWC in the Company's Amended Application?

A. The dollar differences between the settlement amounts exhibited above and the rate base amounts originally proposed by AWC in the Company's Amended Application are as follows:

	Agreement	AWC	Difference
Pinal Valley System	$46,638,551	$47,398,030	($759,479)
White Tank System	$5,609,221	$5,682,264	($73,043)
Ajo System	$986,437	$992,500	($6,063)
Western Group	$53,234,209	$54,072,795	($838,586)

[4] Includes the communities of Casa Grande, Coolidge and Stanfield

As can be seen above, AWC has agreed to a reduction in rate base for each of the three operating systems that comprise the Company's Western Group.

Q. How do the settlement amounts compare with the amounts recommended in the direct testimony of RUCO?

A. The dollar differences between the settlement amounts and the amounts recommended in the direct testimony of RUCO can be seen below:

	Agreement	RUCO	Difference
Pinal Valley System	$46,638,551	$46,846,040	($207,489)
White Tank System	$5,609,221	$5,606,782	$2,439
Ajo System	$986,437	$986,335	$102
Western Group	$53,234,209	$53,439,157	($204,948)

As exhibited in the comparison above, AWC has agreed to a rate base that is approximately one percent lower than the amount of rate base recommended by RUCO for the Company's Pinal Valley System. RUCO has agreed to increases of less than one percent to its recommended rate bases for the Company's White Tank and Ajo Systems.

...

Q. Please explain the differences between the rate base amounts included in the Agreement and the rate base amounts in AWC's Amended Application?

A. The differences between the rate base amounts included in the Agreement and the rate base amounts in AWC's Amended Application are as follows:

Pinal Valley System

In regard to the Pinal Valley System, AWC agreed to reduce the Company's adjusted test year balance of gross plant in service by a net amount of $201,996. This included an ACC Staff adjustment which reduced the Company's Transmission & Distribution - Land account, by $258,409. The remaining settlement adjustments to Pinal Valley Gross Plant in Service consisted of a $9,532 increase to the Pumping Plant account, a $44,771 increase to the Transmission & Distribution Plant account, and a $2,110 increase to the General Plant account. AWC also agreed to increase the Pinal Valley System's Accumulated Depreciation account by an amount of $290,128. This settlement adjustment was comprised of RUCO's $288,979 accumulated depreciation adjustment and a total of $1,148 in adjustments associated with the increases to the plant accounts identified above. The remaining settlement adjustment to the Pinal Valley System rate base was a $267,355 reduction to Working Capital, which reflects the effects of adjustments to operating expenses on

the calculation of cash working capital. The net effect of the aforementioned adjustments[5] result in the $759,479 decrease in the Pinal Valley System rate base exhibited above.

White Tank System

A net increase of $5,876 to the White Tank System's Gross Plant in Service reflects AWC's acceptance of RUCO's $47 reduction to the Water Treatment Plant account and, for purposes of settlement, agreed upon increases of $5,735 and $187 to the Transmission & Distribution Plant and General Plant accounts, respectively. An increase of $44,245 to the Accumulated Depreciation account included RUCO's adjustment of $44,177 and a total of $68 in additional accumulated depreciation which is associated with the aforementioned increases to the plant accounts described above. For the same reason cited above, a $34,674 decrease to Working Capital results in a total net reduction[6] of $73,043 to the White Tank System's rate base.

Ajo System

The Proposed Settlement Agreement includes a small $30 net reduction to the Ajo System's Gross plant in Service, which is comprised of RUCO's

[5] Adjustment to Gross Plant in Service - Adjustment to Accumulated Depreciation + Adjustment to Working Capital = ($201,996) - $290,128 + ($267,335) = ($759,479)

[6] Adjustment to Gross Plant in Service - Adjustment to Accumulated Depreciation + Adjustment to Working Capital = $5,876 - $44,245 + ($34,674) = ($73,043)

recommended reduction of $16 to the Water Treatment account, and a $46 increase to the General Plant account. AWC agreed to a $95 increase in accumulated depreciation that includes RUCO's $91 adjustment and an additional $4 of accumulated depreciation associated with the increase in plant noted above. Once again, adjustments to the Ajo System's operating expenses are reflected in a $5,998 reduction to Working Capital. The aforementioned adjustments produce a net decrease[7] of $6,063 to the Ajo System rate base.

Required Revenue

Q. What increases/(decreases) in operating revenue for the Western Group and each of its operating systems are included in the Agreement?

A. The increases/(decreases) in operating revenue for the Western Group and each of its operating systems that are included in the Agreement are as follows:

Pinal Valley System[8]	$2,725,357
White Tank System	$501,373
Ajo System	($2,326)
Western Group	$3,224,403

[7] Adjustment to Gross Plant in Service - Adjustment to Accumulated Depreciation + Adjustment to Working Capital = $30 - $95 + ($5,998) = ($6,063)
[8] Includes the communities of Casa Grande, Coolidge and Stanfield

Q. What are the dollar differences between the increases/(decreases) in operating revenue presented above, and the increases/(decreases) in operating revenue originally proposed in the Company's Amended Application?

A. The dollar differences between the settlement increases/(decreases) presented above and the increases/(decreases) originally proposed in the Company's Amended Application are as follows:

	Agreement	AWC	Difference
Pinal Valley System	$2,725,357	$3,919,673	($1,194,316)
White Tank System	$501,373	$624,449	($123,076)
Ajo System	($2,326)	$19,998	($22,324)
Western Group	$3,224,403	$4,564,110	($1,339,707)

As can be seen above, AWC has agreed to substantial reductions to the increases that it originally sought in the Company's Amended Application.

Q. How do the settlement increases/(decreases) compare with the increases/(decreases) recommended in the direct testimony of RUCO?

A. The dollar differences between the settlement increases/(decreases) and the increases/(decreases) recommended in the direct testimony of RUCO can be seen below:

	Agreement	RUCO	Difference
Pinal Valley System	$2,725,357	$2,672,556	$52,801
White Tank System	$501,373	$481,317	$20,056
Ajo System	($2,326)	($5,893)	$3,567
Western Group	$3,224,403	$3,147,980	$76,423

As seen in the above comparisons, the Company has made substantial concessions in order to reach increased revenue levels that are closer to those recommended by RUCO.

Operating Income

Q. What adjustments to operating revenues and expenses have the Signatory Parties adopted in the Agreement?

A. The adjustments to operating revenues and expenses that the Signatory Parties adopted in the Agreement are as follows:

Pinal Valley System

The Agreement establishes an adjusted test year level of operating revenue of $16,544,087 for the Pinal Valley system which is a $27,962 reduction to the $16,572,049 level of Company adjusted test year operating revenues exhibited in AWC's Amended Application. The operating revenue adjustment represents a known and measurable post test year net reduction in sales to AWC's industrial customers (the majority of which is attributable to significantly reduced sales to the Company's

second largest industrial customer, Frito-Lay). The Agreement also establishes a $14,249,542 level of total operating expenses that includes settlement reductions of $307,820. The agreed upon settlement reductions to operating expenses include portions of RUCO's recommended adjustments to the Company-proposed levels of fleet fuel, rate case, and administrative and general expense. The Agreement also includes a net reduction of $27,209 to the Company-proposed adjusted test year level of depreciation expense and pro-forma increases totaling $156,159 to the Company-proposed test year levels of income and property tax expense. The aforementioned settlement adjustments to operations & maintenance expense, depreciation & amortization expense and taxes result in settlement test year adjusted operating income of $2,294,545 for the Pinal Valley system[9], which is a net increase of $150,908 to the Company-proposed level of $2,143,637 presented in AWC's Amended Application.

White Tank System

The Agreement establishes an adjusted test year level of operating revenue of $1,584,472 for the White Tank system. The total operating expense figure of $1,414,248 in the Agreement reflects $23,105 in reductions to the White Tank system's operations and maintenance expenses which include portions of RUCO's recommended downward

[9] Operating Revenues - Operating Expenses = Operating Income = $16,544,087 - $1,414,248 = $2,294,545

adjustments to the Company-proposed levels of fleet fuel, rate case and administrative and general expense. The Agreement also includes an increase of $135 to the Company-proposed adjusted test year level of depreciation expense and pro-forma increases totaling $14,829 to the Company-proposed test year levels of income and property tax expense. The settlement expense adjustments described above to operations & maintenance expense, depreciation & amortization expense and taxes result in settlement test year adjusted operating income of $170,224 for the White Tank system[10], which is a net increase of $8,141 to AWC's proposed level of $162,083 exhibited in the Company's Amended Application.

Ajo System

Under the Agreement, the Ajo system's levels of adjusted test year total operating revenue of $509,594 and total operating expenses of $424,903 result in operating income[11] of $84,691. The Agreement adopts a net decrease of $2,347 to the $427,250 level of operating expense originally proposed in the Company's Amended Application. The Signatory Parties have agreed to $6,215 in reductions to the Ajo system's operations and maintenance expenses which again included portions of RUCO's

[10] Operating Revenues - Operating Expenses = Operating Income = $1,584,472 - $1,414,248 = $170,224

[11] Operating Revenues - Operating Expenses = Operating Income = $509,504 - $424,903 = $84,691

recommended downward adjustments to the Company-proposed levels of fleet fuel, rate case and administrative and general expense. The Agreement also includes an increase of $8 to the settlement test year level of depreciation expense and pro-forma increases totaling $3,860 to the test year level of income and property tax expense exhibited in the Company's Amended Application.

Cost of Capital

Q. Does the Agreement adopt the Company-proposed capital structure?

A. Yes. The Agreement adopts the Company-proposed capital structure comprised of 49.03 percent long-term debt and 50.97 percent common equity which was also recommended by ACC Staff and RUCO during the underlying rate case proceeding.

Q. What cost of long-term debt is included in the Agreement?

A. The Agreement includes a Company-proposed 6.82 percent cost of long-term debt, which, like the capital structure described above, was also recommended by ACC Staff and RUCO.

Q. What cost of common equity are the Signatory Parties in agreement on?

A. The Signatory Parties have adopted ACC Staff's recommended 10.00 percent cost of common equity for purposes of settlement. The 10.00

percent cost of common equity is 210 basis points lower than the 12.10 percent cost of common equity originally proposed by the Company in its Amended Application, and is 50 basis points higher than the 9.50 percent cost of common equity recommended by RUCO.

Q. What is the weighted average cost of capital, or rate of return, contained in the Agreement?

A. The weighted average cost of capital, or rate of return, contained in the Agreement is 8.44 percent for the Western Group and its operating systems and was calculated as follows:

LINE NO.	DESCRIPTION	CAPITAL RATIO		COST		WEIGHTED COST
1	Long-Term Debt	49.03%	X	6.82%	=	3.34%
2	Common Equity	50.97%	X	10.00%	=	5.10%
3	Total Capitalization	100.00%				
4	**WEIGHTED AVERAGE COST OF CAPITAL**					**8.44%**

Q. How were the required increases in gross revenue for the Western group and its operating systems calculated?

A. The required increases in gross revenue for the Western group and its operating systems were calculated as follows:

LINE NO.	DESCRIPTION	PINAL VALLEY SYSTEM	WHITE TANK SYSTEM	AJO SYSTEM	WESTERN GROUP
1	*Original Cost Rate Base*	$ 46,638,551	$ 5,609,221	$ 986,437	$ 53,234,209
2	Adjusted Operating Income (Loss)	$ 2,294,545	$ 170,224	$ 84,691	$ 2,549,460
3	Current Rate Of Return (L2 / L1)	4.92%	3.03%	8.59%	4.79%
4	Required Operating Income (L5 X L1)	$ 3,937,827	$ 473,603	$ 83,288	$ 4,494,718
5	Required Rate Of Return On Fair Value Rate Base	8.44%	8.44%	8.44%	8.44%
6	Operating Income Deficiency (L4 - L2)	$ 1,643,282	$ 303,379	$ (1,403)	$ 1,945,258
7	Gross Revenue Conversion Factor	1.6585	1.6526	1.6573	1.6576
8	Increase In Gross Revenue Requirement (L7 X L6)	$ 2,725,357	$ 501,373	$ (2,326)	$ 3,224,403
9	Adjusted Test Year Revenue	$ 16,544,087	$ 1,584,472	$ 509,594	$ 18,638,153
10	Proposed Annual Revenue (L8 + L9)	$ 19,269,444	$ 2,085,845	$ 507,268	$ 21,862,557
11	Required Percentage Increase In Revenue (L8 / L9)	16.47%	31.64%	-0.46%	17.30%
12	Rate Of Return On Common Equity	10.00%	10.00%	10.00%	10.00%

Rate Design

Q. Will the rate design contained in the Agreement generate the required levels of revenue for the Western Group's operating systems?

A. Yes. The rate design contained in the Agreement will generate the required levels of revenue that will allow AWC to recover operating expenses and a rate of return for the Pinal Valley, White Tank and Ajo systems. Under the rate design included in the Agreement, the Western Group will recover, on average, 41.00 percent of required operating revenue through the monthly minimum charge. In the case of the White Tank system, 37.00 percent of required revenue will be recovered through

the monthly minimum charge in order to mitigate the increase in rates for that particular system.

Q. Did AWC agree to exclude the Company's declining usage adjustment from the rate design for purposes of settlement?

A. Yes.

Q. Are conservation-oriented tiered rates included in the rate design?

A. Yes. Conservation-oriented three-tiered inverted block rates have been designed for the Western Group's 5/8 x 3/4-inch metered residential customers. The rate design includes a lifeline rate in the first tier which benefits low income users. All other classes of Western Group customers have a two-tiered inverted block rate with the exception of AWC's Pinal Valley industrial class customers, which include Abbott and Frito Lay, who are employing aggressive conservation measures to reduce their manufacturing costs.

Q. What will be the typical monthly bill, and the impact of the increase in revenue proposed in the Agreement, for residential customers using a 5/8 x 3/4-inch meter in AWC's Pinal Valley, White Tank and Ajo systems?

A. A comparison of typical monthly bills by system, at the average and median levels of consumption, are as follows:

Pinal Valley System (Casa Grande)

Average consumption of 8,610 gallons:

Present	AWC Proposed	RUCO Recommended	Agreement	$ Increase	% Increase
$29.51	$38.88	$34.56	$31.36	$1.85	6.28%

Median consumption of 6,105 gallons:

Present	AWC Proposed	RUCO Recommended	Agreement	$ Increase	% Increase
$25.22	$33.53	$29.51	$26.09	$0.88	3.47%

Pinal Valley System (Coolidge)

Average consumption of 8,076 gallons:

Present	AWC Proposed	RUCO Recommended	Agreement	$ Increase	% Increase
$28.59	$37.74	$33.48	$30.24	$1.65	5.75%

Median consumption of 6,113 gallons:

Present	AWC Proposed	RUCO Recommended	Agreement	$ Increase	% Increase
$25.23	$33.54	$29.52	$26.11	$0.88	3.48%

Pinal Valley System (Stanfield)

Average consumption of 8,271 gallons:

Present	AWC Proposed	RUCO Recommended	Agreement	$ Increase	% Increase
$39.17	$38.16	$33.88	$30.65	($8.52)	-21.76%

...

Pinal Valley System (Stanfield) **(Cont.)**

Median consumption of 6,537 gallons:

Present	AWC Proposed	RUCO Recommended	Agreement	$ Increase	% Increase
$33.88	$34.45	$30.38	$27.00	($6.88)	-20.31%

White Tank System

Average consumption of 13,906 gallons:

Present	AWC Proposed	RUCO Recommended	Agreement	$ Increase	% Increase
$52.16	$52.30	$68.20	$58.72	$6.55	12.57%

Median consumption of 8,995 gallons:

Present	AWC Proposed	RUCO Recommended	Agreement	$ Increase	% Increase
$40.02	$39.71	$52.33	$43.98	$3.96	9.89%

Ajo System

Average consumption of 4,764 gallons:

Present	AWC Proposed	RUCO Recommended	Agreement	$ Increase	% Increase
$50.24	$53.18	$49.66	$45.58	($4.66)	-9.28%

Median consumption of 3,201 gallons:

Present	AWC Proposed	RUCO Recommended	Agreement	$ Increase	% Increase
$40.83	$44.18	$40.35	$36.28	($4.55)	-11.14%

OTHER ISSUES

Q. What major disputed issues were resolved in the Agreement?

A. The two main issues in dispute involved AWC's request for rate consolidation within the Western Group and a Distribution System Improvement Charge ("DSIC"). Each of these issues and several other areas of contention are discussed below.

Q. Have the Signatory Parties resolved their differences regarding rate consolidation within the Company's Western Group?

A. Yes. Under the Agreement the AWC has agreed not to consolidate the Pinal Valley and White Tank systems for ratemaking purposes which RUCO opposed in the underlying rate case proceeding. The Agreement allows for the full consolidation of the Company's Stanfield system into the Pinal Valley system, which RUCO supported in its direct testimony, but leaves White Tank and Ajo as stand alone operating systems.

Q. Has AWC agreed not to pursue its request for a DSIC in this proceeding?

A. Yes. Under the terms of the settlement agreement, AWC will not pursue the Company's request for a DSIC in this proceeding. Both ACC Staff and RUCO opposed AWC's request in their direct testimony. As part of the give and take process during the settlement discussions, AWC agreed to drop its DSIC request without waiving its position in future rate cases.

Q. What other issues were resolved among the Signatory Parties?

A Other issues that were either resolved or agreed upon by the Signatory Parties include a Company-proposed Off-site Facilities Fee, the continuance of the Company's Arsenic Cost Recovery Mechanism ("ACRM"), the continuance of AWC's Central Arizona Project ("CAP") hook-up fee for the Company's Casa Grande, Coolidge and White Tank systems, the deferral of costs associated with implementing and performing additional Best Management Practices ("BMP"), an allowance for AWC to accrue Allowance for Funds Used During Construction ("AFUDC") on land purchased for the Arizona City Storage Tank and booster pump station, and, the use of a test year that includes twelve full months of actual experience with the rates approved in this rate case proceeding in AWC's next general rate case filing.

Q. Does this conclude your testimony on the Agreement reached by the Signatory Parties?

A. Yes, it does.

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-10-0517

SETTLEMENT TESTIMONY

OF

JODI A. JERICH

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 21, 2012

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Q. Please state your name, occupation and business address for the record.

A. My name is Jodi Jerich. I am the Director of the Arizona Residential Utility Consumer Office (RUCO). My business address is 1110 W. Washington Street, Suite 220, Phoenix, Arizona 85007. A Statement of Qualifications is attached as Exhibit A.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain the reasons why RUCO supports the proposed Settlement Agreement.

Q. Have you filed testimony in this docket previously?

A. No.

SETTLEMENT PROCESS

Q. Have you, in your role as RUCO Director, participated in other settlement negotiations?

A. Yes. As Director, I have participated in settlement negotiations in other matters that have come before the Corporation Commission.[1] The majority of these negotiations have resulted in RUCO reaching an accord with the

[1] 2008 APS Rate Case, Docket No. E-01345A-08-0172 (Decision No. 71444); 2010 Qwest/ CenturyLink Merger, Docket No. T-04190A-10-0194 (Decision No. 72232), 2010 SW Gas Rate Case, Docket No. G-01551A-10-0458 (Decision No. 72723). Goodman Water Rate Case, Docket No. W-02500A-10-0382 (pending), and Arizona-American Rate Case (Docket No. W-01303A-10-0448(pending).

other settling parties and signing a settlement agreement. On the other hand, I have walked away from settlement talks when negotiations produced a result that RUCO found was not in the best interest of residential ratepayers. RUCO does not enter into settlements lightly. RUCO will not agree to settle simply as a means of avoiding litigation. However, in this matter, negotiations did produce reasonable and fair terms that RUCO can and does support.

Q. Was the negotiation process that resulted in the Settlement Agreement a proper and fair process?

A. Yes. All participants had an opportunity to meaningfully participate throughout the negotiations. These talks produced a well-balanced and fair result that illustrates a willingness of the parties to find common ground, and to reach a compromise position that provides benefits for both the ratepayers and Arizona Water.

Q. Please explain further.

A. On January 23, 2012, Arizona Water came to RUCO's offices to discuss whether RUCO would find merit in beginning settlement discussions in the hopes of reaching a mutually agreeable compromise. RUCO expressed that it believed common ground was attainable if the parties could negotiate in good faith. On January 24, 2012, Commission Staff filed a Notice of Settlement Discussions. Shortly thereafter and as detailed in the

proposed Settlement Agreement Section 1.6, Commission Staff hosted a series of settlement discussion meetings between Arizona Water, Commission Staff, WUAA and Abbott Laboratories.

Q. Why is a negotiated compromise an appropriate way to resolve this rate case?

A. The Settlement Agreement brings clarity and regulatory certainty without the risk of protracted litigation and appeals. Furthermore, the Settlement Agreement finds middle ground that the parties can support. RUCO believes the terms provided in the proposed Settlement Agreement are favorable to ratepayers and are in the public interest.

Of course, the proposed Settlement Agreement in no way eliminates the Commission's constitutional right and duty to review this matter and to make its own determination whether the Settlement is truly balanced and the rates are just and reasonable.

SETTLEMENT PROVISIONS

Q. Please summarize the main provisions of the Settlement Agreement.

The proposed Settlement Agreement settles all issues in the pending rate case for all three (3) Arizona Water systems impacted by this docket. I have provided a chart that compares the positions taken by Staff, RUCO, Arizona Water and the proposed Settlement. **In a nutshell, the proposed Settlement Agreement adopts RUCO's positions on rate consolidation and the DSIC and is $76,423 above RUCO's recommended revenue increase**.

	Company	Staff	RUCO	Settlement
Revenue Increase	$4,535,587	$2,520,496	$3,147,980	$3,224,403
ROE	12.1%	10.0%	9.50%	10.0%
Consolidation	(1)Fully consolidate Stanfield into Pinal Valley system (2)Consolidate Pinal Valley and White Tanks. (3) Leave Ajo stand alone system	Fully consolidate all three systems	(1)Fully consolidate Stanfield into Pinal Valley system (2)Reject White Tank/Pinal Valley consolidation (3)Agree to leave Ajo a stand alone system	(1)Fully consolidate Stanfield into Pinal Valley system (2)No further consolidation. White Tanks, Pinal Valley and Ajo remain separate systems with separate rates.
DSIC	Yes	No	No	No

Q. In summary, what are the benefits to the Company found in the Settlement Agreement?

A. From RUCO's perspective, the benefits to the Company are as follows:

- Eliminates risks associated protracted litigation.
- Timely resolution of its Application to increase rates.
- Provides a 10.0% ROE.
- Provides a $3,224,403 (17.30%) revenue increase.
- Completes the consolidation of Stanfield into the Pinal Valley System. (Decision No. 71845 consolidated Stanfield's monthly minimum charge with Pinal Valley but provided separate commodity rates.)
- Continuation of the utility's Arsenic Cost Recovery Mechanism (ACRM).
- Continuation of the utility's Central Arizona Project hook up fee (aka "CAP M&I Fees") for the Casa Grande, Coolidge and White Tank systems.
- Allows the utility to accrue AFUDC on land purchased for the Arizona city water storage tank and booster pump station.

Q. What are the benefits to the ratepayers found in the Settlement Agreement?

A. From RUCO's perspective, the benefits to the ratepayers and the intervenors are as follows:

- The overall revenue increase of approximately $3.2 million is significantly less than the $4.5 million increase Arizona Water requested and is very close to the $3.1 million revenue increase RUCO recommended.
- Ajo residents will enjoy a decrease in their rates instead of the rate increase proposed by Arizona Water.
- Stanfield residents will enjoy a decrease in their rates.
- Pinal Valley and White Tanks customers will pay fair rates for their own respective systems without one system subsidizing rates for the other through rate consolidation.
- Arizona Water withdraws its request for a DSIC mechanism in this rate case.
- The earliest that Arizona Water can file for new rates is twelve (12) months after the new rates go into effect.

RATE INCREASE/RATE STABILITY

Q. Does this proposed Settlement Agreement provide rate stability?

A. Yes. Although this proposed Settlement Agreement does not require the utility to "stay out" for a specified time period before filing its next rate case, it prohibits the utility from filing a new rate case without at least twelve (12) months of data under the new rates. Under regular time frames, RUCO would not expect Arizona Water to file a new rate case earlier than the end

of 2013 with a new set of rates to go into effect prior to some time in late 2014. This gives the ratepayers at least two years of rate stability.

RATE IMPACT

Q. What is the impact on the average and median residential bill?

A. That information is found in testimony filed in support of the proposed Settlement Agreement by RUCO witness, Mr. William A. Rigsby. But RUCO takes this opportunity to point out that the Ajo customers will see their bills go down as an effect of this proposed Settlement Agreement. And the ratepayers of the Pinal Valley will receive a rate increase far less than what Arizona Water proposed. Finally, the proposed Settlement Agreement provides for a much smaller rate increase on a stand alone basis for the White Tanks customers than what RUCO originally proposed.

Q. Does that conclude your testimony on this subject?

A. Yes.

EXHIBIT A

Statement of Qualifications

Jodi A. Jerich
Director
Arizona Residential Utility Consumer Office ("RUCO")

Governor Brewer appointed me to serve as the Director of RUCO in February 2009. The Arizona State Senate found my qualifications met the statutory requirements found in Arizona Revised Statutes §40-462 and confirmed my appointment. As Director, I oversee and approve all testimony and briefs filed by RUCO. In consultation with my staff, I direct the public policy decisions of the office.

From 2003 through 2005, I was employed at the Arizona Corporation Commission as the Policy Advisor to Corporation Commissioner Mike Gleason. In that role, I advised the Commissioner on matters coming before the Commission. I was actively involved in the utility policy-making decisions of that Commissioner's office.

Except for the time I was employed by the Commission, from 1997 through 2008, I was employed at the Arizona House of Representatives. I held several positions during my tenure, eventually becoming Chief of Staff and Counsel to the Majority Caucus. Relevant to the question at hand, I advised Legislators on matters involving water, energy, Commission jurisdiction and utility security.

In 2006, when Governor Janet Napolitano appointed Barry Wong to fill the Commission seat vacated by Commissioner Marc Spitzer's appointment to the Federal Energy Regulatory Commission (FERC), I took a leave of absence from the Legislature for a short time in order to assist Commissioner Wong in establishing his office.

I am a Phi Beta Kappa graduate of Indiana University. I also have a law degree from Indiana University and am a member of the Arizona and Tennessee bars.

In my position as RUCO Director, I have filed testimony detailing RUCO's position on numerous matters in several dockets. Most recently, I provided testimony on RUCO's position on decoupling in the pending UNS Gas, Inc. rate case. (Docket No. G-04204A-11-0158)