

ARIZONA WATER COMPANY

DOCKET NO. W-014457A-08-0440

**DIRECT TESTIMONY
ON REVENUE REQUIREMENT**

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JUNE 12, 2009

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1 **INTRODUCTION**

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

3 A. My Name is William A. Rigsby. 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 describe your qualifications in the field of utilities regulation and
8 your educational background.

9 A. I have been involved with utilities regulation in Arizona since 1994. During
10 that period of time I have worked as a utilities rate analyst for both the
11 Arizona Corporation Commission (“ACC” or “Commission”) and for RUCO.
12 I hold a Bachelor of Science degree in the field of finance from Arizona
13 State University and a Master of Business Administration degree, with an
14 emphasis in accounting, from the University of Phoenix. I have been
15 awarded the professional designation, Certified Rate of Return Analyst
16 (“CRRRA”) by the Society of Utility and Regulatory Financial Analysts
17 (“SURFA”). The CRRRA designation is awarded based upon experience
18 and the successful completion of a written examination. Appendix I, which
19 is attached to this testimony, further describes my educational background
20 and also includes a list of the rate cases and regulatory matters that I have
21 been involved with.

22

23

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to present recommendations that are
3 based on my analysis of Arizona Water Company's ("AWC" or the
4 "Company") application for a permanent rate increase ("Application") for
5 the Company's statewide operations in Arizona. AWC filed the Application
6 with the Arizona Corporation Commission ("ACC" or "Commission") on
7 August 22, 2008. The Company has chosen the operating period ended
8 December 31, 2007, for the test year ("Test Year") in this proceeding.

9

10 Q. Please describe AWC's organization.

11 A. AWC is comprised of eighteen separate operating systems that are
12 organized into three different geographical groups: the Eastern Group
13 which includes the Company's Superstition¹, Bisbee, Sierra Vista, San
14 Manuel, Oracle, Saddlebrook, Winkelman, and Miami Systems; the
15 Western Group which is made up of AWC's Casa Grande, Stanfield,
16 White Tank, Ajo and Coolidge Systems; and, the Northern Group, which is
17 comprised of the Company's Lakeside, Overgaard, Sedona, Pinewood
18 and Rimrock Systems. AWC is seeking rate relief on a partial rate
19 consolidation basis for seventeen of the aforementioned systems.
20 According to AWC's Application, the Eastern Group's Saddlebrook
21 System does not currently provide service to any permanent residential

¹ The Superstition System is comprised of two non-interconnected water systems serving Apache Junction and Superior. The two systems were consolidated for ratemaking purposes in a prior rate case proceeding that involved the Company's Eastern Group (Decision No. 66849, Dated March 19, 2004).

1 customers and is not part of this rate application. Per a condition of
2 Decision No. 62754, the Company is required to file a rate application
3 within thirty-six months of the date the Saddlebrook System provides
4 service to a permanent residential customer.

5

6 Q. Please explain your role in RUCO's analysis of AWC's Application.

7 A. I reviewed AWC's Application to determine if the rates and charges being
8 requested by the Company are appropriate. My testimony will cover the
9 levels of operating revenues and expenses that are being proposed by the
10 Company for the seventeen systems included in the Company's filing. I
11 will also address a number of surcharges and pass-through mechanisms
12 for which AWC is seeking Commission approval.

13

14 Q. Will you also address the rate base issues in this case?

15 A. No. The rate base issues associated with the case will be addressed by
16 RUCO witness Timothy J. Coley.

17

18 Q. Are you presenting ratemaking schedules for each of the seventeen
19 systems that AWC has included in its application?

20 A. No. I will be presenting ratemaking schedules for the five systems that are
21 included in the Company's Northern Group. Mr. Coley will sponsor
22 ratemaking schedules for the remaining twelve systems that make up
23 AWC's Eastern and Western Groups. The rate base adjustments that Mr.

1 Coley discusses in his direct testimony appear in Schedules WAR-2
2 through WAR-6 for the Northern Group systems that I sponsor and
3 Schedules TJC-2 through TJC-6 for the Eastern and Western Group
4 systems that Mr. Coley sponsors. The operating revenue and expense
5 adjustments that I will discuss appear on Schedules WAR-7 through
6 WAR-15 for the Northern Group systems that I am sponsoring in my direct
7 testimony and Schedules TJC-7 through TJC-15 for the Eastern and
8 Western Group systems that Mr. Coley is sponsoring in his direct
9 testimony.

10

11 Q. Who will provide direct testimony on RUCO's recommended rate design?

12 A. RUCO's direct testimony on rate design will be provided by RUCO witness
13 Rodney L. Moore. Under the current Procedural Order, testimony on rate
14 design and cost of service is scheduled to be filed on Friday, June 26,
15 2009.

16

17 Q. Will Mr. Coley, Mr. Moore or you offer direct testimony on rate
18 consolidation at this time?

19 A. No. RUCO reserves the right to file testimony on rate consolidation during
20 the surrebuttal phase of the proceeding upon review of rate design and
21 engineering reports to be filed June 26, 2009. RUCO Director Jodi Jerich
22 will file testimony on RUCO's position regarding the issue of rate
23 consolidation at that time. Mr. Coley, Mr. Moore and I will present updated

1 ratemaking and rate design schedules that reflect RUCO's position
2 regarding rate consolidation at that time also. The ratemaking schedules
3 sponsored by Mr. Coley and I during the direct testimony phase of the
4 proceeding will present the effects of RUCO's recommended levels of rate
5 base, operating revenue and operating expenses on a stand-alone basis
6 for each of the seventeen systems included in AWC's filing. Mr. Moore's
7 direct testimony on rate design will also reflect rates on a stand-alone
8 basis also.

9

10 Q. Is RUCO providing testimony on the cost of capital issues associated with
11 the case?

12 A. Yes. I have also filed, under separate cover, testimony on the cost of
13 capital issues associated with the case.

14

15 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

16 Q. Briefly summarize how your direct testimony is organized.

17 A. My direct testimony is organized into four sections. First, the introduction I
18 have just presented and second, the summary of my testimony that I am
19 about to give. Third, I will present the findings of my analysis of AWC's
20 Application and will explain the various operating revenue and expense
21 adjustments that I am recommending. Fourth, and finally, I will discuss my
22 recommendations regarding AWC's request for a number of surcharges
23 and pass-through mechanisms.

1 Q. Please summarize the recommendations and adjustments that you will
2 address in your testimony.

3 A. Based on the results of my analysis of AWC, I am making the following
4 recommendations related to operating revenues and expenses:

5
6 RUCO Operating Adjustment #1 – Labor Expense – This adjustment
7 normalizes overtime hours that were incurred during the Test Year and
8 reduces the Company’s labor expense to reflect a more normal level of
9 dollars paid for employee overtime. The adjustment is the first of four
10 adjustments that affect all seventeen of AWC’s operating systems.

11
12 RUCO Operating Adjustment #2 – Payroll Tax Expense – This is the
13 second of four adjustments related to the level of employee overtime
14 incurred during the Test Year. The adjustment normalizes payroll tax
15 expense associated with the excess overtime labor expense removed in
16 RUCO Operating Expense Adjustment #1. The adjustment affects all
17 seventeen of AWC’s operating systems.

18
19 RUCO Operating Adjustment #3 – Payroll 401(k) Expense – This is the
20 third of four adjustments related to the level of employee overtime incurred
21 during the Test Year. The adjustment normalizes Company 401(k)
22 retirement program contributions incurred during the Test Year. The
23 adjustment removes 401(k) expense dollars associated with the excess

1 overtime labor expense removed in RUCO Operating Expense Adjustment
2 #1. The adjustment affects all seventeen of AWC's operating systems.

3
4 RUCO Operating Adjustment #4 – Reverse Adjustment for Conservation –

5 This adjustment reverses a Company adjustment designed to recover
6 revenues that may be lost as a result of implementing a conservation-
7 oriented, three-tiered inverted block rate design in this proceeding for the
8 AWC's Northern Group. The adjustment affects the five operating
9 systems that make up the Company's Northern Group.

10
11 RUCO Operating Adjustment #5 – Purchased Power Revenues – This

12 adjustment reverses an adjustment made by the Company to remove
13 revenues pursuant to AWC's purchased power adjustment mechanism
14 ("PPAM") that is currently in effect for all five of the Company's Northern
15 Group systems. The adjustment is consistent with RUCO's
16 recommendations to eliminate the Northern Group PPAM and to reject
17 AWC's proposal to establish PPAM's for the Company's Eastern and
18 Western Group systems.

19
20 RUCO Operating Adjustment #6 – Insurance Expense – This minor

21 adjustment is the last of four adjustments related to overtime pay that was
22 recorded during the Test Year. The adjustment removes a portion of long-
23 term disability insurance expense that is associated with the excess

1 overtime labor expense removed in RUCO Operating Expense Adjustment
2 #1. The adjustment affects all seventeen of AWC's operating systems.

3
4 RUCO Operating Adjustment #7 – Depreciation Expense – This
5 adjustment calculates depreciation and amortization expense based on
6 RUCO's recommended plant levels. The adjustment affects all seventeen
7 of AWC's operating systems.

8
9 RUCO Operating Adjustment #8 – Property Tax Expense – This
10 adjustment calculates property tax expense based on a modified Arizona
11 Department of Revenue ("ADOR") formula that has been adopted by the
12 Commission in a number of prior rate cases. The adjustment affects all
13 seventeen of AWC's operating systems.

14
15 RUCO Operating Adjustment #9 – Rate Case Expense – This adjustment
16 reflects RUCO's best estimate of rate case expense, to be amortized over
17 three years, for this proceeding based on updated information provided by
18 the Company. The adjustment affects all seventeen of AWC's operating
19 systems.

20
21 RUCO Operating Adjustment #10 – Income Tax Expense – This
22 adjustment calculates the appropriate level of income tax expense given

1 RUCO's recommended operating income. The adjustment affects all
2 seventeen of AWC's operating systems.

3
4 Adjustor Mechanisms – RUCO recommends that the Commission reject
5 the Company's request for adjustor mechanisms for purchased power,
6 water, fuel and an adjustor for earnings attrition. RUCO recommends that
7 the Commission eliminate the Northern Group PPAM and reject AWC's
8 proposal to reestablish PPAM's for the Company's Eastern and Western
9 Group systems. RUCO also recommends that the Commission reject
10 AWC's request to reestablish a purchased water adjustor mechanism
11 ("PWAM") for the Company's Eastern and Western Groups. RUCO
12 further recommends that the Commission deny AWC's request for a
13 purchased fuel adjustor mechanism ("PFAM") for all of the Company's
14 operating systems. Finally RUCO recommends that AWC's request for an
15 attrition adjustor mechanism ("AAM") as an alternative to the
16 aforementioned adjustor mechanisms also be denied.

17
18 **REVENUE REQUIREMENTS**

19 Q. Please summarize the results of RUCO's analysis of Arizona Water
20 Company and your recommended revenue requirement.

21 A. Based on the results of RUCO's analysis of AWC's rate application,
22 RUCO is recommending that revenue for each of the Company's

1 seventeen operating systems should be increased by no more than the
2 following amounts on a stand-alone (i.e. non-consolidated) basis:

3
4

	RUCO's Recommended	Percentage
Eastern Group	Increase/(Decrease)	Increase/
<u>Systems</u>	<u>In Operating Revenue</u>	<u>(Decrease)</u>
7 Superstition	\$2,160,482	18.09%
8 Bisbee	\$271,233	15.74%
9 Sierra Vista	(\$163,188)	(11.16%)
10 San Manuel	\$302,504	37.24%
11 Oracle	(\$70,482)	(6.26%)
12 Winkleman	\$17,035	17.26%
13 Miami	<u>\$665,054</u>	35.94%
14 Total Eastern Group	\$3,182,638	

15
16

	RUCO's Recommended	Percentage
Western Group	Increase/(Decrease)	Increase/
<u>Systems</u>	<u>In Operating Revenue</u>	<u>(Decrease)</u>
19 Casa Grande	\$3,699,044	33.83%
20 Stanfield	\$136,067	103.00%
21 White Tank	\$317,918	25.54%
22 Ajo	\$39,808	8.45%
23 Coolidge	<u>(\$67,182)</u>	(3.03%)
24 Total Western Group	\$4,125,655	

25
26
27
28
29
30

1		RUCO's Recommended	Percentage
2	Western Group	Increase/(Decrease)	Increase/
3	<u>Systems</u>	<u>In Operating Revenue</u>	<u>(Decrease)</u>
4	Lakeside	(\$69,552)	(2.72%)
5	Overgaard	(\$277,183)	(16.44%)
6	Sedona	\$975,545	27.73%
7	Pinewood	(\$7,224)	(0.69%)
8	Rimrock	<u>\$366,377</u>	72.19%
9	Total Northern Group	\$987,963	
10	Total Company	\$8,296,256	

11

12 RUCO's recommended increase in operating revenue is \$7,145,034 lower
13 than the \$15,441,290 level of increase requested by AWC. The
14 recommendations listed above are summarized on Schedule WAR-1 for
15 the Northern Group systems in my direct testimony and Schedule TJC-1
16 for the Eastern and Western Group systems that are included in the direct
17 testimony of RUCO witness Tim Coley.

18

19 **OPERATING INCOME ADJUSTMENTS**

20 **RUCO Operating Adjustment #1 – Labor Expense**

21 Q. Has RUCO made an adjustment to the Company-proposed level of labor
22 expense?

23 A. Yes.

24

25

1 Q. Please explain RUCO's adjustment to the Company-proposed level of
2 labor expense.

3 A. During the Test Year, the Company incurred over 28,000 hours of
4 overtime. This level of overtime is much higher than the levels of overtime
5 hours that were recorded during the 2005, 2006 and 2008 operating
6 periods. RUCO's adjustment normalizes overtime hours that were
7 incurred during the Test Year (by using a four year average of overtime
8 hours over the 2005 through 2008 operating periods) and reduces the
9 Company's labor expense to reflect a more normal level of dollars paid for
10 employee overtime. The adjustment is the first of four adjustments that
11 affect all seventeen of AWC's operating systems. The other three related
12 expenses include payroll tax expense, payroll 401(k) expense and
13 insurance expense.

14
15 Q. What is the effect of RUCO's adjustment to labor expense?

16 A. RUCO's adjustment reduces labor expense by \$302,000 on a total
17 company basis. The adjustment involves all seventeen operating systems
18 and is exhibited on Page 1 of Schedule WAR-9 for the Northern Group in
19 my direct testimony and Page 2 of Schedule TJC-9 for the Eastern and
20 Western Groups that are included in the direct testimony of RUCO witness
21 Tim Coley.

22

23

1 **RUCO Operating Adjustment #2 – Payroll Tax Expense**

2 Q. Please explain RUCO's adjustment to the Company-proposed level of
3 payroll tax expense.

4 A. This is the second of four adjustments related to the level of employee
5 overtime incurred during the Test Year. The adjustment normalizes
6 payroll tax expense associated with the excess overtime labor expense
7 removed in RUCO Operating Expense Adjustment #1.

8

9 Q. What is the effect of RUCO's adjustment to payroll tax expense?

10 A. RUCO's adjustment reduces payroll tax expense by \$32,967 on a total
11 company basis. The adjustment affects all seventeen of AWC's operating
12 systems and can be viewed on Page 2 of Schedule WAR-9 for the
13 Northern Group systems and Page 2 of Schedule TJC-9 for the Eastern
14 and Western Group systems.

15

16 **RUCO Operating Adjustment #3 – Payroll 401(k) Expense**

17 Q. Please explain RUCO's adjustment to the Company-proposed level of
18 expense associated with AWC's 401(k) program.

19 A. The adjustment normalizes Company 401(k) retirement program
20 contributions incurred during the Test year. As explained in the two prior
21 adjustments, this is the third of four adjustments related to the level of
22 employee overtime incurred during the Test Year.

23

1 Q. How does RUCO's adjustment affect the Company's test year adjusted
2 401(k) expense?

3 A. The adjustment reduces \$401(k) expense associated by \$25,282 on a
4 total company basis. RUCO's adjustment affects all seventeen of AWC's
5 operating systems and can be seen on Page 3 of Schedule WAR-9 for the
6 Northern Group systems and Page 3 of Schedule TJC-9 for the Eastern
7 and Western Group systems.

8

9 **RUCO Operating Adjustment #4 – Reverse Adjustment for Conservation**

10 Q. What adjustment has RUCO made to the Company-proposed level of
11 administrative & general expense?

12 A. RUCO has reversed the Company's adjustment that increases
13 administrative & general expense for the Northern Group by \$308,701.

14

15 Q. What was the purpose of the Company's adjustment that increases
16 administrative & general expense for the Northern Group by \$308,701?

17 A. According to the Company's Application, the adjustment was designed to
18 recover forecasted lost revenues as a result of implementing a water
19 conservation-oriented, three-tiered inverted block rate design for the
20 Northern group systems in this proceeding. The Northern group is
21 presently the only group of systems that does not have inclining tiered
22 rates.

23

1 Q. How did the Company arrive at the \$308,701 figure?

2 A. According to the direct testimony of Company Witness Joel M. Reiker, a
3 study of the Company's Western group was conducted following the
4 implementation of tiered rates pursuant to Decision No. 68302. Mr. Reiker
5 performed a regression analysis that holds average temperature and total
6 precipitation conditions constant. Based on the results of the regression
7 analysis, Mr. Reiker concludes that an 8.70 percent decrease in
8 consumption will occur for every one million of gallons consumed.

9

10 Q. Why does RUCO disagree with the Company's adjustment?

11 A. RUCO does not believe a study that was performed on operating systems
12 that are, for the most part, located in the central part of the state is
13 relevant to the Northern Group. Although Mr. Reiker's study takes
14 weather into consideration, there is no real guarantee that customers in
15 the Northern group systems will react in the same way to tiered rates.
16 Based on the Company's test year billing determinants, the average
17 median consumption of 2,788 gallons for Northern Group residential
18 customers was 3,780 gallons lower than the average median consumption
19 of 6,658 for Western group residential customers. The lower level of
20 consumption might indicate that Northern Group customers are already
21 practicing conservation and may not be able to cut back on their usage. In
22 any case, RUCO believes that the adjustment made by the Company is an

1 estimate at best that cannot predict with actual certainty how Northern
2 Group ratepayers will react to the implementation of tiered rates.

3

4 Q. Are you aware of a case where the Commission has adopted such an
5 adjustment?

6 A. To the best of my knowledge no. I cannot say that I am aware of any case
7 where the Commission adopted an adjustment that increased revenues as
8 a result of conservation that might result from the implementation of either
9 new rates or tiered rates. Recently, the Commission rejected a request by
10 Southwest Gas Corporation for the implementation of a decoupling
11 mechanism that, according to Southwest Gas Corporation, was designed
12 to mitigate the effects of lost revenue due to ratepayer conservation.²

13

14 **RUCO Operating Adjustment #5 – Purchased Power Revenues**

15 Q. Please explain your Operating Adjustment #5 which reduces operating
16 revenue for AWC's Northern Group by \$39,446.

17 A. My adjustment reverses a Company pro forma adjustment that reflects
18 changes in purchased power costs from base levels for the Northern
19 Group. The adjustment for each of the five Northern Group systems can
20 be viewed on Schedule WAR-8.

21

² Decision No. 70665, Dated December 24, 2008

1 Q. Why did the Company make this pro forma adjustment to increase
2 Northern Group revenues?

3 A. According to AWC's Application, the Company made the pro forma
4 adjustment to increase revenues collected through a PPAM which is
5 currently in place in the Northern Group. As noted above, the revenues in
6 question reflect changes in purchased power costs from base levels that
7 were established in the most recent Northern Group rate case
8 proceeding.³ The Company is proposing that the PPAM be reset to zero
9 with new base levels established in this proceeding at the current level of
10 expense. The five Northern Group systems are the only AWC systems
11 that presently have such a pass through mechanism.

12
13 Q. Why have you made this adjustment?

14 A. The adjustment is consistent with RUCO's recommendations to eliminate
15 the Northern Group PPAM and to reject AWC's proposal to establish
16 PPAM's for the Company's Eastern and Western Group systems.

17
18 Q. Why should the Company's Northern Group PPAM be eliminated?

19 A. RUCO believes that the elimination of the Northern Group PPAM is
20 consistent with prior Commission orders that rejected AWC's proposals for
21 PPAM's for the Eastern and Western Groups. RUCO believes that the
22 Commission's conclusion in Decision No. 66849 – that the establishment

³ Decision No. 64282, dated December 28, 2001

1 of a PPAM provides a disincentive for the Company to obtain the lowest
2 possible cost commodity because the costs are simply passed through to
3 ratepayers – is still valid. For this reason RUCO is recommending that the
4 Northern Group PPAM be eliminated.

5

6 **RUCO Operating Adjustment #6 – Insurance Expense**

7 Q. What adjustment has RUCO made to the Company-proposed level of
8 insurance expense?

9 A. RUCO has made a minor total company adjustment of \$1,090 to the
10 Company-proposed level of insurance expense. The adjustment is the
11 last of four adjustments related to overtime pay that was recorded during
12 the Test Year.

13

14 Q. What does RUCO's adjustment do?

15 A. The adjustment removes a portion of long-term disability insurance
16 expense that is associated with the excess overtime labor expense
17 removed in RUCO Operating Expense Adjustment #1. The adjustment
18 affects all seventeen of AWC's operating systems and can be seen in
19 Schedule WAR-10 for the Northern Group systems and Schedule TJC-10
20 for the Eastern and Western Group systems.

21

22

23

1 **RUCO Operating Adjustment #7 – Depreciation Expense**

2 Q. Have you recalculated Test Year depreciation and amortization expense?

3 A. Yes. Based on RUCO's adjusted test-year plant balances, I have
4 recalculated depreciation and amortization expense on a going-forward
5 basis. The adjustment is exhibited in Schedule WAR-11 for the Northern
6 Group systems in my direct testimony and Schedule TJC-11 for the
7 Eastern and Western Group systems that are included in the direct
8 testimony of RUCO witness Tim Coley.

9

10 **RUCO Operating Adjustment #8 – Property Tax Expense**

11 Q. Has RUCO made an adjustment to the Company-proposed level of
12 property tax expense?

13 A. Yes.

14

15 Q. Has RUCO calculated property tax expense using a methodology that has
16 been adopted by the ACC in prior rate cases?

17 A. Yes. RUCO has used a modified version of the ADOR formula that has
18 been adopted by the Commission in a number of prior rate cases.
19 RUCO's calculation of property tax expense uses two years of adjusted
20 operating revenues and one year of RUCO's recommended level of
21 operating revenue to arrive at a three-year average of revenue that is
22 subject to property tax. The calculation of property tax expense can be

1 viewed in Schedule WAR-12 for the Northern Group systems and
2 Schedule TJC-12 for the Eastern and Western Group systems.

3

4 Q. Are there any differences between RUCO's calculation of property tax
5 expense and the Company's calculation?

6 A. Yes. There are three differences. First, RUCO's calculation includes an
7 addition of 10 percent of the amount of construction work in progress
8 ("CWIP") that was booked during the Test Year. Second, RUCO has
9 deducted the Test Year net book value of the Company's vehicles. Both
10 of these items are required components of the ADOR formula. The third
11 difference is the use of an updated assessment ratio of 22.5 percent which
12 will be in effect at the time that AWC's new rates are approved by the
13 Commission.

14

15 **RUCO Operating Adjustment #9 – Rate Case Expense**

16 Q. What level of rate case expense is AWC proposing?

17 A. AWC is proposing rate case expense, on a total company basis, of
18 \$500,000 to be amortized over a three-year period.

19

20 Q. What level of rate case expense is RUCO recommending?

21 A. RUCO is recommending a total company level of \$300,000 dollars in rate
22 case expense to be amortized over a three-year period.

23

1 Q. Is this RUCO's final recommended level of rate case expense?

2 A. No. This is RUCO's best estimate of rate case expense at this point in
3 time. RUCO's estimate is based on information, provided by the
4 Company, on total rate case expense that was billed just prior to the filing
5 of RUCO's direct testimony. RUCO will update this figure and provide a
6 final recommended level of rate case expense when it files final schedules
7 after the evidentiary hearing on the instant case is concluded. The
8 adjustment can be seen on Schedule WAR-13 for the Northern Group
9 systems in my direct testimony and Schedule TJC-13 for the Eastern and
10 Western Group systems that are included in the direct testimony of RUCO
11 witness Tim Coley.

12
13 **RUCO Operating Adjustment #10 – Income Tax Expense**

14 Q. Have you calculated income tax expense based on RUCO's
15 recommended adjusted operating income?

16 A. Yes. This adjustment is shown on Schedule WAR-14 for the Northern
17 Group systems in my direct testimony and Schedule TJC-14 for the
18 Eastern and Western Group systems that are included in the direct
19 testimony of RUCO witness Tim Coley.

20
21
22 ...

23

1 Q. Have you included an interest synchronization calculation in your
2 computation of income tax expense?

3 A. Yes. The interest synchronization calculation, which computes an interest
4 expense deduction for income taxes, can be viewed in the schedules
5 noted above. The interest synchronization calculation is the adjusted rate
6 base multiplied by the weighted cost of debt.

7

8 **ADJUSTOR MECHANISMS**

9 Q. What else is AWC requesting in this case besides an increase in operating
10 revenue?

11 A. As noted earlier in my testimony, AWC is requesting the restoration of a
12 PPAM for the Company's Eastern and Western Groups. The PPAM for
13 the Eastern and Western Groups were eliminated by the Commission in
14 Decisions on the prior rate cases for the Eastern and Western Groups.
15 AWC is also asking that the Company be permitted to continue the PPAM
16 that is currently in place for the Company's Northern Group. AWC is also
17 requesting that the PWAM that the Commission eliminated in the prior
18 Eastern and Western Group rate cases be restored. AWC is further
19 requesting that a PFAM be established for all of the Company's operating
20 systems in order to pass the costs of fuel through to ratepayers. Finally,
21 AWC is asking for an AAM be implemented as an alternative to the
22 aforementioned pass through mechanisms just described.

23

1 Q. Does RUCO support the restoration of any of the pass through
2 mechanisms that AWC is seeking in this case?

3 A. No. RUCO does not support the implementation of any of the adjustor
4 mechanisms being sought by AWC in this proceeding. As noted earlier in
5 my testimony, RUCO is also recommending that the Northern Group
6 PPAM be eliminated.

7

8 Q. Why is RUCO opposed to the company's request regarding adjustor
9 mechanisms?

10 A. RUCO believes that the reasons given by the Commission for the
11 elimination of the PPAM and PWAM in the prior rate cases are still valid.
12 RUCO also believes that the Northern Group PPAM should also be
13 eliminated for the same reasons that the Commission stated in the prior
14 Eastern Group rate case. In Decision No. 66849, the Commission stated
15 the following:

16 "We agree with Staff that PPAM and PWAM adjustor mechanisms
17 should be discontinued. Although Arizona Water argues that such
18 mechanisms benefit both the Company and ratepayers by passing on
19 increased costs and savings, adjustment mechanisms may also provide
20 a disincentive for the Company to obtain the lowest possible cost
21 commodity because the costs are simply passed through to ratepayers.
22 Moreover, the record does not suggest that purchased power costs are a
23 significant portion of the Company's expenses, the Superior system
24 purchases only a small portion of its water supply and there is no
25 evidence that the San Manuel system is expected to incur any significant
26 increases or decreases in purchased water costs in the near future.
27 Therefore, Arizona Water's purchased water adjustment mechanisms
28 should be discontinued.

29

30 In the prior Western Group rate case, the Commission took the following
31 position in Decision No. 68302:

1 "There is a danger of piecemeal regulation inherent in adjustment
2 mechanisms. Because they allow automatic increases in rates without a
3 simultaneous review of a utility's unrelated costs, adjustment
4 mechanisms have a built-in potential of allowing a utility to increase rates
5 based on certain isolated costs when its other costs are declining, or
6 when overall revenues are increasing faster than costs due to customer
7 growth. Adjustment mechanisms should therefore be used only in
8 extraordinary circumstances to mitigate the effect of uncontrollable price
9 volatility or uncertainty in the marketplace. We have evaluated the
10 propriety of continuing the Company's existing purchased water and
11 purchased power adjustment mechanisms in the Western Group based
12 on all relevant factors, including the APS Power Supply Adjustor. The
13 evidence presented in this case does not support a finding that the
14 Company's power and water supply costs are subject to a degree of
15 price volatility or uncertainty that justifies the existence of its adjustment
16 mechanisms, and we will therefore order that they be discontinued."
17

18 RUCO believes that the reasons stated in Decisions No.'s 66849 and
19 68302 apply also to the PFAM and AAM mechanisms that the Company is
20 also seeking approval of in this proceeding.
21

22 Q. Has RUCO made any adjustments to the Company-proposed levels of
23 purchased power, purchased water or fuel expense in this case?

24 A. No. RUCO has not made any adjustments to the Company-proposed
25 levels of purchased power, purchased water or fuel expense.
26

27 Q. Does your silence on any of the issues, matters or findings addressed in
28 the testimony of any of the witnesses for AWC constitute your acceptance
29 of their positions on such issues, matters or findings?

30 A. No, it does not.
31
32

1 Q. Does this conclude your testimony on AWC?

2 A. Yes, it does.

Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 & 1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
Phoenix, Arizona
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona-American Water Company	W-01303A-08-0227 et al.	Rate Increase
Far West Water & Sewer Company	WS-03478A-08-0608	Interim Rate Increase
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase
UNS Gas, Inc.	G-04204A-08-0571	Rate Increase

ARIZONA WATER COMPNAY

W-01445A-08-0440

NORTHERN OPERATING GROUP

Lakeside

Overgaard

Sedona

Pinewood

Rimrock

ARIZONA WATER COMPNAY

W-01445A-08-0440

Lakeside System