

**Exhibit T-\_\_ (JAW-1T)**  
**Docket Nos. UW-031284/**  
**UW-010961 (consolidated)**  
**Witness: James A. Ward**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

AMERICAN WATER RESOURCES,  
INC.,

Respondent.

DOCKET NO. UW-031284 &  
DOCKET NO. UW-010961  
(consolidated)

**DIRECT TESTIMONY OF**

**James A. Ward**

**STAFF OF**  
**WASHINGTON UTILITIES AND**  
**TRANSPORTATION COMMISSION**

**December 16, 2003**

1 **Part 1 – Introduction**

2 **Q. Please state your name and business address.**

3 A. My name is James A. Ward. My business address is 1300 S. Evergreen Park  
4 Drive S.W., P.O. Box 47250, Olympia, WA 98504-7250.

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

7 A. I am employed by the Washington Utilities and Transportation Commission  
8 (Commission) as a Regulatory Analyst.

9  
10 **Q. How long have you been employed by the Commission?**

11 A. I have been employed by the Commission since August of 1989.

12  
13 **Q. Would you please state your educational and professional background?**

14 A. I graduated from Saint Martin's College in Lacey, Washington, with a Bachelor  
15 of Arts in Accounting and Finance in 1989. I also have a Master's degree in  
16 Human Resource Management from Chapman College, received in 1995. While  
17 employed at the Commission, I have received training at the Tenth Annual  
18 Western Utility Rate Seminar in 1991, co-sponsored by the California Public  
19 Service Commission, the Division of Continuing Education, University of Utah,

1 and the National Association of Regulatory Utility Commissioners (NARUC)  
2 Water Committee. I attended a seminar in 1994, given by Robert E. Simpson  
3 titled "Presenting Testimony." In 1990, I became certified by the Department of  
4 Health as a Water Distribution Manager I. In August 2000, I completed the  
5 Financial Management: Cost of Service Rate-Making class sponsored by  
6 American Water Works Association. In June 2003, I completed the Utility  
7 Finance & Accounting Seminar presented by Financial Accounting Institute.

8  
9 **Q. What is the purpose of your testimony?**

10 A. The purpose of my testimony is to recommend to the Commission what Staff  
11 believes are the appropriate rates for American Water Resources, Inc. (AWR, or  
12 Company). I also present Staff's recommendation with regard to the funds AWR  
13 was required to deposit into the Docket 010961 Account established by the  
14 Commission in its Order Accepting Settlement Agreement entered on December  
15 18, 2001.

16  
17 **Q. Did you prepare an exhibit showing AWR's revenues, expenses, rate base, and**  
18 **adjustments proposed by Staff?**

19 A. Yes, it is Exhibit No. \_\_\_\_ (JAW-2), Staff's Results of Operations.

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**Q. Do you sponsor any other exhibits in this case?**

A. Yes. I sponsor Exhibit No. \_\_\_ (JAW-3), AWR’s Response to Staff Data Request No. 2; Exhibit No. \_\_\_ (JAW-4), AWR’s Compliance Filing Reducing Rates (Sep. 29, 2003); Exhibit No. \_\_\_ (JAW-5), Order Accepting Settlement Agreement (Docket No. UW 010961); Exhibit No. \_\_\_ (JAW-6), Petition to Allow Use of Certain Funds (Docket Nos. UW-031284/UW-010961); Exhibit No. \_\_\_ (JAW-7), Application for Mitigation of Penalties (Docket No. UW-031596); Exhibit No. \_\_\_ (JAW-8), Payroll Allocation; Exhibit No. \_\_\_ (JAW-9), AWR’s Account Quick Report – Accounting; Exhibit No. \_\_\_ (JAW-10) AWR’s Account Quick Report – Legal; Exhibit No. \_\_\_ (JAW-11), Staff’s BEOY Adjustment to Rate Base; Exhibit No. \_\_\_ (JAW-12), AWR’s Response to Staff Data Request No. 1: Asset Listing and Depreciation Schedule; Exhibit No. \_\_\_ (JAW-13), View Royal Sales Contract; Exhibit No. \_\_\_ (JAW-14), November 1, 2002, Letter from Julia Parker; Exhibit No. \_\_\_ (JAW-15), Gain on Sale Accounting of View Royal Water System; Exhibit No. \_\_\_(JAW-16), Letters from Rick Finnigan and Julia Parker Regarding View Royal Proceeds; Exhibit No. \_\_\_ (JAW-17), Birchfield Sales Contract; Exhibit No. \_\_\_ (JAW-18), Gain on Sale Accounting of Birchfield Water System; Exhibit No. \_\_\_ (JAW-19), AWR’s Capital Structure with Docket 010961 Account

1 Adjustment; Exhibit No. \_\_\_\_ (JAW-20), AWR's Quarterly Report for Docket  
2 010961 Account (November 14, 2003); Exhibit No. \_\_\_\_ (JAW-21), June 26, 2003,  
3 Letter from Julia Parker; Exhibit No. \_\_\_\_ (JAW-22), Docket UW-010961 Balance  
4 Sheet; and Exhibit No. \_\_\_\_ (JAW-23), Rate Base Interest Calculation.

5  
6 **Q. How does Staff determine the appropriate rates?**

7 A. The elements needed to determine rates include:

- 8 • A representative historical test year
- 9 • Revenues, with restating adjustments to reflect reasonable, recurring revenues  
10 and pro forma adjustments to reflect known and measurable changes.
- 11 • Expenses, with restating adjustments to reflect reasonable, recurring expenses  
12 and pro forma adjustments to reflect known and measurable changes.
- 13 • Rate Base
- 14 • Rate of return – calculated using capital structure, cost of debt, and return on  
15 equity.

16 The information listed above is used to calculate the revenue requirement.

17 The rate design is a function of the number of customers, the average monthly  
18 charge per customer, and the metered rates.

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**Q. When was the last general rate review of AWR's rates?**

A. The last general rate case was filed on July 3, 2001, in Docket No. UW-010961. The resulting rates went into effect on January 1, 2002.

**Q. What was the test period used in Docket No. UW-010961?**

A. AWR filed its case using a test year of January 1, 2000, through December 31, 2000. This was the test year used in the settlement agreement approved by the Commission.

**Q. What is the test period Staff used for this rate case?**

A. Staff used the twelve-month period of July 1, 2002, through June 30, 2003.

**Q. Why did Staff choose this test period?**

A. Staff chose this test period for two reasons. This was the most recent twelve-month period for which Staff had received financial reports from AWR. More importantly, this twelve-month period represents a stable period in which the Company did not sell or buy any water systems.

1 **Q. Why didn't Staff use the test period ending September 30, 2003?**

2 A. Staff did not use the test period ending September 30, 2003, for two reasons. We  
3 did not receive AWR's reports on the third quarter until October 7 and  
4 November 13, 2003, which did not leave sufficient time for Staff to prepare its  
5 case. We were also concerned that the summer months of July, August, and  
6 September 2003, were unusually warm and dry, and that twelve-month period  
7 may not be representative.

8  
9 **Q. Why is it important to use a test period in which the Company's operations**  
10 **were not changing?**

11 A. Whenever a company changes its operations, either by buying or selling water  
12 systems, the resources the company needs to operate can change. Stable  
13 operations during the test period produce more accurate information regarding  
14 normal resource requirements and costs.

15

16

## Part 2 – Revenue

17 **Q. What revenue did AWR collect during the test period?**

18 A. According to the financial statements AWR provided in answer to Staff's Data  
19 Request No. 2, AWR collected total revenue of \$687,172: water sales of \$653,491,

1 fireflow of \$14,207 and other income (ancillary charges) of \$19,474. Exhibit No.  
2 \_\_\_\_ (JAW-2); Exhibit No. \_\_\_\_ (JAW-3) at 2. AWR also collected \$11,108 in other  
3 income. Exhibit No. \_\_\_\_ (JAW-2); Exhibit No. \_\_\_\_ (JAW-3) at 3.

4  
5 **Q. Does Staff agree that these amounts fairly represent the Company's revenue**  
6 **for each of these items?**

7 A. No. Staff proposes additional adjustments to the test period amounts.

8  
9 **Q. Please explain Pro Forma Adjustment P1.**

10 A. Pro Forma Adjustment P1 adjusts AWR's revenue because AWR's financial  
11 statements are in draft form and may contain inaccurate information regarding  
12 the Company's accounts receivable. AWR notes that it has spent considerable  
13 effort attempting to reconcile its accounts receivable. Exhibit No. \_\_\_\_ (JAW-3)  
14 at 1. As of November 19, 2003, AWR believed the accounts receivable are  
15 overstated by \$9,957. *Id.* AWR explained that much of the overstatement  
16 occurred during the test period, thereby overstating revenue by as much as  
17 \$9,957. *Id.* The Company continues to work to reconcile this amount. *Id.* The  
18 adjustment reducing AWR's revenue by \$9,957 is shown in Exhibit No. \_\_\_\_  
19 (JAW-2) at column H, row 8.



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**Q. Please explain Pro Forma Adjustment P2.**

A. On October 1, 2003, AWR reduced rates by \$4.40 per customer per month. Exhibit No. \_\_\_ (JAW-4). The amount of the reduction reflected the amount the Commission ordered AWR to set aside in its Order Accepting Settlement Agreement in Docket No. UW-010961. Exhibit No. \_\_\_ (JAW-5). Adjustment P2 is a pro forma adjustment to reduce the revenue from water sales by \$79,306, based on 1,502 water customers. This adjustment is necessary because the revenue reduction is not reflected in the Company's financial statements for the test period. This adjustment is shown in Exhibit No. \_\_\_ (JAW-2), column K, row 8.

**Q. Please explain Restating Adjustment R1.**

A. Restating Adjustment R1 removes non-regulated revenue from the results of regulated operations. Staff understands this revenue is from the Company's Satellite Management Agency (SMA) operations. Amounts related to the SMA operations totals \$11,108. Restating Adjustment R1 removes \$11,108 from AWR's revenues for ratemaking purposes. This adjustment is found in Exhibit No. \_\_\_ (JAW-2) at column E, row 11.

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**Q. Does Staff propose any other adjustments to AWR’s revenue?**

A. No.

**Part 3 – Expense**

**Q. What is the amount of expenses AWR generated during the test period?**

A. According to the financial statements AWR provided in answer to Staff’s Data Request No. 2, AWR incurred total expenses of \$644,923: operating expense of \$596,867, interest expense of \$31,404, and other expenses (federal taxes, etc.) of \$16,652. Additionally, the Company spent \$37,364 for federal taxes not previously paid. Exhibit No. \_\_\_\_ (JAW-2); Exhibit No. \_\_\_\_ (JAW-3) at 3.

**Q. Does Staff agree that these amounts fairly represent the Company’s expense for each of these amounts?**

A. No. Staff proposes certain adjustments to the test period amounts.

**Q. Please explain Pro Forma Adjustment P3.**

A. Pro Forma Adjustment P3 adjusts AWR’s test period employee costs, including salaries, benefits, and payroll taxes to reflect amounts appropriate for ratemaking

1 purposes. Pro Forma Adjustment P3 can be found on Exhibit No. \_\_\_ (JAW-2),  
2 column H, rows 15, 17, and 39.

3 In the last rate case, Docket No. UW-010961, AWR employed seven  
4 employees during the test period. AWR asked the Commission to approve  
5 increased rates to provide additional revenues that would allow the Company to  
6 hire additional employees. AWR represented to the Commission that it needed  
7 the additional employees to provide improved service to its customers. The  
8 Commission approved increased rates, but required AWR to set aside funds that  
9 could be used only for additional employees. The order from Docket No. UW-  
10 010961 was entered on December 18, 2001. Less than one month later, on  
11 January 16, 2002, AWR executed a signed sales agreement for its largest water  
12 system (View Royal).

13 After the sale of View Royal, AWR did not need the additional employees  
14 anticipated in Docket No. UW-010961. This is confirmed in AWR's Petition to  
15 Allow Use of Certain Funds in this Docket. Exhibit No. \_\_\_ (JAW-6). Mr. Fox  
16 also confirmed this in his Application for Mitigation of Penalties and the  
17 attached declaration from Julia Parker filed in Docket No. UW-031596. Exhibit  
18 No. \_\_\_ (JAW-7).

1           During the first six months of the test period, July 1, 2002, through  
2           December 31, 2002, AWR operated with seven permanent employees: one  
3           manager, two office staff, and four field personnel. The Company also employed  
4           one temporary field employee for approximately three months from June 5, 2002,  
5           through September 24, 2002. *See* Docket No. UW-991392, Monthly Reports Filed  
6           By AWR.

7           During the second six months of the test period, January 1, 2003, through  
8           June 30, 2003, AWR operated with a total of six employees: one manager, two  
9           office staff, and three field personnel. The Company has continued to operate  
10          with six employees since January 1, 2003, until present. *See* Docket No. UW-  
11          991392, Monthly Reports Filed By AWR.

12          From January 1, 2003, to June 30, 2003, AWR spent \$75,320 on payroll,  
13          \$12,121 on benefits, and \$9,302 on payroll tax. Exhibit No. \_\_\_\_ (JAW-8). The  
14          portion associated with the three field employees was \$38,578 on payroll, with  
15          \$5,994 allocated to benefits and \$4,956 allocated to payroll tax. *Id.* The  
16          annualized amount of three permanent field staff would be \$77,156 on payroll,  
17          \$11,989 on benefits, and \$9,912 on payroll tax. The test period AWR expenses  
18          provided show for field employees: \$112,197 on payroll, \$17,433 on benefits, and  
19          \$14,413 on payroll tax. *Id.*

1 On a pro forma basis the amount of field payroll would be reduced as  
2 follows:

	Test Period	Pro Forma Period	Adjustment
Payroll	\$112,197	<b>\$77,156</b>	(\$35,041)
Benefits	\$17,433	<b>\$11,989</b>	(\$5,445)
Payroll Tax	\$14,413	<b>\$9,912</b>	(\$4,502)
Total	\$143,043	<b>\$99,057</b>	(\$44,988)

3

4 **Q. Please explain Pro Forma Adjustment P4.**

5 A. Pro Forma Adjustment P4 is the interest synchronization adjustment to  
6 synchronize federal income taxes with the final cost of capital determined in this  
7 rate case. Staff adjusts AWR's interest expense by \$26,387 to synchronize the  
8 interest expense of \$5,017 to rate base of \$165,352. This adjustment is shown in  
9 Exhibit No. \_\_\_ (JAW-2) at row 45.

10

11 **Q. Please explain Restating Adjustment R2.**

12 A. Restating Adjustment R2 removes Internal Revenue Service (IRS) penalty fees of  
13 \$2,597 levied on AWR for improper income tax calculations. This adjustment is  
14 found at Exhibit No. \_\_\_ (JAW-2), column E, row 29. Staff understands the

1 improper income tax calculations are related to the sale of the View Royal water  
2 system and income from the Docket 010961 Account. A well-established  
3 regulatory principle states that penalties are not recoverable in rates. Thus, these  
4 fees are not the responsibility of the water customers, but instead should be  
5 borne by the shareholder.

6  
7 **Q. Please explain Restating Adjustment R3.**

8 A. Restating Adjustments R3(a) and R3(b) remove two classes of accounting  
9 expense. Class one is the accounting expense recorded during the test year to  
10 prepare AWR's 2001 income tax and 2001 WUTC annual report. Staff  
11 acknowledges that annual report and tax preparation fees for 2002 are  
12 appropriate and properly included in the test year expense. However, costs for  
13 prior years are not appropriate to include in the test period and should be  
14 excluded. Staff removes \$2,500 (R3a) for expenses associated with income tax  
15 preparation and WUTC annual report for the year 2001.

16 The second class of accounting expenses relates to attempts to sell water  
17 systems. Accounting expenses for services rendered related to attempts to sell  
18 water systems are not appropriately included in rates. Such expenses are  
19 properly borne by the shareholders, not the customers, and those expenses may

1 be offset by the proceeds of a completed sale. This adjustment reduces  
2 accounting fees to a normal test period level by removing double entries and  
3 costs related to attempts to sell water systems. Staff removes \$4,700 (R3b) for  
4 expenses associated with efforts to sell water systems.

5 In total, Restating Adjustments R3(a) and R3(b) reduce the test period data  
6 by \$7,200. This is shown in Exhibit No. \_\_\_ (JAW-2) at column E, row 22. The  
7 items used to calculate Restating Adjustment R3(a) and R3(b) are contained in  
8 Exhibit No. \_\_\_ (JAW-9). Restating Adjustments R3(a) and R3(b) result in  
9 restated test period accounting expenses of \$11,832. This is shown in Exhibit No.  
10 \_\_\_ (JAW-2) at column F, row 22.

11  
12 **Q. Please explain Restating Adjustment R4.**

13 A. Restating Adjustment R4 removes non-recurring legal costs associated with the  
14 proposed sale of various water systems. Staff acknowledges that AWR incurred  
15 certain legal fees as part of the test year expense that are appropriate to be  
16 included in rates. Legal expenses for services related to attempts to sell water  
17 systems are not appropriately included in rates. Such expenses are properly  
18 borne by shareholders, not customers, and those expenses may be offset by the  
19 proceeds of a completed sale. This adjustment reduces AWR's legal expenses by

1 \$2,902 to arrive at restated normal, recurring test period legal expenses of \$3,378.

2 The adjustment is shown in Exhibit No. \_\_\_\_ (JAW-2) at row 23. The items used  
3 to calculate Restating Adjustment R4 are contained in Exhibit No. \_\_\_\_ (JAW-10).

4  
5 **Q. Please explain Restating Adjustment R5.**

6 A. Restating Adjustment R5 removes out-of-period expenses from the results of  
7 regulated operations. Staff understands these expenses are based on the gain on  
8 sale of the View Royal water system and taxes on revenues from the Docket  
9 010961 Account. Restating Adjustment R5 removes \$37,364 from expenses for  
10 ratemaking purposes and is located in Exhibit No. \_\_\_\_ (JAW-2) at column E,  
11 row 41.

12  
13 **Q. Does Staff propose any further adjustments to AWR's expenses?**

14 A. Yes. Staff proposes Pro Forma Adjustment P5 to AWR's expenses due to the  
15 Docket 010961 Account funds. This adjustment is discussed in Part 5 – Docket  
16 010961 Account below.



1 **Part 4 – Rate Base**

2 **Q. What is AWR’s rate base for the test period?**

3 A. According to financial statements AWR provided, AWR claims its rate base is  
4 \$841,448. This number was calculated by using total assets of \$2,244,621, total  
5 accumulated depreciation of \$522,797, net acquisition adjustment of \$174,427,  
6 contributions in aid of construction (CIAC) of \$794,658, and total accumulated  
7 amortization of CIAC of \$88,709. Exhibit No. \_\_\_\_ (JAW-2); Exhibit No. \_\_\_\_  
8 (JAW-3).

9  
10 **Q. Does Staff agree that these amounts fairly represent AWR’s rate base for each**  
11 **of these items?**

12 A. No. Staff does not agree that AWR’s books and records fairly represent the  
13 Company’s rate base for the purpose of setting rates. Staff proposes adjustments  
14 to rate base for (1) beginning/end of year average, (2) CIAC, and (3) gain on sale.  
15 Staff also proposes Restating Adjustment R6 and Rate Base Adjustment RB5 to  
16 rate base due to the Docket 010961 Account and discusses those adjustments in  
17 Part 5 – Docket 010961 Account below.

1 **Q. What method does Staff use to determine the appropriate rate base for the test**  
2 **period ending June 30, 2003?**

3 A. Staff uses a beginning/end of year average (BEOY) to determine the appropriate  
4 rate base for the test period. This adjustment provides a net positive addition to  
5 rate base in the amount of \$78,487. The adjustment for BEOY is shown as  
6 Adjustment RB1 in Exhibit No. \_\_\_\_ (JAW-2) at column H, rows 52-57. The  
7 calculation of Adjustment RB1 is found at Exhibit No. \_\_\_\_ (JAW-11).

8  
9 **Q. Please explain Staff's Adjustment RB2 for the capital improvement surcharge.**

10 A. In Docket No. UW-010866, the Commission approved a capital surcharge in the  
11 amount of \$4.54 per month. *See* Order Dismissing Complaint and Order  
12 Suspending Tariff, Granting Tariff Revision and Requiring Reporting per WAC  
13 480-110-455(4) (August 29, 2001). The Commission ordered AWR to deposit  
14 these payments in a separate account and use the payments only to pay principal  
15 and interest on the loan used to pay for the capital improvements. This  
16 surcharge became effective on September 1, 2001, and will expire upon collection  
17 of \$410,956 principal, or December 31, 2006. The current loan balance as of June  
18 30, 2003, is \$267,661. Exhibit No. \_\_\_\_ (JAW-3) at 3.

1           According to AWR's records, the Company recorded all assets purchased  
2           with the surcharge loan on the Company's asset listing and depreciation  
3           schedule. *See* Exhibit No. \_\_\_\_ (JAW-12). These items are included in the rate  
4           base calculation AWR provided. However, AWR excluded from revenue the  
5           \$4.54 per month surcharge that customer pay, creating a mismatch between  
6           assets and revenues.

7           WAC 480-110-455 (2)(c) requires all funds collected by a surcharge to be  
8           Contribution in Aid of Construction (CIAC). For each dollar the Company pays  
9           down the surcharge loan principal, the CIAC account increases by exactly the  
10          same amount. All of the payments made to the surcharge loan principal are  
11          already recorded in CIAC. The surcharge loan balance is the amount of the  
12          remaining plant in service that the surcharge is dedicated to pay both principal  
13          and interest. Because the surcharge is dedicated to pay interest on the surcharge  
14          loan balance, including the remaining plant in service in the rate base calculation  
15          would result in double collection of return.

16          To determine the appropriate rate base to calculate rates, the remaining  
17          cost of the plant in service not yet recovered by the surcharge (the loan balance)  
18          should be removed from plant in service. As of June 30, 2003, that amount was  
19          \$267,661. Because this item is self-funded by the surcharge and all surcharge

1 revenue is considered CIAC, Staff added this amount to the CIAC account to  
2 properly reflect the investment needed to be recovered through “regular”  
3 monthly rates for service. Staff made no adjustment to depreciation because this  
4 recovery has not yet occurred. This adjustment increases CIAC by \$267,661,  
5 which reduces rate base by \$267,661, as shown by Adjustment RB2 on Exhibit  
6 No. \_\_\_ (JAW-2) at column K, rows 54-56.

7 Staff considered two alternate approaches to account for the capital  
8 improvement surcharge, but Staff does not have enough information to develop  
9 either approach. One approach would add the monthly surcharge revenue to  
10 AWR’s reported revenue information, along with associated interest and taxes to  
11 expenses. This approach would not require an adjustment to rate base, but  
12 would calculate the return on the net surcharge plant in service at AWR’s  
13 weighted cost of capital. The second approach would subtract all capital  
14 improvement related costs from plant in service, accumulated depreciation,  
15 CIAC, and amortized CIAC.

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17 **Q. Does Staff have any further adjustments to the capital improvements**  
18 **surcharge?**

19 A. No.

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**Q. Is gain on sale an issue in this rate case?**

A. Yes. AWR sold its View Royal and Birchfield water systems since its last rate case. Both sales generated significant gains on the sale.

**Q. Please describe the sale of the View Royal water system.**

A. The View Royal water system was AWR's largest water system. At the time of the sale, View Royal served 401 active customers with a potential of 436 customers. AWR executed a signed sales agreement on January 16, 2002, to sell View Royal to the Valley Water District. Exhibit No. \_\_\_ (JAW-13). This sale was not subject to Commission jurisdiction. RCW 80.12.020. The sale price was \$500,000, with \$200,000 cash at closing and a promissory note of \$300,000 for three years at seven percent interest. Exhibit No. \_\_\_ (JAW-13).

In a letter dated November 1, 2002, AWR's outside accountant Ms. Julia Parker calculated the rate base of the View Royal water system to be \$164,450. Exhibit No. \_\_\_ (JAW-14). Staff accepts AWR's rate base calculation. Thus, the View Royal sale resulted in a gain of \$335,550, calculated by subtracting the rate base of \$164,450 from the sale price of \$500,000. The sale incurred several expenses, and Staff makes adjustments to include amortization of the acquisition

1 amount, taxes for the gain on sale, and allocation to customers and the  
2 shareholder of net proceeds.

3 The first adjustment Staff makes is for the expenses directly related to the  
4 sale in the amount of \$1,374. Staff used AWR's acquisition adjustment amount of  
5 \$77,085 and amortization amount of \$10,829 for a net reduction of \$66,256.

6 Exhibit No. \_\_\_ (JAW-15). The tax on the gain on the sale was \$37,364. Exhibit  
7 No. \_\_\_ (JAW-14). The net amount of the gain on sale is \$335,550 minus \$1,374,  
8 minus \$66,256, and minus \$37,364, which equals \$230,555.

9 Staff allocates part of this gain to the shareholders and part of this gain to  
10 the ratepayers. Staff uses an allocation method based on a four-year averaging of  
11 AWR's capital structure (2% equity, 98% debt & CIAC), similar to the allocation  
12 method used in Docket No. UW-010417 to allocate AWR's gain in the sale of  
13 assets to Peninsula Light in 2001. The gain on sale of View Royal is allocated 2%  
14 to shareholders, or \$4,861, and 98% to ratepayers, or \$225,964. Exhibit No. \_\_\_  
15 (JAW-15).

16  
17 **Q. Is the View Royal water system included in AWR's rates currently?**

18 **A.** Yes. AWR's predecessor company purchased View Royal in February 1997, and  
19 placed the assets in service to the public under that company's ownership. Since

1 the purchase, five rate changes became effective that included as part of AWR's  
2 costs the following items: the purchase of the View Royal rate base, depreciation  
3 costs, maintenance expense, capital upgrades, and service of debt associated with  
4 the purchase and capital upgrades.

5 The View Royal rate base at the time of purchase was \$10,192. AWR paid  
6 \$175,000, and in subsequent rate cases, the rate base was reduced by a \$164,808  
7 acquisition adjustment to ensure that customers did not pay more than historical  
8 cost when originally placed in service. Exhibit No. \_\_\_ (JAW-14). However,  
9 AWR carried the additional debt, which carried a legal obligation for the  
10 Company to make monthly principal and interest payments on debt that did not  
11 generate any revenue. Monthly principal and interest payments consume cash  
12 that AWR could otherwise use to benefit customers. Any gain from the sale of  
13 Company assets should be allocated to the customers and shareholders reflecting  
14 the amount of purchase cost, depreciation cost, any cost of capital upgrades  
15 incurred.

16  
17 **Q. How did AWR use the proceeds from the sale of the View Royal water system?**

18 A. In February 2002, AWR used all proceeds from the sale to pay down the debt  
19 held by the owner, Mr. Fox. AWR borrowed additional monies using the

1 Company's line of credit to ensure complete payoff of Mr. Fox's outstanding  
2 loans. This is shown in letters from Mr. Finningan and Ms. Parker regarding the  
3 use of the proceeds from the View Royal sale. Exhibit No. \_\_\_\_ (JAW-16).

4 The use of proceeds to pay off Mr. Fox's debt resulted in owner debt being  
5 converted to owner equity. This exchange of balance sheet accounts will provide  
6 Mr. Fox with a higher return than allowed under affiliated debt transactions.

7  
8 **Q. Did the sale of View Royal benefit customers?**

9 A. The sale of View Royal does not appear to have benefited customers. View  
10 Royal represented 20% of AWR's customer base. The sale caused AWR's  
11 remaining customers to shoulder an increased burden of fixed costs spread out  
12 over fewer customers. The sale also resulted in AWR losing a significant source  
13 of cash flow due to View Royal's large customer base. After the sale of View  
14 Royal, AWR complained of insufficient cash flow. Exhibit No. \_\_\_\_ (JAW-7) at 2,  
15 5-6.

16 In addition, using the proceeds to pay down debt owed to Mr. Fox was  
17 shortsighted. Paying out all the proceeds for this purpose left no cash to pay  
18 income taxes due on the sale, nor did it allow any cushion of capital.



1 **Q. How does Staff recommend the Commission treat the gain on sale resulting**  
2 **from the sale of the View Royal water system?**

3 A. Staff recommends the Commission adopt Staff's reduction of AWR's rate base by  
4 the amount of the gain on sale allocated to the ratepayers, which is \$225,694.  
5 This adjustment is shown as Adjustment RB3 on Exhibit No. \_\_\_\_ (JAW-2) at  
6 column M, rows 50-52. This adjustment returns the gain on sale to the ratepayers  
7 and to shareholders, both of whom incurred the purchase cost, depreciation cost,  
8 and any cost of capital upgrades for the View Royal water system. Exhibit No.  
9 \_\_\_\_ (JAW-15).

10

11 **Q. Does Staff have any further adjustments to rate base due to the View Royal**  
12 **sale?**

13 A. No.

14

15 **Q. Please describe the sale of the Birchfield water system.**

16 A. At the time of sale, the Birchfield water system, owned by AWR, served six  
17 active customers with a potential of 100 customers. On September 5, 2003, AWR  
18 sold the Birchfield water system to Lewis County Water-Sewer District No. 5.  
19 The total price of the sale was \$325,500, consisting of a \$57,500 promissory note

1 to AWR at 18 month zero percent interest, a \$256,500 promissory note to Mr. Fox  
2 and his wife at 18 month zero percent interest, and an assumption of an  
3 obligation to Hatton Godat Pantier Engineers in the principal amount of \$11,500  
4 plus interest at 12% per annum from January 1, 2002. Exhibit No. \_\_\_\_ (JAW-17).

5 In the sales agreement, AWR provided a bill of sale that calculated  
6 Birchfield's rate base to be \$57,500. Exhibit No. \_\_\_\_ (JAW-17). Staff accepts  
7 AWR's rate base calculation. The sale of Birchfield resulted in a gain of \$256,500,  
8 calculated by subtracting the rate base of \$57,500 and the obligation of \$11,500  
9 from the sale price of \$325,500.

10  
11 **Q. Is the Birchfield water system included in AWR's rates currently?**

12 A. Yes. AWR's predecessor company purchased Birchfield in July 1996, as part of  
13 that company's start up and placed the assets in service to the public. Since the  
14 purchase, the Commission has approved rates to include as part of AWR's costs  
15 the following items: the purchase of the Birchfield rate base, depreciation costs,  
16 maintenance expense, capital upgrades, and service of debt associated with the  
17 purchase and capital upgrades. The Birchfield rate base at the time of original  
18 recording was \$63,505. Since that time, an additional \$2,931 was added for  
19 capital upgrades and \$11,086 of unidentified assets was added. According to the

1 Company's asset listing, the total cost paid was \$77,522, and in subsequent rate  
2 cases, no adjustments were made for any acquisition adjustment. Since it was  
3 originally placed into public serve, the Birchfield water system has accumulated  
4 depreciation of \$8,522.16. Exhibit No. \_\_\_\_ (JAW-17). As part of the sale  
5 agreement, the purchaser also assumes an obligation to Hatton Godat Pantier  
6 Engineers for engineering work in the amount of \$11,500. This results in a  
7 current rate base of \$57,500. Any gain from the sale of Company assets should  
8 be allocated to the customers and shareholders reflecting the amount of purchase  
9 cost, depreciation cost, repairs and upgrades incurred.

10  
11 **Q. How did AWR use the proceeds from the sale of the Birchfield water system?**

12 A. Lewis County Water-Sewer District No. 5 issued two promissory notes in the  
13 purchase of Birchfield. AWR received one promissory note equal to the \$57,500  
14 rate base. A second promissory note of \$265,500, which represents the gain on  
15 the sale, went to Mr. Fox and his wife, instead of AWR. Exhibit No. \_\_\_\_ (JAW-  
16 17).

1 **Q. Was Mr. Fox's role in the sale of the Birchfield water system?**

2 A. Mr. Fox owns AWR and manages Lewis County Water-Sewer District No. 5. Mr.  
3 Fox was on both sides of the transaction. Mr. Fox signed the sales contract on  
4 behalf of AWR in his capacity as the sole owner and President of AWR, and Mr.  
5 Fox signed the sales contract on behalf of the Lewis County Water-Sewer District  
6 No. 5 in his capacity as President of Lewis County Water-Sewer District No. 5.  
7 Mr. Fox also signed the sales contract as an individual. This transaction  
8 provided Mr. Fox with a higher gain on sale than allowed under affiliated  
9 regulated transactions.

10

11 **Q. Did the sale of Birchfield benefit AWR's customers?**

12 A. The sale of Birchfield appears to have not benefited AWR's customers. AWR lost  
13 the potential of 94 customers connecting to the Birchfield water system. Each of  
14 those potential customers would pay AWR a \$1,860 facilities charge, which  
15 would be used to benefit existing customers. Each additional customer would  
16 also pay monthly rates.

17

18 **Q. How does Staff recommend the Commission treat the gain on sale resulting**  
19 **from the sale of the Birchfield water system?**

1 A. Staff recommends the Commission adopt Staff's reduction of AWR's rate base by  
2 the amount of the gain on sale allocated to the ratepayers. The gain on sale is  
3 allocated based on AWR's capital structure, similar to the allocation method used  
4 in Docket No. UW-010417 for the sale of assets to Peninsula Light. AWR's capital  
5 structure for purposes of allocating the gain is 11% equity and 89% debt and  
6 CIAC. Exhibit No. \_\_\_\_ (JAW-18). Staff estimates the cost of the sale to be  
7 \$38,475, making the net gain \$218,025. The adjustment to rate base Staff  
8 proposes returns the \$218,025 gain on sale to the ratepayers in the amount of  
9 \$193,366 and the shareholder in the amount of \$24,659, both of whom incurred  
10 the purchase cost, depreciation cost, and any cost of capital upgrades for the  
11 Birchfield water system. Exhibit No. \_\_\_\_ (JAW-18). This adjustment is shown as  
12 Adjustment RB4 in Exhibit No. \_\_\_\_ (JAW-2) at column O, rows 50-52.

13

14 **Q. Does Staff have any other adjustments to AWR's rate base due to the**  
15 **Birchfield sale?**

16 A. No.

17

1 **Part 5 – Docket 010961 Account**

2 **Q. What is the Docket 010961 Account?**

3 A. The Docket 010961 Account is a set aside account the Commission established in  
4 Docket UW-010961 to ensure that AWR spent money earmarked for fund future  
5 employees on future employees. The order establishing the set-aside account  
6 was the Commission’s Order Accepting Settlement Agreement entered on  
7 December 18, 2001. Exhibit No. \_\_\_ (JAW-5).

8 In Docket No. UW-010961, AWR strongly sought more funds to hire  
9 additional employees to address customer and company concerns. The  
10 Company represented that additional employees would allow adequate  
11 operation, maintenance work, and needed improvements to occur.

12 AWR and its customers provided information showing that additional  
13 employees would solve many of the customers and Company’s concerns. Staff  
14 accepted the information provided and entered into a settlement agreement with  
15 AWR to recommend to that the Commission approve increased rates sufficient to  
16 provide additional funds for hiring more employees, subject to conditions.

1 **Q. Briefly describe these conditions.**

2 A. The settlement agreement recommended that AWR receive an increase of \$3.47  
3 per month per customer. Additionally, the agreement provided that the  
4 Commission require AWR to set aside \$4.40 from each monthly payment  
5 received, starting with the first billing period after the new rates went into effect.  
6 That money was to be used to cover only those expenses for employees hired in  
7 addition to existing employee positions that exceeded the amounts paid for  
8 employee expenses during the test period of Docket No. UW-010961. AWR  
9 could use the money to obtain vehicles to be used by additional field employees.  
10 The settlement agreement also provided that the Commission require AWR to  
11 file quarterly reports regarding the Docket 010961 Account. The Commission  
12 adopted the settlement agreement.

13

14 **Q. What happened after the rates from the last rate case went into effect on**  
15 **January 1, 2002?**

16 A. AWR sold two of its water systems, the View Royal water system and the  
17 Birchfield water system.

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**Q. Were any adjustments made to rates to reflect these sales?**

A. No. Staff is proposing certain adjustments to reflect the sales in this proceeding.  
*See Part 4 – Rate Base above.*

**Q. Have any adjustments been made to AWR’s rates since the rates were approved in Docket No. UW-010961?**

A. Yes. On August 13, 2003, the Commission reopened Docket UW-010961 and issued a complaint against AWR’s rates in Docket No. UW-031284. The two dockets were consolidated. AWR agreed to reduce rates by \$4.40, along with removing conditions of the set aside account, which partially resolved the issues in this Docket. Exhibit No. \_\_\_ (JAW-4). This agreement is reflected in Order No. 05 entered on October 1, 2003 in this Docket.

**Q. Why did AWR reduce its rates by \$4.40?**

A. The \$4.40 was the amount of the set aside ordered in Docket No. UW-010961. Exhibit No. \_\_\_ (JAW-5). The Commission determined that the rates granted in Docket UW-010961 would provide AWR adequate funds to hire the additional employees it said it needed to provide the level of service the customers wanted



1 while allowing the Company to realize a reasonable return. *Id.* It is Staff's  
2 understanding that because the sale of View Royal eliminated the need for  
3 additional employees at the level anticipated by the Commission's order in  
4 Docket No. UW-010961, AWR agreed to lower its rates by the set-aside amount.

5  
6 **Q. The purpose of the Docket 010961 Account was to provide funds for additional**  
7 **employees. Did AWR hire additional employees?**

8 A. AWR hired one temporary summer employee, but did not hire any new  
9 permanent employees.

10  
11 **Q. How long was that employee employed by AWR?**

12 A. The temporary employee worked for AWR approximately three months, from  
13 June 5, 2002, through September 24, 2002.

14  
15 **Q. What is the current status of employees for AWR?**

16 A. Since January 1, 2003, the water company operated with a total of six employees:  
17 one manager, two office staff, and three field personnel.

1 **Q. What was the staffing level prior to the test period of this rate case?**

2 A. From January 1, 2002, through December 31, 2002, the company had one  
3 manager, two office staff, and four field personnel, with one temporary during  
4 the summer of 2002.

5

6 **Q. Did the Company fund the Docket 010961 Account as ordered by the**  
7 **Commission in Docket No. UW-010961?**

8 A. No. Although AWR did make some of the required deposits, the Company did  
9 not fund the Docket 010961 Account as ordered by the Commission. As a result,  
10 the Commission opened a separate proceeding in Docket UW-031596 and issued  
11 penalties against Mr. Fox, as President of AWR. Mr. Fox responded with an  
12 application to mitigate the penalties. That docket remains open.

13 AWR also made sporadic "make up" deposits. Exhibit No. \_\_\_ (JAW-21) at 2.

14

15 **Q. Briefly describe the current status of the Docket 010961 Account.**

16 A. AWR must report to the Commission on the Docket 010961 Account on a  
17 quarterly basis. The last report, dated November 14, 2003, includes a summary  
18 balance sheet of the Account's current status. Exhibit No. \_\_\_ (JAW-21).

19 According to the summary balance sheet, AWR failed to deposit funds into the

1 Docket 010961 Account on nine separate occasions, with account deficits ranging  
2 from \$26,290 in November 2002, to \$5,290 in October 2003. That report shows  
3 that AWR has still failed to deposit \$5,290 into the Docket 010961 Account as of  
4 November 14, 2003. *Id.* The account balance is \$62,371. *Id.*

5 AWR also has a refund obligation \$10,664 due to the Settlement  
6 Agreement Related to Certain Issues in this Docket, which was approved by the  
7 Commission on October 1, 2003. This refund obligation will likely affect the  
8 balance of the Docket 010961 Account.

9  
10 **Q. Did AWR use the funds it set aside in the Docket 010961 Account for purposes**  
11 **other than those set forth in the Commission order?**

12 A. Yes. On July 17, 2003, the Company transferred \$66,258 out of the Docket 010961  
13 Account to pay three expenses. Exhibit No. \_\_\_ (JAW-22). The first expense was  
14 federal taxes due on the gain on sale of the View Royal water system in the  
15 amount of \$37,364. Exhibit No. \_\_\_ (JAW-21). The second expense was for  
16 current taxable income created by mandatory deposits to the Docket 010961  
17 Account in the amount of \$18,494. *Id.* The third expense totaled \$10,400 and was  
18 the first two quarterly payments of AWR's 2002 federal income taxes. *Id.* The  
19 IRS required AWR to prepay its taxes each quarter because AWR failed to pay

1 the taxes due for the View Royal gain on sale and the amounts deposited into the  
2 Docket 010961 Account in a timely fashion.

3  
4 **Q. Since the test period ended June 30, 2003, has AWR withdrawn any other**  
5 **funds from the Docket 010961 Account?**

6 A. Yes. On September 11, 2003, the company transferred \$1,802 out of the Docket  
7 010961 Account to pay unidentified taxes. Exhibit No. \_\_\_ (JAW-21) at 2.

8  
9 **Q. Describe the types of funds involved with the to the Docket 010961 Account?**

10 A. There are three categories of funds with regard to the Docket 010961 Account.  
11 The three different types of funds are (1) funds AWR collected but did not set  
12 aside, (2) funds AWR set aside but spent on unauthorized purposes, and (3)  
13 funds set aside and remaining in the Account.

14  
15 **Q. How should the Company have accounted for these funds?**

16 A. The Company should have recorded the receipt of these funds as a Regulatory  
17 Liability. The Commission's Order requiring the Company to spend the funds  
18 only for specific purposes, as discussed earlier, created the Regulatory Liability.  
19 The Company did not spend the funds for the stated purposes, so the Company's  
20 Regulatory Liability remains.

1 AWR's balance sheet does not show a Regulatory Liability. Therefore, it  
2 appears that AWR treated the set aside funds as revenue. To recognize the  
3 appropriate Regulatory Liability, Staff proposes Restating Adjustment R6 that  
4 decreases rate base by \$135,722. Exhibit No. \_\_\_\_ (JAW-2), column E, row 54.

5  
6 **Q. How does Staff recommend the Commission resolve the Docket 010961**  
7 **Account?**

8 A. Staff recommends that the Commission redirect the use of the money AWR  
9 collected from customers to pay a portion of normal payroll expenses over a 24-  
10 month period. Using the funds in the Docket 010961 Account to pay a portion of  
11 normal operating expenses would offset payroll expense and lower rates, a direct  
12 benefit to customers. AWR collected the set aside funds for 21 months; Staff  
13 recommends that the Commission require amortization over 24 months.

14  
15 **Q. Please explain.**

16 A. In its Order Accepting Settlement Agreement, the Commission directed the  
17 Company to deposit \$4.40 from each customer payment received into the Docket  
18 010961 Account. Exhibit No. \_\_\_\_ (JAW-5). The Docket 010961 Account should  
19 have a balance of \$135,722, the sum of \$62,371 in cash, \$68,061 that AWR

1           withdrew from the Docket 010961 Account to pay for unauthorized purposes,  
2           and \$5,290 that AWR collected but failed to set aside. Exhibit No. \_\_\_\_ (JAW-22).

3                     Staff recommends Pro Forma Adjustment P5 that offsets payroll expense  
4           by \$67,861, which is 12 months amortization of the Regulatory Liability. Exhibit  
5           No. \_\_\_\_ (JAW-2), column H, row 31. The Commission should require the  
6           Company to amortize the Regulatory Liability over 24 months to offset the  
7           payroll expense reflected in Pro Forma Adjustment P5. Because the Company  
8           under funded the Docket 010961 Account, Staff recommends that the  
9           Commission require the Company to disperse funds in the Docket 010961  
10          Account equally over a 24-month period.

11  
12   **Q.    Will Staff's recommendation penalize the Company?**

13   A.    No. Customers are entitled to receive a direct benefit for the funds they paid to  
14          AWR. AWR collected the set aside funds from customers but did not fund the  
15          Docket 010961 Account as required and spent some of the funds on unauthorized  
16          purposes. Staff recommends that the Commission not excuse AWR from its  
17          obligation to the customers. If AWR required additional funds to conduct  
18          operations, it should have requested rate relieve from the Commission. It should  
19          not have used unauthorized funds for operating expenses. If AWR required

1 additional funds for extraordinary purposes or investment in plant, it should  
2 have acquired additional capital.

3  
4 **Q. Does Staff recommend any adjustments to rate base?**

5 A. Yes. Staff recommends Pro Forma Adjustment RB5 to increase rate base by  
6 \$67,861, or 50% of the \$135,722 Regulatory Liability. Exhibit No. \_\_\_\_ (JAW-2),  
7 column H, row 54. Pro Forma Adjustment RB5 recognizes that the Regulatory  
8 Liability will decrease during the rate years during which the Regulatory  
9 Liability is amortized. Decreasing the Regulatory Liability (and increasing rate  
10 base) by half recognizes the Regulatory Liability will be larger in the first half of  
11 the amortization period and smaller in the second half of the amortization  
12 period. The adjustment is equal to the average balance over the 24-month  
13 period. The resulting Regulatory Liability decreases rate base to the average  
14 effect, consistent with average rate base ratemaking.

15  
16 **Q. Does Staff recommend any changes to AWR's capital structure?**

17 A. Yes. To properly recognize the Regulatory Liability, it is necessary to decrease  
18 AWR's equity by \$135,722, the amount of the funds that should remain in the  
19 Docket 010961 Account, as shown in Exhibit No. \_\_\_\_ (JAW-19).

1                   Finally, if the Commission accepts Staff's recommendations, Staff  
2                   recommends the Commission direct AWR to make the appropriate accounting  
3                   adjustments to its books to reflect the Commission's order.

4  
5                   **Part 6 – Capital Structure, Return on Debt, Return on Equity, and Rate of Return**

6                   **Q.     What is AWR's capital structure?**

7                   A.     According to the financial statements AWR provided, the Company's capital  
8                   structure is 50% debt and 50% equity. Exhibit No. \_\_\_\_ (JAW-19).

9  
10                  **Q.     Please describe AWR's debt.**

11                 A.     AWR has \$359,245 in debt. The return on debt is weighted at 6.11%. Exhibit No.  
12                 \_\_\_\_ (JAW-19).

13  
14                 **Q.     Please describe AWR's equity.**

15                 A.     AWR has \$363,948 in equity. The return on equity is 12.0%. Exhibit No. \_\_\_\_  
16                 (JAW-19).

17  
18                 **Q.     What is the overall weighted rate of return for AWR?**

19                 A.     The overall weighted rate of return for AWR is 9.07%. Exhibit No. \_\_\_\_ (JAW-19).



1 **Part 7 – Customer Count and Rate Design**

2 **Customer Count**

3 **Q. What is AWR’s customer count for the test period?**

4 A. According to the monthly reports filed in accordance with Docket UW-980258,  
5 the beginning of period customer count was 1,501 and the end of period  
6 customer count was 1,503. The average beginning of year, end of year customer  
7 count is 1,502.

8  
9 **Q. How does Staff calculate monthly rates?**

10 A. In the last rate case UW-010961, monthly rates were calculated by dividing the  
11 revenue requirement of \$880,500 by 12 months to get average monthly revenue  
12 of \$73,375, and dividing that by 1,958 customers to get an average monthly  
13 customer charge of \$37.47. This establishes the average revenue per customer  
14 and uses that as the Flat Rate. Metered rates are designed to produce the same  
15 average monthly revenue. Based on the average monthly consumption of water  
16 and the rate block design, Staff calculated the average monthly usage revenue for  
17 that rate case to be \$16.30. This design includes zero allowance and used an  
18 average monthly consumption of 1,085 cubic feet. Starting with the Flat Rate,  
19 and the average monthly usage revenue, the usage revenue is subtracted from

1 the Flat Rate to arrive at the Base Meter Rate. In other words, the Base Meter  
2 Rate plus the usage revenue for the average monthly usage equals the Flat Rate  
3 (average monthly customer revenue).

4

5 **Q. What was the average monthly customer charge in the last rate case, Docket**  
6 **No. UW-010961?**

7 A. The average monthly customer charge in the last rate case was \$37.47, which the  
8 Commission used to set the rate for Flat Rate Service, Base Meter Rate and Usage  
9 Revenue.

10

11 **Q. What was AWR's rate structure during the test period?**

12 A. As shown in the Company's tariff:

13 Flat rate is \$37.47

14 Meter base is \$21.17

15 Usage is 0 – 500 cubic feet at .0121 per cubic foot

16 Over 500 cubic feet at .0175 per cubic foot

17 Capital Improvement Surcharge is \$4.54

18 AWR reduced the Meter base Rate and Flat Rate pursuant to a partial

19 settlement agreement between Staff and AWR that the Commission approved in

1 this Docket on October 1, 2003. The new Flat Rate is \$33.07 and Meter Base Rate  
2 is \$16.77. Exhibit No. \_\_\_\_ (JAW-4).

3  
4 **Q. What rate design does Staff propose for setting AWR's rates in this case?**

5 A. For Flat Rate service, Staff recommends the full reduction in the monthly rate.

6 For Metered Rates, Staff proposes an equal amount of reduction for the  
7 base charge and usage charge for metered customers. Metered rates are  
8 designed to produce the same average monthly revenue as flat rates. During the  
9 test period the average monthly consumption of water was 1,023 cubic feet.

10 Based on Staff's adjustments to revenue and expenses and rate base, Staff  
11 proposes the annual revenue requirement from monthly rates is \$408,909. This  
12 equates to monthly average revenue of \$34,076. The customer count used is  
13 1,502 customers for the test period. This results in monthly average revenue of  
14 \$22.69.

15 Staff calculates the monthly residential decrease in revenue to be \$10.38.

16 This rate design includes zero allowance and used an average monthly  
17 consumption of 1,023 cubic feet. Giving a 20% reduction to base charge of \$2.07  
18 the resulting meter base rate is \$14.70. The remaining 80% of reduction would

1 occur through the meter rate block design. The rates as proposed by Staff are  
2 provided below:

	Current	Staff's Proposed	Difference
Flat Service	\$33.07	\$22.69	\$10.38
Meter Service Base	\$16.77	\$14.70	\$2.07
0 – 500 Cubic feet	\$0.0121	\$0.0065	\$0.0056
> 500 Cubic feet	\$0.0175	\$0.0090	\$0.0085

3

4 **Q. Does Staff recommend any other changes regarding customer count or rate**  
5 **design?**

6 A. No.

7

8 **Q. Does this conclude your testimony?**

9 A. Yes.