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BEFORE THE 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 FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the  
Testimony Summaries of William A. Rigsby, CRRRA, and Timothy J. Coley in the above-  
referenced matter.

RESPECTFULLY SUBMITTED this 5<sup>th</sup> day of December 2008

Arizona Corporation Commission

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Michelle L. Wood  
Attorney

1 AN ORIGINAL AND THIRTEEN COPIES  
2 of the foregoing filed this 5<sup>th</sup> day  
3 of December, 2008 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 5<sup>th</sup> day of December, 2008 to:

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By   
Ernestine Gamble

**Chaparral City Water Company, Inc.  
Docket No. W-02113A-07-0551  
Rate Case**

**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, CRRA, on Chaparral City Water Company Inc.'s ("Chaparral" or "Company") application for a permanent rate increase. Mr. Rigsby is providing testimony on both the Company's request for recovery of legal fees associated with Chaparral's prior appeal/remand proceeding (Decision No. 70441) and on the cost of capital issues associated with Chaparral's request for a rate increase. The underlying theory and rationales for Mr. Rigsby's recommendations on these issues are contained in the above referenced documents. The significant issues associated with the case are as follows:

Appeal/Remand Proceeding Legal Fees – Mr. Rigsby is recommending that the Commission deny the recovery of \$258,511 in legal expenses that the Company is seeking in connection with the appeal/remand proceeding of Decision No. 68176.

Weighted Cost of Capital – Mr. Rigsby is recommending that a 6.38 percent weighted cost of capital be applied to Chaparral's fair value rate base ("FVRB").

## SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA (Cont.)

Mr. Rigsby's 6.38 percent figure is the result of his recommended capital structure, his recommended cost of short-term debt, his recommended cost of long-term debt, and his recommended inflation-adjusted cost of common equity. Mr. Rigsby's final 6.38 percent weighted cost of capital, to be applied to the Company's FVRB, was developed using the same method of calculating an inflation-adjusted cost of common equity that was adopted by the Commission in Decision No. 70441.

Capital Structure – Mr. Rigsby is recommending that the Commission adopt a capital structure comprised of 4.08% short-term debt 19.17 percent long-term debt and 76.75 percent common equity.

Cost of Short-Term Debt – Mr. Rigsby is recommending a 2.71 percent cost of short-term debt which is the one-year London Interbank Offered Rate ("LIBOR") published in the November 12, 2008 issue of The Wall Street Journal. The LIBOR rate recommended by Mr. Rigsby is reflective of the downward direction that interest rates have been moving in since he filed his direct testimony on September 30, 2008.

## SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA (Cont.)

Cost of Long-Term Debt – Mr. Rigsby is recommending that the Commission adopt a 5.34 percent cost of long-term debt. Mr. Rigsby's recommended 5.34 percent cost of long-term debt is the weighted cost of the Company's projected level of long-term debt, which reflects the retirement of Chaparral's long-term Series 1997A (4.00% to 4.85%) serial bonds that became due during the period from 1998 to 2007.

Cost of Common Equity – Mr. Rigsby is recommending a 6.83 percent cost of common equity. Mr. Rigsby's 6.83 percent figure is an inflation-adjusted cost of common equity which was calculated by reducing his original unadjusted 8.83 percent cost of common equity estimate by a 200 basis point inflation factor. Mr. Rigsby calculated his 200 basis point inflation factor in the same manor as RUCO's witness, Dr. Ben Johnson, Ph.D., in Chaparral's prior appeal/remand proceeding. His method for reducing his unadjusted 8.83 cost of common equity estimate is consistent with the method that was adopted in Decision No. 70441. Mr. Rigsby's unadjusted 8.83 percent cost of common equity estimate is a mean average of the results of his cost of common equity analysis, which used both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies.

**Chaparral City Water Company, Inc.  
Docket No. W-02113A-07-0551  
Rate Application**

**SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE (“RUCO”)**

The following is a summary of the issues set forth in both the direct and the surrebuttal testimony of RUCO witness Timothy J. Coley, for Chaparral City Water Company, Inc.’s (“Chaparral” or the “Company”) application for a permanent rate increase for the Company’s water services operation located in eastern Maricopa County. A complete discussion of the rate base, operating income, and rate design issues are contained in the referenced documents. The unresolved issues associated with the case are as follows:

**Original Cost Rate Base (“OCRB”) Adjustments:**

Adjustment #12 – Fountain Hills Sanitary District (“FHSD”) Settlement Proceeds

Mr. Coley recommends that the Commission award 100 percent of the FHSD settlement proceeds to the Company’s ratepayers.

Adjustment #14 – Contributions in Aid of Construction (“CIAC”) Amortization Rate

Mr. Coley is recommending that the Commission adopt his adjustment that uses the CIAC amortization rate that was authorized in Decision No. 68176 to reflect the amount of CIAC in OCRB.

## SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY (Cont.)

### Adjustment #15 – Additional Central Arizona Project (“CAP”) Water Allocation

Mr. Coley is adopting, in part, ACC Staff’s recommendation that the additional CAP allocation be booked into a non-depreciable land and land rights account. Mr. Coley is recommending that only 50 percent of the Company’s additional CAP allocation be booked into the non-depreciable land and land rights account.

### **Reconstruction Cost New Less Depreciation (“RCND”) Adjustments:**

#### Adjustment #12 – Fountain Hills Sanitary District (“FHSD”) Settlement Proceeds

This adjustment reflects the RCND value associated with the FHSD settlement proceeds noted above. Mr. Coley is recommending that 100 percent of the settlement proceeds be awarded to the Company’s ratepayers.

#### Adjustment #14 – Contributions in Aid of Construction (“CIAC”) Amortization Rate

This adjustment reflects the RCND value associated with Mr. Coley’s adjustment dealing with the CIAC amortization rate which was authorized in Decision No. 68176 to reflect the amount of CIAC in OCRB.

### Adjustment #15 – Additional Central Arizona Project (“CAP”) Water Allocation

This adjustment reflects the RCND value associated with Mr. Coley’s recommendation that the additional CAP allocation be booked into a non-depreciable land and land rights account. Mr. Coley is recommending that only

## SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY (Cont.)

50 percent of the Company's additional CAP allocation be booked into the non-depreciable land and land rights account.

### **Operating Adjustments:**

Adjustment #2 – Property Tax Expense – This adjustment represents Mr. Coley's recommended level of property tax expense, and addresses the over-collection of property tax expense in every year since the Company's last rate case.

Adjustment #4 – Rate Case Expense – Mr. Coley is recommending that the Commission allow 100 percent of the amount of rate case expense originally requested by the Company in the instant case. Mr. Coley also recommends that the Commission deny un-recovered rate case expense for the Company's prior rate case proceeding.

### **Rate Design:**

Mr. Coley agrees with the Company-proposed rate design and has adapted it to generate RUCO's recommended gross revenue increase.

### **Other Issues:**

Mr. Coley recommends adoption of the Company's proposed Low Income Program ("LIP") and has determined it to be in the public interest.