

ARIZONA AMERICAN WATER COMPANY, INC.  
(PARADISE VALLEY WATER DISTRICT)

DOCKET NO. W-01303A-05-0405

DIRECT TESTIMONY  
OF  
TIMOTHY J. COLEY

ON BEHALF OF  
THE  
RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 17, 2006

1	INTRODUCTION.....	1
2	THE TEST YEAR.....	4
3	SUMMARY.....	4
4	Rate Base Adjustments:.....	5
5	Rate Design:.....	5
6	RATE BASE:.....	6
7	Rate Base Adjustment #1 – Property Held for Future Use.....	6
8	Rate Base Adjustment #2 – Gain on Sale of Land.....	7
9	Rate Base Adjustment #3 – Capitalized Expenses.....	8
10	Rate Base Adjustment #4 – Working Capital.....	9
11	Reconcile Lead/Lag Study and Company’s Schedule C-2 in Rate Application.....	10
12	RUCO’s Expense Adjustments.....	10
13	Other Working Capital Adjustments.....	11
14	RUCO Adjustments to Lag Days.....	12
15	Inclusion of Interest Expense to Working Capital Allowance.....	12
16	Revenue Lead/Lag Days Correction.....	13
17	Property Tax Lead/Lag Days Correction.....	16
18	RATE DESIGN.....	19

1 **INTRODUCTION**

2 Q. Please state your name and business address.

3 A. My name is Timothy J. Coley. My business address is 1110 W. Washington,  
4 Suite 220, Phoenix, Arizona 85007.

5  
6 Q. By whom are you employed and in what capacity?

7 A. I am employed by the Residential Utility Consumer Office (“RUCO”) as a Public  
8 Utilities Analyst.

9  
10 Q. Please state your educational background and qualifications in utility regulation.

11 A. I have a Masters Degree in Public Administration and Bachelor of Science  
12 Degree in Business Management and Administration. I am currently completing  
13 my Post-Baccalaureate Certificate in Accountancy at Arizona State University –  
14 West. My regulatory utility experience includes eleven combined years in various  
15 utility auditing and rate analyst positions with RUCO and the Georgia Public  
16 Service Commission. I have been employed at RUCO since 2000.

17  
18 Q. Have you previously testified in rate proceedings before the Arizona Corporation  
19 Commission (“ACC”)?

20 A. Yes. I have previously presented testimony regarding revenue requirements in  
21 rate case proceedings before the ACC.

22

23

1 Q. Please state the purpose of your testimony.

2 A. The purpose of my testimony is to present findings and recommendations  
3 resulting from my analysis and review of Arizona-American Water Company, Inc.  
4 (hereafter referred to as "AZ-AM", or "Company") Rate Application for a  
5 permanent rate increase in the Company's Paradise Valley ("PV") Water District.  
6 The PV District provides water service within portions of the Town of Paradise  
7 Valley, the City of Scottsdale, and certain unincorporated areas within Maricopa  
8 County, Arizona. During the test year ("TY") ended December 10, 2004, the  
9 Company provided water service to approximately 4,600 customers.

10

11 I will sponsor the rate base items and rate design pertaining to the PV Water  
12 District. RUCO witness Rodney L. Moore will present RUCO's recommended  
13 operating expenses in his testimony. Mr. Moore's testimony also addresses the  
14 Arsenic Cost Recovery Mechanism ("ACRM") that the Company is requesting in  
15 this proceeding. Ms. Diaz Cortez discusses the Public Safety ("PS") surcharge  
16 and High Block usage surcharges as proposed by the Company in this docket.  
17 RUCO witness William A. Rigsby is sponsoring RUCO's recommended cost of  
18 capital and capital structure issues.

19

20 Q. Please describe your participation and work effort on this project.

21 A. I performed the following procedures to determine whether sufficient, relevant,  
22 and reliable evidence exists to support the financial data and claims in the  
23 Company's application, reviewed and analyzed the Company's application and

1 supporting work papers, reviewed all other intervenors' data requests, prepared  
2 written data requests and evaluated the Company's responses, reviewed annual  
3 reports and prior Commission decisions regarding AZ-AM PV Water District.

4  
5 In addition, Mr. Moore and I conducted an onsite field audit inspection of the  
6 Company's PV water system. The onsite audit required a half-day visual  
7 inspection. The respective System Managers accompanied Mr. Moore and  
8 myself during the onsite visit, which provided valuable insight into the Company's  
9 construction of its Arsenic plant and overall operations.

10  
11 Ms. Diaz Cortez, RUCO legal counsel Mr. Dan Pozefsky, and I attended several  
12 Town Council meetings that specifically addressed water issues in the Town of  
13 Paradise Valley.

14  
15 Q. Please identify the exhibits and schedules that you are sponsoring.

16 A. My testimony is composed of separate Schedules TJC-1 through TJC-9.

17  
18 Q. Does your silence on any issues or matters pertaining to the Company's  
19 application constitute RUCO's acceptance of the Company's position?

20 A. No.

21  
22  
23

1 **THE TEST YEAR**

2 Q. Did the Company use a “strict” historical test-year?

3 A. Yes. The Company chose a test year ending December 10, 2004 (“Test Year”).  
4 However, the Company has requested several post-test-year plant additions to  
5 be recovered through specific surcharges at future dates, specifically Public  
6 Safety additions, arsenic plant, and a high-block usage surcharge, which is  
7 discussed in detail by Ms. Diaz Cortez and Mr. Moore.

8  
9 Q. Does RUCO agree with the Company’s chosen historical Test Year?

10 A. Yes. RUCO has consistently supported the Commission’s position that the most  
11 “recent” known and measurable historical Test Year should be the test year  
12 selected for rate applications when setting rates. This approach conforms to the  
13 accounting framework established by the Commission’s Rules and regulatory  
14 principles. AZ-AM’s selection of a 2004 test year in this case utilizes the most  
15 current known and measurable Test Year numbers available.

16

17 **SUMMARY**

18 Q. Please summarize the recommendations and adjustments you cite in your  
19 testimony.

20 A. The following recommended adjustments summarize my testimony:

21

22

23

1 **Rate Base Adjustments:**

2 Property Held For Future Use (“PHFFU”) – This adjustment removes plant from  
3 Utility Plant in Service (“UPIS”) that is not in service, and therefore, it is not used  
4 and useful.

5 Gain on Sale of Land – This adjustment removes 50% (ratepayers share of gain)  
6 of the gain from the sale of land and reduces rate base accordingly. RUCO  
7 recommends the ratepayers’ share of gain be treated as a deferred liability and  
8 placed in an appropriate account that does not earn a return for the  
9 shareholders.

10 Capitalized Expenses – This adjustment increases rate base by \$10,495. See  
11 RUCO witness, Mr. Moore’s testimony, for a detailed explanation regarding this  
12 adjustment.

13 Allowance for Working Capital – This adjustment recalculates working capital  
14 based on RUCO’s recommended operating expenses and corrections in the  
15 Company’s lead/lag days.

16  
17 **Rate Design:**

18 RUCO is recommending the same rate design that currently exists and approved  
19 by the Commission in Decision No. 61307, dated on December 31, 1998. The  
20 rate design consists of a three-tier rate design for the residential customers and  
21 two tiers for the commercial customers.

22

23

1 **RATE BASE:**

2 **Rate Base Adjustment #1 – Property Held for Future Use**

3 Q. Did AZ-AM Water include PV's "Property Held for Future Use" ("PHFFU") in rate  
4 base in this current rate application?

5 A. Yes. The Company included three items of plant charged to the PHFFU account.  
6

7 Q. What three plant items from PHFFU did the Company include in rate base?

8 A. The Company included two submersible pumps & motors and one transformer in  
9 Utility Plant In Service ("UPIS") that totaled \$138,682.

10

11 Q. Does RUCO agree that PHFFU should be included in UPIS and thus in rate  
12 base?

13 A. No. RUCO has consistently disallowed PHFFU in UPIS.  
14

15

16 Q. What reason(s) compel RUCO to disallow PHFFU?

17 A. It is sound policy under the general accounting ratemaking standards and  
18 procedures to disallow plant that is not used and useful in providing utility service  
19 to ratepayers. PHFFU is clearly not used or useful in serving current ratepayers.

20

21 Q. What adjustment did RUCO make to disallow PHFFU?

22 A. RUCO disallowed the full \$138,682 from UPIS and thus rate base.  
23

1 **Rate Base Adjustment #2 – Gain on Sale of Land**

2 Q. Please explain the purpose of the “Gain on Sale of Land” adjustment.

3 A. The Company proposes to share the “gain” recognized on the sale of one piece  
4 of property 50/50 with ratepayers. AZ-AM’s treatment of the net gain attributable  
5 to the ratepayers is to provide dollar for dollar recovery of the gain via a monthly  
6 surcredit to ratepayers’ bills over five years. To arrive at the net gain to be  
7 shared with ratepayers, the Company has proposed that the ratepayers’ share of  
8 the gain be an after-tax amount.

9  
10 Q. Does RUCO agree with the 50/50 sharing with ratepayers over five years as  
11 proposed by the Company?

12 A. RUCO agrees with the Company’s proposal to share the gain with the ratepayers  
13 50/50, but RUCO does not agree with the Company’s method or treatment of the  
14 ratepayers’ 50% share of the gain.

15  
16 Q. Please explain why RUCO does not agree with the Company’s method and  
17 treatment of the ratepayers’ share of the gain on sale of land.

18 A. First, RUCO believes the gain should be shared with the ratepayers on a before-  
19 tax basis because rates are designed to account for the taxes. The Company’s  
20 proposed method of sharing the gain on an after-tax method would result in  
21 double taxation. See RUCO witness Mr. Moore’s direct testimony for a complete  
22 discussion concerning RUCO’s rationale.

23

1 Second, RUCO does not agree with the Company's surcredit treatment of the  
2 ratepayers' share of the gain. While a surcredit will provide dollar for dollar  
3 recovery of the gain, it does not compensate ratepayers for the time value of  
4 money.

5  
6 Q. What treatment does RUCO recommend for the ratepayers' share of the gain on  
7 sale of property?

8 A. RUCO recommends that share of the gain attributable to the ratepayers be  
9 placed into a deferred liability account on a before-tax basis and amortized back  
10 to the ratepayers over a five year period. Further, RUCO recommends that the  
11 deferred liability reduce rate base. This treatment recognizes that the Company  
12 will have use of ratepayers' funds, which in essence is cost-free capital that  
13 should not earn a return. This adjustment reduces expenses by \$78,450 and  
14 reduces rate base by \$392,248.

15  
16 **Rate Base Adjustment #3 – Capitalized Expenses**

17 Q. Please explain the purpose of the capitalized expenses adjustment.

18 A. This adjustment capitalizes certain expenses identified in Mr. Moore's analysis.  
19 For a thorough discussion concerning this adjustment, please see Mr. Moore's  
20 discussion in his testimony. The adjustment reduces income statement  
21 expenses and increases rate base by \$10,495.

1 **Rate Base Adjustment #4 – Working Capital**

2 Q. What amount of working capital is the Company requesting?

3 A. The Company is requesting working capital in the amount of \$350,946.

4  
5 Q. How did the Company determine the requested amount of working capital?

6 A. The Company determined its working capital request utilizing a lead/lag study.

7  
8 Q. Please explain the concept of working capital?

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

15  
16 Q. Are you proposing any adjustment to the Company-proposed working capital?

17 A. Yes. An adjustment is necessary to restate the working capital requirement  
18 based on my recommended level of operating expenses, correction to certain  
19 lead/lag days, and inclusion of interest expense. These adjustments are shown  
20 on Schedule TJC-5, page 1 – 6, and decrease the amount of working capital by  
21 \$231,827.

1 Reconcile Lead/Lag Study and Company's Schedule C-2 in Rate Application

2 Q. Referring to Schedule TJC-5, page 3 of 6, please explain the adjustments to  
3 working capital in Column (A), (B), and (C).

4 A. Column (A) is essentially a reproduction of the Company's Schedule B-5 –  
5 Lead/Lag Study – Column [B], which is part of the Company's work papers. All  
6 the expenses in the Company's Schedule B-5 did not correspond with what the  
7 Company filed in its rate application on Schedule C-2. The adjustments on  
8 Schedule TJC-5, page 3 of 6, Column (B), were necessary to reconcile the  
9 Company's lead/lag study with the expenses on C-2 rate application. Column  
10 (C) on Schedule TJC-5, page 3 of 6, is RUCO's adjustments to the expense  
11 accounts. See RUCO witness Mr. Moore's direct testimony for a discussion  
12 regarding these adjustments.

13  
14 Q. What portion of RUCO's adjustment to cash working capital is attributable to  
15 reconciling the Company's lead/lag study expenses to the Company's Schedule  
16 C-2 rate application schedule?

17 A. This portion of RUCO's adjustment reduced cash working capital by \$6,895.  
18

19 RUCO's Expense Adjustments

20 Q. What adjustment was necessary to account for RUCO's witness Mr. Moore's  
21 expense adjustments in Schedule RLM-3, page 1 through 4?

22 A. Mr. Moore's expense adjustments reduced cash working capital by \$12,587.  
23

1 Other Working Capital Adjustments

2 Q. Please explain the purpose of the adjustments RUCO recommends to working  
3 capital proposed by the Company.

4 A. This adjustment consists of two parts. One part is associated with the Mummy  
5 Mountain acquisition adjustment allowed in Commission Decision No. 61307.  
6 This adjustment increases working capital and thus rate base by \$7,774. The  
7 second part of the adjustment is related to corrections RUCO recommends to  
8 various revenue and expense lead/lag days as proposed by the Company's  
9 lead/lag study. The final element to the working capital adjustment is the  
10 inclusion of interest expense in determining cash working capital.

11  
12 Q. Please discuss RUCO's rationale that led to each adjustment to working capital  
13 beginning with the Mummy Mountain acquisition adjustment mentioned above.

14 A. The Mummy Mountain acquisition adjustment was authorized in Commission  
15 Decision No. 61307. The acquisition adjustment allowed the Company  
16 recognition and recovery of costs the Company incurred in acquiring the Mummy  
17 Mountain water system in 1999.

18  
19 The Commission authorized AZ-AM to recover certain costs associated with the  
20 acquisition of Mummy Mountain water infrastructure over 25 years. AZ-AM has  
21 been amortizing the acquisition costs over 20 years rather than the 25 years as  
22 approved in Decision No. 61307. RUCO's adjustment increases the Company's  
23 working capital and thus rate base by \$7,774.

1 RUCO Adjustments to Lag Days

2 Q. Please explain RUCO's adjustments to the Company's lead/lag days in its  
3 Lead/Lag Day study.

4 A. After analyzing the Company's lead/lag study, RUCO found necessary  
5 adjustments to three areas of the Company's study shown in the Company's  
6 work papers titled "Lead/Lag Study, Schedule B-5," page 148. Specifically,  
7 RUCO adjusted the Company's lead/lag days for 1) interest expense lag, 2)  
8 revenue lag, and 3) property tax expense lag days. These three adjustments  
9 result in a change to the Company proposed net lag days. As shown on RUCO  
10 Schedule TJC-5, page 3 of 6, these adjustments result in a net decrease in lag  
11 days from the Company's proposed 16.8 days to a negative 7.1<sup>1</sup> days.

12  
13 Inclusion of Interest Expense to Working Capital Allowance

14 Q. Discuss RUCO's first adjustment to interest expense lag that affects working  
15 capital.

16 A. The Company simply did not include the interest expense in its calculation for the  
17 lead/lag study. It is appropriate to include interest expense in the lead/lag  
18 calculations since ratepayers compensate the Company for interest expense via  
19 cost of capital. Through RUCO data requests 1.9, 1.32, 2.12, update to 2.12  
20 dated December 1, 2005, 9.8, and Staff 3.3, RUCO obtained the terms, payment  
21 dates, and payment amounts on the debt instruments. That information provided  
22 RUCO with the elements necessary to construct a lead/lag study. As shown on

---

<sup>1</sup> A net negative lag is indicative of a situation where the receipt of revenues precedes the payment of expenses.

1 Schedule TJC-5, page 4 of 6, line 11, the interest expense lag days equated to  
2 107.20 days.

3  
4 Q. Referring to Schedule TJC-5, page 3 of 6, lines 23, titled "Interest," please  
5 explain the figures and calculations pertaining to line 23.

6 A. Referring to the above referenced schedule, the first number, \$375,896, on line  
7 23, is the synchronized interest amount found on Schedule RLM-13. The second  
8 figure is the same \$375,896 found in Column (C), line 23 because the Company  
9 failed to include any interest expense in its lead/lag calculation study. Column  
10 (F), line 23, the "Dollar Days," is the \$375,896 (synchronized interest) multiplied  
11 by 107.20 lag days calculated on TJC-5, page 4 of 6.

12  
13 Q. What is the necessary amount to adjust for RUCO's inclusion of interest expense  
14 for working capital?

15 A. This adjustment reduces the Company's cash working capital by \$55,721.  
16

17 Revenue Lead/Lag Days Correction

18 Q. Please discuss RUCO's adjustment to the Company's revenue lag days.

19 A. The Company calculated 52.8 lag days associated with the amount of time  
20 between when the meter is read and when the Company receives payment for  
21 the water service. RUCO performed a revenue lead/lag analysis for the PV  
22 system and determined an adjustment was necessary to restate PV's revenue  
23 lag to 38.30 days.

1 Q. What method and/or analysis did RUCO perform in determining its  
2 recommended 38.30 revenue lag days?

3 A. In RUCO data request 8.3, twenty of PV's copies of actual bills were requested  
4 for various meter sizes and customer classifications. By utilizing this sample of  
5 bills, RUCO was able to ascertain the service period, therefore the mid-point  
6 service period was established, and the bill date, which establishes the billing lag  
7 days. The pay lag is determined by adding the number of days from the bill date  
8 to the due date. The total revenue lag days are the sum of the 1) mid-point  
9 service period, 2) billing lag days, and 3) pay lag days. These calculations are  
10 shown on TJC-5, page 5 of 6. The "**AVERAGES**" are the total sum of the  
11 respective columns divided by the 20-bill sample size, which equals 38.30 days.

12  
13 Q. To what reason(s) does RUCO attribute the difference in the Company's and  
14 RUCO's calculated revenue lag days?

15 A. There are a number of reasons the two calculations differ. First, the Company  
16 uses a calculation that takes all the AZ-AM water systems in consideration,  
17 whereas, RUCO's calculation isolates the PV system with actual bills. The  
18 Company calculates service lag days that equal 13.8 days, which represents the  
19 equivalent of RUCO's Schedule TJC-5, page 5 of 6, Column (C) mid-point  
20 service period average of 15.10 days. Secondly, AZ-AM uses a Company wide  
21 approach in determining its billing lag days of 8.7 days where RUCO uses  
22 specific PV bills that averages 3.05 billing lag days. The Company uses the total  
23 of AZ-AM average daily balance of accounts receivable divided by average daily

1 revenue, which equals a payment lag of 30.3 days. When RUCO uses the more  
2 precise method by isolating the PV water district, the payment lag is 20.15 when  
3 using PV's actual bill sample. The total revenue lag difference is 14.5 days with  
4 RUCO recommending 38.30 revenue lag days rather than the Company's less  
5 accurate total AZ-AM Water Company approach of 52.8 revenue lag days.

6  
7 Q. Did RUCO request the information from PV to replicate the Company's  
8 methodology of calculating the total revenue lag days that would be specific only  
9 to the PV system?

10 A. Yes. In RUCO 2.8, the data was requested for the accounts receivables for PV  
11 only. In response to the request, AZ-AM stated that, "The daily account  
12 receivable balances are not available by District. The Company's accounts  
13 receivable balances are kept in total."

14  
15 Q. Did RUCO compare other Arizona utilities to determine the reasonableness of  
16 the Company's proposed total revenue lag days as filed?

17 A. Yes. I reviewed Arizona Water Company's Western Group lead/lag study  
18 (Commission Decision No. 68302), the recent Southwest Gas rate filing, and  
19 Arizona Public Service's ("APS") rate application to make comparisons with what  
20 AZ-AM filed in this case. Arizona Water Company's Western Group consisted of  
21 five separate water systems. Each system was calculated independently with  
22 revenue lags ranging from 27.56 to 29.24 for an overall average of 27.80  
23 revenue lag days (Commission Decision No. 68302 approved these lag days).

1 Southwest Gas and APS's lead/lag studies resulted in revenue lags of 40.62 and  
2 41.81 days respectively.

3  
4 Since RUCO's revenue lead/lag study uses PV actual billing cycle and isolates  
5 the PV system as opposed to the overall AZ-AM accounts receivables approach,  
6 RUCO recommends a 38.30 revenue lag days. This accurately reflects the PV  
7 system cash working capital needs, which results in a reduction to cash working  
8 capital of \$144,904.

9  
10 Property Tax Lead/Lag Days Correction

11 Q. Please explain the adjustment RUCO made to the Company's property tax  
12 expense lead/lag days.

13 A. This adjustment was necessary to correct the lead/lag days the Company  
14 calculated for property tax expense.

15  
16 Q. How did the Company calculate the lag days for property tax expense?

17 A. First, the Company uses two mid-point service periods of 1) July 1 to December  
18 31 and 2) January 1 to June 30. The Company then calculates the lead/lag days  
19 associated with the two semi-annual payments from each mid-service period to  
20 the date of the payments.

1 Q. Does RUCO agree with the Company's methodology used when calculating its  
2 property tax expense lag days?

3 A. Not entirely.  
4

5 Q. Please explain RUCO's difference of opinion with the Company concerning the  
6 method it used when calculating the property tax expense lag days.

7 A. The lag days for Arizona property taxes should be based on a calendar year  
8 using the midpoint of July 1 because the service period is the calendar year.  
9 One-half of the property tax in a given calendar year must be paid on November  
10 1<sup>st</sup> of the current tax year, and one-half must be paid on May 1<sup>st</sup> of the following  
11 year in Arizona. However, the Company's method of utilizing two service periods  
12 rather than RUCO's preferred one calendar year does not affect the lead/lag  
13 days' calculation.  
14

15 What does affect the Company's lag days' calculation for property taxes is AZ-  
16 AM is using the date it actually made payment as opposed to the date before the  
17 taxes become delinquent. The Company's use of calculating from the midpoint  
18 of the service period to the payment date reduces the lag days and thereby  
19 artificially increases the need for cash working capital. The Commission should  
20 not allow this. Every Arizona company, public or private, and individual is  
21 required to pay Arizona property tax on the same basis and dates. There are no  
22 deviations between any for-profit company and/or individual.  
23

1 Q. What adjustment is necessary to correct the lag days associated with the  
2 Company's property tax lag day calculation?

3 A. RUCO recommends the use of 213.50 lag days<sup>2</sup> rather than the Company's  
4 175.50 days. This adjustment results in a reduction to cash working capital in the  
5 amount of \$22,176. In Commission Decision No. 68302, Arizona Water  
6 Company, utilized 212 lag days for property tax expense. Southwest Gas and  
7 APS used 211 lag days and 213 respectively in recent filed rate cases with the  
8 Commission.

9  
10 Q. What was RUCO's total adjustment to working capital taking all the elements into  
11 consideration as discussed above?

12 A. RUCO's total adjustments to working capital are as follows:

<b><u>Working Capital Adjustments</u></b>	<b><u>Amount</u></b>
1) Reconcile Co. Lead/Lag Study to Co. Sch. C-2	(\$6,819)
2) RUCO's Expense Adjustments	(\$12,448)
3) Mummy Mountain Acquisition Adjustment	\$7,774
4) Interest Expense Adjustment	(\$55,101)
5) Revenue Lag Days Adjustment	(\$143,302)
6) Property Tax Lag Days Adjustment	<u>(\$21,931)</u>
<b>RUCO's Total Working Capital Adjustments</b>	<b>(\$231,827)</b>

22  

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<sup>2</sup> This number will vary insignificantly depending on the midpoint utilized (i.e., June 30<sup>th</sup> or July 1<sup>st</sup>) and due dates employed (i.e., April 30<sup>th</sup> or May 1<sup>st</sup>). The range should be 211 – 213.5.

1 **RATE DESIGN**

2 Q. Have you prepared schedules showing your recommended monthly minimum  
3 and commodity rates?

4 A. Yes.

5  
6 Q. How did you design your rates?

7 A. My rate design is shown on Schedule TJC-6, pages 1 through 9. Those  
8 schedules reflect RUCO's recommended 8.72 percent overall rate decrease.  
9 Other than the decrease, RUCO recommends that the present rate structure  
10 remain intact with the exception of Mummy Mountain. I consolidated the  
11 residential Mummy Mountain customers with the PV residential customers to  
12 create a uniform rate design for all residential customers in PV's water district.

13  
14 Q. Why was it necessary to consolidate Mummy Mountain and PV residential  
15 customers?

16 A. Mummy Mountain was acquired by AZ-AM in 1999 and had a separate rate  
17 structure than the PV residential customers. The Commission ordered that  
18 current rates for Mummy Mountain would remain the same as before the  
19 acquisition took place until PV operated it for at least one full year. This would  
20 allow a full year of operating revenues and expenses to be reviewed before  
21 consolidating the rates. This is the first rate case for PV since a full year of  
22 operating results has elapsed. This is the proper time and proceeding to address  
23 a uniform rate design for Mummy Mountain and PV residential customers.

1 Q. Please discuss the elements of RUCO's rate design that it maintains should  
2 remain intact as in the Company's present rate design.

3 A. RUCO's rate design focuses on conservation. RUCO's rate design is virtually a  
4 mirror image of what the Company presently has and what the Company has  
5 proposed with the lone exception of the rate decrease recommended by RUCO.

6  
7 RUCO agrees with the Company's tiered rate design. The Company's present  
8 and proposed rate design includes a three-tier inverted rate design for residential  
9 customers and a two-tier inverted rate design for commercial customers. RUCO  
10 concurs with the Company that break over points should be 25,000 gallons at tier  
11 two and 80,000 gallons at tier three for residential customers. The Company's  
12 present and proposed rate designs for commercial customers have a break over  
13 point at 400,000 gallons at tier two, and RUCO's rate design maintains the same  
14 break over point for commercial customers. Both RUCO and the Company have  
15 eliminated the 1,000 "free" gallons in Mummy Mountain rates.

16  
17 RUCO recommends a commodity ratio of 2.0 for residential customers between  
18 tier two to tier one rates. The Company's present rates reflect a 2.22 ratio  
19 between the same two tiers. The only reason for that negligible difference is  
20 RUCO did not want to lower tier one more than the recommended 72 cent level.  
21 The wrong signal could be perceived as pricing the first tier below cost if RUCO  
22 widened the gap between tier one and two any more. The ratio between tier  
23 three to one rates in RUCO's rate design for residential customers is 2.8. The

1 third tier is where RUCO believes a stronger price signal can be sent to achieve  
2 greater conservation. Likewise, the Company's proposed ratio between  
3 residential tier three to one rates is 2.88.

4  
5 For commercial customers, RUCO recommends the same 29-cent difference as  
6 in the Company's present rates between tier one to tier two rates for the  
7 commodity charge. As confirmed, RUCO's rate design parallels the Company's  
8 with the exception that RUCO recommends an 8.72 percent rate decrease.

9  
10 Q. Please discuss the last element of rate design, monthly minimums, that RUCO  
11 recommends.

12 A. The monthly minimums that RUCO recommends are on Schedule TJC-6, pages  
13 1 through 9. All customer classifications pay the same monthly minimum based  
14 on meter size. RUCO recommends a reduction in all monthly minimums (i.e., 5/8  
15 X 3/4 Inch Meter is 41-cents less) with the one exception occurring in Mummy  
16 Mountain.

17  
18 Q. Why does Mummy Mountain experience an increase in monthly minimums while  
19 all other customer classifications experience a decrease?

20 A. As discussed earlier in my testimony, Mummy Mountain had separate rates than  
21 other PV customers before and after AZ-AM's acquisition of the Mummy  
22 Mountain system in 1999. Mummy Mountain's monthly minimum rates were not  
23 based on the generally accepted ratemaking concept of the NARUC multiplier,

1           which increases the monthly cost, as the meters get larger. However, Mummy  
2           Mountain's 5/8 X 3/4 Inch meter size did experience a monthly minimum  
3           decrease of \$1.00 under RUCO's rate design. Since the larger meters were not  
4           based on the NARUC multipliers, the larger meters had an increase in monthly  
5           minimum charges.

6  
7   Q.    Briefly explain the NARUC multiplier that caused Mummy Mountain customers to  
8           experience a monthly minimum increase while all other customers received a  
9           decrease under RUCO's rate design.

10   A.   The NARUC multiplier simply increases monthly minimum meter charges by a  
11           ratio, as the meter's size becomes larger. The ratio is closely interrelated to the  
12           water capacity the meter is capable of providing.

13  
14   Q.    Please summarize RUCO's rate design?

15   A.    RUCO's rate design primarily generates the following four results:

- 16           1. It is designed to encourage conservation.
- 17           2. Inverted tiered rates are utilized.
- 18           3. Equivalent to the Company's rate design.
- 19           4. Maintains the same ratio between the Company's present monthly  
20           minimum and commodity charges (See Attachment 1).

1 Q. Does this conclude your direct testimony?

2 A. Yes.

# APPENDIX 1

## 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 – 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 No. W-01427A-01-0487  
SW-01428A-01-0487

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

Rio Verde Utilities, Inc. – Docket No. W-02156A-00-0321  
SW-02156A-00-0323

### **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

# ATTACHMENT 1

**ATTACHMENT 1  
 PERCENTAGE MONTHLY MINIMUM / COMMODITY CHARGES TO TOTAL REVENUE**

<b>LINE NO.</b>	<b>CUSTOMER CLASSIFICATIONS</b>	<b>COMPANY'S PRESENT RATES</b>	<b>COMPANY'S PROPOSED RATES</b>	<b>RUCO'S RECOMMENDED RATES</b>
1	<b>PARADISE VALLEY RESIDENTIAL CUSTOMERS:</b>			
2	Monthly Minimum Charges	16.64%	17.33%	17.20%
3	Commodity Charges	83.36%	82.67%	82.80%
4	<b>MUMMY MOUNTAIN RESIDENTIAL CUSTOMERS</b>			
5	Monthly Minimum Charges	7.48%	12.91%	12.65%
6	Commodity Charges	92.52%	87.09%	87.35%
7	<b>PARADISE VALLEY COMMERCIAL CUSTOMERS</b>			
8	Monthly Minimum Charges	11.61%	11.84%	11.75%
9	Commodity Charges	88.39%	88.16%	88.25%
10	<b>PARADISE VALLEY TURF CUSTOMERS</b>			
11	Monthly Minimum Charges	2.51%	2.48%	2.54%
12	Commodity Charges	97.49%	97.52%	97.46%
13	<b>PARADISE VALLEY COUNTRY CLUB</b>			
14	Monthly Minimum Charges	100.00%	100.00%	100.00%
15	Commodity Charges	0.00%	0.00%	0.00%
16	<b>PARADISE VALLEY OTHER METERED SERVICE</b>			
17	Monthly Minimum Charges	33.59%	33.47%	34.46%
18	Commodity Charges	66.41%	66.53%	65.54%
19	<b>PARADISE VALLEY FIRE HYDRANT</b>			
20	Monthly Minimum Charges	100.00%	100.00%	100.00%
21	Commodity Charges	0.00%	0.00%	0.00%
22	<b>PARADISE VALLEY IRRIGATION</b>			
23	Monthly Minimum Charges	100.00%	100.00%	100.00%
24	Commodity Charges	0.00%	0.00%	0.00%
25	<b>SALES FOR RESALE</b>			
26	Monthly Minimum Charges	32.56%	32.45%	33.87%
27	Commodity Charges	67.44%	67.55%	66.13%
28	<b>TOTAL PERCENTAGES</b>			
29	Monthly Minimum Charges To Total Revenue	17.99%	18.51%	18.58%
30	Commodity Charges To Total Revenue	82.01%	81.49%	81.42%

ARIZONA-AMERICAN WATER COMPANY  
PARADISE VALLEY DISTRICT  
DOCKET NO. W-01303A-05-0405  
TABLE OF CONTENTS FOR SCHEDULES TJC

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SCH. #

TJC-1	RATE BASE
TJC-2	RATE BASE ADJUSTMENTS
TJC-3	PLANT ACCOUNT ADJUSTMENTS
TJC-4	RATE BASE ADJUSTMENT #2 - GAIN ON SALE OF LAND
TJC-5	RATE BASE ADJUSTMENT #4 - WORKING CAPITAL ADJUSTMENT
TJC-6	RECOMMENDED RATES
TJC-7	MONTHLY MINIMUM CHARGES
TJC-8	BILLING ANALYSIS
TJC-9	REVENUE SUMMARY BY METER SIZE & CUSTOMER CLASS

ARIZONA-AMERICAN WATER COMPANY  
 PARADISE VALLEY DISTRICT  
 TEST YEAR ENDED DECEMBER 10, 2004  
 RATE BASE

DOCKET NO. W-01303A-05-0405  
 SCHEDULE TJC-1

LINE NO.	DESCRIPTION	(A) COMPANY PROFORMA	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED
1	GROSS UTILITY PLANT IN SERVICE	\$ 29,478,687	\$ (128,187)	\$ 29,350,500
2	NET REG. ASSET - AFUDC DEBT	950	-	950
3	CONSTRUCTION WORK IN PROGRESS	-	-	-
4	LESS: ACCUMULATED DEPRECIATION	9,913,869	-	9,913,869
5	NET UTILITY PLANT IN SERVICE	\$ 19,565,768	\$ (128,187)	\$ 19,437,581
	LESS:			
6	CUSTOMERS' ADVANCES FOR CONSTRUCTION	635,912	-	635,912
7	CONTRIBUTIONS IN AID OF CONSTRUCTION	6,486,559	-	6,486,559
8	DEFERRED TAXES	1,139,528	-	1,139,528
9	DEFERRED PENSION COSTS NET OF TAXES	-	-	-
10	CUSTOMER DEPOSITS	3,500	-	3,500
	ADD:			
11	GAIN ON SALE OF LAND	-	(392,248)	(392,248)
12	ALLOWANCE FOR WORKING CAPITAL	350,946	(231,827)	119,119
13	TOTAL	\$ 11,651,215	\$ (752,262)	\$ 10,898,953

**REFERENCES:**

Col. (A): Company Schedule B-2, page 1 of 1, Col. (b)  
 Col. (B): TJC-2, ADJ #1 thru ADJ #4  
 Col. (C): Col. (A) + Col. (B)

ARIZONA-AMERICAN WATER COMPANY  
 PARADISE VALLEY DISTRICT  
 TEST YEAR ENDED DECEMBER 10, 2004  
 RATE BASE ADJUSTMENTS

DOCKET NO. W-01303A-05-0405  
 SCHEDULE TJC-2

LINE NO.	DESCRIPTION	COMPANY PROFORMA	ADJ #1	ADJ #2	ADJ #3	ADJ #4	ADJ #5	ADJ #6	RUCO ADJUSTED
1	GROSS UTILITY PLANT IN SERVICE	\$ 29,478,687	(138,682)		10,495				\$ 29,350,500
2	NET REG. ASSET - AFUDC DEBT	950							950
3	CONSTRUCTION WORK IN PROGRESS	-							-
4	LESS: ACCUMULATED DEPRECIATION	9,913,869							9,913,869
5	NET UTILITY PLANT IN SERVICE	19,565,768	(138,682)	-	10,495	-	-	-	19,437,581
	LESS:								
6	CUSTOMERS' ADVANCES FOR CONSTRUCTION	635,912							635,912
7	CONTRIBUTIONS IN AID OF CONSTRUCTION	6,486,559							6,486,559
8	DEFERRED TAXES	1,139,528							1,139,528
9	DEFERRED PENSION COSTS NET OF TAXES	-							-
10	CUSTOMER DEPOSITS	3,500							3,500
	ADD:								
11	GAIN ON SALE OF LAND	-		(392,248)					(392,248)
12	ALLOWANCE FOR WORKING CAPITAL	350,946				(231,827)			119,119
13	TOTAL	\$ 11,651,215	\$ (138,682)	\$ (392,248)	\$ 10,495	\$ (231,827)	\$ -	\$ -	\$ 10,898,953

**ADJUSTMENT #'s:**

- 1: Property Held for Future Use (PHFFU)
- 2: Gain on Sale of Land
- 3: Capitalized Expenses
- 4: Allowance for Working Capital

**REF.**

- TJC-3
- TJC-4
- RLM-8
- TJC-5, page 1

ARIZONA AMERICAN WATER COMPANY  
 PARADISE VALLEY DISTRICT  
 TEST YEAR ENDED DECEMBER 10, 2004  
 PLANT ACCOUNT ADJUSTMENTS

DOCKET NO. W-01303A-05-0405  
 SCHEDULE TJC-3

LINE NO.	ACCT. NO.	ACCOUNT NAME	(1) COMPANY'S PLANT BALANCE 12/31/2004	(2) COMPANY'S PLANT ADJUSTMENTS	(3) COMPANY ADJUSTED PLANT	(4) RUCO PLANT ADJUSTMENTS	(5) REF.	(6) RUCO RECOMMENDED GROSS PLANT
1	303.99	Miscellaneous Intangible Plant Studies	\$ -	\$ -	\$ -	\$ -		\$ -
2	103000	Property Held For Future Use	-	-	-	-		-
3	307000	Wells & Springs	30,684	-	30,684	(30,684)	RB ADJ #1	-
4	311200	Pumping Equipment - Electric	100,173	-	100,173	(100,173)	RB ADJ #1	-
5	311200	Pumping Equipment - Electric	7,825	-	7,825	(7,825)	RB ADJ #1	-
6	301000	Organization	15,350	-	15,350	-		15,350
7	303200	Reservoir Land	-	-	-	-		-
8	303300	Pumping Land & Land Rights	-	-	-	-		-
9	303400	WT Land & Land Rights	-	-	-	-		-
10	303500	Dist. Res. & Standpipe Land	8,324	-	8,324	-		8,324
11	303600	Office Land	-	-	-	-		-
12	304100	SS Structures & Improvements	7,953	-	7,953	-		7,953
13	304200	Pumping Structures & Improvements	69,131	-	69,131	10,495	RB ADJ #3	79,626
14	304300	WT Structures & Improvements	3,038,848	-	3,038,848	-		3,038,848
15	304400	Grit Removal Equipment	23,864	-	23,864	-		23,864
16	304500	Structures & Improvements AG	15,173	-	15,173	-		15,173
17	304610	Heating & Air Conditioning	-	-	-	-		-
18	304700	Stores Shop & Garage Structures	93,285	-	93,285	-		93,285
19	304800	Structures & Improvements Miscellaneous	149,284	-	149,284	-		149,284
20	307000	Wells & Springs	1,252,563	-	1,252,563	-		1,252,563
21	311200	Electric Pumping Equipment	3,337,081	-	3,337,081	-		3,337,081
22	311300	Diesel Pumping Equipment	59,421	-	59,421	-		59,421
23	320100	Water Treatment Equipment	5,825,149	-	5,825,149	-		5,825,149
24	330001	Dist. Reservoirs & Standpipes	912,619	-	912,619	-		912,619
25	331100	T & D Mains - 4" & Less	706,252	-	706,252	-		706,252
26	331200	T & D Mains - 6" - 8"	3,974,977	-	3,974,977	-		3,974,977
27	331300	T & D Mains - 10" or More	5,485,424	-	5,485,424	-		5,485,424
28	333000	Services	2,178,858	-	2,178,858	-		2,178,858
29	334100	Meters	328,580	-	328,580	-		328,580
30	334200	Meter Installations	103,799	-	103,799	-		103,799
31	335000	Hydrants	746,904	-	746,904	-		746,904
32	339000	Other T & D Plant	-	-	-	-		-
33	339600	Other P/E CPS	-	-	-	-		-
34	340100	Office Furniture	43,931	-	43,931	-		43,931
35	340200	Computers & Peripherals	98,019	-	98,019	-		98,019
36	340300	Computer Software	134,174	-	134,174	-		134,174
37	340500	Other Office Equipment	25,224	-	25,224	-		25,224
38	341100	Transportation Equipment - Light Trucks	2,882	-	2,882	-		2,882
39	341300	Transportation Equipment - Automobiles	19,307	-	19,307	-		19,307
40	341400	Transportation Equipment - Other	13,606	-	13,606	-		13,606
41	343000	Tools Shop & Garage Equipment	83,291	-	83,291	-		83,291
42	345000	Power Operated Equipment	147,067	-	147,067	-		147,067
43	346001	Communication Equipment	-	-	-	-		-
44	346100	Communication Equipment - Non-Telephone	284,556	-	284,556	-		284,556
45	346300	Communication Equipment - Other	81,331	-	81,331	-		81,331
46	347000	Miscellaneous Equipment	-	-	-	-		-
47		Corporate & Central District Div. Plant Allocation	-	73,781	73,781	-		73,781
48		TOTAL PLANT IN SERVICE	29,404,909	\$ 73,781	\$ 29,478,690	\$ (128,187)		\$ 29,350,502

**REFERENCES:**

- Col. 1 - Company's Response to RUCO 4.02
- Col. 2 - Company's Schedule B-2, page 1 of 1
- Col. 3 - Company's Schedule B-2, page 1 of 1
- Col. 4 - See Referenced RUCO Adjustments
- Col. 6 - Col. 3 + Col. 4

ARIZONA AMERICAN WATER COMPANY  
PARADISE VALLEY DISTRICT  
TEST YEAR ENDED DECEMBER 10, 2004  
RATE BASE ADJ. #2 - GAIN ON SALE OF LAND

DOCKET NO. W-01303A-05-0405  
SCHEDULE TJC-4

<u>LINE</u> <u>NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
1	Sales Price	\$ 900,000
2	Sellers Costs	56,338
3	Original Cost of Land	13,492
4	Points	45,674
5	TOTAL COSTS	115,504
6	Pre-Tax Gain	784,496
7	50/50 Sharing for Ratepayers & Stockholders	<u>\$ 392,248</u>
8	Rate Base Adjustment	<b>\$ 392,248</b>

**REFERENCES:**

See Direct Testimony of David P. Stephenson, page 36 of 37