

# RESIDENTIAL UTILITY CONSUMER OFFICE



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Serving the Arizona Residential Utility Consumer Since 1983



TWENTY-SIXTH ANNUAL REPORT  
2007-2008

## TABLE OF CONTENTS

DIRECTOR'S LETTER.....	1
RUCO ADMINISTRATIVE AND SUPERVISORY PERSONNEL .....	3
RUCO'S ORGANIZATION CHART .....	6
RUCO AND THE REGULATORY PROCESS.....	7
THE RATEMAKING PROCESS.....	7
RUCO BUDGET .....	9
RUCO'S FUNDING MECHANISM .....	10
RUCO'S CASE ANALYSES AND INTERVENTIONS .....	10
RUCO'S IMPACT .....	10
CONSUMER EDUCATION AND OUTREACH ACTIVITIES .....	11
ON-GOING CASES .....	12
CASES CLOSED IN FY 2008 .....	30
THE RESIDENTIAL UTILITY CONSUMER OFFICE STAFF .....	59
APPENDIX .....	60



**DIRECTOR'S LETTER**  
**RESIDENTIAL UTILITY CONSUMER OFFICE**

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Janet Napolitano  
Governor

Stephen Ahearn  
Director

October 31, 2008

The Honorable Janet Napolitano, Governor  
The Honorable Timothy Bee, President, Arizona Senate  
The Honorable Jim Weiers, Speaker, Arizona House of Representatives

**Re: Fiscal Year 2008 RUCO Annual Report**

Dear Governor, President and Speaker:

I am once again pleased to report the activities of RUCO for the period ending June 30 of this year.

RUCO has had another successful year in our advocacy of residential ratepayer interests before the Arizona Corporation Commission. We have been actively engaged in complex rate case litigations and additional line-siting and corporate certification applications, and played central policy-level roles in successfully advocating residential consumer positions that resulted in acceptance by the Commissioners in their decisions.

In the last year, I received some commentary about the occasionally redundant and repetitive nature of the case summaries compiled in these Annual Reports. I will say only that each summary intentionally has been written so that any party can read its contents without the need for additional context found elsewhere in the document, making each summary easy and understandable as a stand-alone guide to the particular case.

RUCO said good-bye this year to two of its members, Scott Wakefield and Marylee Diaz Cortez, formerly the Chiefs of the Legal and Accounting & Rates sections, respectively.

Their long association with RUCO allowed the organization to become the credible and effective force that it has. They will be missed.

It is understood that RUCO is no longer required to assemble Annual Reports. However, we continually capture data about our activities in an effort to improve our agency performance and in anticipation of future audits and requests for historical agency information. Our continuing to publish this report is a simple and efficient method to memorialize this collection of recent agency data, and requires virtually no incremental time or expense to compile.

Sincerely,

*Stephen Ahearn*

Stephen Ahearn

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## **RUCO ADMINISTRATIVE AND SUPERVISORY PERSONNEL**

### **DIRECTOR**

Stephen Ahearn was appointed by Governor Janet Napolitano as Director of the Arizona Residential Utility Consumer Office (RUCO) on January 6, 2003. He is a native Arizonan, born on Davis-Monthan Air Force Base in Tucson, and raised in Phoenix. He received his undergraduate degree (B.A., International Relations) from Pomona College in Claremont, California, and his graduate degree (MBA, International Finance) from UCLA.

Mr. Ahearn spent his early career after undergraduate school in operational, finance and management positions for Los Angeles-based manufacturing firms. In the mid-1980's, he moved back to Arizona and co-founded companies that manufactured non-toxic, environmentally-sensitive pesticides, building materials and recycled plastics products.

In 1990, he joined the Arizona Department of Commerce Energy Office as the Manager of Planning and Policy. In that capacity he was responsible for implementation of the legislatively-mandated state Energy Policy. He began to write and speak extensively about electric industry restructuring as early as 1994, and was recruited to the Arizona Corporation Commission in late 1997 to advise the staff on electric industry competitive matters and to act as the agency's liaison to the Legislature.

He left the staff of the Corporation Commission in late 1999 to run for the office of Corporation Commissioner. In the period just prior to being appointed Director of RUCO, he had founded Ahearn & Associates, a consulting firm specializing in general business planning with a focus on renewable energy project development and representation of renewable energy firms.

Since coming to RUCO, Mr. Ahearn has participated in numerous energy-related boards, work groups and task forces at local, state, regional and federal levels. He chaired the Governor's Working Group on Renewable Energy and Energy Efficiency, and has been a member of the Governor's Essential Service Task Force, the Governor's Climate Change Executive Committee, and for the past two years has chaired the City of Phoenix Environmental Quality Commission. He is currently an oversight committee member of the North American Electric Reliability Council and a member of the Governor's AERO Solar Task Force.

### **DEPUTY DIRECTOR**

Ernest Nedd has been Deputy Director of RUCO for the past five years. He is a native Phoenician who attended elementary school in Phoenix and graduated from Phoenix Union High School. After attending Brown University in Providence, RI, Mr. Nedd served in the U.S. Army, including a tour of duty in Vietnam. Mr. Nedd then returned to Arizona and earned a B.S. degree in Political Science from Arizona State University and a J.D. degree from the College of Law at Arizona State.

Mr. Nedd has previously held positions with the State of Arizona as an Assistant Attorney General, Assistant Commissioner of the Real Estate Department and Chief Hearing Officer of the Department of Liquor Licenses and Control. He has served as a member of the City of Phoenix Board of Adjustment, the Phoenix Inner City Planning Committee and the Phoenix Surface Transportation Advisory Committee. Mr. Nedd also is a former Chairman of the Board of Directors of Valle del Sol, Inc. and he has served on the Board of Directors of the Valley Christian Centers. He currently is a member of the Natural Gas Committee and the Consumer Protection Committee of the National Association of State Utility Consumer Advocates and the Public Interest Advisory Committee of the Gas Technology Institute.

Mr. Nedd is a resident of the Coronado Historic Neighborhood in Central Phoenix and is active in the Greater Coronado Neighborhood Association.

#### **CHIEF COUNSEL (Scott Wakefield)**

Scott Wakefield has been RUCO's Chief Counsel since 1998. He came to RUCO after serving as a Hearing Officer at the Corporation Commission, where he handled numerous rate case proceedings, consumer complaint hearings, and matters involving competition in the utility industry.

Mr. Wakefield received his Juris Doctorate cum laude from Arizona State University in 1990, and his Bachelor of Science degree in accounting magna cum laude from Arizona State in 1987. He has served on the board of directors for two non-profit organizations. He grew up and continues to live in Tempe.

Prior to his tenure as a hearing officer, Mr. Wakefield investigated and prosecuted investment fraud with the Corporation Commission's Securities Division. His work there resulted in caselaw outlining when investments in limited liability companies can be considered securities under the Arizona Securities Act.

Mr. Wakefield is knowledgeable on the process to appeal decisions of the Corporation Commission, and led the first RUCO success in appealing a Commission decision. He participates in RUCO's speaker's bureau, and has made numerous presentations on utility regulation and practice before the Arizona Corporation Commission in legal continuing education seminars.

Mr. Wakefield resigned as Chief Counsel of the Residential Utility Consumer Office on June 27, 2008.

#### **CHIEF COUNSEL (Daniel Pozefsky)**

Daniel Pozefsky has been RUCO's Chief Counsel since July 2008. He came to RUCO in 2000 after working at the Arizona Attorney General's Office where he tried cases on behalf of the Arizona Department of Economic Security. While at the Attorney General's Office, Mr. Pozefsky worked in the Protective Services Section and the Civil and Criminal Litigation and Advice Section.

Mr. Pozefsky received his Juris Doctorate from the State University of New York at Buffalo in 1987, and his Bachelor of Science Degree in Business Administration magna cum laude from the State University of New York at Buffalo in 1983. Mr. Pozefsky currently serves as a Board member on the State Board of Massage Therapy as well as a Judge Pro Tem in Maricopa County Superior Court.

Prior to working at the Attorney General's Office, Mr. Pozefsky was in private practice in New York State. Mr. Pozefsky has an extensive background in litigation including the areas of contract, bankruptcy, criminal and civil law. In addition, Mr. Pozefsky has prosecuted as well as defended several appeals before the Arizona Court of Appeals.

Mr. Pozefsky is married and has two children, Jakob and Noah.

### **CHIEF ACCOUNTING & RATES**

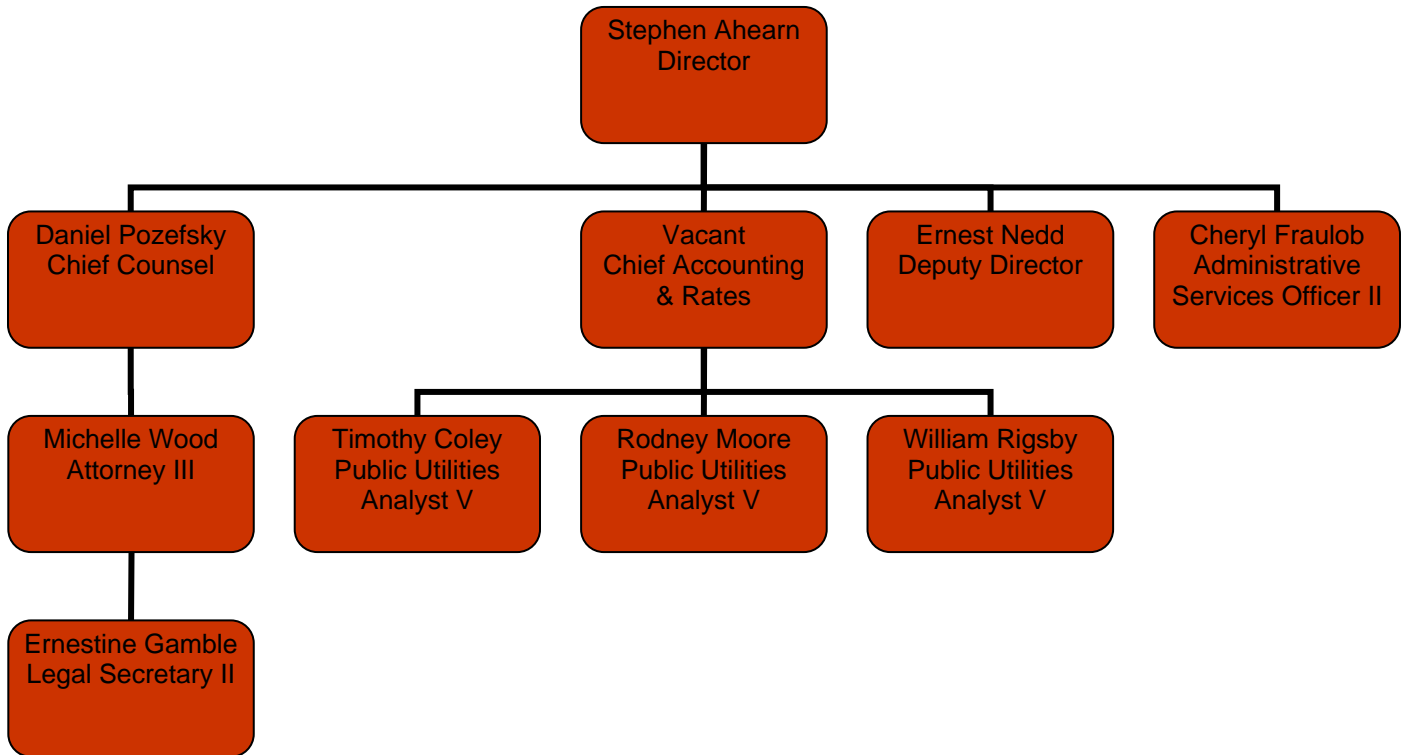
Marylee Diaz Cortez joined the Residential Utility Consumer Office in 1992, and has served as head of the technical division for the past 11 years. She is a graduate of the University of Michigan and a Certified Public Accountant licensed in Arizona and Michigan.

Prior to joining RUCO, Ms. Diaz Cortez worked for the public accounting firm of Larkin and Associates in the Detroit, Michigan area. Her private practice included regulatory consulting services. Between her experience at Larkin and Associates and RUCO she has audited over 100 public utility companies including electric, gas, telephone, water, and sewer. She has provided expert testimony in as many cases.

Ms. Diaz Cortez works with a staff of three in-house auditors as well as outside expert witnesses. She is responsible for overseeing all testimony filed before the Arizona Corporation Commission. In her 16 years with RUCO, she has worked diligently and successfully to protect consumers from unjust utility rates.

Ms. Diaz Cortez resigned as Chief Accounting and Rates of the Residential Utility Consumer Office on August 22, 2008.

# RESIDENTIAL UTILITY CONSUMER OFFICE ORGANIZATION CHART



## **RUCO AND THE REGULATORY PROCESS**

The Residential Utility Consumer Office (RUCO) was established by the Arizona Legislature in 1983 to represent the interests of residential utility ratepayers in rate-related proceedings involving public service corporations before the Arizona Corporation Commission (Commission).

Historically, utilities have had the exclusive right to provide services in designated areas. As legal monopolies, utilities are regulated to ensure that the public is charged just and reasonable prices. To establish the utilities' rates and charges, the Commission conducts public hearings and examines evidence and testimony presented by various concerned parties. RUCO represents the interests of Arizona's residents in these proceedings.

Every utility rate increase application filed with the Commission, regardless of the size of the utility, receives a preliminary review by RUCO. As a matter of policy, RUCO always intervenes and participates in rate cases involving Arizona's largest utilities. Intervention in the cases of smaller companies is decided on a case-by-case basis, with particular attention to the size of the increase sought, the rate history of the utility, and the availability of resources at RUCO. Generally, RUCO does not formally intervene in small cases to avoid causing unnecessary legal expenses for the small utility and its ratepayers.

RUCO is authorized 12 full-time employees, and often contracts with consultants for assistance in analyzing utilities' requests for changes in rates and preparing testimony.

## **THE RATEMAKING PROCESS**

The rates charged by Arizona's investor-owned utilities are established by the Commission. The Commission authorizes a utility to charge rates, which will recover expenditures which are appropriate and prudently incurred, and which provide an opportunity to earn fair return on the utility's capital investment.

A utility initiates the process to obtain a rate increase by filing an application with the Commission. The application must be based on a "test year" of actual expenses and investment during a recent twelve-month period. All of the utility's cost data are drawn from its own records. The Commission requires that the utilities follow a standardized system of accounting procedures that assures that the data can be easily reviewed and verified by the Commission, RUCO and others.

In its application, a utility may propose certain adjustments to its actual test year costs and investment. Historical costs and investment may be adjusted by annualizing changes which occurred during the test year, such as payroll increases or tax changes, making them appear as if they had been in effect for the entire year. In addition, historical costs may be normalized to eliminate the effects of abnormal

variations that actually occurred during the test year, such as weather-related changes in consumption. Other adjustments may be proposed to include the effects of known and measurable changes that occurred after the end of the test year, such as wage increases and certain costs related to recently completed construction projects.

Upon receiving the utility's application and written summary or testimony, the Commission's Staff reviews the application to confirm that it contains all the necessary accounting information. If the application is complete, the Commission's Staff prepares a letter of sufficiency. The determination of sufficiency triggers the Commission's "time clock" rule, which establishes a deadline by which the Commission Staff must file its Staff Report or testimony on the application, and a deadline by which the Commission must issue a final order on the application. A hearing date is fixed for an application that requires a hearing.

After the application is determined sufficient, RUCO and other interested parties are permitted to intervene in the case. As intervenors, parties have the right to obtain additional information from the utility to assist in their review of the application. In addition, intervenors may present evidence of their own on the application and may have their attorneys cross-examine other parties' witnesses and submit written briefs, which present their positions on the issues in the case.

When the Commission Staff has completed its investigation, it issues recommendations in a Staff Report or written testimony. Intervenors also provide their recommendations in the form of written testimony prepared by their analysts or consultants. The utility has the opportunity to respond through the filing of additional written testimony of its own.

In many cases, prior to the hearing on the application, the Commission holds public comment sessions in the service territory of the utility. These meetings are intended to allow customers to express their opinions about the rate request and to provide the Commission with information that the customers feel is relevant to the case. It is not required, nor is it expected, that customers making comments at these meetings be represented by counsel.

The Commission then holds a formal hearing on applications that require hearings. At the hearing, the utility, the Commission Staff, RUCO, and other intervenors present witnesses, offer evidence, and conduct cross-examination of other parties' witnesses on the issues raised in the filed reports and testimony. Issues commonly disputed in rate cases include: which expenses should be charged in rates to ratepayers; what a normal or prudent level of expenses should be; whether all of the utility's investments in physical facilities were prudently made and whether the facilities are needed for the provision of utility services; how much of a return the utility's shareholders should be allowed to earn on their investment; and how the cost of providing service should be allocated to, and recovered from, the utility's various classes of customers.

After the hearing is concluded, the Commission's Administrative Law Judge reviews the evidence and the parties' arguments and issues a Recommended Order. The Recommended Order sets forth a recommended decision on all contested issues and recommends how much of a rate increase, if any, the utility should receive. The parties are permitted to file exceptions to the Recommended Order, asking the Commission to disregard the conclusions of the Recommended Order and suggesting an alternate resolution. At a public meeting, the Commission considers the Recommended Order, and the parties' exceptions to it. The Commission can adopt or deny the Recommended Order as originally written, incorporate any of the suggested exceptions, or make its own amendments.

After the Commission issues its final decision, the parties have twenty days to request the Commission to reconsider its decision. If the Commission declines to grant a rehearing, the parties may appeal the decision to the Arizona Court of Appeals. Decisions of the Court of Appeals may be appealed to the Arizona Supreme Court. Filing an appeal does not prevent the rates approved by the Commission from taking effect.

### **RUCO'S BUDGET**

RUCO receives no money from the general tax fund. Rather, RUCO receives 100 percent of its operating budget from assessments of large utility companies that may, in turn, pass those charges on to their residential customers. In this way, those who benefit from RUCO's work fund its work. The utility ratepayers who pay these small assessments should consider their money well spent. The following reflects FY 2008 activity for the appropriation year 2008 and the approved amount for FY 2009.

<b>EXPENDITURE CATEGORIES</b>	<b>ACTUAL 2008</b>	<b>APPROVED 2009</b>
<b>PERSONAL SERVICES</b>	<b>745,600</b>	<b>745,600</b>
<b>EMPLOYEE EXPENSES</b>	<b>241,800</b>	<b>230,500</b>
<b>ALL OTHER</b>	<b>325,700</b>	<b>325,900</b>
<b>TOTAL</b>	<b>1,313,100</b>	<b>1,302,000</b>

## RUCO'S FUNDING MECHANISM

Pursuant to A.R.S. § 40-401.01, funding of RUCO is accomplished through an assessment made annually by the Commission. Each utility with annual residential revenues in excess of \$250,000, except those not required to hold Certificates of Convenience and Necessity, is assessed.

The disposition of assessment proceeds is governed by A.R.S. § 40-409. All monies received by the Commission under the provisions of A.R.S. § 40-401.01 are paid to the State Treasurer and placed in the RUCO Revolving Fund. Monies in the fund are used, subject to legislative appropriation, to operate RUCO pursuant to A.R.S. § 40-461. Appropriated funds not spent by the end of a fiscal year do not revert to the General Fund. They revert to the RUCO Revolving Fund and are used to calculate the ratepayer assessment for the next fiscal year. Based on the information available at the end of FY 2007, the assessment for FY 2008 was \$1,313,100.

## RUCO'S CASE ANALYSES AND INTERVENTIONS

As previously described, RUCO generally seeks to avoid intervening formally in small rate cases. Nevertheless, these cases are analyzed for potential cost impacts on ratepayers. Generally, rate applications for small utilities do not warrant formal RUCO intervention, which could unnecessarily increase costs to small utility ratepayers. The following table illustrates how RUCO's intervention activity over the past fiscal year compares to prior years:

	2004	2005	2006	2007	2008
<b>NUMBER OF CASES ANALYZED</b>	86	72	83	74	70
<b>NUMBER OF RUCO INTERVENTIONS</b>	13	10	13	4	6

## RUCO'S IMPACT

The following table illustrates RUCO's impact on rate requests by utilities over the past fiscal year, compared to prior years:

	2004	2005	2006	2007	2008
<b>AVERAGE UTILITY RATE REQUEST (MILLIONS \$)</b>	2.2	180.2	17.8	429.50	4.1
<b>AVERAGE RUCO RECOMMENDATION</b>	.9	2.9	12.6	213.75	1.7
<b>AVERAGE ACC APPROVED RATE</b>	1.0	79.4	12.9	324.50	2.5

## **CONSUMER EDUCATION AND OUTREACH ACTIVITIES**

Throughout calendar year 2008, RUCO has continued to engage in several activities designed to reach, interact with and educate residential utility ratepayers. As has been true for several years now, the primary vehicle for this outreach has been the agency's website. In conjunction with the Arizona Government Information Technology Agency (GITA), RUCO will be enacting major upgrades to this website in order to enhance the richness of its content and to make it more user-friendly.

Also throughout 2008, RUCO has continued to publish and distribute a consumer-oriented electronic newsletter. The RUCO Watchdog is sent to a database of approximately 500 subscribers and contains information about ongoing rate cases and other items that are of interest to the agency's constituents. The Watchdog is published in both HTML and text formats to accommodate individual subscriber preferences.

RUCO maintains a speaker's bureau and responds to groups requesting presentations about the Office. During 2008, RUCO staff members have attended numerous public comment sessions when matters affecting particular communities were pending before the Corporation Commission. RUCO personnel have been present at public comment sessions in many of the state's counties and the agency has a goal of visiting each county at least once every two years. RUCO staff members utilize these opportunities to interact with local residential utility consumers and to provide those consumers with information regarding specific issues in their area.

RUCO will continue to seek out additional opportunities that may become available through technological advances to reach out to larger segments of its constituency in a continuing effort to provide useful information to residential utility ratepayers

## **CASE SUMMARIES**

(Click [here](#) to review a list of acronyms and terms commonly used throughout the descriptions in these Case Summaries).

### **ON-GOING CASES**

**(those not closed by June 30, 2008, listed in order of Docket-opening date).**

#### **Arizona Universal Service Fund - ACC Docket No. RT-00000H-97-0137 et al.**

This case involves a generic docket that was opened by the Arizona Corporation Commission (“ACC” or “Commission”) in 1997. Recently, the Commission consolidated this docket with another generic access charge docket (T-00000D-00-0672) for the purpose of determining whether or not the subjects of these two dockets need reform.

The Arizona Universal Service Fund (“AUSF”) was established to maintain statewide average rates and the availability of basic telephone service to the greatest extent reasonably possible. RUCO has taken the position that the Commission should investigate opportunities to reduce intrastate access charges (i.e. intercarrier compensation – what one carrier pays to another) without substantially increasing basic local exchange rates. One way the Commission could do this is by restructuring and expanding the AUSF. If the AUSF is restructured, it could help ensure that universal service is advanced and customers are protected against unreasonable increases in basic local exchange rates.

RUCO has several concerns regarding these generic dockets. RUCO’s paramount concern is that changes to access rates for individual carriers requires a finding of fair value since it will take place outside of a rate case. Another concern is assurance that there is not to large a shift of revenues from the access charges to the AUSF surcharges or residential basic rates.

After the parties filed several rounds of comments, a “straw man” proposal was circulated to see if the parties could reach a consensus concerning reform. RUCO filed comments on January 7, 2008.

After the “straw man” proposal was circulated, the parties met on several occasions and have yet to come up with a resolution. The matter is currently scheduled for a procedural conference on October 10, 2008, so the parties can file a joint matrix of the issues and discuss where to go procedurally in the docket.

## Qwest Price Cap Plan, ACC Docket Nos. T-01051B-03-0454 and T-00000D-00-0672

In Decision No. 63487 dated March 30, 2001, the Arizona Corporation Commission (“ACC” or “Commission”) approved, with modifications, a Settlement Agreement resolving an application for a rate increase filed by Qwest Corporation (“Qwest” or the “Company”). The Settlement Agreement included a Price Cap Plan as an alternative to traditional rate of return regulation. The Price Cap Plan allowed Qwest to adjust prices for various services within certain limitations. The price for basic residential service could be adjusted downward, but not upward. Prices for certain services for which competitive alternatives exist were permitted to adjust upward or downward, within certain boundaries. The initial term of the Price Cap Plan was three years, and the Plan required Qwest to file any proposal to renew the Plan, and any requested modifications thereto, at least nine months prior to its expiration. Qwest’s application in this docket was its proposal to renew the plan with certain modifications.

RUCO analyzed Qwest's application to determine what modifications to the plan the Company sought, and the impacts of those modifications on customers. After an abbreviated discovery period, RUCO filed its direct testimony on November 18, 2004. A comparison of the proposed increases in revenue by Qwest and RUCO are as follows:

### DIRECT TESTIMONY REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	COMPANY ORIGINAL COST	RUCO ORIGINAL COST
1	Adjusted Rate Base	\$ 1,643,000	\$ 1,489,135
2	Adjusted Operating Income (Loss)	\$ (5,054)	\$ 35,579
3	Current Rate of Return (Line 2 / Line 1)	-0.31%	2.39%
4	Required Operating Income (Line 5 x Line 1)	\$ 183,687	\$ 130,001
5	Required Rate of Return	11.18%	8.73%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 188,741	\$ 94,423
7	Gross Revenue Conversion Factor	1.6876	1.6896
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	<b>\$ 318,525</b>	<b>\$ 159,537</b>
9	Adjusted Test Year Revenue	\$ 1,111,068	\$ 1,165,053
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 1,429,593	\$ 1,324,590
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	28.67%	13.69%

Qwest filed rebuttal testimony on December 20, 2004. RUCO's surrebuttal testimony was filed on January 12, 2005. The Company filed its rejoinder testimony (the final round of written testimony in the case) on January 27, 2005.

On February 2, 2005, Qwest filed a motion with the ACC’s Hearing Division requesting that the proceeding be suspended so that the Company could conduct settlement

negotiations with ACC Staff, RUCO and all other interested parties. Despite objections from several intervenors, Qwest's motion was granted by the Administrative Law Judge ("ALJ") assigned to the case during a pre-hearing conference that was conducted on February 3, 2005.

After meeting with representatives from Qwest, ACC Staff and other interested parties over a period of several weeks, RUCO withdrew from the settlement discussions having reached an impasse on several key issues. RUCO did, however, continue to monitor the progress of the negotiations. On August 23, 2005, the Commission's Chief Counsel filed a signed Settlement Agreement ("Agreement") that had been reached between ACC Staff, Qwest, Cox Arizona Telecom, LLC, the Department of Defense (and all other Federal Executive Agencies), the regulated subsidiaries of MCI, Inc., Time Warner Telecom of Arizona, LLC, the Arizona Investors Utility Association, and XO Communications Services, Inc.

On August 26, 2005, the ACC's Hearing Division issued a Procedural Order laying out the schedule for an evidentiary hearing on the Agreement. The hearing was held on November 1-3, 2005. Throughout the hearing, RUCO argued against the adoption of the Agreement on the ground that it was not in the public interest for several reasons. Most importantly, RUCO believed that the Agreement did not recognize the varying degrees of competition that Qwest faces in its wire centers throughout Arizona (geographic pricing). The ALJ issued her Recommended Opinion and Order wherein she recommended the Commission adopt the Agreement.

The matter was scheduled for Open Meeting and the Commission issued its decision on March 23, 2006. The Commission adopted the Agreement at the Open Meeting. The Commission noted that this case was not the case to determine the issues associated with geographic pricing. RUCO was instrumental in bringing the geographic pricing issue to the forefront and assuring its consideration in another docket before the Commission. RUCO was also effective in the negotiation process and several of RUCO's recommendations were ultimately a part of the final Agreement adopted by the Commission.

The term of the Renewed Price Cap Plan is a period of three years after the effective date of the Commission's decision – Decision No. 68604 docketed March 23, 2006. In anticipation of the March 23, 2009 renewal date, Qwest filed an application to extend the renewed price cap plan on June 24, 2008. The Commission has not acted on Qwest's request as of the date of the filing of this report.

**Arizona-American Water Company, Inc. – Paradise Valley Water District - Step Two Filing Request for an ACRM Surcharge, ACC Docket No. W-01303A-05-0405 et al.**

On May 15, 2007, Arizona-American Water Company ("Arizona-American" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for authority to increase the existing surcharge of an arsenic cost

recovery mechanism ("ACRM") for the Company's Paradise Valley Water District. Arizona-American's application sought approval to implement a step-two surcharge, which allows the Company to recover the eligible arsenic operation and maintenance costs ("O&M") associated with the arsenic removal plant and equipment. The new arsenic removal plant was needed to reduce the level of arsenic in drinking water in order to comply with the U.S. Environmental Protection Agency's ("EPA") revised arsenic standard of not more than 10 parts per billion (the EPA's prior standard was 50 parts per billion).

RUCO reviewed Arizona-American's filing and filed an audit report on July 8, 2008, recommending that the Commission disallow approximately \$2.6 million in capital costs and accept RUCO's adjusted level of O&M expense. RUCO's rationale for the disallowance of the Company-proposed capital is based on RUCO's interpretation of prior ACC orders which established what costs would be included in Step-One and Step-Two ACRM filings.

On September 12, 2008, ACC Staff filed a similar report with a Recommended Opinion and Order ("ROO") on the Company's request for the Step-Two ACRM surcharge. ACC Staff is recommending that the Company's application be approved with no adjustments for either the Company-proposed capital costs or requested level of O&M expense.

RUCO plans to file exceptions to the ROO stating why RUCO believes the \$2.6 million in capital costs should not be recovered in a Step-Two surcharge.

The five ACC Commissioners will vote on the ROO at a scheduled open meeting. The Commissioners can approve, amend or reject the ROO.

### **Tucson Electric Power Company, Request for an Increase in Rates/Proposed Settlement Agreement, ACC Docket No. E-01933A-07-0402 et al.**

On July 2, 2007, Tucson Electric Power Company ("TEP" or "Company") filed an application ("Application") with the Arizona Corporation Commission ("ACC" or "Commission") requesting rate relief under one of three different Company-proposed methodologies: a Market Methodology; which would result in a 21.9 percent increase over current rates, a Cost-of-Service Methodology; that would increase current rates by 23.0 percent, and a Hybrid Methodology; which would result in an increase of 14.9 percent over TEP's current rates. In addition to an increase in existing rates, TEP is seeking Commission approval of a purchased power and fuel adjustment clause ("PPFAC") which will allow the Company to flow forward-looking increases and decreases in the Company's purchased power and fuel costs (with no profit markup) to customers. TEP is also seeking approval of a surcharge to recover \$14.2 million (under the Market Methodology) to \$47.0 million (under the Cost-of-Service or Hybrid Methodologies) in certain software acquisition/modification and coal contract buy-down costs that were related to the implementation of retail electric competition in Arizona (the "Implementation Cost Regulatory Asset" or "ICRA"). TEP is further seeking a demand-side management cost recovery mechanism ("DSM Cost Recovery

Mechanism") surcharge that will allow the Company to recover costs associated with DSM programs. The Company is also proposing that the Commission adopt significant rate design changes that involve time-of-use ("TOU") and Lifeline rates for TEP's customers. The Company is seeking a return on common equity that ranges from 10.75 percent to 11.75 percent based on the capital structure that is adopted by the ACC.

TEP currently provides electric power to over 394,000 customers in Tucson and southern Arizona. The Company is presently operating under a moratorium (established in a 1999 Settlement Agreement with RUCO, members of Arizonans for Electric Choice and Competition, and the Arizona Community Action Association and approved in ACC Decision No. 62103, dated November 30, 1999) which freezes the Company's rates through December 2008. TEP is requesting that new rates go into effect no later than January 1, 2009.

On August 31, 2007, TEP's Application was found to be sufficient by ACC Staff.

On September 13, 2007, the Administrative Law Judge ("ALJ") assigned to hear TEP's case issued a Procedural Order scheduling a procedural conference for 10:00 a.m. on October 1, 2007, at the ACC's Tucson offices at 400 W. Congress Street. During the procedural conference, attorneys representing the various parties to the case, including RUCO, offered their recommendations on a procedural schedule for the case (i.e. the dates for the evidentiary hearing and for the filing of written testimony) to the ALJ.

On October 5, 2007, the ALJ issued a Procedural Order that scheduled the evidentiary hearing in the matter for 10:00 a.m. on May 12, 2008, in Room 222 at 400 West Congress, Tucson, Arizona. On February 21, 2008, the ALJ responded to a request from ACC Staff and issued a new Procedural Order that extended the filing deadlines for written testimony. The scheduled date for TEP's evidentiary hearing remained unchanged.

There was no need for RUCO to file a request for intervenor status since RUCO was one of the parties to TEP's prior request that sought to amend Decision No. 62103 (Docket No. E-01933A-05-0650). During the discovery phase of the proceeding, RUCO's analysts and outside consultants gathered information, conducted an audit of the Company, and performed a cost of capital analysis to determine an appropriate rate of return on TEP's investment in utility plant used to provide service to ratepayers.

RUCO, ACC Staff and other intervenors to the case filed direct testimony on issues other than rate design on February 29, 2008. RUCO recommended the following:

**DIRECT TESTIMONY REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	COMPANY FAIR VALUE	RUCO FAIR VALUE
1	Adjusted Rate Base	\$ 1,416,014	\$ 1,359,709
2	Adjusted Operating Income (Loss)	\$ (13,173)	\$ 50,824
3	Current Rate of Return (Line 2 / Line 1)	-0.93%	3.74%
4	Required Operating Income (Line 5 x Line 1)	\$ 82,069	\$ 72,667
5	Required Rate of Return	5.80%	5.34%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 95,242	\$ 21,843
7	Gross Revenue Conversion Factor	1.6609	1.6598
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	\$ 158,186	\$ 36,254
9	Adjusted Test Year Revenue	\$ 712,731	\$ 897,212
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 870,917	\$ 933,466
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	22.19%	4.04%
12	Rate of Return on Common Equity	11.39%	9.44%

Direct testimony on rate design was filed before noon on March 14, 2008. TEP filed rebuttal testimony as scheduled on April 1, 2008. This was to be followed by surrebuttal testimony from RUCO, ACC Staff and other intervenors on April 24, 2008. TEP was then scheduled to file a final round of rejoinder testimony on May 7, 2008.

On April 10, 2008, the parties to the case met at the ACC's offices in Phoenix to begin discussions on a possible Settlement Agreement. RUCO informed the parties at this initial meeting that the terms of the Company's Settlement Proposal were too far removed from RUCO's position to merit our participation in the negotiations. Meetings continued through April 18, 2008. On April 18, 2008, the attorney for ACC Staff filed a request for a Procedural Order that would vacate the April 24, 2008 filing date for surrebuttal testimony from RUCO, ACC Staff, and other intervenors.

On April 21, 2008, the ALJ issued a Procedural Order vacating the filing dates for surrebuttal and rejoinder testimony. The Procedural Order also ordered ACC Staff to file a request for a new procedural schedule or file a request for a Procedural Conference to discuss the status of settlement negotiations and the schedule no later than April 28, 2008.

On April 23, 2008, the attorney representing the Company filed a letter with the ACC stating that TEP and ACC Staff had reached an agreement in principle and that TEP and ACC Staff were in the process of preparing a written agreement that will memorialize the terms of the settlement ("Settlement Agreement").

On April 28, 2008, ACC Staff filed a request for a procedural conference. Because of a conflicting schedule, the attorney for intervenor Mesquite et al., was unable to attend ACC Staff's proposed May 12, 2008 conference date. On May 1, 2008, the ALJ issued a Procedural Order scheduling the requested procedural conference for 10:00 a.m. on May 8, 2008, at the ACC's Tucson offices (Room 222) at 400 W. Congress Street.

On May 12, 2008, after considering the input provided during the May 8th procedural conference, the ALJ issued her eighth Procedural Order to govern the Settlement Agreement phase of the proceeding. Also on May 12, 2008, a public comment meeting was conducted at the Commission's Tucson offices.

In light of the Settlement Agreement, the subject of the evidentiary hearing shifted away from the litigated positions of the parties to the case, and instead focused on the Settlement Agreement to determine if it is in the public interest.

The Settlement Agreement was filed on May 29, 2008. On June 11, 2008, parties in support of the Settlement Agreement filed direct testimony. On July 1, 2008, RUCO filed a motion to strike the testimony of TEP witness Thomas A. Zlaket. On July 2, 2008, RUCO filed direct testimony presenting what it believed to be serious deficiencies with the Settlement Agreement.

A pre-hearing conference, for the purpose of scheduling witnesses, was conducted on July 3, 2008. Rebuttal testimony was filed by proponents of the Settlement Agreement on July 8, 2008.

The evidentiary hearing on the proposed Settlement Agreement, reached by TEP, ACC Staff and other intervenors to the case, began at 10:00 a.m. on July 9, 2008, and was concluded at 11:00 am on July 16, 2008. During the hearing, RUCO's attorney cross-examined witnesses for the signatories to the Settlement Agreement and the witness for Southwest Energy Efficiency Project ("SWEEP"). RUCO's expert witness faced approximately three and a half hours of cross-examination from attorneys representing the signatories.

A closing legal brief, arguing the parties' positions on the Settlement Agreement, by the attorneys representing the parties to the case, was filed on August 29, 2008.

The ALJ is now weighing all of the evidence presented during the proceeding, including public correspondence and comments from ratepayers, and will write a Recommended Opinion and Order ("ROO"). The ROO will then be voted on at a scheduled open meeting by the five ACC Commissioners. The Commissioners can accept, reject or amend the ROO in order to arrive at a final decision on TEP's request for a rate increase. A final decision on TEP's request for an increase in rates will probably not be made by the five ACC Commissioners until sometime during the last three months of 2008.

## **Gold Canyon Sewer Company – Rehearing, ACC Docket No. SW-02519A-06-0015**

On July 18, 2007, RUCO filed an Application for Rehearing requesting that the Arizona Corporation Commission (“ACC” or “Commission”) reconsider Decision No. 69664, dated June 28, 2007, to increase Gold Canyon Sewer Company’s (“Gold Canyon” or “Company”) rates by approximately 72.02 percent. RUCO stated in its filing that the 72.02 percent increase is not reasonable or fair to Gold Canyon customers under the facts and circumstances of the case. RUCO also stated that the final decision heavily favors the Company’s interests over the interests of the ratepayers.

RUCO submitted the application on the final day of a twenty-day period in which parties to utility rate case proceedings can request a rehearing on final decisions rendered by the ACC. The Commission has twenty days to consider such a request and act on it. If no action is taken during the twenty-day period, the Decision stands.

On August 1, 2007, four of the five ACC Commissioners voted to approve RUCO’s request to rehear the issues of excess capacity, hypothetical capital structure and rate case expense. The vote came after approximately thirty minutes of contentious debate among the five Commissioners during a regularly scheduled staff meeting at the ACC’s Phoenix office.

On August 28, 2007, the ALJ assigned to the case issued a Procedural Order which scheduled a procedural conference for September 5, 2007 at 3:00 p.m. at the Commission’s Phoenix office. During the scheduled procedural conference, the parties to the case discussed possible dates for a hearing and other procedural issues (such as the filing of written testimony). The parties agreed that RUCO should file rehearing (direct) testimony on September 28, 2007. This would be followed by a round of responsive testimony from the Company and ACC Staff on October 26, 2007. Responses to discovery requests would be provided in seven calendar days from the date of receipt. The rehearing in the matter was tentatively scheduled for November 13, 2007 at the Commission’s Phoenix Office at 1200 W. Washington.

On September 14, 2007, the ALJ issued a Procedural Order setting the date of the evidentiary hearing for 10:00 a.m. on November 13, 2007 at the ACC’s Phoenix office at 1200 W. Washington.

RUCO filed its Rehearing (direct) Testimony as scheduled on September 28, 2007.

On October 10, 2007, Gold Canyon filed a request seeking an extension of time to file the Company’s responsive testimony that is due on October 27, 2007.

On October 12, 2007, ACC Staff filed a request for an extension of time to its responsive testimony.

On October 15, 2007, the ALJ issued a Procedural Order granting Gold Canyon's and ACC Staff's requests. Responsive testimony is scheduled to be filed on October 30, 2007.

Due to a fire at the Arizona Corporation Commission building, the rehearing for Gold Canyon Sewer Company was rescheduled for 10:00 a.m. on November 14, 2007 at the Arizona State Capital Executive Tower Building. The rehearing was recessed at 5:00 p.m. All three of RUCO's witnesses testified during the first day of the rehearing and were cross-examined by the Company's attorney, lawyers for ACC Staff, ALJ Dwight Nodes and Commissioner Kris Mayes.

On December 12, 2007, the ALJ issued a Procedural Order that rescheduled the rehearing for February 25 and 26, 2008, at the Commission's Phoenix office at 1200 W. Washington. During the second day of the rehearing, RUCO's attorney cross-examined witnesses for the Company.

The third day of the rehearing was held on March 31, 2008, at the Commission's Phoenix office at 1200 W. Washington. During day three, RUCO's attorney cross-examined witnesses for ACC Staff who testified on the hypothetical capital structure, rate case expense and excess capacity issues that are the subject of the proceeding. ACC Staff witnesses were also cross-examined by Gold Canyon's attorney, ALJ Dwight Nodes, ACC Chairman Mike Gleason, Commissioner Kris Mayes and Commissioner Gary Pierce. The rehearing was recessed around 12:30 p.m. RUCO's policy witness was unable to testify as scheduled due to an unexpected illness.

On April 1, 2008, rehearing supplemental testimony on the hypothetical capital structure issue was filed by RUCO.

After the third day of hearing, the attorneys for the parties to the case decided that no additional days of hearing would be needed. RUCO agreed to withdraw its supplemental testimony on the hypothetical capital structure issue in the case but gave judicial notice of the 2006 Algonquin Power Income Fund Annual Report that was contained in the testimony. RUCO filed its rehearing closing brief as scheduled on May 5, 2008. Reply briefs were filed on May 22, 2008.

After the filing of reply briefs, Judge Nodes will weigh all of the evidence presented during the proceeding, including public correspondence and comment from ratepayers, and write a Recommended Opinion and Order ("ROO"). The ROO will then be voted on at a scheduled open meeting by the five ACC Commissioners. The Commissioners can accept, reject or amend the ROO in order to arrive at a final decision on the issues that were examined during the rehearing. Because the proceeding is not being governed by the Commission's rate case time clock rules, no specific date has been set for a final decision from the five ACC Commissioners.

## **Southwest Gas Corporation – 2007 Rate Case, ACC Docket No. G-01551A-07-0504**

On August 31, 2007, Southwest Gas Corporation ("SWG" or "Company") filed an application ("Application") with the Arizona Corporation Commission ("ACC" or "Commission") with a request for a permanent increase in rates. SWG, a Class A utility, sought a revenue increase of \$50.2 million, which resulted in a 9.45 percent return on invested capital. According to the Company's application, the proposed increase raised the current average monthly residential bill of \$50.95 by \$3.59 per month or approximately 7.05 percent. SWG also sought approval of a Revenue Decoupling Adjustment Provision ("RDAP") mechanism that allowed the Company to recover lost revenues, attributed to customer conservation, through SWG's rates. SWG was the largest local distribution company in the state of Arizona, and provided natural gas to customers in Cochise, Gila, Graham, Greenlee, La Paz, Maricopa, Mohave, Pima, Pinal and Yuma counties. Fifty-four percent of Las Vegas-based Southwest Gas Corporation's customers were located in Arizona.

On October 1, 2007, ACC Staff issued a Letter of Sufficiency informing SWG that the Company's Application had met the sufficiency requirements of A.A.C. R14-2-103.

On October 16, 2007 RUCO filed a request for intervention.

On October 23, 2007, the Administrative Law Judge ("ALJ") assigned to hear the case issued a Procedural Order that established the dates and times for the evidentiary hearing on the matter and set the dates for filing testimony from the parties to the case.

On December 6, 2007, ACC Staff filed a request for a change in the procedural schedule to allow for a separate filing date for direct testimony on rate design.

On December 11, 2007, the ALJ issued a second Procedural Order that granted ACC Staff's request.

ACC Staff, RUCO and other intervenors to the case filed written direct testimony on March 28, 2008. RUCO recommended the following Revenue Requirement:

**DIRECT TESTIMONY REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	COMPANY FAIR VALUE	RUCO FAIR VALUE
1	Adjusted Rate Base	\$ 1,469,135,558	\$ 1,463,643,611
2	Adjusted Operating Income (Loss)	\$ 73,180,098	\$ 77,394,464
3	Current Rate of Return (Line 2 / Line 1)	4.98%	5.29%
4	Required Operating Income (Line 5 x Line 1)	\$ 103,457,659	\$ 96,226,345
5	Required Rate of Return	7.04%	6.57%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 30,277,561	\$ 18,831,882
7	Gross Revenue Conversion Factor	1.6586	1.6619
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	\$ 50,219,828	\$ 31,296,285
9	Adjusted Test Year Revenue	\$ 399,234,678	\$ 399,234,678
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 449,454,506	\$ 430,530,964
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	12.58%	7.84%
12	Rate of Return on Common Equity	11.25%	9.88%

Direct testimony on rate design was filed on April 11, 2008. Rebuttal testimony from SWG was filed on May 9, 2008. ACC Staff, RUCO and other intervenors to the case filed surrebuttal testimony on May 27, 2008. SWG filed a final round of rejoinder testimony on June 9, 2008.

The evidentiary hearing on SWG's request began on June 16, 2008, and was concluded on June 26, 2008. During the hearing, attorneys for SWG and ACC Staff cross-examined RUCO's expert witnesses. RUCO's witnesses also responded to questions posed by Commissioner Kris Mayes and the ALJ. RUCO's attorney cross-examined expert witnesses testifying on behalf of SWG, ACC Staff, Southwest Energy Efficiency Project, and the Arizona Investment Council.

Final position schedules and closing legal briefs were filed on August 8, 2008. Reply briefs were filed by the parties to the case on August 22, 2008.

After weighing all of the evidence presented during the proceeding (including public correspondence and comments from ratepayers), the ALJ will write a Recommended Opinion and Order ("ROO"). The ROO will then be voted on at a scheduled open meeting by the five ACC Commissioners. The Commissioners can accept, reject or amend the ROO in order to arrive at a final decision on SWG's request for a rate increase. Depending on the length of the evidentiary hearing, a final decision on SWG's request for an increase in rates will probably not be made by the five ACC Commissioners until sometime during the fourth quarter of 2008.

**Chaparral City Water Company - 2007 Rate Case Filing, ACC Docket No. W-02113A-07-0551**

On September 27, 2007, Chaparral City Water Company ("Chaparral" or "Company") filed an application for a permanent rate increase ("Application") with the Arizona Corporation Commission ("ACC" or "Commission"). According to the Company's Application, Chaparral provides water service to a total of 13,500 customers in portions of eastern Maricopa County including the Town of Fountain Hills.

Chaparral's current rates were approved in Decision No. 68176 dated September 30, 2005, and have been in effect since October 1, 2005. The Company's sole shareholder is American States Water Company, a California-based utility holding company that acquired Chaparral's stock from MCO Properties, Inc. The Company's local office address is 12021 North Panorama Drive, Fountain Hills Arizona 85268. Chaparral's request for rate relief is based on a test year ended December 31, 2006.

Chaparral is requesting an increase in annual revenues of \$3,063,400 or 41.6 percent over adjusted test year revenues of \$7,364,411. The reasons cited by the Company for the requested increase in rates included higher operating expenses, the recovery of new plant additions and Chaparral's inability to earn its authorized rate of return on investment.

The Company is requesting that the basic monthly service charge for residential customers (using a 3/4-inch meter) be increased from \$13.60 to \$18.56. Chaparral is also proposing that the current 3-tiered metered commodity rate structure be retained for residential, commercial and industrial customers. Under the Company's proposal, the first tier commodity rate (for the first 3,000 gallons) would increase from \$1.68 per 1,000 gallons to \$2.292 per 1,000 gallons. The second tier commodity rate (3,001 gallons to 9,000 gallons) would increase from \$2.52 per 1,000 gallons to \$3.438 per 1,000 gallons. Finally, the third tier commodity rate (any consumption over 9,000 gallons) would increase from \$3.03 per 1,000 gallons to \$4.134 per 1,000 gallons.

Chaparral's primary source of water is supplied through the Central Arizona Project ("CAP"). The Company is proposing that an additional CAP allocation purchase, which will occur outside the Company's test year, be given rate base treatment and be recovered in rates. The Company is also proposing that its authorized rate of return be applied to its fair value rate base (an issue raised during Chaparral's prior rate case proceeding that is the subject of an Arizona Court of Appeals Decision that has been remanded back to the ACC for further action), which will result in higher rates to Chaparral's customers.

On October 26, 2007, ACC Staff docketed a sufficiency letter informing Chaparral that the Company's application met the sufficiency requirements of A.A.C. R-14-2-103 and that the Company had been classified as a Class A water utility.

On November 19, 2007, RUCO filed a request for intervention.

On November 30, 2007, the Administrative Law Judge ("ALJ") assigned to the case issued a Procedural Order that granted RUCO's request for intervention and scheduled

a date for the evidentiary hearing on the matter. On December 21, 2007, the ALJ issued an amended Procedural Order that rescheduled the evidentiary hearing for 10:00 a.m. on July 21, 2008.

On January 3, 2008, ACC Staff filed a motion with the ACC's Hearing Division requesting a suspension of the time clock rules on the Company's rate request until a final decision is issued on Chaparral's remand hearing case that is also pending before the Commission. On January 8, 2008, the Company filed a response in opposition to ACC Staff's motion. On January 14, 2008, ACC Staff filed a reply to the Company's response that defended its request for suspension of the time clock.

On January 22, 2008, the ALJ issued a Procedural Order that suspended the proceeding and further ordered that the proceeding continue as soon as practicable following the Commission's final order in Docket No. W-02113A-04-0616 (the remand proceeding on the application of an appropriate rate of return on the Company's fair value rate base).

On June 30, 2008, after weighing all of the evidence presented during the remand proceeding on Docket No. W-02113A-04-0616, the ACC's Chief Administrative Law Judge ("CALJ") issued a Recommended Opinion and Order that recommended a modified version of the methodology recommended by RUCO witness Dr. Ben Johnson in that proceeding. The CALJ reduced the cost of equity capital awarded in Chaparral's prior rate case by an inflation factor of 200 basis points (i.e. 2.00 percent). The resulting 6.40 percent weighted average cost of capital was then applied to Chaparral's fair value rate base to arrive at an appropriate level of operating income for the Company (the revised annual operating figure provides the company with an additional \$12,143 more than what was originally authorized in Decision No. 68176. The CALJ also recommended that the recovery, if any, of Chaparral's legal expenses incurred during the appeal and remand proceedings be considered in the Company's pending rate case proceeding.

At a special open meeting held on July 17, 2008, the ALJ's recommendations on Docket W-02113A-04-0616 were adopted by the ACC Commissioners by a vote of four to one.

At a procedural conference held on July 21, 2008, the ALJ took procedural schedule recommendations, from the attorneys representing the parties to the case, under advisement. On July 24, 2008, the ALJ issued a second amended Procedural Order that set new filing dates on pre-filed testimony and established a date for an evidentiary hearing.

RUCO filed direct testimony on September 30, 2008. RUCO is recommending the following revenue requirement:

**DIRECT TESTIMONY REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	COMPANY PROPOSED	RUCO RECOMMENDED
1	Adjusted Rate Base	\$ 28,736,406	\$ 27,501,327
2	Adjusted Operating Income (Loss)	\$ 797,271	\$ 1,101,299
3	Current Rate of Return (Line 2 / Line 1)	2.77%	4.00%
4	Required Operating Income (Line 5 x Line 1)	\$ 2,678,233	\$ 1,753,848
5	Required Rate of Return	9.32%	6.38%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 1,880,962	\$ 652,548
7	Gross Revenue Conversion Factor	1.6286	1.6287
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	\$ 3,063,335	\$ 1,062,786
9	Adjusted Test Year Revenue	\$ 7,446,700	\$ 7,508,649
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 10,510,035	\$ 8,571,434
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	41.14%	14.15%
12	Rate of Return on Common Equity	10.50%	6.83%

On the same day that RUCO filed direct testimony, the ALJ acted on an ACC Staff request for a filing extension and issued a Procedural Order that extended the filing dates for pre-filed testimony by approximately three days. Under the new Procedural Order, the Company will file rebuttal testimony on October 31, 2008. RUCO, ACC Staff and any other intervenors will file surrebuttal testimony by noon on November 20, 2008. The Company will file a final round of rejoinder testimony on December 4, 2008. The evidentiary hearing on the matter is scheduled to begin at 10:00 a.m. on December 8, 2008, at the ACC's Phoenix Offices, 1200 W. Washington in Phoenix.

During the evidentiary hearing, attorneys representing Chaparral, RUCO, ACC Staff and any other intervenors will cross-examine the expert witnesses that file written testimony. After the hearing, the attorneys for the parties to the case will file final schedules, stating their positions, and one to two rounds of legal briefs arguing their positions on the issues raised during the proceeding.

After the filing of final schedules and legal briefs, the ALJ will weigh all of the evidence presented during the proceeding, including public correspondence and comment from ratepayers, and write a Recommended Opinion and Order ("ROO"). The five ACC Commissioners will then vote on the ROO at a scheduled open meeting. The Commissioners can accept, reject or amend the ROO in order to arrive at a final decision on Chaparral's request for a rate increase. Depending on the length of the evidentiary hearing, a final decision on Chaparral's request for an increase in rates will probably not be made by the five ACC Commissioners until sometime during the second or third quarter of 2009.

**Arizona-American Water Company, Inc., Havasu Water District Step Two Filing Request for an ACRM Surcharge, ACC Docket No. W-01303A-05-0280**

On April 14, 2008, Arizona-American Water Company ("Arizona-American" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for authority to increase the existing surcharge of an arsenic cost recovery mechanism ("ACRM") for its Havasu Water District. Arizona-American's application sought approval to implement a step-two surcharge, which will allow the Company to recover the eligible arsenic operation and maintenance costs ("O&M") associated with the arsenic removal plant and equipment. The new arsenic removal plant was needed to reduce the level of arsenic in drinking water in order to comply with the U.S. Environmental Protection Agency's ("EPA") revised arsenic standard of not more than 10 parts per billion (the EPA's prior standard was 50 parts per billion).

RUCO reviewed Arizona-American's filing and conducted an on-site inspection to insure that the arsenic removal plant was in full operation. RUCO filed an audit report on July 8, 2008, recommending that the Commission approve Arizona-American's request.

ACC Staff filed a similar report and wrote a Recommended Opinion and Order ("ROO") on the Company's request for the Step-Two ACRM surcharge. The five ACC Commissioners will vote, amend or reject the ROO at a scheduled open meeting. Because the proceeding is not governed by the ACC's time clock rules, no dates have been scheduled for the filing of the ACC Staff report or the open meeting when the five ACC Commissioners will vote on the matter.

**Arizona-American Water Company, Inc. – Sun City West Water District - Step Two Filing Request for an ACRM Surcharge, ACC Docket No. W-01303A-05-0280 et. al.**

On April 30, 2008, Arizona-American Water Company ("Arizona-American" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for authority to increase the existing surcharge of an arsenic cost recovery mechanism ("ACRM") for the Company's Sun City West Water District. Arizona-American's application sought approval to implement a step-two surcharge, which allows the Company to recover the eligible arsenic operation and maintenance costs ("O&M") associated with the arsenic removal plant and equipment. The new arsenic removal plant was needed to reduce the level of arsenic in drinking water in order to comply with the U.S. Environmental Protection Agency's ("EPA") revised arsenic standard of not more than 10 parts per billion (the EPA's prior standard was 50 parts per billion).

RUCO reviewed Arizona-American's filing and conducted an on-site inspection to insure that the arsenic removal plant was in full operation. RUCO filed an audit report on June 17, 2008, recommending that the Commission approve Arizona-American's request.

ACC Staff will file a similar report and write a Recommended Opinion and Order ("ROO") on the Company's request for the Step-Two ACRM surcharge. The five ACC

Commissioners will then vote on the ROO at a scheduled open meeting. The Commissioners can approve, amend or reject the ROO. Because the proceeding is not governed by the ACC's time clock rules, no dates have been scheduled for the filing of the ACC Staff report or the open meeting when the five ACC Commissioners will vote on the matter.

**Arizona-American Water Company, Inc. – 2008 Rate Case Filing, ACC Docket No. W-01303A-08-0227**

On May 1, 2008, Arizona-American Water Company, Inc. ("Arizona-American" or "Company"), a wholly-owned subsidiary of American Water Works Company (NYSE: AWK), filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting rate increases for the following Districts:

<u>Name of District</u>	<u>Revenue Increase</u>	<u>Percentage Increase</u>
Agua Fria Water District	\$9,192,203	48.8%
Havasu Water District	\$815,803	79.5%
Mohave Water District	\$1,655,410	32.4%
Paradise Valley Water District	\$3,101,550	39.5%
Sun City West Water District	\$4,276,305	75.0%
Tubac Water District	\$278,214	65.2%
Mohave Wastewater District	\$642,148	80.7%

In addition to the increases in revenue listed above, the Company is also seeking a number of changes to existing surcharges and fees and is requesting specific accounting treatments for certain plant items.

On June 2, 2008, ACC Staff issued a letter of deficiency notifying the Company that its application did not meet the sufficiency requirements of Arizona Administrative Code Rule R14-2-103. ACC Staff listed several deficiencies that need to be corrected before a proceeding on Arizona-American's request can begin. The 30-day sufficiency determination period will begin anew when the Company files a corrected application.

On June 20, July 15, and July 21, 2008, the Company filed revisions to the application, which then met the sufficiency requirements.

On July 8, 2008, RUCO was granted intervention.

On August 11, 2008, the ALJ assigned to the case issued a Procedural Order that scheduled a hearing for March 16, 2009.

RUCO is currently in the discovery phase of the proceeding and is in the process of conducting a full analysis of the Company's Application.

Direct testimony will be filed on January 9, 2009.

A final decision on Arizona American's request will probably not be made until sometime during late July 2009.

**Arizona Public Service Company – Request for an Increase in Permanent Rates, ACC Docket No. E-01345A-08-0172**

On June 2, 2008, Arizona Public Service Company ("APS" or "Company"), the largest electric service provider in the state, filed an amended application ("Application") with the Arizona Corporation Commission ("ACC" or "Commission") requesting an increase in rates and charges. APS is seeking an increase of \$448.2 million (including a \$183.9 million increase in base fuel costs) over adjusted test year jurisdictional revenues of \$2,732 million. In addition to the aforementioned increase of \$448.2 million, APS is also proposing that it be permitted to implement a surcharge on ratepayers located in new service areas to collect up to \$53 million in additional revenues per year to recover a \$79.3 million revenue attrition allowance adjustment that is part of the Company-proposed non-fuel base rate increase of \$264.3 million (i.e. \$448.2 million overall increase less the proposed \$183.9 increase in base fuel costs). APS claims that prior rate increases granted by the ACC have been unjust and unfair to the Company and will continue to be unless the increases requested in its Application are approved.

In addition to the proposed increases in revenue just noted, APS is also seeking changes to the Company's existing Demand Side Management Adjustment Clause ("DSMAC") surcharge, its existing Transmission Cost Adjustor ("TCA") surcharge and to its existing Environmental Improvement Surcharge ("EIS"). APS is also proposing approval of three new conservation and demand management rate provisions; a continuation of the Company's ability to defer certain costs related to its provision of net metering options; and changes in or cancellation of specific service and rate schedules as well as approval of Company-proposed depreciation rates. APS is further proposing several new rate programs and modifications to existing rate programs which will include a new residential time-of-use ("TOU") option that reflects a "super peak" period of 3 to 6 p.m. during the summer months of June, July and August. APS is requesting a return on common equity of 11.50 percent and an overall rate of return on invested capital of 8.86 percent.

APS is a wholly-owned subsidiary of Pinnacle West Capital Corporation and is publicly traded on the New York Stock Exchange ("NYSE") under the ticker symbol PNW. During the test year ended December 31, 2007, the Company served approximately 1.1 million customers in Arizona and employed approximately 6,800 individuals.

On July 16, 2008, RUCO filed an application to intervene on behalf of residential ratepayers that are served by APS.

On July 2, 2008, APS' Application was found sufficient by ACC Staff. On July 29, 2008, the Chief Administrative Law Judge ("CALJ") of the ACC's Hearing Division issued a

Procedural Order that set the dates for the filing of pre-filed testimony and scheduled the evidentiary hearing on APS' rate request for April 2, 2009. The Procedural Order also established dates for public comment sessions and established the rules for discovery.

During the discovery phase of the proceeding, RUCO's analysts and outside consultants will perform a complete audit of APS' Application to arrive at an appropriate level of revenue increase or decrease and will also conduct a full cost of capital analysis to determine an appropriate rate of return on invested capital.

After the evidentiary hearing and the filing of closing legal briefs, the ALJ will weigh all of the evidence presented during the proceeding (including public comments and correspondence from concerned ratepayers) and will issue a Recommended Opinion and Order ("ROO") that will be voted on by the five sitting ACC Commissioners. The Commissioners can accept, reject or amend the ROO during a noticed Open Meeting.

A final decision on APS' request for an increase in rates is not expected until sometime during the summer of 2009.

**Arizona Public Service Company - Request for Interim Rates, ACC Docket No. E-01345A-08-0172**

On June 6, 2008, Arizona Public Service Company ("APS" or "Company"), the largest electric service provider in the state, filed a motion for approval of interim rates ("Interim Rate Request") with the Arizona Corporation Commission ("ACC" or "Commission"). APS' request was filed four days after the Company had filed an amended rate application seeking a permanent increase in rates and charges.

APS originally requested, subject to refund, that an interim power supply adjuster charge (which was scheduled to end in either late July or early August 2008) be extended to provide the Company with additional revenues until the Company-proposed permanent rates go into effect. The Company later modified its request after the interim power supply adjuster charge had ended.

On July 16, 2008, the ACC Hearing Division's Chief Administrative Law Judge (CALJ) issued a Procedural Order which established the dates for an evidentiary hearing and the filing of written testimony from the various intervenors to the case including RUCO.

RUCO's Director filed direct testimony and appeared as a witness at the evidentiary hearing which was conducted during the week of September 15, 2008. During the hearing, witnesses for APS testified that the Company was on the verge of having its credit rating downgraded to "junk" status if it did not obtain the interim relief that it was seeking. Witnesses for ACC Staff disputed APS' claims. RUCO Director Stephen Ahearn took the position that the ACC should not grant interim relief and stressed the need for the Commission to adhere to the traditional methods of setting rates after there has been a complete finding of fair value.

Initial closing legal briefs were filed by the parties to the case on October 3, 2008. A second round of reply briefs were filed on October 8, 2008. After the filing of legal briefs, the CALJ will weigh all of the evidence presented during the Interim Rate Request proceeding (including public comments and correspondence from concerned ratepayers) and will issue a Recommended Opinion and Order ("ROO") that will be voted on by the five sitting ACC Commissioners. The Commissioners can accept, reject or amend the ROO during a noticed Open Meeting.

A final decision on APS' request for interim rates is not expected until sometime in either November or early December 2008.

**CASES CLOSED IN FY 2008**  
**(listed in order of closing date)**

**Tucson Electric Power - Motion to Amend Decision No. 62103, ACC Docket No. E-01933A-05-0650**

On September 12, 2005, Tucson Electric Power Company ("TEP" or "Company") filed a motion with the Arizona Corporation Commission ("ACC" or "Commission") to amend Decision No. 62103, dated November 30, 1999, which modified and approved the Settlement Agreement that established the Company's present rates.

In addition to setting TEP's present rates, the Settlement Agreement also provided for the commencement of electric competition in the Company's service territory, the establishment of unbundled rates with a series of one percent rate decreases, a rate freeze until December 2008, the resolution of stranded cost recovery, and the settlement of TEP's electric competition litigation.

In its motion, TEP sought to (a) extend the current rate freeze, at the Company's base rate, beyond December 31, 2008; (b) to retain the Company's current competitive transition charge amortization schedule; (c) agree not to seek rate treatment of certain generation assets; and (d) to implement a mechanism to protect TEP and its customers from energy market volatility, to be effective after December 31, 2008.

RUCO filed for intervention on September 26, 2005. On October 12, 2005, RUCO filed a response to TEP's motion taking the position that there was no need to amend Decision No. 62103.

On January 30, 2006, the Administrative Law Judge ("ALJ") assigned to the case issued her Recommended Opinion and Order ("ROO") denying TEP's motion.

The five ACC Commissioners subsequently rejected the ROO's recommendation to deny TEP's motion to amend Decision No. 62103. The Commission issued Decision

No. 68669, dated April 20, 2006, which ordered the ACC's Hearing Division to schedule a hearing to consider amending Decision No. 62103.

As required by the ALJ's Procedural Order issued on November 1, 2006, RUCO, ACC Staff, and other intervenors to the case filed direct testimony on January 8, 2007. TEP filed rebuttal testimony on January 29, 2007. As scheduled, RUCO filed surrebuttal testimony on February 8, 2007. A final round of rejoinder testimony was filed by TEP on February 15, 2007.

On February 6, 2007, TEP and ACC Staff filed a letter requesting a continuance of the scheduled hearing in order to allow the parties in the case to participate in settlement discussions. No settlement was reached by the parties to the case during meetings held in Tucson.

The evidentiary hearing on the matter was concluded on March 9, 2007, at the ACC's offices located at 400 West Congress in Tucson.

After weighing the evidence presented in the hearing, the ALJ issued her Recommended Opinion & Order ("ROO") on April 24, 2006.

On May 8, 2007, four of the five Commissioners adopted an amended ROO by a vote of 4 to 0. RUCO's exception to the ROO regarding the Competitive Transition Charge ("CTC") was the subject of one of two amendments that were incorporated into the ROO. Commissioner Bill Mundell supported RUCO's position regarding ratepayer refunds and credits associated with the Company's CTC and proposed a verbal amendment that was adopted by the other three Commissioners in attendance.

**Arizona Water Company (Northern Group) – Request for a Sedona/Rimrock System ACRM Surcharge, ACC Docket No. W-01445A-00-0962**

On May 15, 2007, Arizona Water Company ("Arizona Water" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for authority to implement an arsenic cost recovery mechanism ("ACRM") surcharge for the Sedona and Rimrock Systems in the Company's Northern Group. Arizona Water's application sought approval to implement a step-one surcharge, which would allow the Company to recover the capital costs associated with recently constructed arsenic removal plant and equipment. The new arsenic removal plant is needed to reduce the level of arsenic in drinking water in order to comply with the U.S. Environmental Protection Agency's ("EPA") revised arsenic standard of not more than 10 parts per billion (the EPA's prior standard was 50 parts per billion). Arizona Water is permitted to file for a step-two increase after one full year in order to recover the operating expenses associated with the Company's arsenic removal plant.

RUCO reviewed Arizona Water's filing and conducted an on-site inspection to insure that the arsenic removal plant is in service. RUCO filed an audit report on July 3, 2007, recommending that the Commission approve Arizona Water's request.

ACC Staff filed its report and submitted a Recommended Opinion and Order ("ROO") on the Company's request for an ACRM surcharge. The ACC Staff engineer assigned to the case stated that one of the Company's arsenic removal facilities located in Sedona was unable to handle the output of a new well being constructed and classified the facility as non-used and useful. The facility and the accumulated depreciation associated with it was removed from the Company-proposed rate base. ACC Staff also recommended a slightly higher depreciation rate for the arsenic removal facilities. ACC Staff's changes resulted in a small decrease in rates for Sedona customers and a small increase in rates for Rimrock customers. At the regularly scheduled Open Meeting on August 22, 2007, the five ACC Commissioners voted 5 to 0 to adopt the ROO.

**Arizona-American Water Company, Inc., Transaction with Maricopa County Municipal Water Conservation District Number One, ACC Docket No. W-01303A-05-0718**

On October 11, 2005, Arizona-American Water Company ("Arizona-American" or "Company") filed an application ("Original Application") with the Arizona Corporation Commission ("ACC" or "Commission") requesting certain approvals associated with a transaction between the Company's Aqua Fria Water District and the Maricopa County Municipal Water Conservation District Number One ("MWD") for the purpose of obtaining treatment, at a planned regional water treatment facility, of a portion of the Company's Central Arizona Water Project ("CAP") water allocation.

Arizona-American's Original Application outlined the Company's plans to purchase water treatment capacity, through a capital lease arrangement, from MWD. At the time of the filing, MWD had plans to finance, build, and own a water treatment facility (the "White Tanks Plant") that could provide treated CAP water for the Company's Agua Fria District service territory located west of Phoenix and north of Interstate 10, between the White Tank Mountains and the Arizona Loop 101 freeway.

Arizona-American's Original Application sought the following:

- a) Commission pre-approval of and a finding of prudence for a capital lease agreement for CAP water treatment capacity between the Company and MWD;
- b) authority to issue debt;
- c) authority to transfer assets from the Company to MWD;
- d) revisions to an existing Company hook-up fee; and,
- e) preapproval of rate treatment and rate process for the proposed capital lease.

RUCO filed an Application to Intervene in the case on January 4, 2006. RUCO's request was granted by the ACC's Hearing Division in a Procedural Order dated January 10, 2006. The Procedural Order also set a hearing date on the matter.

On February 10, 2006, RUCO filed direct testimony on Arizona-American's Original Application. ACC Staff filed a Staff Report on the same date.

On March 2, 2006, the ACC Hearing Division issued a Procedural Order that granted Arizona-American's request to suspend the procedural schedule (and the hearing) because of issues that had developed between the Company and MWD.

After filing several status reports on capital lease negotiations between the Company and MWD, and appearing at a procedural conference on August 1, 2006, Arizona-American filed a revised application ("Revised Application") on September 1, 2006.

The Revised Application described MWD's decision not to finance, build, and own the proposed White Tanks Plant. The Revised Application also stated that the Company could construct, own and operate the White Tanks Plant but would not be able to do so under the conventional rate-making process.

Arizona-American's Revised Application is requesting that the Commission approve increases to the Agua Fria District's existing Water Facilities Hook-Up Fee ("Hook-Up Fee") that will be used to finance construction of the White Tanks Plant. At the time, a Hook-Up Fee was currently being charged to builders that operated in the Agua Fria District. Arizona-American presented two different options for increasing the existing Hook-Up Fee in the Company's Revised Application. Arizona-American also sought approval of an accounting order that would make the Company whole during the construction of the White Tanks Plant.

On September 21, 2006, RUCO filed comments on Arizona-American's Revised Application. RUCO's comments voiced no objection to the increases in hook-up fees requested by the Company. RUCO also stated its preference for the Company-proposed "Option 2 hook-up fee increase" presented in the Revised Application.

Between October 23, 2006 and December 6, 2006, MWD and numerous developers filed for intervention in the case.

On October 27, 2006, ACC Staff filed a Staff Report on the Company's Revised Application recommending approval of the Company's proposed hook-up fee and accounting order as requested.

On December 27, 2006, the Administrative Law Judge ("ALJ") assigned to the case issued a Procedural Order that set the evidentiary hearing on the matter for 10:00 a.m. on March 19, 2007, at the ACC's Phoenix Offices at 1200 W. Washington.

On January 24, 2007, RUCO and other intervenors to the case filed direct testimony on Arizona-American's Revised Application. RUCO's direct testimony largely supported the Company's requests and reiterated the comments that RUCO filed earlier in September 2006.

RUCO filed rebuttal testimony on February 21, 2007. RUCO's rebuttal testimony continued to support the Company's requests and argued why it was premature to make any decisions on whether or not the Company's estimated costs represent imprudent expenditures.

Surrebuttal testimony from RUCO was filed as scheduled on March 12, 2007. RUCO's surrebuttal testimony took issue with one of the components of a Company-proposed formula that would recalculate the amount of hook-up fee to be charged in the event of third party capacity sales.

The evidentiary hearing on Arizona-American's application was concluded on March 26, 2007. Closing briefs were filed by the attorneys for the various parties to the case on April 17, 2007. Reply briefs were filed on April 27, 2007. After weighing all of the evidence presented during the proceeding, the ALJ issued her Recommended Opinion and Order ("ROO") on September 4, 2007. The ROO recommended that Arizona-American's requests for an increase in the Company's hook-up fees and an accounting order that will keep Arizona-American whole during the construction of the White Tanks Plant be granted.

On September 18, 2007, the five ACC Commissioners adopted an amended version of the ALJ's ROO by a vote of 5-0.

**UNS Gas, Inc., Application for an Increase in Rates and Charges, ACC Docket No. G-04204A-06-0463**

On July 13, 2006, UNS Gas, Inc. ("UNS" or the "Company"), a wholly-owned subsidiary of UniSource Energy Corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for the establishment of just and reasonable rates and charges designed to realize a reasonable rate of return on the fair value of the Company's property devoted to service in Arizona. UNS sought an increase in base rates of \$9,646,901, or approximately 7.00 percent, over the Company's test year revenues.

On August 14, 2006, ACC Staff issued a Letter of Sufficiency informing the Company that its application meets the filing requirements of A.A.C. R14-2-103.

On August 18, 2006, RUCO filed a motion to intervene in the case with the ACC's Hearing Division.

On September 8, 2006, the ALJ assigned to the case issued a Procedural Order to govern the proceeding. The Procedural Order also consolidated Docket Nos. G-04204A-06-0013 and G-0424A-05-0813, which involved filings related to a review of the Company's purchased gas adjuster mechanism ("PGA") and a Commission inquiry into the prudence of UNS' gas procurement practices, respectively, into this rate case proceeding. The evidentiary hearing in the matter has been scheduled for April 16, 2007 at 10:00 a.m.

ACC Staff (with the exception of two witnesses), RUCO and other intervenors to the case filed their direct testimony on February 9, 2007. RUCO made the following revenue increase recommendation:

**DIRECT TESTIMONY REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	COMPANY FAIR VALUE	RUCO FAIR VALUE
1	Adjusted Rate Base	\$ 191,177,714	\$ 171,223,175
2	Adjusted Operating Income (Loss)	\$ 8,428,981	\$ 10,560,998
3	Current Rate of Return (Line 2 / Line 1)	4.41%	6.17%
4	Required Operating Income (Line 5 x Line 1)	\$ 14,204,479	\$ 11,480,374
5	Required Rate of Return	7.43%	6.70%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 5,775,498	\$ 919,376
7	Gross Revenue Conversion Factor	1.6649	1.637
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	<b>\$ 9,615,767</b>	<b>\$ 1,505,003</b>
9	Adjusted Test Year Revenue	\$ 47,169,528	\$ 47,280,434
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 56,785,295	\$ 48,785,437
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	20.39%	3.18%
12	Rate of Return on Common Equity	11.00%	9.64%

On February 15, 2007, the ALJ issued a Procedural Order which granted ACC Staff's request for an extension to file the direct testimony of two of its witnesses. The Procedural Order revised the filing dates for rebuttal, surrebuttal and rejoinder testimony. As scheduled, UNS filed rebuttal testimony on March 16, 2007. ACC Staff, RUCO and other intervenors to the case filed their surrebuttal testimony on April 4, 2007. UNS filed a final round of rejoinder testimony on April 11, 2007.

The evidentiary hearing on UNS' rate request began, as scheduled, at 10:00 a.m. on April 16, 2007. The hearing continued through April 20, and on April 24, and 25. During the hearing, RUCO Chief Legal Counsel Scott Wakefield cross-examined expert witnesses who testified on behalf of the Company, ACC Staff and other intervenors to the case. RUCO staff members Marylee Diaz Cortez, Rodney Moore and William Rigsby were cross-examined by attorneys representing UNS.

The evidentiary hearing concluded on April 25, 2007. On May 31, 2007, the ALJ granted ACC Staff's request for an extension of time for filing closing briefs. Opening briefs and final schedules were filed by the parties to the case on June 5, 2007. Reply briefs were filed on June 19, 2007. After weighing all of the evidence presented during the proceeding, the ALJ issued his Recommended Opinion and Order ("ROO") on October 15, 2007.

On October 24, 2007, RUCO filed exceptions to the ROO to express its position on certain language on depreciation rates related to the prior Settlement Agreement on UniSource Energy Corporation's acquisition of UNS' assets.

At an open meeting held on November 8, 2007, the five ACC Commissioners passed an amended ROO by a final vote of 4-1. The final vote came after a full day of discussion among the five Commissioners and the parties to the case. A total of fourteen amendments were debated during the open meeting. Of the fourteen amendments, two were adopted by the Commission. The two amendments provided a \$21,600 increase in funding (to be collected in base rates as opposed to a demand side management surcharge) for the Company's low-income assistance Warm Spirit program and also insured that collections for excess flow valves be treated as non-refundable contributions-in-aid-of-construction.

**Arizona Water Company (Eastern Group) – Request for a Superstition System ACRM Surcharge, ACC Docket No. W-01445A-02-0619**

On August 8, 2007, Arizona Water Company ("Arizona Water" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for authority to implement an arsenic cost recovery mechanism ("ACRM") surcharge for the Company's Superstition System in the Company's Eastern Group. Arizona Water's application sought approval to implement a step-one surcharge, which will allow the Company to recover the capital costs associated with recently constructed arsenic removal plant and equipment. The new arsenic removal plant is needed to reduce the level of arsenic in drinking water in order to comply with the U.S. Environmental Protection Agency's ("EPA") revised arsenic standard of not more than 10 parts per billion (the EPA's prior standard was 50 parts per billion).

RUCO reviewed Arizona Water's filing and conducted an on-site inspection to insure that the arsenic removal plant is in service. RUCO filed an audit report on November 14, 2007, recommending that the Commission approve Arizona Water's request.

On January 29, 2008, ACC Staff filed its audit report and issued a Recommended Opinion and Order ("ROO") that also recommended approval of Arizona Water's request. The order also raised some concerns over Arizona Water's decision to consolidate the accounting records of the Company's Apache Junction and Superstition systems.

At the regular Open Meeting held on February 12, 2008, the five ACC Commissioners voted to adopt the ROO as a final decision by a vote 5-0. The step-one ACRM surcharge went into effect on March 1, 2008.

**Arizona Water Company (Eastern Group) – Request for a San Manuel System ACRM Surcharge, ACC Docket No. W-01445A-02-0619**

On September 4, 2007, Arizona Water Company ("Arizona Water" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for authority to implement an arsenic cost recovery mechanism ("ACRM") surcharge for the Company's San Manuel System in the Company's Eastern Group. Arizona Water's application sought approval to implement a step-one surcharge, which would allow the

Company to recover the capital costs associated with recently constructed arsenic removal plant and equipment. The new arsenic removal plant is needed to reduce the level of arsenic in drinking water in order to comply with the U.S. Environmental Protection Agency's ("EPA") revised arsenic standard of not more than 10 parts per billion (the EPA's prior standard was 50 parts per billion).

After reviewing Arizona Water's application and conducting an on-site inspection (to insure that the arsenic removal plant is in service) RUCO filed a memo recommending approval of the Company's request for an ACRM on November 20, 2007.

On January 25, 2008, ACC Staff filed its audit report and issued a Recommended Opinion and Order ("ROO") that also recommended approval of Arizona Water's request.

During the ACC's Open Meeting held on February 12, 2008, the Company agreed to delay the implementation of the commodity portion of the ACRM surcharge for a seven-month period. The parties to the case agreed with the five Commissioners to delay a vote until the regularly scheduled Securities Open Meeting on February 29, 2008. The delay gave the Company, ACC Staff, and RUCO time to recalculate what the new commodity charge will be after an agreed upon carrying charge (which compensates the Company for the delayed implementation) is added to it.

On February 29, 2008, an amended ROO, which contained the phased-in surcharge discussed above, was passed by a vote of 4 to 0. The step-one ACRM surcharge went into effect on March 1, 2008.

**Arizona-American Water Company, Inc., Sun City & Sun City West Wastewater Districts Rate Case, ACC Docket No. WS-01303A-06-0491**

On July 28, 2006, Arizona-American Water Company, Inc. ("Arizona-American" or "Company"), a wholly-owned subsidiary of RWE AG, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting increases in rates and charges for utility service provided by Arizona-American's Sun City & Sun City West Wastewater Districts. Arizona-American sought revenue increases of \$1,606,495, or 35.84 percent in Sun City and \$2,337,050, or 51.49 percent for Sun City West. The Company also sought an 11.75 percent return on common equity and an overall rate of return of 8.33 percent.

On August 18, 2006, RUCO filed a motion to intervene in the case with the ACC's Hearing Division.

On August 28, 2006, ACC Staff issued a letter of conditional sufficiency informing the Company that its application conditionally met the filing requirements of A.A.C. R14-2-103 subject to the filing of certain required billing information by ACC Staff.

On October 5, 2006, the Administrative Law Judge ("ALJ") assigned to the case issued a Procedural Order that originally set the filing dates for written testimony and the evidentiary hearing on Arizona-American's request for an increase in rates.

On October 30, 2006, the ALJ issued a second Procedural Order that suspended the time clock in the proceeding until the Company provided ACC Staff with required volumetric billing determinants that will be used to develop a rate design for the Company. On February 15, 2007, the ALJ issued a revised Procedural Order that established a new evidentiary hearing date and new filing deadlines for written testimony.

On May 7, 2007, the ALJ issued a Procedural Order, which scheduled two public comment sessions for May 16, 2007. The public comment sessions gave Sun City and Sun City West ratepayers the opportunity to express their opinions regarding Arizona-American's proposed rate increases. The first public comment session was held at 10:30 a.m. at the Fairway Recreation Center Auditorium, 10600 West Peoria Avenue in Sun City. The second public comment session was held at 2:00 p.m. at the Palm Ridge Recreation Center, Summit Room, Hall A, 13800 West Deer Valley Drive, Sun City West.

On June 13, 2007, RUCO filed its direct testimony making the following recommendations:

**DIRECT TESTIMONY REVENUE REQUIREMENT - SUN CITY WASTEWATER**

LINE NO.	DESCRIPTION	COMPANY PROPOSED	RUCO RECOMMENDED
1	Adjusted Rate Base	\$ 14,146,675	\$ 12,806,381
2	Adjusted Operating Income (Loss)	\$ 192,013	\$ 242,640
3	Current Rate of Return (Line 2 / Line 1)	1.36%	1.89%
4	Required Operating Income (Line 5 x Line 1)	\$ 1,178,418	\$ 924,621
5	Required Rate of Return	8.33%	7.22%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 986,405	\$ 681,981
7	Gross Revenue Conversion Factor	1.6286	1.6287
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	<b>\$ 1,606,459</b>	<b>\$ 1,110,721</b>
9	Adjusted Test Year Revenue	\$ 4,482,855	\$ 4,507,569
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 6,089,314	\$ 5,618,290
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	35.84%	24.64%
12	Rate of Return on Common Equity	11.75%	9.99%

**DIRECT TESTIMONY REVENUE REQUIREMENT - SUN CITY WEST WASTEWATER**

LINE NO.	DESCRIPTION	COMPANY PROPOSED	RUCO RECOMMENDED
1	Adjusted Rate Base	\$ 21,274,020	\$ 16,459,388
2	Adjusted Operating Income (Loss)	\$ 337,149	\$ 302,440
3	Current Rate of Return (Line 2 / Line 1)	1.58%	1.84%
4	Required Operating Income (Line 5 x Line 1)	\$ 1,772,126	\$ 1,188,368
5	Required Rate of Return	8.33%	7.22%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 1,434,977	\$ 885,928
7	Gross Revenue Conversion Factor	1.6286	1.6287
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	<b>\$ 2,337,003</b>	<b>\$ 1,442,884</b>
9	Adjusted Test Year Revenue	\$ 4,538,405	\$ 4,546,525
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 6,875,408	\$ 5,989,409
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	51.49%	31.74%
12	Rate of Return on Common Equity	11.75%	9.99%

The Company filed rebuttal testimony on July 9, 2007. RUCO filed surrebuttal testimony on July 31, 2007, and made the following recommendations:

**SURREBUTTAL TESTIMONY REVENUE REQUIREMENT - SUN CITY WASTEWATER**

LINE NO.	DESCRIPTION	COMPANY PROPOSED	RUCO RECOMMENDED
1	Adjusted Rate Base	\$ 14,146,675	\$ 12,195,255
2	Adjusted Operating Income (Loss)	\$ 192,013	\$ 258,488
3	Current Rate of Return (Line 2 / Line 1)	1.36%	2.12%
4	Required Operating Income (Line 5 x Line 1)	\$ 1,178,418	\$ 881,717
5	Required Rate of Return	8.33%	7.23%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 986,405	\$ 623,229
7	Gross Revenue Conversion Factor	1.6286	1.6287
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	<b>\$ 1,606,459</b>	<b>\$ 1,015,034</b>
9	Adjusted Test Year Revenue	\$ 4,482,855	\$ 4,507,569
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 6,089,314	\$ 5,522,603
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	35.84%	22.52%
12	Rate of Return on Common Equity	11.75%	10.03%

**SURREBUTTAL TESTIMONY REVENUE REQUIREMENT - SUN CITY WASTEWATER**

LINE NO.	DESCRIPTION	COMPANY PROPOSED	RUCO RECOMMENDED
1	Adjusted Rate Base	\$ 21,274,020	\$ 16,440,639
2	Adjusted Operating Income (Loss)	\$ 337,149	\$ 318,052
3	Current Rate of Return (Line 2 / Line 1)	1.58%	1.93%
4	Required Operating Income (Line 5 x Line 1)	\$ 1,772,126	\$ 1,188,658
5	Required Rate of Return	8.33%	7.23%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 1,434,977	\$ 870,606
7	Gross Revenue Conversion Factor	1.6286	1.6287
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	<b>\$ 2,337,003</b>	<b>\$ 1,417,930</b>
9	Adjusted Test Year Revenue	\$ 4,538,405	\$ 4,546,525
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 6,875,408	\$ 5,964,455
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	51.49%	31.19%
12	Rate of Return on Common Equity	11.75%	10.03%

A final round of rejoinder testimony was filed by Arizona-American on August 13, 2007.

The evidentiary hearing on the matter began as scheduled at 10:00 a.m. on August 23, 2007, at the ACC's Phoenix office at 1200 W. Washington.

During the hearing, the Company, RUCO and ACC Staff reached an agreement on how the Company's Tolleson obligation should be handled. This resulted in ACC Staff having to revise its recommended revenue requirement. Because RUCO needed additional time to review ACC Staff's revised schedules, the ALJ continued the hearing to September 5, 2007, at 9:30 a.m.

The evidentiary hearing on Arizona-American's request for rate relief was concluded around 1:00 p.m. on September 5, 2007. The Company filed final schedules on September 4, 2007. RUCO, ACC Staff and other intervenors filed final schedules on September 21, 2007. The attorneys for the parties to the case filed closing briefs on October 19, 2007. The final round of reply briefs were filed on November 14, 2007.

After weighing all of the evidence presented during the proceeding (including correspondence and public comment from concerned ratepayers), the ALJ issued her Recommended Opinion and Order ("ROO") on February 26, 2008.

RUCO filed exceptions to the ROO on March 6, 2008. In its exceptions, RUCO took issue with the ALJ's recommendations regarding capacity allocations for Arizona-American's Northwest Regional Wastewater Treatment Facility, the level of accumulated depreciation, the level of rate case expense, and commercial volumetric rates.

On March 11, 2008, the five ACC Commissioners approved an amended ROO, as a final decision, by a vote of 5-0.

The Commission approved an adjusted original cost rate base for Arizona-American's Sun City Wastewater District of \$12,349,585, and \$16,331,876 for the Sun City West Wastewater District.

Based on the Commission's findings, Arizona-American's Sun City Wastewater District's gross revenue was increased by \$1,348,830, and Arizona-American's Sun City West Wastewater District's gross revenue was increased by \$1,067,148.

### **Town of Youngtown Appeal of Decision No. 70351, ACC Docket No. W-01303A-07-0209**

On April 2, 2007, Arizona-American Water Company, Inc. ("Arizona-American" or "Company"), a wholly-owned subsidiary of RWE AG, filed an application and Required supporting schedules with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval of a determination of the current fair value of the Company's utility plant and property; and for increases in rates and charges based thereon for water utility service provided by Arizona-American's Sun City District that also sought recovery of fire flow improvements in the District through a surcharge mechanism.

On May 8, 2007, RUCO filed a motion to intervene in the case with the ACC's Hearing Division.

On May 15, 2007 the Sun City Taxpayers Association, Inc. ("SCTA") filed a motion to intervene in the case with the ACC's Hearing Division primarily to oppose the fire flow improvement surcharge.

On June 5, 2007, the Administration Law Judge ("ALJ") assigned to the case issued a Procedural Order that set the procedural schedule for the case and granted RUCO and SCTA requests for intervenor status.

On August 29, 2007, the Town of Youngtown filed a motion to intervene in the case, in support of the Company-proposed fire flow improvement surcharge, with the ACC's Hearing Division.

On September 13, 2007, the ALJ issued a Procedural Order that granted the Town of Youngtown's request.

The evidentiary hearing on Arizona-American's request for rate relief began as scheduled at 10:00 a.m. on January 7, 2008 at the ACC's Phoenix office at 1200 W. Washington. The Sun City Taxpayers Association withdrew its request for intervenor status at the start of the hearing because the association did not have legal representation for its organization. During the hearing's public comment session, ratepayers from Sun City and the Town of Youngtown expressed their opinions on the Company's request for rate relief and a proposed surcharge to fund future fire-flow

infrastructure improvements before four of the five ACC Commissioners. The hearing concluded on January 11, 2008. RUCO's three expert witnesses faced a total of eight hours of cross-examination from attorneys representing Arizona-American, the Town of Youngtown and ACC Staff. RUCO's witnesses also responded to questions posed by the ALJ and from ACC Commissioners Kris Mayes and Mike Gleason. Witnesses for Arizona-American, the Town of Youngtown and ACC Staff were cross-examined by RUCO's attorney over the course of the five-day hearing.

After weighing all of the evidence presented during the proceeding (including correspondence and public comment from concerned ratepayers), the ALJ issued a Recommended Opinion and Order ("ROO") on April 17, 2008.

On April 28, 2008, RUCO filed exceptions to the ROO dealing specifically with the ALJ's fire flow surcharge and working capital recommendations.

On May 7, 2008, the five Commissioners adopted (by a vote of 5-0) an amended ROO that rejected the ALJ's recommendation for a fire flow cost recovery mechanism.

On June 4, 2008, the attorney for the Town of Youngtown filed an application seeking a rehearing on the fire flow cost recovery mechanism which was rejected by the Commission in Decision No. 70351. The Commission has twenty days to consider the Town of Youngtown's request and act on it. If the Commission takes no action during the twenty-day period, the Decision stands. The next step for the Town of Youngtown would be to appeal the Commission's final decision in the Arizona Court of Appeals.

The Commission took no action on the Town of Youngtown's request for a rehearing. Youngtown filed an appeal with the Arizona Court of Appeals on September 4, 2008. The case has not been heard at the time of this writing.

### **UNS Electric, Inc. – Application for an Increase in Rates and Charges, ACC Docket No. E-04204A-06-0783**

On December 15, 2006, UNS Electric, Inc. ("UNS" or the "Company"), a wholly-owned subsidiary of UniSource Energy Corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for the establishment of just and reasonable rates and charges designed to realize a reasonable rate of return on the fair value of the Company's property devoted to service in Arizona. UNS sought an increase in base rates of \$8,507,097, or approximately 5.50 percent, over the Company's test year revenues.

On January 12, 2007, ACC Staff issued a Letter of Sufficiency informing the Company that its application meets the filing requirements of A.A.C. R14-2-103.

On February 1, 2007, the ALJ assigned to the case issued a Procedural Order to govern the proceeding and scheduled the evidentiary hearing in the matter for 10:00 a.m. on September 10, 2007 at the Commission's Phoenix Offices located at 1200 W. Washington.

On March 12, 2007, RUCO filed a motion to intervene in the case with the ACC's Hearing Division.

During the initial discovery phase of the proceeding, RUCO's analysts conducted an audit of the Company and performed a cost of capital analysis to determine an appropriate rate of return on UNS' investment in utility plant that is used to provide electric service.

RUCO filed direct testimony on June 28, 2007 and made the following recommendations:

**DIRECT TESTIMONY REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	COMPANY FAIR VALUE	RUCO FAIR VALUE
1	Adjusted Rate Base	\$ 177,802,340	\$ 161,618,144
2	Adjusted Operating Income (Loss)	\$ 8,742,011	\$ 10,404,382
3	Current Rate of Return (Line 2 / Line 1)	4.92%	6.44%
4	Required Operating Income (Line 5 x Line 1)	\$ 13,946,320	\$ 11,169,957
5	Required Rate of Return	7.84%	6.91%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 5,204,309	\$ 765,575
7	Gross Revenue Conversion Factor	1.6346	1.637
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	\$ 8,507,097	\$ 1,253,233
9	Adjusted Test Year Revenue	\$ 158,486,890	\$ 158,535,538
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 166,993,987	\$ 159,788,771
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	5.37%	0.79%
12	Rate of Return on Common Equity	11.39%	9.30%

Direct testimony on rate design was filed on July 12, 2007. UNS filed rebuttal testimony on August 14, 2007. Surrebuttal testimony from ACC Staff, RUCO and other intervenors was filed on August 24, 2007.

RUCO's revised surrebuttal recommendations were as follows:

**SURREBUTTAL TESTIMONY REVENUE REQUIREMENT**

LINE NO.	DESCRIPTION	COMPANY FAIR VALUE	RUCO FAIR VALUE
1	Adjusted Rate Base	\$ 177,802,340	\$ 161,582,547
2	Adjusted Operating Income (Loss)	\$ 8,742,011	\$ 10,440,368
3	Current Rate of Return (Line 2 / Line 1)	4.92%	6.46%
4	Required Operating Income (Line 5 x Line 1)	\$ 13,946,320	\$ 11,166,869
5	Required Rate of Return	7.84%	6.91%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 5,204,309	\$ 726,501
7	Gross Revenue Conversion Factor	1.6346	1.637
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	<b>\$ 8,507,097</b>	<b>\$ 1,189,270</b>
9	Adjusted Test Year Revenue	\$ 158,486,890	\$ 158,531,911
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 166,993,987	\$ 159,721,181
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	5.37%	7.50%
12	Rate of Return on Common Equity	11.39%	9.30%

The Company filed a final round of rejoinder testimony on August 31, 2007.

The evidentiary hearing on the matter began as scheduled at 10:00 a.m. on September 10, 2007. The hearing was recessed on September 14, 2007, and reconvened on September 20, and 21, 2007. The hearing was recessed again on September 21, 2007, and reconvened on October 2, 2007. The hearing was concluded at 12.00 p.m. on October 2, 2007.

UNS filed final schedules on October 11, 2007. RUCO, ACC Staff and other intervenors filed their final schedules on October 17, 2007. Initial closing legal briefs were filed by the parties to the case on November 5, 2007. Reply legal briefs were filed on November 14, 2007.

On April 24, 2008, the ALJ issued a Recommended Opinion and Order ("ROO").

On May 5, 2008, RUCO filed exceptions to the ROO taking issue with the ALJ's Purchased Power Fuel Adjuster cost sharing recommendation.

After a full day of deliberation at a special open meeting held on May 14, 2008, the five Commissioners adopted an amended ROO by a final vote of 5-0.

**Arizona-American Water Company, Inc. – Anthem Water and Anthem/Agua Fria Wastewater Districts, ACC Docket No. WS-01303A-06-0403**

On June 16, 2006, Arizona-American Water Company, Inc. ("Arizona-American" or "Company"), a wholly-owned subsidiary of RWE AG, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") with a request for approval of a determination of the current fair value of the Company's utility plant and property;

and for increased rates and charges based thereon for utility service provided by Arizona-American's Anthem Water and Anthem/Agua Fria Wastewater Districts. Arizona-American sought revenue increases of 66.22 percent for the Anthem Water District, and 40.75 percent for the Company's Anthem/Agua Fria Wastewater Districts.

On June 27, 2006, RUCO filed a motion to intervene in the case with the ACC's Hearing Division.

The Company's application entered the sufficiency phase of the proceeding on June 16, 2006. During that phase, ACC Staff had thirty days to determine if Arizona-American's application met the requirements of A.A.C. R-14-2-103.

On July 17, 2006, ACC Staff issued a deficiency letter informing the Company that its application did not meet the requirements of A.A.C. R-14-2-103.

Between July 17, 2006 and September 26, 2006, the Company filed a revised application and schedules which addressed sufficiency issues raised by ACC Staff.

On September 28, 2006, ACC Staff issued a sufficiency letter informing Arizona-American that the Company's revised application met the sufficiency requirements of A.A.C. R-14-2-103 and that the Company had been classified as a Class A wastewater utility.

On October 5, 2006, an Administrative Law Judge ("ALJ"), with the ACC's Hearing Division, issued a Procedural Order which established the dates for the filing of testimony and exhibits and for the evidentiary hearing on the matter.

On May 8, 2007, the ALJ assigned to the case issued a Procedural Order that scheduled a public comment session for May 24, 2007. The public comment session gave Anthem ratepayers the opportunity to express their opinions regarding Arizona-American's proposed rate increases. The public comment session was held at Boulder Creek High School Auditorium, 40404 North Gavilan Peak Parkway in Anthem.

Direct testimony from RUCO and a revenue requirement witness for the Anthem Community Council was filed on March 27, 2007. On that same day, the ALJ issued a Procedural Order which granted a three-day extension for ACC Staff to file their direct testimony and revised the filing dates for remaining testimony.

RUCO'S direct testimony made the following revenue recommendations for Arizona-American's water and wastewater operations:

**DIRECT TESTIMONY REVENUE REQUIREMENT - WATER**

LINE NO.	DESCRIPTION	COMPANY OCRB/FVRB COST	RUCO OCRB/FVRB COST
1	Adjusted Rate Base	\$ 43,100,616	\$ 31,603,778
2	Adjusted Operating Income (Loss)	\$ 797,742	\$ 845,739
3	Current Rate of Return (Line 2 / Line 1)	1.85%	2.68%
4	Required Operating Income (Line 5 x Line 1)	\$ 3,590,281	\$ 2,316,557
5	Required Rate of Return	8.33%	7.33%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 2,792,539	\$ 1,470,818
7	Gross Revenue Conversion Factor	1.6286	1.6286
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	<b>\$ 4,548,026</b>	<b>\$ 2,395,426</b>
9	Adjusted Test Year Revenue	\$ 6,867,770	\$ 6,867,770
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 11,415,796	\$ 9,263,196
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	66.22%	34.88%
12	Rate of Return on Common Equity	11.75%	10.27%

**DIRECT TESTIMONY REVENUE REQUIREMENT - WASTEWATER**

LINE NO.	DESCRIPTION	COMPANY OCRB/FVRB COST	RUCO OCRB/FVRB COST
1	Adjusted Rate Base	\$ 24,636,158	\$ 18,188,546
2	Adjusted Operating Income (Loss)	\$ 517,051	\$ 392,399
3	Current Rate of Return (Line 2 / Line 1)	2.10%	2.16%
4	Required Operating Income (Line 5 x Line 1)	\$ 2,052,194	\$ 1,333,220
5	Required Rate of Return	8.33%	7.33%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 1,535,143	\$ 940,821
7	Gross Revenue Conversion Factor	1.6286	1.6286
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	<b>\$ 2,500,188</b>	<b>\$ 1,532,254</b>
9	Adjusted Test Year Revenue	\$ 6,135,801	\$ 6,135,801
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 8,635,989	\$ 7,668,055
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	40.75%	24.97%
12	Rate of Return on Common Equity	11.75%	10.27%

Under the water rates recommended by RUCO, a typical residential water bill (based on a 5/8 x 3/4 - inch meter charge and an average 9,022 gallons of consumption) was \$36.54, which was \$8.48 higher than the present monthly bill of \$28.06 or \$11.08 lower than the \$47.62 bill being proposed by the Company.

Under the wastewater rates recommended by RUCO, a typical residential wastewater bill (based on an average 9,682 gallons of consumption) was \$49.82, which was \$11.70

higher than the present monthly bill of \$38.12 or \$8.04 lower than the \$57.86 bill being proposed by the Company.

RUCO believed that it was important to point out that there were numerous reasons why Arizona-American filed for a potentially massive rate increase at that time. For instance:

1. Arizona statutes required the ACC to authorize utility rates, which provided a utility company with the opportunity to earn a profit on its prudent investment;
2. Del Webb created the new community of Anthem in an arid area that could never produce the water needed to support it;
3. To provide water for Anthem, Del Webb acquired an allocation of Colorado River water from the Ak-Chin Indian Community, along with delivery rights on the Central Arizona Project ("CAP");
4. Initially, Del Webb entered into an agreement with the Company's predecessor to provide water to service the territory;
5. To deliver the CAP water required the construction of a pumping station and a nine-mile pipeline;
6. To provide a guaranteed source of water to meet high peak loads, the Company had to also arrange for two other capacity sources, one with the City of Phoenix and another gravity fed reservoir tank that overlooks Anthem;
7. To provide drinking water and waste collection required state-of-the-art treatment facilities, storage and distribution system to integrate a potable water supply from a renewable resource with a wastewater facility that produced Class A+ reusable effluent, to meet the new federal arsenic standard and to satisfy stringent fire-flow requirements;
8. To provide service to a desert area that had no water supply required enormous investments. Actual unadjusted 2005 gross utility plant for Anthem cost \$81.6 million for the water system and \$82.7 million for the wastewater system. Much of this plant was financed by Contributions In Aid Of Construction ("CIAC") provided by the developer, Del Webb. Of course, these CIAC's would need to be paid back to Del Webb by the Company. Del Webb agreed to delay the refunds so that the impact on ratepayers would be lessened. Now that these contributions have begun to be refunded, the Company's rate base will more accurately reflect the true cost of the plant necessary to serve customers;
9. A Commission imposed three-year moratorium on filing a rate case postponed the timely recovery of this investment;

10. To date, Arizona-American has been compensated for only a small fraction of this investment; and
11. Arizona-American anticipated additional refunds to the developer of \$39.2 million by 2008. The Company expected to file another rate case as soon as this case concluded to recover the additional rate base generated by these refunds.

On March 30, 2007, ACC Staff filed direct testimony.

Rebuttal testimony was filed by the Company on April 26, 2007. ACC Staff, RUCO and revenue requirement/cost of capital witnesses for the Anthem Community Council filed surrebuttal testimony on May 17, 2007.

RUCO's surrebuttal testimony recommended the following revised revenue requirement for the Company's water and wastewater operations:

**SURREBUTTAL TESTIMONY REVENUE REQUIREMENT - WATER**

LINE NO.	DESCRIPTION	COMPANY OCRB/FVRB COST	RUCO OCRB/FVRB COST
1	Adjusted Rate Base	\$ 43,100,616	\$ 32,579,264
2	Adjusted Operating Income (Loss)	\$ 797,742	\$ 965,789
3	Current Rate of Return (Line 2 / Line 1)	1.85%	2.96%
4	Required Operating Income (Line 5 x Line 1)	\$ 3,590,281	\$ 2,353,526
5	Required Rate of Return	8.33%	7.22%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 2,792,539	\$ 1,387,737
7	Gross Revenue Conversion Factor	1.6286	1.6286
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	\$ 4,548,026	\$ 2,260,117
9	Adjusted Test Year Revenue	\$ 6,867,770	\$ 6,867,609
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 11,415,796	\$ 9,127,726
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	66.22%	32.91%
12	Rate of Return on Common Equity	11.75%	10.01%

**SURREBUTTAL TESTIMONY REVENUE REQUIREMENT - WASTEWATER**

LINE NO.	DESCRIPTION	COMPANY OCRB/FVRB COST	RUCO OCRB/FVRB COST
1	Adjusted Rate Base	\$ 24,636,158	\$ 18,895,465
2	Adjusted Operating Income (Loss)	\$ 517,051	\$ 636,138
3	Current Rate of Return (Line 2 / Line 1)	2.10%	3.37%
4	Required Operating Income (Line 5 x Line 1)	\$ 2,052,194	\$ 1,365,008
5	Required Rate of Return	8.33%	7.22%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 1,535,143	\$ 728,870
7	Gross Revenue Conversion Factor	1.6286	1.6286
8	Increase in Gross Revenue Requirement (Line 7 x Line 6)	<b>\$ 2,500,188</b>	<b>\$ 1,187,063</b>
9	Adjusted Test Year Revenue	\$ 6,135,801	\$ 6,135,801
10	Recommended Annual Revenue Requirement (Line 8 + Line 9)	\$ 8,635,989	\$ 7,322,864
11	Required Percentage Increase in Revenue (Line 8 / Line 9)	40.75%	19.35%
12	Rate of Return on Common Equity	11.75%	10.01%

Rejoinder testimony was filed by the Company on May 23, 2007.

The required rates of return recommended by the parties to the case at the time of the evidentiary hearing were as follows:

COMPANY	ACC STAFF	RUCO	COMMUNITY COUNCIL
8.1%	7.3%	7.2%	7.2%

The evidentiary hearing began as scheduled at 10:00 a.m. on May 29, 2007. Expert witnesses for the Company, ACC Staff, the Anthem Community Council and RUCO all testified under oath and faced cross-examination from attorneys representing the parties to the case. The Company concluded its case on June 4, 2007. On July 2, 2007, the ALJ issued a Procedural Order that continued the hearing for 9:30 a.m. on July 13, 2007. During the continued hearing, a witness for Pulte Homes/Del Webb presented testimony and answered questions, posed by Commissioner Kris Mayes, the ALJ and attorneys representing the parties to the case, related to the advancement agreement underlying Arizona-American's request for a rate increase in this proceeding.

On October 9, 2007, the ALJ issued a Procedural Order, which suspended the time clock rules in order to allow for additional time to complete the hearing on the matter. The decision to suspend the time clock rules comes after an agreement was reached between Arizona-American and Pulte Homes/Del Webb to amend the existing advancement agreement in order to mitigate the effects of future rate shock on Anthem residents.

On October 24, 2007, ACC Staff filed a status update and request for Procedural Order seeking an early start time on the continued hearing in order to accommodate the schedule of a witness from Pulte/Del Webb. ACC Staff's request was granted in a Procedural Order dated October 26, 2007.

The hearing on the Company's request for a rate increase reconvened at 8:30 a.m. on October 31, 2007. A witness from Pulte Homes/Del Webb answered questions posed by Commissioners Kris Mayes and Bill Mundell. Witnesses for RUCO, ACC Staff and the Company testified on the reallocation of costs that are associated with the Company's Northwest Valley Regional Treatment Facility, which provides service to the Company's Anthem/Agua Fria and Sun City West Wastewater Districts. The hearing concluded at 4:15 p.m. on November 1, 2007.

The Company's final schedules (with the exception of rate design) were submitted during the hearing as Exhibit A-33. RUCO, ACC Staff and the Anthem Community Council filed final schedules on November 6, 2007. The parties to the case filed closing briefs on November 30, 2007. Reply briefs were filed on December 18, 2007.

On March 13, 2008, RUCO filed a motion to reopen the record and schedule a hearing for the limited purpose of taking additional testimony to supplement the record concerning the appropriate allocation of the remaining portion of the North West Valley Treatment Facility ("NWVTF") to the Anthem/Agua Fria District.

On March 17, 2008, Arizona-American filed a response in opposition to RUCO's motion to reopen the record.

On March 21, 2008 the ALJ issued a Procedural Order for the purpose of hearing oral arguments on RUCO's request for a hearing.

On March 25, 2008, ACC Staff filed a response in opposition to RUCO's motion to reopen the record.

On March 27, 2008, Counsel for Anthem Community Council filed a response in support of RUCO's motion to reopen the record.

On March 28, 2008, the ALJ heard oral arguments on RUCO's motion for hearing.

On May 12, 2008, the ALJ issued a Procedural Order denying RUCO's motion for rehearing.

After weighing all of the evidence presented during the proceeding (including correspondence and public comment from concerned ratepayers) the ALJ issued a Recommended Opinion and Order ("ROO") on May 21 2008.

On May 21, 2008, RUCO filed exceptions to the ROO taking issue with the ALJ's recommendations on the Northwest Regional Wastewater Facility ("NWVTF") allocation, rate case expense, and operating expenses associated with the NWVTF.

At a Special Open Meeting held on May 29, 2008, the five Commissioners heard public comment from Anthem residents, posed questions about the ROO, to both the ALJ and the parties to the case, and also voted down a proposed amendment on the NWVTF.

The meeting was adjourned at 5:00 p.m. During the continuation of the Special Open Meeting on June 4, 2008, the five ACC Commissioners passed an amended ROO by a vote of 3-2. The amended ROO reduces the Company's authorized rate of return from 7.30 percent (recommended by the ALJ) to 6.7 percent. The lower rate of return produced a \$360,189 reduction in required revenue for the Anthem Water District, and a \$199,677 reduction in required revenue for the Anthem/Agua Fria Wastewater District.

On July 2, 2008, Arizona-American filed an Application for Rehearing requesting that the ACC reconsider its decision to adopt an 8.8 percent cost of common equity, which resulted in a rate of return of 6.7 percent on the Company's invested capital. The Commission has twenty days to act on Arizona-American's Application for Rehearing. If no action is taken by the Commission during the twenty-day period, the decision stands. The next step for Arizona-American would be to appeal the Commission's final decision in the Arizona Court of Appeals.

#### **Chaparral City Water Company – Appeal of Decision No. 68176, ACC Docket No. W-02113A-04-0616**

On August 24, 2004, Chaparral City Water Company ("Chaparral" or "Company") filed an application for an increase in the Company's rates and charges with the Arizona Corporation Commission ("ACC" or "Commission"). During the rate case proceeding, expert witnesses from RUCO, ACC Staff and Chaparral ("The Parties") presented written testimony and faced cross-examination during the evidentiary hearing on the Company's request for rate relief. On September 30, 2005, the Commission issued Decision No. 68176, which granted a rate increase to Chaparral. Following the Commission's decision on the matter, the Company filed an application for rehearing which the Commission took no action on. Chaparral subsequently filed an appeal with the Arizona Court of Appeals, Division One ("Court of Appeals"). The Company's appeal claimed that Chaparral was denied a fair rate of return on its invested capital as a result of the Commission's established method of calculating a level of operating income based on the Company's fair value rate base ("FVRB"). On February 13, 2007, Judge Lawrence F. Winthrop of the Court of Appeals issued a Memorandum Decision, which affirmed in part, vacated, and remanded Decision No. 68176 to the Commission for further determination.

On June 7, 2007, the Commission issued a Remand Hearing Procedural Order, which stated that once a level of operating income (based on Chaparral's FVRB) has been calculated by an appropriate methodology, new just and reasonable rates would be

designed to allow Chaparral to recover the amount of revenue that the Company is entitled to. The Remand Hearing Procedural Order also stated that if the results of the process demonstrate that the rates established in Decision No. 68176 are either too high or too low, the Commission should consider the necessity of providing a mechanism for either a surcharge or a refund. The Remand Hearing Procedural Order further stated that if The Parties' proposed methodologies for determining a return on investment based on FVRB result in a measurably different revenue requirement, it might be necessary to reassess rate design.

On June 22, 2007, a procedural conference was held for the purpose of making any needed adjustments to the established procedural schedule. On June 25, 2007, the Administrative Law Judge ("ALJ") assigned to the case issued a Second Procedural Order that ordered that the hearing in the remand proceeding be continued on November 6, 2007 at 10:00 a.m. at the ACC's Phoenix Office at 1200 W. Washington.

Direct testimony was filed by Chaparral on July 13, 2007. Direct testimony from RUCO and ACC Staff was filed as scheduled on August 30, 2007. On September 11, 2007, Chaparral filed a request asking that the date for filing the Company's rebuttal testimony be changed from September 25, 2007 to October 31, 2007. Neither RUCO nor ACC Staff opposed Chaparral's request. On September 12, 2007, the ALJ issued a Fourth Procedural Order granting Chaparral's request. On October 2, 2007, a procedural conference was held at the ACC's Phoenix office for the purpose of giving the parties to the case the opportunity to discuss modifications to the procedural schedule. The parties to the case tentatively agreed on dates for a hearing and for filing additional testimony.

On October 3, 2007, the ALJ issued a Fifth Procedural Order, which scheduled the evidentiary hearing on the matter for 10:00 a.m. on January 28, 2008. As scheduled, RUCO and ACC Staff filed surrebuttal testimony on December 7, 2007. Chaparral filed a final round of rejoinder testimony on January 18, 2008 (per a stipulation to extend the filing date). A pre-hearing conference, for the purpose of scheduling the appearance of expert witnesses, was held at 1:30 p.m. on January 25, 2008.

The evidentiary hearing on the matter began as scheduled on January 28, 2008 at 10:00 a.m. During the hearing, RUCO's expert witness, Dr. Ben Johnson, was cross-examined by attorneys representing ACC Staff and the Company. Dr. Johnson also answered questions from the ACC's Chief Administrative Law Judge ("CALJ") Lynn Farmer and from ACC Chairman Mike Gleason. RUCO's attorney cross-examined expert witnesses who testified on behalf of the Company and for ACC Staff. The hearing was concluded around 4:00 p.m. on January 29, 2008.

On February 22, 2008, the CALJ issued an Eighth Procedural Order that granted a request from ACC Staff for an extension on the filing of closing briefs.

On March 5, 2008, attorneys representing RUCO, ACC Staff and Chaparral filed their initial closing briefs. Reply briefs were filed on March 21, 2008.

On June 30, 2008, after weighing all of the evidence presented during the proceeding, the ALJ issued a Recommended Opinion and Order ("ROO"). The ROO recommended a modified version of the methodology recommended by RUCO witness Dr. Ben Johnson and reduced the Company's cost of equity capital by an inflation factor of 200 basis points (i.e. 2.00 percent). The resulting 6.40 percent weighted average cost of capital was then applied to Chaparral's fair value rate base to arrive at an appropriate level of operating income for the Company (the revised annual operating figure provides the company with an additional \$12,143 more than what was originally authorized in Decision No. 68176. The ROO recommended that the recovery, if any, of Chaparral's legal expenses incurred during the appeal and remand proceedings be considered in the Company's pending rate case proceeding.

At a special open meeting held on July 17, 2008, the ROO was adopted by a vote of four to one (a Hearing Division amendment correcting a minor typographical error was adopted by the five Commissioners prior to the final vote).

The Company filed a motion for rehearing and was denied. Since the Commission denied the Company a rehearing, it has filed another appeal with the Court that is currently pending.

**Arizona-American Water Company, Inc., Paradise Valley Water District Rate Design Agreement, ACC Docket No. W-01303A-05-0405 et al.**

On June 3, 2005, Arizona-American Water Company ("Arizona-American" or "Company") filed with the Arizona Corporation Commission ("ACC" or "Commission") an application for a rate increase for its Paradise Valley Water District ("District"). The application requested approval of a public safety surcharge for investments by the Company related to improvement of fire flow facilities; an Arsenic Cost Recovery Mechanism for investments required by the Company to comply with federal water arsenic reduction requirements; and approval of a conservation surcharge that would be imposed for usage in the highest consumption block.

On July 28, 2006, the Commission issued Decision No. 68858, approving the Company's requests, including a public safety surcharge (to fund the aforementioned fire flow facilities) and a high block surcharge. After the issuance of Decision No. 68858, the ACC received numerous filings regarding the surcharges.

On January 16, 2008, The Town of Paradise Valley ("Town"), through its Town Manager, filed a letter and a Rate Design Agreement, dated January 4, 2008 ("Rate Design Agreement"), which was intended to resolve certain inequities associated with the rate design and public safety surcharge which were approved in Decision No. 68858. The proposed Rate Design Agreement attached to the Town's letter included signature pages signed by representatives of the Town, Sanctuary on Camelback Mountain, the Camelback Inn, and the Scottsdale Renaissance (collectively, "Resorts"). The signature pages also appeared to be signed by representatives of Clearwater Hills Improvement Association, Camelhead Estates II HOA, and Finisterre HOA. The

January 16, 2008, letter from the Town encouraged the Commission to reopen Commission Decision No. 68858 and modify the District's rate design consistent with the Rate Design Agreement.

At a Commission Staff Meeting noticed for and held on February 27, 2008, the Commission voted to reconsider Decision No. 68858 pursuant to A.R.S. § 40-252 for the limited purpose of reviewing the Rate Design Agreement.

On February 28, 2008, a Procedural Order was issued setting a procedural conference for the purpose of allowing the parties to Decision No. 68858 an opportunity to discuss an appropriate procedural schedule for reconsideration of Decision No. 68858, which was reopened for the limited purpose of reviewing the proposed Rate Design Agreement.

On February 29, 2008, the Resorts jointly filed a Motion to Intervene.

On March 4, 2008, the Town filed a Motion to Intervene.

No objections were filed to the Motions to Intervene filed by the Town and the Resort.

Because RUCO was a party to the original Arizona-American rate case proceeding, as were Arizona-American and ACC Staff, there was no need for RUCO to intervene.

On March 10, 2008, a procedural conference was held as scheduled. With the exception of the Paradise Valley Country Club, all parties to Decision No. 68858, including Arizona-American and ACC Staff, appeared through counsel. Counsel for the Resorts and the Town also appeared. As there were no objections to the Motions to intervene filed by the Town and the Resort, the requested interventions were granted.

On March 14, 2008, the Administrative Law Judge ("ALJ") assigned to the case issued a Procedural Order that established the dates and times for an evidentiary hearing on the matter and the filing of written testimony.

The evidentiary hearing on the matter was scheduled for 10:00 a.m. on May 15, 2008, at the Commission's Phoenix office at 1200 W. Washington.

Written direct testimony and associated exhibits from the Town and the Resorts in support of the proposed Rate Design Agreement were filed on March 28, 2008.

Written direct testimony and associated exhibits from RUCO, Arizona-American and ACC Staff regarding the proposed Rate Design Agreement were filed on April 25, 2008.

Written rebuttal testimony and associated exhibits from all parties to the instant proceeding were filed on May 9, 2008. In its rebuttal testimony, RUCO supported ACC Staff's recommendation to provide ratepayers with relief by reducing the Company's High Block Usage Surcharge from \$2.15 per thousand gallons and by resetting the

Company's Public Safety Fire Flow Surcharge from \$1.00 to \$0.00. RUCO also supported ACC Staff's recommendation to analyze both charges in Arizona-American's pending rate case proceeding.

During the evidentiary hearing, held on May 15 and 16, 2008, attorneys for RUCO, the Town, Resorts, ACC Staff, and Arizona-American cross-examined the expert witnesses that filed written testimony in the case. Witnesses for the Company, the Town and the Resorts also responded to questions posed by ACC Commissioners Bill Mundell and Kris Mayes on the first day of the hearing.

Closing briefs from the attorneys for the parties to the case were filed on June 13, 2008.

After the filing of the closing legal briefs, the ALJ weighed all of the evidence presented during the proceeding and issued a Recommended Opinion and Order ("ROO") on August 12, 2008.

At a Regular Open Meeting held on August 26 and 27, 2008, the ROO was adopted by the five ACC Commissioners by a vote of 5-0. The final decision reduced the amount of the High Block Usage Surcharge from \$2.15 per thousand gallons and to reset the Company's Public Safety Fire Flow Surcharge from \$1.00 to \$0.00 effective September 1, 2008.

### **Sempra Energy Solutions Electric CC&N, ACC Docket No. E-03964A-06-0168**

On March 15, 2006, Sempra Energy Solutions ("Sempra" or the "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for a Certificate of Convenience and Necessity ("CC&N") for competitive retail electric services. Sempra is a California-based retail energy service provider that serves retail end-use commercial and industrial customers throughout the U.S. and Mexico.

Under the tariff filed by Sempra, the Company would provide competitive retail electricity and other competitive energy services to NON-RESIDENTIAL customers which are eligible for direct access within the Arizona Public Service Company, Salt River Project and Tucson Electric Power Company service areas. Both single and aggregation accounts may receive service under the tariff proposed by Sempra which is providing electricity as an Electric Service Provider ("ESP") as defined in A.A.C. R14-2-1601 (15). Pursuant to the Company's proposed tariff, Sempra would provide and sell competitive electricity supply and billing services. Sempra would also sell, but not physically provide, the meter services of ACC certificated providers.

On July 3, 2007, RUCO Director Stephen Ahearn filed direct testimony opposing Sempra's request on the grounds that it was not in the public interest.

On December 3, 2007, Sempra filed a motion to strike the testimony of Mr. Ahearn and Frank G. Graves and Peter Fox-Penner, both of whom filed on behalf of New West Energy Corporation ("NWE"). Sempra's motion claims that the testimony of Messrs.

Ahearn, Graves and Fox-Penner is “far beyond” the scope of what is necessary to decide the Company’s application to obtain a CC&N.

On December 7, 2007, RUCO responded to the Company's motion to strike. RUCO argued that SES’s motion is based on the erroneous assumption that the question of the public interest is beyond the scope of the case. RUCO also argued that the Commission has both the authority and the obligation to consider the public interest in Sempra's CC&N application proceeding. RUCO further argued that the pre-filed testimonies of Messrs. Ahearn, Graves and Fox-Penner all addressed aspects of the public interest implications of granting SES with the CC&N that it seeks and that the testimony of Messrs. Ahearn, Graves and Fox-Penner are, therefore, within the scope of the proceeding and should not be stricken.

On January 17, 2008, RUCO Director Stephen Ahearn filed rebuttal testimony reiterating RUCO's opposition to Sempra's request. Mr. Ahearn stated that it is premature to grant the CC&N in the Company's application. On February 1, 2008, New West filed a Motion to Dismiss. The parties filed responses to New West’s Motion and oral argument was held on February 19, 2008.

On August 12, 2008, the ALJ issued her Recommended Opinion and Order (“ROO”). The ALJ recommended suspending Sempra’s application until the larger issue of the feasibility of retail competition in Arizona is addressed in the Generic Restructuring Docket (Docket No. E-00000A-02-0051). The matter was heard by the Commission in its Open Meeting held on August 27, 2008. The Commission adopted the ROO with an amendment which provides for public workshops within 90 days of the Commission’s decision to address the underlying policy issue of whether retail competition is in the public interest.

RUCO played the principal role in this case. The testimony of RUCO’s Director made it clear that this case was not just a simple CC&N application. This case involves a policy matter of whether retail competition is in the public interest. It is only after this threshold issue is resolved that the Commission should entertain CC&N applications of retail competitors. The Commission’s Decision reflects RUCO’s position.

### **APS Self Build, ACC Docket No. E-01345A-07-0420**

On April 7, 2005, the Arizona Corporation Commission (“ACC” or “Commission”) issued Decision No. 57744 in Arizona Public Service Company’s (“APS”) rate proceeding approving a Settlement Agreement (“Settlement Agreement”) with modifications. Paragraph 74 of the Settlement Agreement stated the following:

*APS will not pursue any self-build option having an in-service date prior to January 1, 2015, unless expressly authorized by the Commission. For purposes of this Agreement, ‘self-build’ does not include the acquisition of a generating unit or interest in a generating unit from a non-affiliated merchant or utility generator, the acquisition*

of temporary generation needed for system reliability, distributed generation of less than fifty MW per location, renewable resources, or the up-rating of APS generation, which up-rating shall not include the installation of new units.

The Commission's Decision No. 67744 later modified the definition of self-build to include "the acquisition of a generating unit or interest in a generating unit from any merchant or utility generator." According to Decision No. 67744, the self-build moratorium is useful for addressing the potentially anti-competitive effects that might be associated with rate-basing the Pinnacle West Energy Corporation generating assets.

Paragraph 79 of the Settlement Agreement also stated that:

The Commission Staff will schedule workshops on resource planning issues to focus on developing needed infrastructure and developing a flexible, timely, and fair competitive procurement process. These workshops will also consider whether and to what extent the competitive procurement should include an appropriate consideration of a diverse portfolio of short, medium, and long-term purchased power, utility-owned generation, renewables, DSM, and distributed generation. The workshops will be open to all stakeholders and to the public. If necessary, the workshops may be followed with rulemaking.

As a result of Decision No. 67744 and Paragraph 79 of the Settlement Agreement, the Commission's Utilities Division Staff ("Staff") conducted workshops on competitive procurement during 2007. Staff's stated intent was to continue to facilitate competitive wholesale market options. Staff concluded that conducting a rulemaking on procurement issues was premature, and recommended that to enable the procurement process to move expeditiously, the Commission should adopt recommended practices for procurement.

On December 4, 2007, the Commission issued Decision No. 700325 which adopted the Recommended Best Practices for Procurement ("Best Practices"). Generally, the Best Practices lists procurement methods that are considered acceptable for the wholesale acquisition of energy, capacity, and physical power hedge transactions; includes a preference for requests for proposals ("RFP") as the primary acquisition process; and indicates that an independent monitor should be used in all RFP processes for procurement of new resources. The Best Practices are recommended, but are not mandatory.

Since Decision No. 67744 was adopted in April 2005, APS has sought authorization to acquire a power plant only once. On July 13, 2006, APS filed an application for approval to purchase a new generation resource within APS' Yuma load pocket ("Yuma Proceeding"). Mesquite Power, L.L.C., Southwestern Power Group 11, L.L.C. and Bowie Power Station, L.L.C. (collectively, "Mesquite/SWPG/Bowie"), the Competitive

Power Alliance, and the Distributed Energy Association of Arizona were granted intervention. Four days of hearing were held in January 2007, and on March 30, 2007, the Commission issued Decision No. 69400 approving the application.

In Decision No. 69663 (June 28, 2007), the Commission determined that it was in the public interest to conduct a proceeding pursuant to A.R.S. 40-252 to consider modifying Decision No. 67744 relating to the self-build option. Accordingly, this docket was opened to conduct the proceeding and take evidence on whether a modification was needed.

RUCO intervened and filed testimony in this case. RUCO did not propose any modifications to the self-build moratorium, as it believes “that the Settlement Agreement and Decision No. 67744 established an appropriate balance between reliance on the wholesale electric market and requiring APS to meet its load by using the most cost-effective resource – regardless of who owns those resources.” A key element of the Settlement Agreement is the provision that APS is obligated to request authorization to self-build if the wholesale competitive market is unable to provide reasonably priced resources. In response to testimony filed by other parties, RUCO argued that Staff’s response to the perceived problems identified to date is appropriate and that RUCO would support discussions of the Best Practices in the Resource Planning docket.

A hearing was held on February 20, 2008 and on August 12, 2008, the ALJ issued her Recommended Opinion and Order (“ROO”). The ALJ recommended the Commission not modify Decision No. 67744 and the Settlement Agreement. The Commission considered the matter in its Open Meeting in August 27, 2008, and adopted the ROO.

RUCO’s position in this case was approved by the Commission in its final Decision.



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## APPENDIX

### COMMONLY-USED ACRONYMS AND TERMS

The following terms are used throughout the case summaries:

ACC – Arizona Corporation Commission  
ACRM – arsenic cost recovery mechanism  
ALJ – Administrative Law Judge  
APS – Arizona Public Service Company  
AZ-AM – Arizona American Water Company  
CALJ - Chief Administrative Law Judge  
CAP - Central Arizona Project  
CC&N – Certificate of Convenience & Necessity  
Commission – Arizona Corporation Commission  
CTC – competition transition charge  
DSM – demand side management  
DSMAC – demand side management adjustment clause  
EIS – environmental improvement surcharge  
EPA – U.S. Environmental Protection Agency  
ESP – electric service provider  
FVRB – fair value rate base  
GCSC – Gold Canyon Sewer Company  
MWD – Maricopa County Municipal Water Conservation District Number One  
NWE – New West Energy Corporation  
NWWTF – Northwest Valley Treatment Facility  
NYSE – New York Stock Exchange  
O & M – operation and maintenance  
PGA – purchased gas adjustor mechanism  
PPFAC – purchased power and fuel adjustment clause  
RDAP – revenue decoupling adjustment provision  
ROO - Recommended Opinion and Order  
RFP – request for proposal  
RUCO – Residential Utility Consumer Office  
SCE – Southern California Edison  
SCTA – Sun City Taxpayers Association  
Staff – ACC Utilities Division Staff  
SWEEP – Southwest Energy Efficiency Project  
TCA – transmission cost adjustor  
TEP – Tucson Electric Power Company  
TOU – time-of-use

**THE RESIDENTIAL UTILITY CONSUMER OFFICE (RUCO) IS AN EQUAL OPPORTUNITY, REASONABLE ACCOMMODATION EMPLOYER.**