

**ARIZONA WATER COMPANY**

**DOCKET NO. W-01445A-08-0440**

**DIRECT TESTIMONY  
ON REVENUE REQUIREMENT**

**OF**

**TIMOTHY J. COLEY**

**ON BEHALF OF**

**THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE**

**JUNE 12, 2009**

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21

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- 6 COOLIDGE – SCHEDULES TJC-1 THROUGH TJC-15

1 **INTRODUCTION**

2 Q. Please state your name, position, employer and address.

3 A. My Name is Timothy J. Coley. I am a Public Utilities Analyst V employed  
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.  
5 Washington, Suite 220, Phoenix, Arizona 85007.

6

7 Q. Please state your educational background and qualifications in the utility  
8 regulation field.

9 A. Appendix 1, which is attached to this testimony, describes my educational  
10 background and includes a list of the rate cases and regulatory matters in  
11 which I have participated.

12

13 Q. Please state the purpose of your testimony.

14 A. The purpose of my testimony is to present RUCO's recommendations  
15 regarding Arizona Water Company's ("AWC" or "Company") application for  
16 a determination of the current fair value of its utility plant and property and  
17 for a permanent increase in its rates and charges based thereon for utility  
18 service. The test year utilized by the Company in connection with the  
19 preparation of this application is the 12-month period that ended  
20 December 31, 2007.

21

22

23

1 **BACKGROUND**

2 Q. Please describe your work effort on this project.

3 A. I obtained and reviewed data and performed analytical procedures  
4 necessary to understand the Company's filing as it relates to operating  
5 income, rate base, and the Company's overall revenue requirement. My  
6 recommendations are based on these analyses. Procedures performed  
7 include the in-house formulation and analysis of several sets of data  
8 requests, the review and analysis of the Company's responses to  
9 Commission Staff data requests, and review of prior ACC dockets related  
10 to AWC.

11

12 The Company's filing consists of an application for increases in rates and  
13 charges for the following seventeen systems classified in three Groups:

14

15	<u>Eastern Group</u>	<u>Western Group</u>	<u>Northern Group</u>
16	Superstition	Casa Grande	Lakeside
17	Bisbee	Stanfield	Overgaard
18	Sierra Vista	White Tank	Sedona
19	San Manuel	Ajo	Pinewood
20	Oracle	Coolidge	Rimrock
21	Winkleman		
22	Miami		

23

1 RUCO's participation in this proceeding is the cumulative effort of three  
2 RUCO witnesses; myself (Timothy J. Coley), William A. Rigsby, and  
3 Rodney L. Moore. For the review and analysis procedures, specific  
4 systems were assigned to Mr. Rigsby and myself. Mr. Moore was  
5 responsible for the rate design of all the systems. I was assigned the  
6 Eastern and Western Groups' systems while Mr. Rigsby analyzed the  
7 Northern Group systems. However, to avoid confusion and duplication,  
8 the testimony filed by RUCO in support of its analysis was allocated  
9 among the analysts by ratemaking elements.

10

11 Q. Please explain how these ratemaking elements were allocated?

12 A. I will address issues related to the rate base. Mr. Rigsby will address  
13 issues related to operating income. Mr. Rigsby will also provide an  
14 analysis of the cost of capital. Moreover, each witness will address the  
15 appropriate revenue requirement for the systems analyzed.

16

17 RUCO analyzed each system on a stand-alone basis. The Company  
18 proposes a partial consolidation for some systems. RUCO reserves the  
19 right to amend its testimony in surrebuttal based upon rate design and  
20 engineering reports, which are to be filed on June 26, 2009.

21

22 Mr. Moore will file rate design schedules and Mr. Rigsby will address  
23 RUCO's rate design in his testimony to be filed June 26, 2009.

1 Q. Will Mr. Rigsby, Mr. Moore or you offer direct testimony on rate  
2 consolidation at this time?

3 A. No. RUCO reserves the right to file testimony on rate consolidation during  
4 the surrebuttal phase of the proceeding upon review of rate design and  
5 engineering reports to be filed June 26, 2009. RUCO Director Jodi Jerich  
6 will file testimony on RUCO's position regarding the issue of rate  
7 consolidation at that time. Mr. Rigsby, Mr. Moore and I will present  
8 updated ratemaking and rate design schedules that reflect RUCO's  
9 position regarding rate consolidation at that time also. The ratemaking  
10 schedules sponsored by Mr. Rigsby and I during the direct testimony  
11 phase of the proceeding will present the effects of RUCO's recommended  
12 levels of rate base, operating revenue and operating expenses on a stand-  
13 alone basis for each of the seventeen systems included in AWC's filing.  
14 Mr. Moore's direct testimony on rate design will also reflect rates on a  
15 stand-alone basis also.

16

17 Q. Please identify the exhibits you are sponsoring.

18 A. I am sponsoring schedules for the Eastern and Western Groups' systems  
19 numbered TJC-1 through TJC-15.

20

21

22 ...

23

1 **SUMMARY OF ADJUSTMENTS**

2 Q. Please summarize the adjustments to the rate base in your testimony.

3 A. My testimony addresses the following issues:

4 **Rate Base**

5 RUCO is in substantial agreement with several of the Company's pro-  
6 forma adjustments. Nevertheless, RUCO reserves the right to alter its  
7 position if additional evidence is produced in this case, which warrants  
8 RUCO's reconsideration of its position. RUCO did not make any direct  
9 adjustments to the Company's pro-forma rate base adjustments unless  
10 otherwise noted and identified as:

11

12 JMR-1 – Post Test Year Plant Additions

13 JMR-2 – Net Regulatory Liability

14 JMR-3 – Net Regulatory Asset

15

16 However, through the analytic process, RUCO did make prudent revisions  
17 to the Company's filing. In summary, RUCO rate base adjustments are  
18 identified as:

19

20 RUCO Rate Base Adjustment #1 – Plant and Accumulated Depreciation –

21 This adjustment reflects RUCO's recommended Utility Plant in Service  
22 ("UPIS") and Accumulated Depreciation balances since the last rate case  
23 for each Group. I started with the last Commission approved balance and

1 reconstructed all plant additions, retirements, and adjustments at the  
2 approved depreciation rates.

3  
4 RUCO Rate Base Adjustment #2 – Remove Post Test Year Phoenix  
5 Office Plant Additions – This adjustment reverses the Company’s portion  
6 of the Phoenix Office adjustment in JMR-6 related to post test year plant  
7 additions.

8  
9 RUCO Rate Base Adjustment #3 – Remove Plant Held for Future Use  
10 (“PHFFU”) and Record Retirements not Included in the Rate Application –  
11 This is a conforming adjustment to remove PHFFU and to record certain  
12 retirements identified by the Company in its response to Commission Staff  
13 data request BKB 11.16.

14  
15 RUCO Rate Base Adjustment #4 – Remove Other Post Test Year Plant  
16 Additions Not Related to Federal or State Mandated Laws – This  
17 adjustment removes any post test year plant not related to arsenic or  
18 nitrate removal that was included in the Company’s rate application.

19  
20 RUCO Rate Base Adjustment #5 – Remove Post Test Year HWY 179  
21 Improvement – This adjustment removes 35 percent of the costs  
22 associated with a post test year improvement project that involved the

1 replacement of transmission mains for an Arizona Department of  
2 Transportation (“ADOT”) highway project in Sedona.

3

4 RUCO Rate Base Adjustment #6 - Working Capital – This adjustment  
5 reduces the cash working capital element of the working capital allowance  
6 requested by the Company.

7

8 **REVENUE REQUIREMENTS**

9 Q. Please summarize the results of RUCO’s analysis of the Company’s filing  
10 and state RUCO’s recommended revenue requirement.

11 A. Mr. Rigsby summarizes RUCO’s revenue requirements in his testimony.  
12 The details are shown on Schedules TJC-1 and WAR-1.

13

14 **RATE BASE ADJUSTMENTS**

15 **Rate Base Summary**

16 Q. Is RUCO recommending any changes to the Company’s proposed rate  
17 base?

18 A. Yes. RUCO analyzed the Company’s rate base adjustments to its  
19 historical test-year elements of rate base and made adjustments to the  
20 rate base as filed by the Company. The cumulative review, analysis and  
21 adjustments made by RUCO are explained on the succeeding pages.

22

23

1 **RUCO Rate Base Adjustment #1 – Utility Plant in Service (“UPIS”) and**  
2 **Accumulated Depreciation**

3 Q. Please explain RUCO’s adjustment to the Company’s UPIS and  
4 accumulated depreciation balances.

5 A. This adjustment is common for all systems filed in this case. Each system  
6 is comprised of its direct plant and an allocation of the Company’s Phoenix  
7 office and meter shop. RUCO reconstructed the UPIS additions,  
8 adjustments, and retirements since the last rate case to determine the  
9 proper plant and accumulated depreciation balances for the test year in  
10 this case.

11  
12 Q. Does RUCO accept the Company’s balances of Utility Plant In Service  
13 (“UPIS”) and accumulated depreciation for a starting point?

14 A. Yes.

15

16

17

18

19

20

21 ...

22

1 Q. Did RUCO make any adjustments to UPIS or accumulated depreciation  
2 adjustments to the systems?

3 A. Yes. RUCO made adjustments to the UPIS and accumulated depreciation  
4 balances for each system as follows:

5

6 **Eastern Group**

	Increase/(Decrease)	(Increase)/Decrease
	<u>UPIS</u>	<u>Accumulated Depreciation</u>
9 Superstition	\$ 6,282	(\$ 22,612)
10 Bisbee	\$ 6,328	(\$ 10,913)
11 Sierra Vista	\$ 0	\$ 6,701
12 San Manuel	\$ 2,058	\$ 33,929
13 Oracle	\$ 0	(\$ 1,038)
14 Winkelman	\$ 0	\$ 3,162
15 Miami	\$ 0	\$ 25,492

16

17 **Western Group**

	Increase/(Decrease)	(Increase)/Decrease
	<u>UPIS</u>	<u>Accumulated Depreciation</u>
20 Casa Grande	(\$ 822,694)	(\$ 1,579)
21 Stanfield	\$ 0	(\$ 9,692)
22 White Tank	\$ 0	\$ 54
23 Ajo	\$ 0	(\$ 13)
24 Coolidge	\$ 0	\$ 5,582

25

26

27

28 ...

29

	<b>Northern Group</b>	
	Increase/(Decrease)	(Increase)/Decrease
	<u>UPIS</u>	<u>Accumulated Depreciation</u>
1		
2		
3		
4	Lakeside	\$ 1,784
5	Overgaard	\$ 629
6	Sedona	(\$ 4,975)
7	Pinewood	\$ 496
8	Rimrock	\$ 487
9		

10 Those adjustments are on Schedule TJC-2 and WAR-2. The supporting  
11 detail is on Schedules TJC-3 and WAR-3.

12

13 **RUCO Rate Base Adjustment #2 – Remove Post Test Year Phoenix Office**  
14 **Plant**

15 Q. Is the Company seeking rate inclusion of post-test-year (“PTY”) plant  
16 additions?

17 A. Yes. The Company is requesting all Company invested plant be included  
18 in rate base that is revenue neutral, used and useful, and placed in service  
19 prior to filing the rate application. The total PTY plant requested by the  
20 Company equals \$6,681,894. However, there is some PTY plant that the  
21 Company requested that is not servicing customers yet.

22

23 ...

24

1 Q. Is it true that RUCO has taken exception in the past to PTY plant additions  
2 to be included in rate base in Commission proceedings?

3 A. Yes. RUCO has consistently held that including PTY plant creates a  
4 mismatch of rate base items that strongly favors the stockholders at the  
5 detriment of the ratepayers.

6  
7 Q. Please explain why PTY plant additions are likely to result in unfair and  
8 unreasonable rates.

9 A. The problem with allowing PTY plant additions is there is no recognition of  
10 all the other rate base items in the same base year as PTY plant  
11 additions. For example, in this case, when one rate base item that makes  
12 up a substantial amount of rate base is recognized PTY and the other  
13 entire rate base items are based on a historical test-year, severe  
14 mismatches are created to the detriment of the ratepayers. Whereas, a  
15 historical test-year automatically matches all rate base items. The  
16 matching principle is a long-standing principle in regulatory utility  
17 ratemaking, and with good reason. Fair and reasonable rates cannot be  
18 determined when mismatches occur. Furthermore, Commission rules  
19 allow a utility to choose its own test year. If the Company wished, it could  
20 have chosen a 2008 test year instead of 2007. Obviously, the Company  
21 believes its request to raise rates is better promoted through a 2007 test  
22 year. So, to allow cost recovery for new plant in 2007 and 2008 allows the  
23 Company, in effect, two bites at the apple.

1 Q. Does RUCO recommend the allowance of any PTY plant that the  
2 Company requested in its rate application?

3 A. Yes. RUCO recommends the inclusion of all PTY arsenic and nitrate  
4 removal plant be allowed in rate base. This will eliminate the need for the  
5 Arsenic Cost Recovery Mechanism (“ACRM”) surcharge that exists in  
6 some of the systems.

7

8 Q. Why did RUCO deviate from its general opposition in the inclusion of PTY  
9 plant in the case of arsenic and nitrate removal plant?

10 A. RUCO recommends allowance of PTY plant for arsenic and nitrate  
11 removal because these are costs mandated by the government. In 2006,  
12 the federal government lowered the maximum allowable amount of  
13 arsenic in drinking water to 10 parts per billion (“ppb”) from 50 ppb. This  
14 resulted in AWC, and several other Arizona water utilities, to construct  
15 arsenic removal systems. Furthermore, costs for arsenic removal are  
16 being recovered from ratepayers through the Arsenic Cost Recovery  
17 Mechanism (“ACRM”). Costs recovered for arsenic removal plant in  
18 service will be taken out of the ACRM and moved into base rates in the  
19 rate proceeding. RUCO sees little or no benefit in retaining cost recovery  
20 of PTY arsenic removal plant in the ACRM instead of base rates.

21

22 The government also mandates the amount of nitrates acceptable in  
23 drinking water. In order to comply with the government mandates, the

1 Company, as was the case with arsenic, had to build the necessary  
2 treatment plant in aid to its source of supply. RUCO believes that aside  
3 from promoting good public policy, the treatment plant for nitrate should be  
4 included in rate base as the Company is acting in good faith to comply  
5 with the legal nitrate standards.

6

7 Q. What adjustment was necessary to remove the Phoenix Office PTY plant?

8 A. The total Company adjustment was \$120,057. That amount was allocated  
9 to each system using the 3-Factor Allocator to make the adjustment as  
10 follows:

11

**Eastern Group**

12

Superstition	(\$ 29,942)	Bisbee	(\$ 5,979)
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13

Sierra Vista	(\$ 3,097)	San Manuel	(\$ 2,017)
--------------	------------	------------	------------

14

Oracle	(\$ 2,737)	Winkleman	(\$ 264)
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15

Miami	(\$ 5,979)		
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16

17

**Western Group**

18

Casa Grande	(\$ 31,875)	Stanfield	(\$ 324)
-------------	-------------	-----------	----------

19

White Tank	(\$ 2,845)	Ajo	(\$ 972)
------------	------------	-----	----------

20

Coolidge	(\$ 6,327)		
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21

22

**Northern Group**

23

Lakeside	(\$ 7,444)	Overgaard	(\$ 4,790)
----------	------------	-----------	------------

24

Sedona	(\$ 10,145)	Pinewood	(\$ 3,542)
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25

Rimrock	(\$ 1,777)		
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26

1 An accompanying adjustment to decrease accumulated depreciation is  
2 necessary for the following amounts:

3 **Eastern Group**

4 Superstition	\$ 999	Bisbee	\$ 199
5 Sierra Vista	\$ 103	San Manuel	\$ 67
6 Oracle	\$ 91	Winkleman	\$ 9
7 Miami	\$ 199		

8  
9 **Western Group**

10 Casa Grande	\$ 1,063	Stanfield	\$ 11
11 White Tank	\$ 95	Ajo	\$ 32
12 Coolidge	\$ 211		

13  
14 **Northern Group**

15 Lakeside	\$ 248	Overgaard	\$ 160
16 Sedona	\$ 338	Pinewood	\$ 118
17 Rimrock	\$ 59		

18  
19 These adjustments are on Schedule TJC-2 and WAR-2. The supporting  
20 detail is on Schedules TJC-3, WAR-3 and Schedules TJC-5 and WAR-5.

21

22

23

24

25

26 ...

27

1 **RUCO Rate Base Adjustment #3 – Remove Plant Held for Future Use**  
2 **(“PHFFU”) and Record Plant Retirements**

3 Q. Please explain RUCO’s adjustment to remove PHFFU and to record  
4 certain plant retirements.

5 A. This adjustment incorporates the Company’s response to Staff data  
6 request BKB 11.16. In the Company’s response to that data request,  
7 AWC agreed it failed to properly remove certain PHFFU and to record  
8 certain retirements prior to filing its rate application. This adjustment  
9 accounts for the plant items properly.

10  
11 Q. What adjustments did RUCO make to properly account for the plant items  
12 in question?

13 A. RUCO removed the plant items that were held for future use and  
14 accounted for the retirements and removed the necessary accumulated  
15 depreciation amounts related to the retirements and plant items held for  
16 future use for each system as follows:

17 **Eastern Group**

	Increase/(Decrease)	(Increase)/Decrease
	<u>UPIS</u>	<u>Accumulated Depreciation</u>
20 Superstition	(\$ 877,585)	\$ 235,225
21 Bisbee	(\$ 704)	\$ 746
22 Sierra Vista	\$ 0	\$ 0
23 San Manuel	\$ 0	\$ 0
24 Oracle	\$ 0	\$ 0
25 Winkelman	(\$ 66,360)	\$ 79,635

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**Eastern Group (Continued)**

	Increase/(Decrease)	(Increase)/Decrease
	<u>UPIS</u>	<u>Accumulated Depreciation</u>
Miami	(\$ 279,237)	\$ 76,321

**Western Group**

	Increase/(Decrease)	(Increase)/Decrease
	<u>UPIS</u>	<u>Accumulated Depreciation</u>
Casa Grande	(\$ 896,925)	\$ 676,446
Stanfield	(\$ 42,641)	\$ 17,077
White Tank	(\$ 36,008)	\$ 27,491
Ajo	\$ 0	\$ 0
Coolidge	(\$ 856,324)	\$ 46,188

**Northern Group**

	Increase/(Decrease)	(Increase)/Decrease
	<u>UPIS</u>	<u>Accumulated Depreciation</u>
Lakeside	(\$ 313,824)	\$ 207,265
Overgaard	\$ 0	\$ 0
Sedona	(\$ 1,392,903)	\$ 926,106
Pinewood	(\$ 13,512)	\$ 10,674
Rimrock	(\$ 62,097)	\$ 60,312

These adjustments are on Schedule TJC-2 and WAR-2. The supporting detail is on Schedules TJC-3, WAR-3.

1 **RUCO Rate Base Adjustment #4 – Remove Other Post Test Year Plant**

2 Q. Please explain RUCO's adjustment that removes other post test year plant  
3 from rate base.

4 A. This adjustment removes post test year plant from rate base that is either  
5 not serving current ratepayers or is not federally or state mandated such  
6 as arsenic and nitrate removal treatment plant.

7

8 Q. When does RUCO believe that the recognition of post test year plant is  
9 appropriate?

10 A. Generally, RUCO does not believe that post test year plant should ever be  
11 recognized in a historical test year setting for rate making. Post test year  
12 plant is normally mismatched with the revenues, expenses, and the other  
13 rate base elements of the test year chosen by the Company. If post test  
14 year plant is recognized, RUCO believes the following items should also  
15 be recognized on a *post test year* basis:

- 16 1) Plant Retirements,  
17 2) Plant Adjustments,  
18 3) Accumulated Depreciation,  
19 4) Advances in Aid of Construction,  
20 5) Contributions in Aid of Construction,  
21 6) Deferred Income Taxes,  
22 7) Regulatory Assets and Liabilities,  
23 8) Revenues, and;

1                   9) Expenses.

2

3                   Matching is a fundamental principle of accounting and ratemaking. The  
4                   absence of matching distorts the meaning of and reduces the usefulness  
5                   of the rate of return and operating income in determining the fairness and  
6                   reasonableness of rates established in a rate proceeding.

7

8           Q.     You mentioned earlier that some of the post test plant requested in the  
9           Company's rate application is still not in service today, please identify  
10           some of those plant items that RUCO refers to.

11          A.     The Carroll Canyon well located in Sedona is currently not in service, a  
12           portion of a waterline relocation project in Sedona is not yet in service, an  
13           electrical panel located in Pinewood is also not in service.

14

15          Q.     What adjustments were necessary for RUCO to remove the post test year  
16           plant items identified in RUCO rate base adjustment #4?

17          A.     The following adjustments were necessary to the Sedona and Pinewood  
18           rate bases for plant items identified in adjustment #4:

19

	<b>Northern Group</b>	
	Increase/(Decrease)	(Increase)/Decrease
	<u>UPIS</u>	<u>Accumulated Depreciation</u>
23       Sedona	(\$ 2,011,576)	\$ 21,940
24       Pinewood	(\$ 40,553)	\$ 1,191

25

1           Those adjustments are shown on Schedules WAR-2 and the supporting  
2           details are on Schedules WAR-3.

3

4   **RUCO Rate Base Adjustment #5 – Remove Post Test Year HWY 179**  
5   **Improvement**

6   Q.    Please explain your adjustment that removes 35 percent of the costs  
7           associated with a post test year plant project in the Northern Group’s  
8           Sedona System.

9   A.    The adjustment removes 35 percent of the costs associated with a post  
10          test year improvement project that involved the relocation of transmission  
11          mains for an Arizona Department of Transportation (“ADOT”) highway  
12          project in Sedona. RUCO’s adjustment can be viewed on Schedule WAR-  
13          3, in the direct testimony of RUCO witness William A. Rigsby.

14

15   Q.    Why has RUCO only removed 35 percent of the costs associated with the  
16          project?

17   A.    RUCO’s decision to remove 35 percent of the costs associated with the  
18          project was based on information provided by the Company in response to  
19          an ACC Staff informal data request dated May 13, 2009. The Company  
20          responded that the project is 65 percent complete.

21

1 Q. What is the effect of RUCO's adjustment on the Company's plant in  
2 service account and associated accumulated depreciation for the Sedona  
3 System?

4 A. RUCO's adjustment reduces the Sedona System's plant in service  
5 account balance by \$661,738. RUCO has also made a corresponding  
6 adjustment, which reduces the accumulated depreciation associated with  
7 the HWY 179 project by \$5,923.

8  
9 Q. Has RUCO also accounted for the removal of 35 percent of the HWY 179  
10 project in its pro forma depreciation expense?

11 A. Yes. The effect of RUCO's adjustment is accounted for in the level of  
12 depreciation expense that RUCO is recommending for the Sedona  
13 System (Schedule WAR-11).

14  
15 **RUCO Rate Base Adjustment #6 – Working Capital**

16 Q. Please explain the concept of cash working capital.

17 A. A company's cash working capital requirement represents the amount of  
18 cash the company must have on hand to cover any differences in the time  
19 period between when revenues are received and expenses must be paid.  
20 The most accurate way to measure the cash working capital requirement  
21 is via a lead/lag study. The lead/lag study measures the actual lead and  
22 lag days attributable to the individual revenues and expenses.

23

1 Q. Is RUCO proposing a cash working capital requirement adjustment in this  
2 case?

3 A. Yes. RUCO proposes cash working capital requirement adjustments that  
4 decrease the working capital requirement for each system. These  
5 adjustments are shown on Schedules TJC and WAR-6, page 1, with the  
6 details of the lead/lag studies on Schedules TJC and WAR-6, page 2.

7

8 Q. Did AWC file a lead/lag study supporting its requested cash working  
9 capital requirements in this case?

10 A. Yes.

11

12 Q. Did RUCO make any adjustments to the Company's lead/lag study?

13 A. Yes. However, RUCO developed and utilized its own lead/lag study in  
14 determining its required cash working capital adjustment.

15

16 Q. Does RUCO agree with the Company's revenue lag days?

17 A. Yes. The revenue lag days are comparable to RUCO's calculation using  
18 customer bills.

19

20 Q. Does RUCO agree with the Company's expense lag days?

21 A. RUCO does not agree with all of the Company's expense lags. However,  
22 RUCO does agree with the majority of the Company's expense lag days.

23

1 Q. Which expense lag days did RUCO differ with?

2 A. RUCO adjusted the expense lag days for the expense accounts to the  
3 following days:

4		Company	RUCO
5		<u>Lag Days</u>	<u>Lag Days</u>
6	1.	Purchased Power	30.87
7	2.	Purchased Water	(0.11)
8	3.	Chemicals	(18.11)
9	4.	Other O & M Expenses	(9.27)
10			35.92
			Varies <sup>1</sup>
			20.43
			30.00

11 Q. How did RUCO determine its lag days for those expenses?

12 A. The purchased power expense lag days are the same that was used in  
13 the Company's last rate case for the Western Group. For purchased  
14 water, RUCO analyzed the test year invoices in each system for those  
15 expenses at the Company's office in Phoenix. The same analysis was  
16 done for chemical expense lag days, which are comparable to other  
17 analyses RUCO has performed for other water companies in the past.  
18 Other operating and maintenance expense lag days were calculated at the  
19 Company's Phoenix office. The majority of those invoices indicated terms  
20 of net 30 days for an expense lag.

21

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23

24 ...

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<sup>1</sup> The number of purchased water lag days is dependent on the system.

1 Q. What other element of expenses did RUCO adjust in its lead/lag study?

2 A. RUCO made some operating expense adjustments that are reflected in  
3 RUCO's recommended lead/lag expense levels. In addition, RUCO  
4 removed rate case expense from other operating and maintenance  
5 expenses. Rate case expense is a going forward non-cash expense just  
6 as depreciation and amortization expense. That expense is a  
7 nonrecurring cash expense once the Commission authorizes rates in this  
8 case.

9

10 Q. Did RUCO make any adjustments to the operating income elements in the  
11 lead/lag study?

12 A. Yes.

13

14 Q. Please describe the adjustments RUCO made to the operating income  
15 lead/lag elements.

16 A. RUCO's made some rate base adjustments that are reflected in its  
17 recommended level of rate base to synchronize interest. RUCO reduced  
18 the Company's cost of equity component to zero.

19

20

21

22 ...

23

1 Q. Shouldn't the cost of common equity be included in a lead/lag study?

2 A. No. In AWC's lead/lag study, the Company treats the common equity as if  
3 AWC compensates stockholders on a daily basis. Normally, the fact is  
4 that compensation is received by stockholders in two forms; i.e., through  
5 quarterly dividend payments, if any, or upon the sale of the stock. If one  
6 were to measure the actual delay in the cash outlay by the utility to  
7 stockholders, one would refer to the quarterly dividend payments that are  
8 being paid and not simply assume a zero lag as the Company has done.  
9 But, because there is no contractual requirement for AWC to pay fixed  
10 quarterly dividends to stockholders, the cost of common equity should not  
11 be included in the cash working capital measurement in the first place.

12

13 Q. What is RUCO's rationale for including the interest expense in the lead/lag  
14 study?

15 A. Unlike the quarterly dividend payments, there are contractual  
16 requirements associated with AWC's debt issuances that obligate the  
17 Company to make fixed interest payments on certain dates. In this  
18 respect, debt interest more closely resembles AWC's other cash operating  
19 expenses. Thus, the payment lead for AWC's interest expense should be  
20 separately recognized in the lead/lag calculation as the Commission has  
21 recognized in numerous cases. Typically, long-term debt interest is paid  
22 semi-annually, creating a 91.25-day expense lead.

23

1 Q. Did the Company utilize the 91.25-day lead in calculating its interest  
2 expense for cash working capital?

3 A. Yes.  
4

5 Q. What adjustments to cash working capital are necessary when taking all of  
6 RUCO's adjustments to the Company's lead/lag study into consideration?

7 A. The following adjustments are necessary when taking all of RUCO's  
8 adjustments to the Company's lead/lag study into consideration:  
9

10 **Eastern Group**

11 Superstition	(\$ 535,541)	Bisbee	(\$ 46,375)
12 Sierra Vista	(\$ 31,875)	San Manuel	(\$ 43,131)
13 Oracle	(\$ 29,950)	Winkleman	(\$ 3,007)
14 Miami	(\$ 66,910)		

15 **Western Group**

16 Casa Grande	(\$ 372,867)	Stanfield	(\$ 13,366)
17 White Tank	(\$ 95,854)	Ajo	(\$ 28,274)
18 Coolidge	(\$ 52,375)		

19  
20 **Northern Group**

21 Lakeside	(\$ 72,041)	Overgaard	(\$ 81,957)
22 Sedona	(\$ 223,231)	Pinewood	(\$ 30,858)
23 Rimrock	(\$ 41,710)		

24

25

26

27

1 **OTHER RATE BASE ISSUES**

2 Q. Does RUCO have any other rate base issues it would like to address?

3 A. Yes.

4

5 Q. Please discuss the other rate base issues RUCO would like to address at  
6 this time.

7 A. The Company uses a flat Gross Revenue Conversion Factor (“GRCF”)  
8 across all systems. For instance, under RUCO’s recommended revenue  
9 requirement, the Winkleman System has an operating income of \$30,087,  
10 which is subject to federal and state income tax. The effective federal  
11 income tax rate is 15 percent not the 34 percent rate that the Company  
12 uses to gross up the operating income deficiency. That unfairly penalizes  
13 the ratepayers in Winkleman by overburdening the ratepayers with an  
14 amount of tax they neither incurred nor should legally shoulder.

15

16 Q. What impact does the Company’s method of calculating the GRCF have  
17 on the Winkleman System?

18 A. Using a GRCF assuming a 34 percent federal income tax rate as the  
19 Company does increases the operating income by 30 percent alone.  
20 RUCO recommends the Commission reject such a proposal. The  
21 ratepayers of Winkleman and some of the other smaller systems do not  
22 have a 34 percent tax liability but a lower tax liability as the tax brackets  
23 indicate.

1 Q. Does your silence on any of the issues, matters or findings addressed in  
2 the Company's testimony constitute your acceptance of its positions on  
3 such issues, matters or findings?

4 A. No, it does not.

5

6 Q. Does this conclude your testimony?

7 A. Yes, it does.

## APPENDIX 1

### Qualifications of Timothy J. Coley

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#### WORK HISTORY

July 2000 – Present: **RESIDENTIAL UTILITY CONSUMER OFFICE**, Phoenix, Arizona  
**Public Utilities Analyst V.** The Residential Utility Consumer Office (RUCO) is a consumer advocate group providing residential consumers a voice in utility regulation and backed by a professional staff with legal and financial expertise. Responsibilities include: audited, reviewed and analyzed public utility companies various filings; prepared written testimony, schedules, financial statements, and spreadsheet models and analyses. Testified and stand cross-examination before the Arizona Corporation Commission.

January 2000 - April 2000: **JACKSON HEWITT TAX SERVICE**, Phoenix, Arizona  
**Tax Preparer.** Interviewed clients, determined tax situation, and explained how the tax laws benefited them in their specific situation. Ensured that each customer received every deduction that they were entitled. Prepared individual and business income tax returns, which best utilized each specific situation that minimized their tax obligations.

May 1998 - November 1999: **BENEFITS CONSULTING**, Cypress, Texas  
**Consultant Assistant.** The consulting firm specialized in alleged medical claim charges brought against the government of Harris County in Houston, Texas. Assisted in the review, examination, and analysis of the attested charges. Determined if the purported medical claim charges were prudent, customary, and reasonable for the alleged sustained injuries. The firm analyzed cases for both the County's Risk Department and Attorneys Office.

January 1992 - April 1998: **PHOENIX SERVICES**, Villa Rica, Georgia  
**Owner.** Provided landscaping services primarily in a high growth gated community where the Property Owners' Association approved mandated ordinances to be strictly adhered and abided by. Coordinated and supervised all aspects of projects from inception to completion, from master planning to site design to installation.

May 1989 - October 1991: **GEORGIA PUBLIC SERVICE COMMISSION**, Atlanta, GA  
**Senior Auditor.** The Public Service Commission (PSC) was responsible for regulating many intrastate telecommunications, electric, and gas utility industries operating in Georgia. It was the PSC's job to ensure that consumers received adequate and reliable service at reasonable rates. It must also assure the utility companies and investors an opportunity to earn a fair rate of return on prudent investments. The Commission participated significantly in Georgia's economic health and growth. I was promoted to the PSC's Electric/Gas Division where I examined, verified, and analyzed various financial documents, accounting records, reports, ledgers, and statements. In addition, I was assigned to automate the PSC's Electric Division where I utilized a computer application process that I had developed earlier while with the (PSC) Telecommunication Division. I was later ascribed to work in conjunction with the Engineering Department and established a procedure to track and compare costs of operation and maintenance (O&M) expenses of nuclear electric generating plants. This effort determined a comparative price per kilowatt-hour produced that influenced the awareness for the company to control the O&M costs, which benefited the consumer through lower prices.

- Developed computer application system that streamlined audit procedures by 30 – 40%.
- Various other schedules were implemented to track, maintain, and control costs.

### **GEORGIA PUBLIC SERVICE COMMISSION (continued)**

November 1986 - April 1989: **Georgia Public Service Commission**, Atlanta, Georgia **Auditor**. Regulated telecommunications and also oversaw the deregulation process that was currently under way in that industry. Examined and analyzed accounting records to determine financial status of companies and prepared financial reports concerning audit findings. Reviewed data including payroll, time sheets, purchase vouchers, cash receipt ledgers, financial reports, and disbursements. Verified statewide telephone company transaction classifications and documentation.

- Developed computer application utilizing Lotus to completely automate and streamline the entire telecommunication audit process. The results saved 25% in field audit time and produced a product of professional appearance.
- Created, coordinated, and implemented "Operational Project Training" automated procedure-training program. Trained and supervised staff of five auditors.
- Computerized "Desk Audit Analysis" program that identified 11 independent telephone companies in the state of over-earning and resulted in \$4.1M annual savings to the Georgia ratepayers affected.

October 1985 - October 1986: **Georgia Public Service Commission**, Atlanta, Georgia **Junior Auditor**. Assisted in planning and performing telecommunication audit engagements. Examined financial records, internal management control, correspondence, bills, and records of services delivered in order to verify or recommend compliance with company specifications contained in contracts, agreements, regulations, and/or laws.

- As a special project, I was assigned to analyze the results of a survey designed to evaluate "Interest in Organizing a Multi-State Nuclear Management Review Group" by the Director of Utilities. Wrote the draft and findings for the speech that was presented to all participatory commissions.

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### **PROFESSIONAL MEMBERSHIPS**

- Elected Member of the National Honor Society for Public Affairs and Administration.
- Active Member of Delta Sigma Pi - Professional Business Fraternity.

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### **SPECIAL TRAINING AND CERTIFICATES**

- The Graduate School of Business Administration - Michigan State University; completed the Annual Regulatory Studies Program of the National Association of Regulatory Utility Commissioners.
- Completed Graduate Exit Paper on "Deregulation of the Electric Industry".
- Attended Eastern Utility Rate School in 2000 and 2005.

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### **EDUCATION**

- Currently enrolled at Arizona State University - West in the Post Baccalaureate Graduate Certificate Program in Accountancy with two courses remaining.
- Master of Public Administration, State University of West Georgia, 1997, GPA 3.5.
- BS Business Management & Administration, Minor in Economics, Sorrel School of Business, Troy State University, 1985.
- AA Business Administration, Miles Community College, 1981.

## **RESUME OF PUBLIC UTILITY RATE CASES & AUDITS PARTICIPATION**

### **Residential Utility Consumer Office For Years 2000 To Present**

Arizona-American Water Company – Docket No. WS-01303A-05-0405

Arizona Public Service Co. – Docket No. E-01345A-03-0437

Tucson Electric Power Company – Docket No. E-01933A-04-0408

UniSource Merger – Docket No. E-04230A-03-0933

Arizona-American Water Company – Docket No. WS-01303A-02-0867

Arizona Water Company (Eastern Group) – Docket No. W01445A-02-0619

Litchfield Park Service Company – Docket Nos. W-01427A-01-0487 &  
SW-01428A-01-0487

Arizona Water Company (Northern Group) – Docket No. W-01445A-00-0962

Rio Verde Utilities, Inc. – Docket Nos. W-02156A-00-0321 &  
SW-02156A-00-0323

Arizona-American Water Company (Paradise Valley) –  
Docket Nos. W-01303A-05-0405 &  
W-01303A-05-0910

Arizona-American Water Company (Mohave District) –  
Docket No. WS-01303A-06-0014

Arizona-American Water Company (Sun City & Sun Cit West Wastewater) –  
Docket No. WS-01303A-06-0491

Arizona-American Water Company - Docket No. W-01303A-07-0209

Chaparral City Water Company – Docket No. W-02113A-07-0551

Arizona-American Water Company - Docket No. W-01303A-08-0227 et. al.

**Georgia Public Service Commission For Years 1985 – 1991**

Atlanta Gas Light Company

Georgia Power Company

Atlanta Gas Light Company (Management Audit)

Georgia Power Company

Trenton Telephone Company

Fairmount Telephone Company

Ellijay Telephone Company

GTE, Inc.

ALL-TEL Telephone Company

Citizens Utilities Co.

Ball Ground Telephone Company

Lanett Telephone Company

Brantley Telephone Company

Blue Ridge Telephone Company

Waverly Hall Telephone Company

St. Marys Telephone Company

Darien Telephone Company

Statesboro Telephone Company

Statesboro Telephone Co-op

Wilkes Telephone Company