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BEFORE THE ARIZONA CORPORATION COMMISSION

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2008 NOV 25 A 9 16

ARIZONA CORPORATION COMMISSION
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8 IN THE MATTER OF THE APPLICATION OF
 9 CHAPARRAL CITY WATER COMPANY,
 10 INC., AN ARIZONA CORPORATION, FOR A
 11 DETERMINATION OF THE FAIR VALUE OF
 ITS UTILITY PLANT AND PROPERTY AND
 FOR INCREASES IN ITS RATES AND
 CHARGES FOR UTILITY SERVICE BASED
 THEREON.

Docket No. W-02113A-07-0551

NOTICE OF ERRATA

12

13

14 The Residential Utility Consumer Office ("RUCO") hereby files this Notice of Errata in

15 the above-referenced matter to correct William A. Rigsby's Surrebuttal Testimony to correctly

16 reference Sun City West Wastewater District Case on ll. 19-20 on pages 18 and 19. The

17 revised pages are attached.

18 RESPECTFULLY SUBMITTED this 25th day of November 2008

Michelle L. Wood

Michelle L. Wood
Attorney

Arizona Corporation Commission
DOCKETED

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1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 25thth day
3 of November, 2008 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
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5 COPIES of the foregoing hand delivered/
6 mailed this 25thth day of November 2008 to:

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1 water and wastewater systems at a number of U.S. Army posts in Virginia
2 including Fort Story, Fort Eustis, Fort Monroe and Fort Lee.

3
4 Q. Does RUCO agree with Mr. Bourassa's position that Chaparral's cost of
5 common equity should be higher than the yet-to-be-determined authorized
6 cost of common equity for Southwest Gas Corporation?

7 A. No. RUCO believes that each case should be decided on its own merits.
8 The cost of capital estimated for Chaparral in this case was calculated in
9 an economic environment that is different from the one that existed when
10 Southwest Gas Corporation's cost of equity was estimated.

11
12 Q. Please comment on Mr. Bourassa's argument that the results of the
13 natural gas sample of your cost of equity analysis are depressing your
14 cost of equity estimate for Chaparral.

15 A. For the most part, natural gas LDC's have very similar operating
16 characteristics with water companies such as Chaparral and are therefore
17 a good proxy for water and wastewater utility cost of capital studies. Their
18 inclusion also provides a larger sample to obtain an estimate from. In the
19 recent Arizona-American Water Company ("Arizona-American") Sun City
20 West Wastewater District Case, Arizona-American's cost of capital
21 consultant also used a sample of LDC's to arrive at her final cost of equity
22 estimate. In fact, in its initial closing brief in that case, Arizona-American
23 criticized RUCO for relying on its water utility sample DCF results, and

1 failing to give more weight to the results of RUCO's LDC sample results³.

2 Arizona-American stated the following:

3 "Mr. Rigsby's base calculation is also flawed. His DCF recommendation
4 equally weighted his DCF evaluations for his water utility samples and
5 his gas utility samples.¹⁵² Unfortunately, his water utility sample only
6 contained four companies.¹⁵³ Mr. Rigsby conceded that he "would like to
7 see a broader sample.¹⁵⁴ However, he went ahead and weighted this
8 sample equally with his gas utility sample, which contained 10
9 companies.¹⁵⁵

10
11 Mr. Rigsby should have excluded the results of his DCF analysis for
12 water utilities. Four companies are just not enough, as he admits.
13 Unusual events at just one company can unduly affect the entire sample,
14 a risk that is smoothed when a larger sample is used. If we just exclude
15 the DCF results for the water-utility sample, Mr. Rigsby's ROE estimate
16 would increase significantly....."
17

18 Q. Please explain why Mr. Bourassa's criticism regarding the use of a
19 geometric mean in your CAPM analysis is unfounded.

20 A. It is important to recognize that the information on both means, published
21 by Morningstar, is widely available to the investment community. For this
22 reason alone I believe that the use of both means in a CAPM analysis is
23 appropriate.

24 The best argument in favor of the geometric mean is that it provides a
25 truer picture of the effects of compounding on the value of an investment
26 when return variability exists. This is particularly relevant in the case of
27 the return on the stock market, which has had its share of ups and downs
28 over the 1926 to 2007 observation period used in my CAPM analysis.
29

³ Initial Closing Brief of Arizona-American Water Company, Docket No. WS-01303A-06-0491