

ARIZONA-AMERICAN WATER COMPANY

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

REVISED SURREBUTTAL TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 16, 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 state the purpose of your surrebuttal testimony.

8 A. The purpose of my surrebuttal testimony is to respond to Arizona-
9 American Water Company, Inc.'s ("AAWC" or "Company") witness Paul G.
10 Townsley's rebuttal testimony filed on March 22, 2010. My surrebuttal
11 testimony will address the Company-proposed infrastructure improvement
12 surcharge for the AAWC's Sun City Water District. Furthermore, the
13 Company has stated that if rate consolidation is adopted by the ACC in
14 this proceeding it proposes to expand the infrastructure improvement
15 surcharge for all of its districts in Arizona. My surrebuttal testimony will
16 also respond to the testimony of Anthem Community Council witness, Dan
17 Neidlinger.

18
19 Q. Have you filed any prior testimony in this case on behalf of RUCO?

20 A. Yes, on March 8, 2010, I filed direct testimony with the Commission on
21 this specific issue. I also filed, under separate cover, direct testimony on
22 the cost of capital issues in this case.

23

1 Q. Are you also filing surrebuttal testimony on the cost of capital issues in this
2 case?

3 A. Yes. I have also filed a separate piece of surrebuttal testimony on the
4 cost of capital issues in this case.

5

6 Q. Will RUCO be filing surrebuttal testimony on the rate base and operating
7 income issues in this case?

8 A. Yes. RUCO's outside consultant Mr. Ralph Smith, will file surrebuttal
9 testimony on the rate base and operating income issues in this case.

10

11 Q. Is RUCO filing rate design testimony in this proceeding?

12 A. Yes. In accordance with the Administrative Law Judge's Procedural
13 Order dated March 18, 2010, both RUCO Director Jodi Jerich, Esq. and
14 RUCO analyst Rodney L. Moore will provide direct testimony on RUCO's
15 rate consolidation policy and RUCO's recommended rate design
16 respectively on May 3, 2010. Ms. Jerich and Mr. Moore will offer their
17 surrebuttal testimony, on rate consolidation policy and rate design, orally
18 at the evidentiary hearing scheduled for May 18, 2010.

19

20 Q. How is your surrebuttal testimony organized?

21 A. My surrebuttal testimony contains four parts: the introduction that I have
22 just presented; a summary of Mr. Townsley's rebuttal testimony; a section
23 that discusses RUCO's surrebuttal position on the Company-proposed

1 infrastructure improvement surcharge; and a response to the testimony of
2 Anthem Community Council's witness, Dan Neidlinger.

3

4 **SUMMARY OF AAWC'S REBUTTAL TESTIMONY**

5 Q. Have you reviewed the rebuttal testimony of Mr. Paul G. Townsley that
6 addresses the Company-proposed infrastructure improvement surcharge
7 for the AAWC's Sun City Water District?

8 A. Yes. I have reviewed Mr. Townsley's rebuttal testimony that addresses
9 the Company-proposed infrastructure improvement surcharge for AAWC's
10 Sun City Water District.

11

12 Q. Please summarize the Company's rebuttal testimony.

13 A. In his rebuttal testimony, Mr. Townsley adopts the direct testimony of
14 Company witness Christopher C. Buls who originally addressed the
15 infrastructure improvement surcharge for the Sun City Water District. Mr.
16 Townsley refers to the Company-proposed surcharge as an Infrastructure
17 System Replacement Surcharge ("ISRS") and states that I was the only
18 witness that responded to the Company's request and the only witness
19 that recommended that the Company-proposed ISRS be rejected by the
20 Commission. Mr. Townsley disagrees with RUCO's recommendation to
21 reject the ISRS and also disagrees with my statements that the plant
22 additions would be financed by non-investor supplied funds. Mr. Townsley

1 continues to advocate that the ISRS be expanded to all of the Company's
2 Districts if the Commission orders full rate consolidation.

3

4 **INFRASTRUCTURE SYSTEM REPLACEMENT SURCHARGE**

5 Q. Do you agree with Mr. Townsley's position that the costs for plant
6 additions, which AAWC would be recovering through the Company-
7 proposed ISRS, would be funded by investor supplied capital?

8 A. Technically, yes. I have reconsidered my position on this point and I
9 agree with Mr. Townsley that the costs for plant additions would initially be
10 funded up front by investor supplied capital. However, funds collected
11 through the ISRS would repay the Company for its up-front investment for
12 routine plant additions.

13

14 Q. Does RUCO still recommend that the Commission reject the Company-
15 proposed ISRS?

16 A. Yes. With the exception of those portions of my direct testimony regarding
17 non-investor supplied capital addressed above, RUCO believes that all of
18 the reasons RUCO provided for rejecting the Company-proposed ISRS
19 are valid and continues to advocate that the Commission should reject the
20 ISRS. Nothing in Mr. Townsley's rebuttal testimony changes RUCO's
21 position.

22

23

1 Q. Do you agree with Mr. Townsley's statement that you were the only
2 witness that responded to the Company's request, and the only witness
3 that recommended that the Company-proposed ISRS be rejected by the
4 Commission?

5 A. Yes and No. When Mr. Townsley filed his rebuttal testimony, I was the
6 only witness in this proceeding to address the ISRS and to recommend
7 that it be rejected by the Commission. However, since that time ACC Staff
8 witness Mr. Jeffery Michlik has filed direct testimony on rate design which
9 addresses the ISRS issue and also recommends that the Company-
10 proposed ISRS be rejected by the Commission. Mr. Michlik states that
11 "The Company has offered no explanation why these ordinary
12 infrastructure improvements or replacements should be handled in this
13 extraordinary fashion." Mr. Michlik goes on to say that ACC Staff
14 "believes that such ordinary infrastructure improvements should be
15 handled in the normal fashion through inclusion in rate base in future rate
16 filings as appropriate." Mr. Michlek further states that "The Commission
17 has rejected such requests for extraordinary treatment in the past." In
18 short Mr. Michlek's testimony echoes the reasons that I presented in my
19 direct testimony for rejection of the Company-proposed ISRS.

20

21

22 ...

23

1 Q. So RUCO still recommends that the Commission reject the Company-
2 proposed ISRS?

3 A. Yes. RUCO's position has not changed. As I stated in my direct
4 testimony, there is no federal, or for that matter any other, mandates
5 requiring that AAWC be required to construct the types infrastructure
6 improvements that would be covered under the ISRS. Nor are there any
7 other extraordinary circumstances that would warrant the approval of an
8 ACRM-like mechanism that would allow the Company to recover costs
9 associated with routine plant additions that would normally be subject to
10 much closer scrutiny during a general rate case proceeding.

11
12 **REBUTTAL TO ANTHEM COMMUNITY COUNCIL**

13 Q. What is your response to Anthem Community Council's witness Daniel
14 Neidlinger's testimony that the Council intends to challenge the legal basis
15 for AAWC's proposed inclusion of the March 2008 \$20.2 million AIAC
16 payment to Pulte Homes in rate base for ratemaking purposes in this
17 proceeding?

18 A. Like Mr. Neidlinger, I am not an attorney and I am not able to give a legal
19 opinion. RUCO has not challenged the recovery of the refunds or the rate
20 base treatment of the assets in its direct case. However, RUCO has
21 instructed me that RUCO reserves the right to modify its position on this
22 issue should the legal argument prove valid. RUCO is in the process of
23 doing its own investigation into the facts and circumstances of that

1 argument and may or may not supplement its testimony depending on the
2 results of its investigation.

3

4 Q. Does your silence on any of the issues, matters or findings addressed in
5 the rebuttal testimony of any of the witnesses for AAWC constitute your
6 acceptance of their positions on such issues, matters or findings?

7 A. No, it does not.

8

9 Q. Does this conclude your surrebuttal testimony on the Company-proposed
10 ISRS and the Anthem Community Council's challenge of AAWC's
11 proposed rate base treatment of the March 2008 \$20.2 million AIAC
12 payment to Pulte Homes?

13 A. Yes, it does.