



Arizona Utility
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March 31, 2004

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

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AZ CORP COMMISSION
DOCUMENT CONTROL

RE: Docket No. E-01345A-03-0437
Rebuttal Testimony of Walter W. Meek

Yesterday, March 30, the Arizona Utility Investors Association filed with Docket Control the original and 13 copies of the testimony cited above. It has come to our attention that some or all of the copies may be missing Page 10 of the testimony. Therefore, we are enclosing 14 copies of that page for your files. Please let me know if this is not a satisfactory solution and we will make other arrangements.

Sincerely,

Walter W. Meek
President

Arizona Corporation Commission

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1 PWCC's cash generation and cash-to-dividend ratio would be two to three
2 times worse than all of its peers.

3 **Q. WHAT POSITIONS HAVE MOST OF THE ANALYSTS TAKEN?**

4 A. Most of them have adopted interim positions based on an expected
5 compromise of the Staff and company positions. Typically, they are
6 forecasting earnings in the range of \$3.10 to \$3.25 per share for 2005,
7 although they have given up on any improvement in 2004. They
8 recommend holding the stock but not buying it. Until the rate case is
9 concluded, the hold recommendation is supported primarily by the
10 dividend yield, now at about 4.6 percent.

11 **Q. WHAT ASSUMPTIONS HAVE THE ANALYSTS MADE?**

12 A. There is the rub. The neutral positions taken by the analysts generally
13 reflect a common set of assumptions:

14 • A rate of return on equity between 10 and 11 percent, well above the
15 Staff's recommendation. Analysts estimate that a swing of 100 basis
16 points in ROE affects 25 to 30 cents in earnings per share.

17 • Rate-basing the PWEC units. As I will discuss in more detail below, the
18 financial community cannot believe that this is in dispute, because of the
19 obvious damage it does to the earnings and credit metrics of PWCC and
20 APS. Their perspective is that without rate-basing, APS and its customers
21 will be exposed to dangerous market volatility. When they factor in the
22 absence of a PPFAC, the effect is a double whammy, exposing the
23 company's future earnings to the same forces that sank earnings in 2003.

24 **Q. WHAT ABOUT DEBT COVERAGE AND CREDIT RATINGS?**

25 A. There is no way to be precise about those effects with the rate case