

ARIZONA-AMERICAN WATER COMPANY

**DOCKET NO. W-01303A-09-0343
AND DOCKET NO. SW-01303A-09-0343**

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 8, 2010

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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 utility regulation and your
8 educational background.

9 A. I have been involved with utility 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. Appendix 1,
15 which is attached to my direct testimony on the cost of capital issues in
16 this case, further describes my educational background and also includes
17 a list of the rate cases and regulatory matters that I have been involved
18 with.

19
20 Q. What is the purpose of your testimony?

21 A. The purpose of my testimony is to present RUCO’s position on Arizona-
22 American Water Company’s (“AAWC” or “Company”) request for an
23 infrastructure improvement surcharge for the Company’s Sun City Water

1 District, which AAWC wants to expand for all of its operating systems in
2 Arizona. The Company-proposed infrastructure improvement surcharge is
3 explained in the direct testimony of AAWC witness Christopher C. Buls
4 and is part of AAWC's application for a permanent rate increase
5 ("Application") for the Company's Anthem and Sun City Water Districts
6 and for the Company's Anthem/Agua Fria, Sun City and Sun City West
7 Wastewater Districts.

8

9 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

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

11 A. My direct testimony is organized into three sections. First, the introduction
12 I have just presented and second, the summary of my testimony that I am
13 about to give. Third, I will present RUCO's position on the Company
14 proposed infrastructure improvement surcharge.

15

16 Q. Please summarize RUCO's recommendation on the Company-proposed
17 infrastructure improvement surcharge.

18 A. For the reasons that are explained below, RUCO is recommending that
19 the Commission reject the Company-proposed infrastructure improvement
20 surcharge.

21

22

23

1 **INFRASTRUCTURE IMPROVEMENT SURCHARGE**

2 Q. Have you reviewed the direct testimony of AAWC witness Christopher C.
3 Buls?

4 A. Yes. I have reviewed Mr. Buls testimony which addresses AAWC's
5 request for an infrastructure improvement charge for the Company's Sun
6 City Water District.

7

8 Q. Briefly explain AAWC's request.

9 A. According to Mr. Buls' testimony, AAWC is seeking Commission approval
10 of a surcharge mechanism that would recover the costs of certain plant
11 additions placed into service between permanent rate case proceedings.
12 Mr. Buls states that the selected plant additions would include
13 replacement mains, hydrants, meter, (including AMR replacements),
14 services, tanks, and booster stations. AAWC also seeks to include
15 infrastructure relocations as a selected addition that would be eligible for
16 cost recovery under the Company-proposed surcharge.

17

18 Q. How would the Company-proposed recovery mechanism work?

19 A. Mr. Buls explains that the Company would analyze the qualifying assets
20 placed into service twice a year. The calculation of the actual surcharge
21 would be based on factors that are established in AAWC's most recent
22 rate case before the ACC. The Company would essentially calculate a
23 required level of revenue associated with the plant additions as it would in

1 a general rate case proceeding in order to arrive at the surcharge amount.
2 The surcharge would then be revised as needed during general rate case
3 filings. The Company further proposes that Commission Staff be required
4 to review the Company's regular infrastructure surcharge requests within a
5 thirty-day period and that the Commission vote on it at the next open
6 meeting. Mr. Buls states that the ACC Staff review is only intended to be
7 a check on the mechanics of the infrastructure surcharge mechanism, and
8 not a full prudency review of the plant assets being placed into service.
9 The prudency of the plant improvements would be determined in a future
10 rate case proceeding.

11
12 Q. What is RUCO's recommendation regarding the Company's infrastructure
13 improvement surcharge?

14 A. RUCO recommends that the Commission reject the Company-proposed
15 infrastructure improvement surcharge.

16
17 Q. Why is RUCO recommending that the Commission reject the Company-
18 proposed infrastructure improvement surcharge?

19 A. RUCO has consistently opposed the use of cost recovery mechanisms
20 that do not allow for the type of thorough analysis that takes place in a
21 general rate case proceeding. Furthermore, AAWC is proposing that it be
22 permitted to earn a return on and a return of the costs of plant assets that
23 are financed through non-investor supplied funds. In other words, AAWC

1 wants captive ratepayers to pay the Company a return on money that was
2 supplied not by investors, but by the ratepayers themselves. An onerous
3 arrangement that shifts the risk associated with the plant additions away
4 entirely from AAWC, which will not have any of its own invested capital in
5 the plant additions, and places the risk entirely on the backs of the
6 Company's ratepayers. Quite simply, what the Company is proposing
7 here is nothing more than a surcharge that is identical to the Arsenic Cost
8 Recovery Mechanism ("ACRM") which the Commission approved in the
9 past to allow Arizona water providers to recover the costs associated with
10 meeting more stringent arsenic level standards. The fact that water
11 providers had to comply with new federal regulations was an extraordinary
12 circumstance that required extraordinary ratemaking.

13
14 Q. Why are the circumstances revolving around AAWC's infrastructure
15 improvement surcharge request different from the circumstances that led
16 to the Commission's approval of the ACRM?

17 A. First, AAWC is seeking immediate recovery of certain plant additions that
18 would normally be recovered in a general rater case proceeding. There is
19 nothing extraordinary about these types of plant additions. In fact, the use
20 of non-investor supplied capital to finance the types of plant additions
21 being proposed by AAWC would normally be treated as a contribution that
22 provides no return on or return of the funds that were not supplied by the
23 Company's investors.

1 Second, there is no federal or state requirement that requires the
2 Commission to allow for recovery of plant additions placed into service
3 between general rate case proceedings.

4

5 Q. Why is RUCO opposed to the implementation of ACRM-like mechanisms
6 for the type of cost recovery that AAWC is seeking in this case?

7 A. There are several reasons why RUCO has consistently opposed the use
8 of ACRM-like mechanisms. Adjustor mechanisms are extraordinary rate
9 recovery devices that are permitted for certain narrow circumstances. The
10 ACRM is a type of adjustor mechanism that was specifically designed to
11 address a one-time event that impacted dozens of Arizona water
12 companies simultaneously.

13

14 Q. What was the original intent for the ACRM?

15 A. The original ACRM was approved by the Commission to give water
16 providers in Arizona the ability to recover the costs associated with
17 meeting the U.S. Environmental Protection Agency's ("EPA") revised
18 drinking water arsenic standard of 10 parts per billion. The EPA's
19 requirement that water providers comply with the more stringent standard
20 was in effect an unfunded mandate from the federal government. Multiple
21 Arizona water providers had no choice but to either comply with the EPA's
22 rule or face the consequences of being in violation of it. This being the
23 case, representatives from the state's investor owned water companies,

1 ACC Staff, and RUCO developed the present ACRM which allows water
2 utilities to comply with the new EPA standard through a surcharge that
3 was established within the context of a rate case proceeding where a
4 constitutional finding of a utility's fair value has been established. The key
5 point here is that the EPA's revised arsenic standard represented an
6 extraordinary circumstance that neither Arizona's government, which
7 includes the Commission, or the state's water companies, either investor
8 owned or municipal, had any control over, and that would be impacting a
9 number of water utilities simultaneously.

10
11 Q. Are there any similar mandates in regard to the infrastructure
12 improvements covered in AAWC's request?

13 A. No. There is no federal, or for that matter any other, mandates requiring
14 that AAWC be required to construct the types infrastructure improvements
15 covered in AAWC's request. Nor are there any other extraordinary
16 circumstances that would warrant the approval of an ACRM-like
17 mechanism in this case. As I stated earlier, under normal ratemaking
18 procedures the funds collected from non-investors would be treated as a
19 contribution-in-aid-of-construction that the company would not earn a
20 return on or recover through rates. For these reasons and the reasons
21 stated above, RUCO believes that the Company's request should be
22 denied.

23

1 Q. Does your silence on any of the issues, matters or findings addressed in
2 the testimony of any of the witnesses for AAWC constitute your
3 acceptance of their positions on such issues, matters or findings?

4 A. No, it does not.

5

6 Q. Does this conclude your testimony on AAWC?

7 A. Yes, it does.