

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 MIKE GLEASON
CHAIRMAN

3 WILLIAM A. MUNDELL
COMMISSIONER

4 JEFF HATCH-MILLER
COMMISSIONER

5 KRISTIN K. MAYES
COMMISSIONER

6 GARY PIERCE
COMMISSIONER

7
8 IN THE MATTER OF THE APPLICATION OF
9 ARIZONA-AMERICAN WATER COMPANY,
10 AN ARIZONA CORPORATION, FOR A
11 DETERMINATION OF THE CURRENT FAIR
12 VALUE OF ITS UTILITY PLANT AND
13 PROPERTY AND FOR INCREASES IN ITS
14 RATES AND CHARGES BASED THEREON
15 FOR UTILITY SERVICE BY ITS ANTHEM
16 WATER AND ANTHEM/AGUA FRIA
17 WASTEWATER DISTRICTS.

Docket No. WS-01303A-06-0403

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RUCO'S CLOSING BRIEF

November 30, 2007

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1 **INTRODUCTION**

2 The Residential Utility Consumer Office (“RUCO”) submits the following points in
3 support of its position that the Arizona Corporation Commission (“Commission”) should not
4 authorize a rate increase of more than \$2,260,117 for the water district and \$1,187,063 for the
5 wastewater district of the Anthem/Aqua Fria Division of Arizona-American Water Company
6 (“Arizona-American” or “Company”). In addition to RUCO’s other recommendations set forth
7 below, the Commission should approve RUCO’s recommended return on common equity of
8 10.01 percent because it is fair, balanced and well reasoned and is consistent with the current
9 environment of historically low interest rates.

10
11 **CITY OF PHOENIX INTERCONNECTION AGREEMENT**

12 The Company’s predecessor, Citizens Utilities, signed an Interconnection Agreement
13 (“Agreement”) with the City of Phoenix to build an interconnection for emergency and peak
14 water service to serve the Anthem Water District. A-5 at 3¹. The Agreement provided for five
15 yearly payments of \$1,000,000 beginning in 2005. Id. Initially, the Company requested that
16 the Commission include in rate base the test-year (2005) payment and the second payment
17 paid in June 2006. Id. RUCO agreed that the first payment should be included in rate base
18 but recommended the second payment be excluded as it was paid post test year. R-3 at 13.
19 The Company, in its rebuttal case, accepted Staff’s position to include the completed cost of

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23 _____
24 ¹ For ease of reference, trial exhibits will be identified similar to their identification in the Transcript of Proceedings. The Transcript page number will identify references to the Transcript.

1 the interconnection agreement in ratebase. A-6 at 4. By including the completed cost of the
2 Agreement in ratebase, the Company is, in effect, treating its contractual obligations as cost
3 free debt. R-4 at 6. RUCO would not object to the Company's reclassification of the
4 Agreement as cost free debt if the Commission were to adopt a capital structure other than a
5 hypothetical capital structure. Id. at 7. However, by reclassifying the obligation as cost free
6 debt, and applying a hypothetical capital structure, the resulting revenue requirement would be
7 artificially inflated. The Commission should not allow cost free debt to be applied to a
8 hypothetical capital structure, as the resulting revenue requirement would unnecessarily and
9 unfairly result in higher rates to ratepayers.

10 The Company's rebuttal position reclassified the cost associated with the Agreement as
11 cost free debt, and applied it to a projected capital structure. Id. at 6. Should the Commission
12 adopt the Company's recommended projected capital structure, RUCO would not oppose the
13 Company's recommendation to ratebase all of the completed costs associated with the
14 Agreement. In that instance, applying the cost free debt to the projected capital structure
15 would not artificially inflate the revenue requirement. RUCO's recommendation to include the
16 Company's test-year payment is the better option, however, as it complies with standard
17 ratemaking principles and is consistent with the matching principle.

18 RUCO's recommendation to include in rate base the test-year payment also has a
19 companion adjustment to RUCO's recommended depreciation expense, as will be discussed
20 more fully below.

21 **RELIEF REQUESTED:** The Commission should approve RUCO's recommendation
22 to ratebase only the test-year costs (\$1,000,000) associated with the Agreement.

1 **NORTHWEST VALLEY TREATMENT PLANT**

2 A portion of the Company’s wastewater is treated at the Sun City West Wastewater
3 District’s Northwest Valley Sewer Treatment Plant (“Plant”). R-3 at 14. The District does not
4 have a contractual arrangement for the treatment, nor does it own the plant that treats the
5 wastewater. Id. The Company proposes to treat the capacity of the plant it utilizes as a capital
6 asset and recognize it in ratebase. RUCO recommends that the costs associated with the
7 treatment be classified as an operating expense. Id.

8 Stated simply, Anthem Wastewater has no ownership interest in the Plant and it
9 therefore cannot, and should not, be afforded rate base treatment. Since the parent company
10 is the same for both districts, the impact of the adjustment should be considered on the
11 Company as a whole. RUCO made the appropriate adjustment in the Company’s Sun City
12 West Wastewater District’s rate filing which is currently pending before the Commission to
13 ensure the effect on all of Arizona-American’s ratemaking elements remain neutral. R-4 at 8.

14 Initially, the Company proposed that 2.25% of the plant be allocated to the District, and
15 Staff agreed. Staff and the Company now propose that 32% of the plant be allocated to the
16 District. The first time RUCO became aware that Staff changed its position to a 32% allocation
17 was in the Sun City West Wastewater matter. See Hearing transcript in the Sun City West
18 Wastewater Matter (Docket No. WS-01303A-06-0491) at 639-647. The Company has joined
19 in Staff’s new recommendation and neither Staff nor the Company has filed any testimony in
20 this case regarding the change in their position. Transcript at 1157, 1230, 1287. Instead, on
21 October 3, 2007, Staff filed the Revised Engineering Report of Katrin Stukov and the Revised
22 Revenue Schedules of Gerald Becker. See Staff’s Final Schedules dated October 3, 2007.
23 Buried in Mr. Becker’s schedules are the adjustments for the new recommended plant
24

1 allocation (See Schedule GWB-4) and the new recommended allocation for expenses. See
2 Schedule (GWB-11).

3 Ms. Stukov added little to support Staff's new recommendation. In her revised
4 engineering report, on page 8, Ms. Stukov revised her original report to include the following:

5 Based on the Company's agreement during the hearing for Arizona
6 American Sun City & Sun City West wastewater districts (Docket No.
7 WS-01303A-06-0491), the NEAF Service area will account for 32
8 percent of the total flows to the 5.0 MGD NWV plant at build out. The
9 NWV plant also provides wastewater treatment for the Sun City West
10 wastewater district. Revised Engineering Report of Katrin Stukov,
11 Exhibit KS at 8.

12 The hearing in this matter concluded on July 13, 2007, and did not resume until October 31,
13 2007. Both Mr. Becker and Ms. Stukov testified at the hearing held on October 31, 2007.

14 The Commission should reject Staff and the Company's recommended allocation
15 methodology for several reasons. First, a company which owns several districts should not be
16 allowed to trade and transfer portions of each district's ratebase among each other. The fact
17 that each district has the same parent company does not make such treatment of rate-base
18 plant appropriate. Regardless of who owns Sun City West Wastewater, each of Arizona-
19 American's (the parent company) certificated districts has its own set of rates, rate base, and
20 tariffs. R-3 at 14. Each district should be afforded its own ratemaking treatment.

21 Second, treating the NWVTF as a "capital lease" violates Generally Accepted
22 Accounting Principles ("GAAP"). For a lease to be recorded as a capital lease, the lease must
23 be non-cancelable, and meet one or more of the following four criteria:

- 24 • The lease transfers ownership of the property to the lessee
- The lease contains a bargain purchase option.
- The lease term is equal to 75% or more of the estimated economic life of the leased property.

1 filing of October 3, 2007. Nonetheless, this criticism is misplaced - it is not the obligation of
2 RUCO or the Anthem Community Council to perform discovery or cross-examination in order
3 to provide the evidence to make Staff and the Company's case. It is the burden of Staff and
4 the Company to support their recommendations with credible and timely submitted evidence.
5 See Decision No. 68487 at 21. Both the Company and Staff have failed to meet their burden,
6 and their joint recommendation of a 32% allocation should be rejected.

7 **RELIEF REQUESTED:** The Commission should approve RUCO's recommendation
8 of removing \$131,432 in gross utility plant and reinstating \$46,161 in accumulated depreciation
9 for an aggregate decrease in adjusted test-year rate base of \$85,271.

11 **WORKING CAPITAL**

12 A company's cash working capital requirement represents the amount of cash the
13 company must have on hand to cover any differences in the time period between when
14 revenues are received and expenses must be paid. The most accurate way to measure the
15 cash working capital requirement is via a lead/lag study. The lead/lag study measures the
16 actual lead and lag days attributable to individual revenue and expense items.

17 In this case, the Company did not perform a lead/lag study. Id. at 15. The Company
18 accepted Staff's recommended zero working capital allowance. Id. Staff's recommendation
19 has no in-depth data-based connection to this Company's actual working capital needs. In
20 fact, Staff has recommended a zero working capital allowance in several recent rate
21 applications involving water and/or wastewater utilities, and the Commission has repeatedly
22 rejected Staff's zero working capital allowance. (See for example, Decision Nos. 69396 and
23 69440). Staff's zero working capital allowance appears to be policy-based, and not based on
24 an objective analysis of the Company's working capital needs. Even Staff has admitted that

1 sophisticated utilities, like the Company in this case, normally have negative working capital
2 requirements. R-4 at 9.

3 RUCO's working capital allowance is based on an objective analysis and results in a
4 negative working capital allowance. RUCO relied on the lead/lag study developed by the
5 Company in its Mohave rate application. Id. at 10. RUCO's reliance on the lead/lag study
6 developed by the Company in its Mohave rate application is appropriate here for several
7 reasons. First, a large portion of the expenses are incurred at the Company's
8 central/corporate headquarters, which are common to both Mohave and Anthem. This point
9 alone makes the lead/lag study just as applicable here as in the Mohave case since it is a
10 working capital analysis of the Company. Id. Second, although the test years in the two cases
11 are different, aligning the twelve months of these two test years is not necessary, nor relevant
12 to the lead/lag calculations, since the timing of expense payments is not typically dependent on
13 test years. Finally, many expense payments have identical lags for every utility, i.e. income
14 tax, property tax, and taxes other than income. Therefore, RUCO's adjusted lead/lag study is
15 appropriate, and is the best indicator of the Company's working capital requirements. The
16 Commission should adopt RUCO's recommended working capital allowance.

17 **RELIEF REQUESTED:** The Commission should approve RUCO's recommendation
18 of (\$241,877) for cash working capital for the water district and (\$90,868) for cash working
19 capital for the wastewater district. R-4, Schedules RLM-5.

21 **RATE CASE EXPENSE**

22 In total, RUCO is recommending \$183,962 for rate case expense. R-3 at 24. The
23 Company's recommendation of \$300,000 is unreasonable given the facts and circumstances
24 of this case. For example, the Company seeks recovery for its Rate Design and Cost of

1 Service studies of \$143,000. However, in the Company's recent Paradise Valley Water District
2 rate case, Mr. Ronald Kozoman charged \$20,000 for the Cost of Service Study and \$5,000 for
3 the Rate Design study. Thus, the \$43,000 recommended by RUCO to cover the expense of
4 these studies in this case is fair and more than enough to recognize that two systems were
5 involved in this case³.

6 Recently, in the Company's Mohave Division rate application, the Company sought to
7 recover \$143,000 for its consultant to analyze the rate design and cost of service issues.

8 The Commission rejected the Company's request:

9 We believe the Company's proposed expense of
10 \$143,000 for a consultant to analyze rate design and cost of
11 service issues is excessive, especially when, as RUCO points
12 out, Arizona-American was able to contract for comparable
services in the recent Paradise Valley case at a cost of only
\$25,000."

13 Decision No. 69440 at 12. In terms of difficulty, there is nothing special or extraordinary that
14 distinguishes this case from Mohave in analyzing the rate design and cost of service issues.

15 The Company's recommended rate case expense is excessive, and should be rejected by the
16 Commission.

17 The other expense which represents the balance of the difference between RUCO and
18 the Company's recommendation is the \$16,038 that the Company included to round its
19 estimate up to \$300,000. Id. Rounding is a mathematical concept and does not represent a
20 legitimate expense to be recovered from ratepayers.

21 Finally, with regard to the allocation of the rate case expense, RUCO recommends the
22 Commission allocate the rate case expense based on a 50/50 split between the water district

23 _____
24 ³ In Paradise Valley there was only the water district at issue.

1 and wastewater district. RUCO has accepted the Company-proposed three-year amortization
2 rate, and when applied to RUCO's recommended level of rate case expense, results in a
3 \$19,340 annual reduction in the Company's requested rate case expense. Id.

4 **RELIEF REQUESTED:** The Commission should approve RUCO's recommended
5 rate case expense of \$183,962 allocated equally between the Company's water and
6 wastewater districts and amortized over three years.

7
8 **DEPRECIATION EXPENSE AND AMORTIZATION OF THE PHOENIX
INTERCONNECTION AGREEMENT COSTS**

9 During the hearing, a discussion took place regarding the position of the parties on the
10 appropriate depreciation rates and each party's recommended depreciation expense.
11 Transcript 657-661. The Company, in response, late-filed some exhibits which included a
12 comparison of the parties' recommended depreciation rates and expense. See Final
13 Schedules of the Company filed on June 22, 2007. RUCO has reviewed the Final Schedules
14 and notes that with regard to the depreciation rates there are a few minor discrepancies which,
15 taken as a whole, are de minimis. RUCO therefore accepts the Company's recommended
16 depreciation rates as more fully set forth in its Final Schedules under the section entitled
17 "Comparison of Depreciation Rates".

18 Within that same schedule, there is a discrepancy between RUCO's depreciation
19 expense recommendation and the Company's depreciation expense recommendation of
20 \$145,205. This discrepancy, as more fully noted on page 1 of the schedule entitled
21 "Comparison of Depreciation Rates," is the difference in the amortization associated with the
22 Phoenix Interconnection Agreement. Specifically, RUCO's recommendation to rate base only
23 the test year costs of \$1,000,000 results in an amortization expense of \$54,795. The
24 Company's recommendation to include the entire \$5,000,000 in costs results in an

1 amortization expense of \$200,000. The difference, \$145,205, explains the discrepancy in the
2 depreciation expense recommended by RUCO and the Company.

3 **RELIEF REQUESTED:** The Commission should approve RUCO's depreciation
4 expense of \$1,761,604⁴.

5
6 **DISALLOWANCE OF INAPPROPRIATE AND/OR UNNECESSARY MISCELLANEOUS
7 EXPENSES**

8 RUCO disallowed \$70,351 for the water district and \$11,705 for the wastewater district
9 in miscellaneous expenses for, among other things, award lunches, non-recurring costs, and
10 tasks now handled in-house. R-3 at 26, R-4 at 14. These expenditures are not necessary to
11 provide water and wastewater services. Id. Given the magnitude of the proposed rate
12 increase, ratepayers should not pay for expenditures which are not necessary to provide
13 service, and only contribute to an increase in rates.

14 **RELIEF REQUESTED:** The Commission should disallow \$70,351 for the water and
15 \$11,705 for the wastewater in unnecessary miscellaneous expenses.

16 **PROPERTY TAX**

17 RUCO recommends the Commission adopt its adjustment to property tax expense
18 based on the formula used by the Arizona Department of Revenue ("ADOR"). The evidence
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⁴ RUCO's final stated depreciation expense which is part of its surrebuttal testimony is \$1,756,286. See R-4,
23 Schedule RLM-9. Although this amount is different than what the Company represented on its final schedule
24 (\$1,761,604), the difference is insignificant. In order to avoid a lengthy, confusing and complicated
discussion to explain the difference, RUCO will simply accept the Company's calculation. RUCO and the
Company's disagreement regarding depreciation expense only apply to the Company's water division.
RUCO agrees with the Company's wastewater depreciation expense calculation.

1 shows that the use of the ADOR formula to estimate property taxes is a much more accurate
2 estimate of actual property tax than the methodology that the Company proposes and any of
3 the different methodologies the Commission has recently adopted. R-3 at 19-21. RUCO's
4 recommended property tax expense calculation was based on the ADOR property tax
5 formula. R-3 at 19. The property tax formula, as prescribed in ADOR's memo dated January
6 3, 2001, values water utilities for property tax purposes by multiplying the average of the water
7 utility's three previous years of reported gross revenues by a factor of two. Id.

8 The Company has disregarded the revenues required under the ADOR directive and
9 substituted in its place the adjusted test-year revenues twice, and its proposed level of
10 revenues once ("Company methodology"). Id. RUCO, for valuation purposes, has included the
11 test year (ending December 31, 2005) and the prior two years (2004, 2003) as directed by
12 ADOR ("ADOR methodology"). Since the ADOR issued its memo, enough time has passed so
13 that actual property tax figures for 2006 are available and the Commission can compare those
14 figures to the estimated figures derived using the Company's and the ADOR methodologies.
15 The Company's actual 2006 test-year property taxes were \$264,576 for the water district and
16 \$196,290 for the wastewater district. R-3 at 20. Using the ADOR methodology, RUCO's
17 estimated 2006 property tax assessment is \$326,572⁵ and \$255,369 for the water and
18 wastewater districts. Id. The difference from the actual expense is \$61,966 for the water and
19 \$59,079 for the wastewater districts. The Company's estimated property tax, using the

23 ⁵ In a portion of the Direct Testimony of Rodney Moore, some of these numbers are misstated. However, in
24 the same testimony these numbers are correctly stated in a chart. R-3 at 19-20. RUCO notes the errata and
apologizes for any inconvenience.

1 methodology it recommends, results in an estimated 2006 property tax assessment of
2 \$412,326 and \$348,574 for the water and wastewater districts. The difference from the actual
3 expense is \$147,750 for the water and \$152,284 for the wastewater district. By comparison,
4 the evidence clearly demonstrates that once again, ADOR's method more closely
5 approximates the Company's actual post-test year property tax bill than does the Company
6 and Staff methodology. The Commission should adopt RUCO's approach and recognize the
7 ADOR methodology as the best measure of actual property tax expense.

8 The Company suggests that the flaw with the ADOR methodology is that it does not
9 take into account additional revenues from the anticipated rate increase. A-8 at 16. In fact,
10 the ADOR formula using historical inputs accounts for additional revenues. The application of
11 proposed revenues, however, to the ADOR formula is likely to overstate property tax expense
12 because of the timing lags inherent in the assessment and collection of property
13 taxes. The impact of additional revenues on property tax is not the same as the impact of
14 additional revenues on income taxes. The effect of additional revenues on income tax is
15 immediate, but the effect of additional revenues on property taxes is not immediate because
16 property taxes based on the increased revenues are not paid until more than a year after new
17 rates go into effect. Even then, the increased revenues' impact on property taxes is tempered
18 by the use of two earlier years' revenues. The full impact of increased revenues on property
19 taxes will not be felt until four years after new rates go into effect. An understanding of this
20 timing difference is critical to understand why the ADOR formula using historical inputs is a
21 more accurate method to estimate property taxes than the use of adjusted and pro-forma
22 revenues. This also explains why the new rates that will go into effect will not affect property
23 taxes immediately. In RUCO's experience, the Commission has not gone more than one year
24 beyond the test year to look at any other expense on the income statement. Here, the test

1 year was 2005, and one year beyond that is 2006. RUCO established a level of property tax
2 for 2006.

3 The Company and Staff recommend the Commission look beyond one year from the
4 test year, and consider new rates to estimate property tax expenses more than one year into
5 the future. Historically, the Commission does not consider a post-test-year expense beyond
6 one year because, among other things, it violates the matching principle and the used and
7 useful principle. The ADOR formula using historical inputs is forward looking and does
8 consider the fact that new rates will be set. The Commission should adopt the ADOR formula
9 using historical inputs.

10 The Company relies on previous Commission Decisions that conclude that RUCO's
11 methodology, and hence the ADOR methodology, unreasonably understates property tax
12 expense. A-8 at 15. With all due respect, the evidence in this case once again proves that the
13 ADOR methodology is the most accurate method. In this case, had the Commission previously
14 approved the Company's methodology, property taxes for 2006 would have been overstated
15 by \$147,750 for the water and \$152,284 for the wastewater district, which would have allowed
16 the Company to over earn for several years until that level of tax was actually assessed. The
17 Commission should adopt the ADOR methodology.

18 **RELIEF REQUESTED:** The Commission should adopt RUCO's property tax
19 methodology which results in a decrease in adjusted operating expenses for Anthem Water of
20 \$1,909⁶ and Anthem Wastewater of \$90,589.

23 ⁶ Had the Company accurately computed its formula for the property tax in Anthem Water, RUCO's
24 adjustment would have been a decrease of \$85,754.

1 **PRO-FORMA EXPENSES BUDGETED FOR CONSERVATION**

2 RUCO recommends the Commission remove projected costs that may be incurred for
3 promoting water conservation in Anthem during 2006. These costs do not have known
4 measurable and verifiable documentation, and were scheduled to be incurred outside the test
5 year. R-3 at 27.

6 **RELIEF REQUESTED:** The Commission should disallow \$7,500 in unnecessary pro
7 forma expenses budgeted for conservation.

8
9 **COST OF CAPITAL**

10 The Commission should adopt RUCO's recommended rate of return of 7.22 percent,
11 which is the weighted cost of RUCO's recommended costs of debt and equity capital. R-6 at 4.

12 A 10.01 percent cost of common equity is appropriate given the current environment of
13 low inflation and low interest rates in which the Company is operating. R-5 at 45-51.
14 Moreover, RUCO's witness William Rigsby's recommendation is further supported by the
15 Federal Reserve's recent announcements to hold interest rates steady, and by Value Line
16 analysts' projection of stable interest rates. Id.

17 The Company is recommending a capital structure comprised of 58.4 percent debt and
18 41.6 percent equity. R-6 at 5. The Company's recommendation is based on what the
19 Company claims will be its actual capital structure after a future restructuring of debt and an
20 expected infusion of equity capital later this year. Id. RUCO recommends the Commission
21 reject the Company's proposed capital structure as the events the Company relies on in
22 formulating its recommendation are speculative and have no basis at this point in time. R-6 at
23 6.

1 Staff is recommending a capital structure of 61.3 percent debt and 38.7 percent equity.
2 S-3 at 2. Staff has included in its capital structure the \$3 million associated with the Phoenix
3 Interconnection Agreement. Staff is recommending that the costs associated with the Phoenix
4 Interconnection Agreement be treated as zero-cost capital. Id. RUCO, as previously
5 mentioned, believes that the interconnection agreement between Arizona-American and the
6 City of Phoenix should be treated as a regulatory asset. The regulatory asset is supported by
7 an advance-in-aid-of-construction (“AIAC”) from the City. Id. Under RUCO’s proposed
8 treatment, the Company would not earn a return on the interconnection agreement until it is
9 repaid. Id. This would also be the case under Staff’s recommendation, since the \$3 million
10 associated with the interconnection agreement is being treated as zero-cost capital.

11 RUCO’s recommended treatment of the interconnection agreement costs as a
12 regulatory asset supported by an AIAC is consistent with RUCO’s recommended hypothetical
13 capital structure in this case. RUCO is recommending a hypothetical capital structure of 60%
14 equity and 40% debt. R-6 at 5. By comparison, the capital structures for the proxy sample of
15 utilities RUCO used in its Discounted Cash Flow (“DCF”) analysis averaged 50.1 percent debt
16 and 49.9 percent equity. R-5 at 53-54. The water utilities RUCO used in its proxy on the
17 whole had a lower level of financial risk than the Company because of the overall lower levels
18 of debt of the proxy companies. Id. To account for the discrepancy in the perceived risk,
19 RUCO made a 50 point upward adjustment to its recommended cost of equity. Id. So, in
20 addition to RUCO’s proposed hypothetical capital structure, RUCO also made a 50 basis point
21 upward adjustment to its cost of equity recommendation to account for the Company’s higher
22 financial risk. RUCO’s cost of equity recommendation is balanced, fair, well reasoned and
23 results in lower rates for ratepayers. The Commission should adopt RUCO’s recommended
24 cost of capital.

1 **RELIEF REQUESTED:** RUCO recommends the Commission adopt its
2 recommended cost of equity of 10.01% and weighted average Cost of Capital of 7.22%. The
3 Company's proposed cost of equity of 11.75 is unreasonably high and not warranted under the
4 circumstances. Likewise the Company's weighted average Cost of Capital recommendation of
5 8.07% should also be rejected.

6
7 **RATE DESIGN**

8 RUCO recommends that the Commission adopt its proposed rate design which uses
9 the same parameters as the Company proposes in its rate design. R-3 at 30.

10 **RELIEF REQUESTED:** RUCO recommends the Commission adopt its rate design
11 as shown on Schedules RLM-14, of RUCO Exhibit R-3.

12
13 **CONCLUSION**

14 The Commission should not authorize a rate increase of more than \$2,260,117 for the
15 Company's water district, and \$1,187,063 for the Company's wastewater district. The
16 Commission should adopt RUCO's proposal of ratebasing the test year costs associated with
17 the Phoenix Interconnection Agreement. RUCO recommends the Commission adopt its
18 remaining recommendations to the following:

- 19 1) Northwest Valley Treatment Plant - remove \$131,432 in gross utility plant and
20 reinststate \$46,161 in accumulated depreciation for an aggregate decrease in
21 adjusted test-year rate base of 85,271;
- 22 2) Cash Working Capital - approve RUCO's recommendation of (\$241,877) for
23 cash working capital for the water district and (\$90,868) for cash working capital
24 for the wastewater district;

1 AN ORIGINAL AND THIRTEEN COPIES
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