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COMMISSIONERS

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AZ CORP COMMISSION  
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JEFF HATCH-MILLER, Chairman  
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IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A HEARING TO DETERMINE THE FAIR VALUE OF THE UTILITY PROPERTY OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN, AND TO AMEND DECISION NO. 67744.

DOCKET NO. E-01345A-05-0816

IN THE MATTER OF THE INQUIRY INTO THE FREQUENCY OF UNPLANNED OUTAGES DURING 2005 AT PALO VERDE NUCLEAR GENERATING STATION, THE CAUSES OF THE OUTAGES, THE PROCUREMENT OF REPLACEMENT POWER AND THE IMPACT OF THE OUTAGES ON ARIZONA PUBLIC SERVICE COMPANY'S CUSTOMERS.

DOCKET NO. E-01345A-05-0826

IN THE MATTER OF THE AUDIT OF THE FUEL AND PURCHASED POWER PRACTICES AND COSTS OF THE ARIZONA PUBLIC SERVICE COMPANY.

DOCKET NO. E-01345A-05-0827

**STAFF'S NOTICE OF FILING**

Staff of the Arizona Corporation Commission hereby provides notice of filing the Testimony Summary of David C. Parcell in the above-referenced matter.

RESPECTFULLY SUBMITTED this 7<sup>th</sup> day of November, 2006.

Arizona Corporation Commission  
**DOCKETED**

NOV -7 2006

DOCKETED BY *nr*

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1 Original and 17 copies of the foregoing filed  
2 this 7<sup>th</sup> day of November, 2006, with:

3 Docket Control  
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6 Phoenix, AZ 85007

7 Copy of the foregoing mailed this  
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**EXECUTIVE SUMMARY OF TESTIMONY  
OF DAVID C. PARCELL**

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**RECOMMENDATIONS AND SUMMARY**

**RECOMMENDATIONS**

My overall cost of capital recommendation for APS is as follows:

	<u>Percent</u>	<u>Cost</u>	<u>Return</u>
Long-Term Debt	45.5%	5.41%	2.46%
Common Equity	<u>54.5%</u>	10.25%	<u>2.59%</u>
Total	100.00%		8.05%

APS's application requests a return on equity of 11.5 percent and a total cost of capital of 8.73%.

On November 2, 1006, I filed updates to Schedules 2, 8, 9, 10, page 1 of 11, and 13 to my Direct Testimony. These updates do not change my recommendations.

**ANALYSES AND CONCLUSIONS**

This proceeding is concerned with APS's regulated electric utility operations in Arizona. My analyses are concerned with APS's total cost of capital. The first step in performing these analyses is the development of the appropriate capital structure. APS's proposed capital structure is its adjusted September 30, 2005 capital structure ratios of 45.5 percent long-term debt and 54.5 percent common equity. I have adopted these capital structure ratios in my cost of capital analyses.

The second step in a cost of capital calculation is a determination of the embedded cost rate of long-term debt. I have used the 5.41 percent cost of long-term debt proposed by APS.

The third step in the cost of capital calculation is the estimation of the cost of common equity. I have employed three recognized methodologies to estimate the cost of equity for APS. I applied

**EXECUTIVE SUMMARY OF TESTIMONY  
OF DAVID C. PARCELL**

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each of these methodologies to two proxy groups: 1) a group of comparison electric utilities with similar operating and risk characteristics to APS and PWC; and 2) and the group of proxy electric companies analyzed by Company witness Avera. These three methodologies and my findings are:

<u>Methodology</u>	<u>Range</u>
Discounted Cash Flow	9 1/2-10%
Capital Asset Pricing Model	10 1/2-10 3/4%
Comparable Earnings	10%

Based upon these findings, I conclude that the cost of common equity for APS is a range of 9 1/2 percent to 10 3/4 percent, with an approximate mid-point of 10.25 percent. I recommend a cost of equity for APS of 10.25 percent.

Combining these three steps into weighted costs of capital results in an overall rate of return of 8.05 percent.