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BEFORE THE ARIZONA CORPORATION COMMISSION

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7
8 IN THE MATTER OF THE APPLICATION OF
9 BLACK MOUNTAIN SEWER
10 CORPORATION, AN ARIZONA
11 CORPORATION, FOR A DETERMINATION
12 OF THE FAIR VALUE OF ITS UTILITY
13 PLANT AND PROPERTY AND FOR
14 INCREASES IN ITS RATES AND CHARGES
15 FOR UTILITY SERVICE BASED THEREON.

Docket No. SW-02361A-08-0609

NOTICE OF FILING
SUMMARIES OF TESTIMONY

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

RESPECTFULLY SUBMITTED this 20th day of November, 2009.

Arizona Corporation Commission
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Michelle L. Wood
Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
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2 of November 2009 with:

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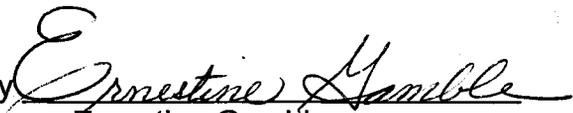
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Black Mountain Sewer Corporation
Docket No. SW-002361A-08-0609
Rate Case

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 Black Mountain Sewer Corporation's ("BMSC" or "Company") application for a permanent rate increase. Mr. Rigsby is providing testimony on the cost of capital issues associated with BMSC's request for a rate increase. The underlying theory and rationale 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:

Weighted Average Cost of Capital – Mr. Rigsby is recommending that a 7.43 percent weighted average cost of capital be applied to BMSC's fair value rate base ("FVRB").

Mr. Rigsby's 7.43 percent figure is the result of his recommended hypothetical capital structure, his recommended hypothetical cost of long-term debt, and his recommended cost of common equity. Mr. Rigsby's weighted cost of long-term debt was used to calculate an appropriate synchronized interest deduction which was used to calculate RUCO's recommended level of income tax expense for BMSC.

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

Capital Structure – Due to the absence of debt in the Company-proposed capital structure, Mr. Rigsby is recommending that the Commission adopt a hypothetical capital structure comprised of 40.0 percent long-term debt and 60.0 percent common equity.

Cost of Long-Term Debt – Also due to the absence of debt in the Company-proposed capital structure, Mr. Rigsby is recommending that the Commission adopt a 6.26 percent hypothetical cost of long-term debt. Mr. Rigsby's recommended 6.26 percent hypothetical cost of long-term debt represents the average weighted costs of debt of seven publicly traded water utilities.

Cost of Common Equity – Mr. Rigsby is recommending an 8.22 percent cost of common equity. Mr. Rigsby's 8.22 percent figure is a mean average of the results that he obtained from his cost of equity analysis which used both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies.

BHOA Settlement Agreement – Mr. Rigsby is recommending that the Commission reject the settlement agreement between BMSC and the Boulders Homeowners Association ("BHOA") principally because of the settlement agreement's proposal to implement a cost recovery mechanism. In the

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

alternative, Mr. Rigsby is recommending that the if the Commission finds that the existing wastewater treatment facility and or related infrastructure are found to be the source of odor problems in the Boulders Community, or if it is in the public interest to do so, the Company be ordered to retire the plant and redirect wastewater flows to the City of Scottsdale treatment facility. Mr. Rigsby further recommends that the Company be ordered to file a rate application sometime after the plant has been retired for a full twelve months, in order to establish new rates that fully reflect the actual costs of providing service to BMSC ratepayers.

Black Mountain Sewer Corporation
Docket No. SW-02361A-08-0609
Rate Application

SUMMARY OF THE TESTIMONIES 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 substantial agreement with the adjustments to:

- Unrecorded Plant Additions;
- Unrecorded Plant Retirements;
- Capitalized Expenses;
- Odor Control Unit;
- Depreciation Expense;
- Expensed Plant;
- Scottsdale Wastewater Treatment Expense;
- Annualize Wastewater Treatment Expense;
- Chemical Expenses
- Annualize Chemical Expenses;
- Testing Expense;
- Rent Expense;
- Meals/Beverages/Contributions Expense;
- Taxes Other Than Income;
- Expense Allocation;
- Contractual Services Expense;

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

Operating Income

Property Tax Expense – Mr. Moore’s adjustment reflects property tax expense based on RUCO’s calculation of adjusted and proposed operating revenues.

Unnecessary and/or Non-Recurring Operating Expenses – Mr. Moore’s adjustment has several components, in five out of the seven components RUCO is now in substantial agreement with the Company. The two components of this adjustment in which RUCO and the Company differ:

1. First, RUCO maintains the legal and survey costs associated with an easement dispute is a unique and non-recurring expense and atypical for consideration as an appropriate historical test year operating expense.
2. Second, The cost to clean up improperly discharged sewage is not an appropriate historical test year operating expense.

The Company requested inclusion of these expenses over a three-year amortization period.

Bad Debt Expense – Mr. Moore has not altered RUCO position and does not recommend an adjustment for bad debt expense. The Company requests recognition for pre and post test year accounting activity.

Rate Case Expense – Mr. Moore’s current recommendation is \$95,000 in rate case expense, which represents the amount disclosed in the

Company's most recent disclosure. RUCO's final recommendation will depend on disclosures not yet provided by the Company.

Federal and State Income Taxes Expense – Mr. Moore's adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

Rate Design

Mr. Moore's proposed rate design is generally consistent with the Company's present rate design, but reflects RUCO's recommended revenue requirement and provides proof the design will produce the appropriate revenue requirement.

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:

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
Percentage Increase In Average Typical Residential Customer's Monthly Bill:		
	29.01%	29.24%
Recommended Revenue Requirement:		
	\$2,069,774	\$2,073,372
Recommended Percentage Increase In Revenue Requirement:		
	30.98%	31.21%

DIRECT TESTIMONY

REVISED SURREBUTTAL

Recommended OCRB/FVRB:

\$3,745,364

\$3,681,877

Recommended Required Operating Income:

\$278,281

\$273,563