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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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7
8 IN THE MATTER OF THE APPLICATION OF
UNS ELECTRIC, INC. THE
9 ESTABLISHMENT OF JUST AND
10 REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
11 RATE OF RETURN ON THE FAIR VALUE
OF THE PROPERTIES OF UNS ELECTRIC,
12 INC. DEVOTED TO ITS OPERATIONS
THROUGHOUT THE STATE OF ARIZONA
AND REQUEST FOR APPROVAL OF
13 RELATED FINANCING.

Docket No. E-04204A-06-0783

14 NOTICE OF FILING TESTIMONY SUMMARIES

15 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
16 Testimony Summaries of Marylee Diaz, Cortez, CPA, William A. Rigsby, CRRRA and Rodney L.
17 Moore, in the above-referenced matter.

18
19 RESPECTFULLY SUBMITTED this 10th day of September 2007.

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22 Arizona Corporation Commission
DOCKETED
23 SEP 10 2007

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26 
Daniel W. Pozefsky
Attorney

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1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 10th day
3 of September 2007 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 mailed this 10th day of September 2007 to:

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Ernestine Gamble
9 Secretary to Daniel Pozefsky

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UNS Electric, Inc.
Docket No. E-04204A-06-0783
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 testimonies of Ms. Diaz Cortez that remain in contention (see the Summary of the Testimony of Rodney L. Moore for a list of issues that the Company and RUCO have agreed on). A full discussion of the remaining issues and the underlying theory and rationales for Ms. Diaz Cortez' recommendations are contained in the referenced documents.

GENERATION

Capacity – Black Mountain Generating Station – RUCO recommends that that the Company's request for Commission preapproval for rate base treatment of this asset be denied at this time.

Purchased Power and Fuel Adjustment Clause (PPFAC) – RUCO recommends approval of the PPFAC as requested by the Company in its direct testimony and as modified by RUCO to add certain safeguards, which include a cap on PPFAC movement and 90/10 sharing of purchased power and fuel costs exceeding the base cost of gas.

RATE BASE

Construction Work in Progress – This adjustment decreases rate base by \$10,761,154 to remove the Company's test year CWIP balances.

SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ (Cont.)

Accumulated Deferred Income Taxes - CIAC – This adjustment removes from rate base ADIT balances related to CIAC.

Accumulated Deferred Income Taxes – A&G Capitalization – This adjustment removes \$116,258 in ADIT related to A&G Capitalization and is a companion adjustment to RUCO's operating income adjustment to A&G Capitalization.

Working Capital – This adjustment results by applying RUCO's recommended operating expenses to the Company's lead/lag study.

OPERATING INCOME

Miscellaneous Service Fees – This adjustment increases the after hours establishment and connect service fees to reflect cost-of-service.

Bad Debt Expense – This adjustment decreases bad debt expense to correct the Company's error in using a gross bad debt ratio as opposed to the correct net bad debt ratio.

Administrative and General Expense Capitalization - This adjustment removes a double-count in A&G Capitalization.

Construction Work in Progress Property Taxes – This adjustment removes property taxes associated with test year CWIP balances.

Corporate Cost Allocations – This adjustment decreases test-year expense allocations related in discretionary meals, entertainment and corporate advertising.

SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ (Cont.)

Valencia Turbine Fuel – This adjustment removes the Company's Valencia fuel cost estimations from test year expenses. The actual cost of this fuel will be recovered through the recommended PPFAC.

OTHER ISSUES

Demand-side Management (DSM) – RUCO supports the Company-proposed DSM surcharge and recommends approval.

**UNS Electric, Inc.
Docket No. E-04204A-06-0783
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 UNS Electric, Inc.'s ("UNS" or the "Company") application for a permanent rate increase. A full discussion of the cost of capital issues associated with UNS' 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:

COST OF CAPITAL:

Capital Structure – Mr. Rigsby is recommending that the Commission adopt the Company-proposed hypothetical capital structure which is comprised of 3.97 percent short-term debt, 47.18 percent long-term debt and 48.85 percent common equity. Mr. Rigsby's recommended hypothetical capital structure is in line with the capital structures of the electric service providers included in his discounted cash flow ("DCF") and capital asset pricing model ("CAPM") analyses, which were comprised of approximately 51.2 percent debt and 48.8 percent equity.

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

Weighted Cost of Capital – Mr. Rigsby is recommending an 8.67 percent weighted cost of capital. Mr. Rigsby's recommended weighted cost of capital is based on his revised weighted hypothetical cost of debt and weighted cost of equity contained in his recommended capital structure for UNS.

Cost of Debt – Mr. Rigsby is recommending that the Commission adopt the Company-proposed cost of long-term debt of 8.22 and the Company-proposed cost of short-term debt of 6.36 percent.

Cost of Common Equity – Mr. Rigsby is recommending that the Commission adopt a 9.30 percent cost of common equity. Mr. Rigsby's 9.30 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.

UNS Electric, Inc.
Docket No. E-04204A-06-0783
Rate Application

**SUMMARY OF THE TESTIMONY OF RODNEY L. MOORE
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

The following is a summary of the Direct and Surrebuttal Testimonies given by Rodney L. Moore applicable to RUCO's recommended conditions for a permanent rate increase. A full disclosure of the issues and conditions are contained in the referenced documents.

The Company and RUCO are in agreement with adjustments to the:

- Acquisition Adjustment;
- Plant Held For Future Use;
- Customer Assistance Residential Energy Support Revenue;
- Customer Annualization;
- Weather Normalization;
- Purchased Power Derivatives;
- DSM and Renewables;
- Customer Assistance Residential Energy Support Expense;
- Post Retirement Medical Expense;
- Worker's Compensation;
- Interest On Customer Deposits;
- Operating Lease Expense;
- Fleet Fuel Expense
- Out of Period Expenses;
- Year-End Accruals;
- Franchise Fee Expense;
- Outside Services – DSM Invoice;
- Membership Dues Expense;
- Common Systems Allocations;

SUMMARY OF THE TESTIMONY OF RODNEY L. MOORE (Cont.)

Operating Systems Allocations;
Depreciation and Amortization Annualization;
Property Tax Methodology; and
Emergency Bill Assistance Expense.

RUCO's aggregate adjustment was corroborated between Mr. Moore and RUCO witnesses Ms. Diaz Cortez and Mr. Rigsby. Please see Ms. Diaz Cortez's and Mr. Rigsby's testimonies for additional adjustments.

The testimonies of Mr. Moore address the following outstanding issues:

Rate Base

Test-Year Accumulated Depreciation – This adjustment increases the value of accumulated depreciation, which UNS understates without proper documentation.

Operating Income

Pension and Benefits – This adjustment removes pension and benefit charges from operating expenses because RUCO considers these benefits an inappropriate financial burden on ratepayers.

Incentive Compensation Expense – This adjustment removes all test-year wage bonuses, because these awards were unique, non-recurring, discriminatory and did not provide additional benefits to ratepayers.

SUMMARY OF THE TESTIMONY OF RODNEY L. MOORE (Cont.)

Rate Case Expense – This adjustment recommends RUCO’s level of rate case expense that reflects a reasonable financial burden for the ratepayers in this rate application process.

Postage Expense – This adjustment maintains RUCO’s strict adherence to the historical test-year principle and disallows the Company’s proposal to average the postage expenses over 2.5 years.

Supplemental Executive Retirement Plan – This adjustment reflects RUCO’s disallowance of the supplemental executive retirement plan (“SERP”).

RUCO Adjustments To Test-Year Operating Expenses – This adjustment to operating expenses removes inappropriate expenditures not necessary in the provisioning of electric service.

Maintenance of Overhead Lines – This adjustment reflects the normalization of an expense that is sufficiently volatile to require a test-year adjustment. However, RUCO agrees with the concern expressed in the Company’s rejoinder over the appropriate parameters. Therefore, RUCO adjusted its calculation from a four-year to a three-year average to acknowledge the Company’s testimony and the wide variation in annual costs of overhead line maintenance expenses.

Customer Service Cost Allocations – This adjustment disallows the Company’s increased customer service expenditures, because the additional costs did not demonstrate a corresponding increase in the quality of customer service.

Non-Recurring/Atypical Expenses – This adjustment removes costs not expected to recur and that are considered non-typical for inclusion in test year expenses.

SUMMARY OF THE TESTIMONY OF RODNEY L. MOORE (Cont.)

Payroll Expense – This adjustment disallows the Company's rebuttal position that payroll expense should be increased to include a 2007 wage increase.

Payroll Tax Expense - This adjustment is associated with the Company's rebuttal position to increase the payroll expense.

Income Tax Expense – This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

Rate Design

Mr. Moore was responsible for producing an accurate set of bill determinants (i.e. test-year customer bill counts and kilowatts consumed). Mr. Moore adjusted the bill determinants to reflect the annualized customer count as calculated by Ms. Diaz Cortez in her workpapers. Mr. Moore maintained the approximate percentage of revenue contribution from each class of service as the Company proposes.

Conclusions And Recommendations

Mr. Moore concludes that the approval of this application will be consistent with the public interest if the Commission adopts the following recommendations:

SUMMARY OF THE TESTIMONY OF RODNEY L. MOORE (Cont.)

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
1. Percentage Increase In Average Typical Residential Customer's Monthly Bill:		
Mohave County	2.17%	-0.09%
Santa Cruz County	-2.41%	-4.17%

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
2. Recommended Increase In Revenue Requirement		
	\$1,253,233	\$1,189,270

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
3. Recommended FVRB		
	\$161,618,144	\$161,582,547

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
4. Recommended Required Operating Income		
	\$11,169,957	\$11,166,869

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
5. Recommended Percentage Increase In Revenue Requirement		
	0.79%	0.75%