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BEFORE THE ARIZONA CORPORATION COMMISSION

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ARIZONA CORPORATION COMMISSION
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COMMISSIONER

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

Docket No. E-04204A-09-0206

NOTICE OF FILING TESTIMONY SUMMARIES

13
14
15 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing
16 the Testimony Summaries of William A. Rigsby, CRRA, and Dr. Ben Johnson in the above-
17 referenced matter.

18
19 RESPECTFULLY SUBMITTED this 8th day of February, 2010.

Arizona Corporation Commission

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[Signature]
Daniel W. Pozefsky
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
of the foregoing filed this 8th day
2 of February, 2010 with:

3 Docket Control
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4 1200 West Washington
Phoenix, Arizona 85007

5
6 COPIES of the foregoing hand delivered/
mailed this 8th day of February, 2010 to:

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Arizona Corporation Commission

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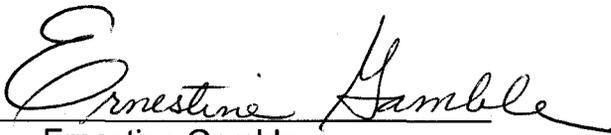
Commissioner Bob Stump
Arizona Corporation Commission

1 Amanda Ho
2 Advisor to Commissioner Stump

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4

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By 

Ernestine Gamble
Secretary to Daniel Pozefsky

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SUMMARY
of the
TESTIMONY
of
BEN JOHNSON, PH.D.
On Behalf of
The Residential Utility Consumer Office
Before the
Arizona Corporation Commission
Docket No. E-04204A-09-0206

Dr. Johnson filed direct testimony on November 6, 2009 and November 13, 2009. He filed limited surrebuttal testimony on January 10, 2009.

Dr. Johnson's November 6 direct testimony covered various revenue requirement issues and appropriate rate of return to be applied to a fair value rate base. Dr. Johnson discussed the various adjustments to test year rate base and income proposed by UNSE. Dr. Johnson recommended accepting UNSE's largest proposed adjustment - the inclusion of the Black Mountain Generating Station in rate base. Dr. Johnson concluded that many of the other rate base and income adjustments proposed by the Company should be disallowed, where they attempt to reflect the impact of additional investment, inflation and cost changes which didn't occur until after the test year.

With regard to the fair value rate of return, Dr. Johnson recommended developing a fair rate of return that is reduced below the weighted average cost of capital, in order to

1 prevent a double counting of compensation for inflation.

2

3 Dr. Johnson's recommendations, as set forth in his November 6, 2009 direct testimony,
4 result in an original cost rate base of approximately \$229.9 million and a fair value rate
5 base of \$320.7 million, assuming the Commission follows its traditional 50/50 weighting
6 of original cost and RCND.

7

8 Dr. Johnson's recommendations result in test year operating income of approximately
9 \$16.3 million. Applying Dr. Johnson's recommended 5.96% fair rate of return to a fair
10 value rate base of approximately \$320.7 million, results in required operating income of
11 approximately \$19.1 million. This analysis suggests a test year operating income
12 deficiency of \$2.8 million.

13

14 Dr. Johnson's November 13, 2009 direct testimony primarily focused on the Company's
15 proposed revenue distribution, and UNSE's current and proposed residential rates. With
16 regard to revenue distribution, Dr. Johnson concludes that some weight be given to the
17 cost of service results. However, he points out that other factors are also important in
18 developing a fair and reasonable revenue distribution, including historical rate
19 relationships, ability to pay, relative risk, and demand or market conditions .

20

21 Dr. Johnson recommends reducing UNSE's residential customer charge to \$5.00 per
22 month, in order to send better price signals, which more effectively encourage economic
23 efficiency and energy conservation. He also made some suggestions concerning the
24 Company's current and proposed Time of Use rates, and he recommended adding another

1 step to the Company's new inclining block rate structure.

2

3 Dr. Johnson's January 10, 2009 surrebuttal testimony briefly responded to a few points
4 raised by the Company in its rebuttal testimony. Dr. Johnson disagreed with most of the
5 Company's criticisms. For instance, he believes the Commission has discretion in
6 deciding on a fair return for application to the fair value rate base, and there is no logical
7 reason to slash the inflation rate in half – much less adopt a rule that mandates this
8 approach in all cases, regardless of the underlying factual circumstances or resulting
9 impact on customers and stockholders. Similarly, all of the arguments made by the
10 Company against Dr. Johnson's rate design recommendations are similar to ones that
11 were anticipated and discussed in his direct testimony.

12

13 However, with respect to two issues, Dr. Johnson saw merit in the arguments being made
14 by the Company. First, on rebuttal Company explained that the pension and benefit
15 (P&B) loading rate it used in its rate filing went into effect on January 1, 2009. In his
16 surrebuttal Dr. Johnson conceded that this is reasonably consistent with the use of a
17 historical test year, as well his recommended treatment of the wage rate increase that
18 went into effect on January 1, 2009.

19

20 Second, after reviewing the Company's explanation in its rebuttal testimony concerning
21 the property tax assessment ratio, he conceded this is a gray area, and that the Company's
22 approach can also be characterized as being consistent with the historical test year – since
23 it is based on 2008 data, and computed “as of” January 1, 2009 (although it didn't go into
24 effect until January 1, 2010).

DOCKET NO. E-04204A-09-0206

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 ("UNSE" or the "Company") application for a permanent rate increase for the Company's electric distribution operations in Mohave and Santa Cruz Counties. A full discussion of the cost of capital issues associated with UNSE's request for rate relief and the underlying theory and rationales for Mr. Rigsby's recommendations are contained in the above referenced documents. The significant issues associated with the case are as follows:

Original Cost of Equity Capital – The Residential Utility Consumer Office ("RUCO") recommends a 9.25 percent original cost of equity capital for UNSE. This 9.25 percent original cost figure falls on the high side of a range of results obtained in a cost of equity analysis which employed both the Discounted Cash Flow ("DCF") and Capital Asset Pricing Model ("CAPM") methodologies. RUCO's recommended 9.25 percent figure is 215 basis points lower than the Company-proposed cost of equity capital of 11.40 percent.

Cost of Debt – Based on a review of the costs associated with UNSE's various debt instruments, RUCO recommends that the Company-proposed 7.05 percent

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

cost of debt be adopted by the Arizona Corporation Commission (“ACC” or “Commission”).

Capital Structure – RUCO recommends that the Company-proposed capital structure, which is comprised of 54.24 percent long-term debt and 45.76 percent common equity, be adopted by the Commission.

Original Cost Rate of Return – Based on the results of RUCO’s recommended capital structure, original cost of equity capital, and debt analyses, RUCO recommends an 8.06 percent original cost rate of return (“OCROR”) for UNSE. This figure represents the weighted average cost of RUCO’s recommended 9.25 percent original cost of equity capital and RUCO’s 7.05 percent recommended cost of debt. RUCO’s recommended 8.06 percent OCROR is 98 basis points lower than the Company-proposed unadjusted 9.04 percent weighted average cost of capital.

Fair Value Rate of Return – RUCO is recommending a 5.96 percent fair value rate of return (“FVROR”) which is 210 basis points lower than RUCO’s recommended 8.06 percent OCROR. The method that RUCO used to arrive at its recommended 5.96 percent FVROR comports with the provisions of Decision No. 70441, dated July 28, 2008, that resulted from a prior remand proceeding which involved Chaparral City Water Company. The methodology that RUCO

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

relied on to arrive at its recommended FVROR figure is explained fully in the testimony of RUCO witness Dr. Ben Johnson.

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