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BEFORE THE ARIZONA CORPORATION COMMISSION

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8 IN THE MATTER OF THE APPLICATION OF
9 BLACK MOUNTAIN SEWER COMPANY, AN
ARIZONA CORPORATION, FOR A
10 DETERMINATION OF THE FAIR VALUE OF
11 ITS UTILITY PLANT AND PROPERTY AND
FOR INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE BASED
THEREON.

Docket No. SW-02361A-05-0657

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NOTICE OF FILING TESTIMONY SUMMARY

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Testimony Summary of Marylee Diaz Cortez, CPA, and William A. Rigsby, CRRA, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 5th day of June, 2006.


Daniel W. Pozefsky
Attorney

1 AN ORIGINAL AND THIRTEEN COPIES
of the foregoing filed this 5th day
2 of June, 2006 with:

3 Docket Control
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5 COPIES of the foregoing hand delivered/
6 mailed this 5th day of June, 2006 to:

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23
24 By 
Ernestine Gamble

**Black Mountain Sewer Corporation
Docket No. SW-02361A-05-0657
Rate Application**

**SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness William A. Rigsby, on Black Mountain Sewer Corporation's ("BMSC" or the "Company") application for a permanent rate increase. A full discussion of the operating expense and cost of capital issues associated with BMSC's request for rate relief and the underlying theory and rationales for Mr. Rigsby's recommendations are contained in the referenced documents. The significant issues associated with the case are as follows:

OPERATING EXPENSES:

Scottsdale Capacity (Operating Lease) Expense – Mr. Rigsby is recommending that the Commission adopt RUCO Operating Adjustment #1 which removes the Company's pro forma Scottsdale Capacity (Operating Lease) expense figure of \$189,622. The adjustment is a direct result of the rate base adjustments recommended by RUCO witness Marylee Diaz Cortez, CPA, which treat BMSC's purchased treatment capacity as a utility asset (as opposed to an operating lease) and includes the treatment capacity in the Company's rate base.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

Capitalization of Test Year Expense Items – Mr. Rigsby is recommending that the Commission adopt RUCO's Operating Adjustment #2, which capitalizes \$6,693 in test year expense items related to legal and training costs associated with the Company's operating agreement with the Town of Carefree and the Company's confined space entry and rescue equipment. The purpose of the adjustment is to reclassify costs that were incorrectly booked by BMSC, and to place those costs into their proper accounts so they would receive the appropriate ratemaking treatment.

Property Tax Expense – Mr. Rigsby recommends that the Commission adopt RUCO's recommended level of property tax expense, which was calculated in the manner prescribed by the Arizona Department of Revenue.

Rate Case Expense – Mr. Rigsby is recommending that the Commission allow BMSC to recover no more than the \$120,000 rate case expense figure presented in the Company's rate application. Mr. Rigsby believes that the Commission should reject the Company's argument that the additional proposed expense of \$30,000 was a result of data requests from ACC Staff and RUCO, to a lesser extent, and the intervention of the Town of Carefree.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

COST OF CAPITAL:

Capital Structure – Mr. Rigsby is recommending dual capital structures as a result of BMSC's proposal to treat the Company's purchased treatment capacity from the City of Scottsdale as an operating lease. Should the Commission reject the Company's pro forma Scottsdale Capacity (Operating Lease) expense figure, Mr. Rigsby recommends that a capital structure of 44 percent debt and 56 percent common equity (with a weighted cost of debt of 9.40 percent) be adopted. Should the Commission adopt the Company's pro forma Scottsdale Capacity (Operating Lease) expense figure, Mr. Rigsby recommends that a slightly different capital structure, comprised of 43 percent debt and 57 percent common equity (with a weighted cost of debt of 8.16 percent) would be appropriate for BMSC.

Weighted Cost of Capital – Mr. Rigsby is recommending a 9.45 percent weighted cost of capital should the commission reject the Company's pro forma Scottsdale Capacity (Operating Lease) expense figure and an 8.92 should the commission adopt the Company's pro forma Scottsdale Capacity (Operating Lease) expense figure. Mr. Rigsby's recommended weighted costs of capital are based on the weighted costs of common equity and weighted costs of long-term debt contained in his recommended capital structures for BMSC. Mr. Rigsby's

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

weighted costs of capital are the result of his recommended 9.49 percent cost of common equity and his recommended 9.40 percent and 8.16 percent costs of debt.

Cost of Debt – Mr. Rigsby is recommending that the Commission adopt a 9.40 percent cost of debt should the Commission reject the Company's pro forma Scottsdale Capacity (Operating Lease) expense figure, and an 8.16 percent cost of debt should the commission adopt the Company's pro forma Scottsdale Capacity (Operating Lease) expense figure. Mr. Rigsby's recommended 9.40 percent cost of debt represents the stated rate on inter-company loans that were on the Company's books during the Test Year. His 8.16 percent cost of debt was obtained from Algonquin Power's 2004 annual report.

Cost of Common Equity – Mr. Rigsby is recommending a 9.49 percent cost of common equity for both of his recommended capital structures. Mr. Rigsby's 9.49 percent figure is based on the results of his cost of equity analysis, which used both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies.

**Black Mountain Sewer Corporation
Docket No. SW-02361A-05-0657
Rate Application**

**SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ, CPA
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

The following is a summary of the issues set forth in the direct and surrebuttal testimony of Ms. Diaz Cortez. A full discussion of these issues and the underlying theory and rationales for her recommendations are contained in the referenced documents.

Scottsdale Wastewater Treatment Capacity - This adjustment corrects the fallacy that this intangible asset is an "operating lease" and properly reflects the Scottsdale Capacity as a depreciable rate base asset.

Post-test Year Plant - This adjustment removes post-test year line extensions from rate base and includes the post-test year cost of replacing a sewer chlorination system.

Accumulated Deferred Income Taxes - The adjustment decreases rate base by \$161,250 to include Black Mountain's allocated portion of Accumulated Deferred Income Taxes.

Working Capital - This adjustment decreases the Company's requested level of working capital to reflect the fact that customers are required to prepay their sewer bill.