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**BEFORE THE ARIZONA CORPORATION COMMISSION
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2 **COMMISSIONERS**

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6 IN THE MATTER OF THE APPLICATION OF
7 RIO RICO UTILITIES, INC. FOR A
8 DETERMINATION OF THE FAIR VALUE OF
9 ITS UTILITY PLANT AND PROPERTY AND
10 FOR INCREASES IN ITS WATER AND
11 WASTEWATER RATES AND CHARGES FOR
12 UTILITY SERVICE THEREON.

DOCKET NO. WS-02676A-09-0257

**NOTICE OF FILING
WITNESS SUMMARIES**

11 The Arizona Corporation Commission Utilities Division ("Staff") hereby files the witness
12 summaries for Staff witnesses Gerald W. Becker, Juan C. Manrique, and Jian W. Liu.

13 RESPECTFULLY submitted this 9th day of March, 2010.

14
15 Arizona Corporation Commission
16 **DOCKETED**

17 MAR - 9 2010

18 DOCKETED BY

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20 Original and thirteen (13) copies
21 of the foregoing were filed this
22 9th day of March, 2010 with:

22 Docket Control
23 Arizona Corporation Commission
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25 Copy of the foregoing mailed this
26 9th day of March, 2010 to:

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**EXECUTIVE SUMMARY
RIO RICO UTILITIES, INC.
DOCKET NO. WS-02676A-09-0257**

The Surrebuttal Testimony of Staff witness Gerald W. Becker addresses the following issues for Rio Rico Utilities, Inc. ("Rio Rico" or "Company").

For the Water Division, Staff recommends an increase in revenue of \$1,327,271, or a 71.85 percent increase, over test year revenue of \$1,847,256. The total annual revenue of \$3,174,527 produces an operating income of \$718,412 for a 9.20 percent rate of return on Staff's recommended fair value rate base of \$7,808,822.

For the Wastewater Division, Staff recommends a decrease in revenue of \$303,912, or an 18.46 percent decrease, over test year revenue of \$1,829,976. The total annual revenue of \$1,526,064 produces an operating income of \$296,875 for a 9.20 percent rate of return on Staff's recommended fair value rate base of \$3,226,899.

Staff's Surrebuttal Testimony responds to Rio Rico's Rebuttal Testimony on the following issues:

Rebuttal testimony of Gregory Sorensen

Low Income Tariff

The Company proposes a low income tariff that includes a ten percent fee for carrying and administrative costs and specifies customer eligibility to participate at 100 percent of the federal poverty level. In its direct testimony, Staff stated that it wanted to undertake additional consideration before making a recommendation. In its surrebuttal testimony, Staff provides additional factors for consideration in the development and implementation of a low income tariff.

Rebuttal testimony of Peter Eichler

Cost Allocation Methodology

Mr. Eichler provides extensive discussion regarding the NARUC Guidelines for Cost Allocation and Affiliate Transactions, and the Company continues to maintain that the Company's allocation of corporate expenses is correct. Staff has reviewed Mr. Eichler's rebuttal testimony and continues to disagree.

Rebuttal testimony of Thomas Bourassa

Accumulated Deferred Income Taxes ("ADIT") – Both Divisions

In response to Staff inquiries, the Company has performed an extensive analysis and recomputation. The Company has recalculated its total ADIT debit from a \$1,101,805 debit to a \$445,938 debit. Staff continues to disagree with two of the three components of ADIT as discussed herein.

The Company's rebuttal proposes the water division share of ADIT as a \$314,965 debit, or approximately 70.63 percent of the total proposed for both divisions. Staff recommends \$82,782 debit for the water division, or approximately 70.63 percent of Staff's recommended total for both divisions.

The Company's rebuttal proposes the wastewater division share of ADIT as a \$130,973 debit, or approximately 29.37 percent of the total proposed for both divisions. Staff recommends \$34,423 debit for the wastewater division, or approximately 29.37 percent of Staff's recommended total for both divisions.

Contributions-In-Aid-Of-Construction ("CIAC") – Both Divisions

Based on a review of the Company's rebuttal testimony, Staff now agrees with the Company's calculation of its gross CIAC balances of \$20,140,197 for the water division and \$5,137,673 for the wastewater division.

Regulatory Commission (Rate Case) Expense – Both Divisions

Based on a review of the Company's rebuttal testimony, Staff asks that the Company submit documentation to support its position that the \$17,564 of Regulatory Commission Expense removed by Staff for the water division and, similarly, the \$994 removed from the wastewater division, are not related to rate case expense.

Transportation Expense – Both Divisions

The Company's rebuttal proposes the removal from transportation expense of certain costs identified as unnecessary in the amount of \$6,725 for the water division and \$2,242 for the wastewater division. Staff accepts the Company's proposed adjustments.

Outside Services and Outside Services – Other – Water Division Only

Based on a review of additional information, Staff now agrees with the Company that invoices marked as "ACC Fees" were for accounting fees, not Commission assessments. Therefore, Staff removes its previous adjustments of \$27,820 and \$17,190 from Outside Services and Outside Services – Other, respectively.

Rate Design

The Company disagrees with Staff's rate design. Staff's recommended rate design is unchanged with this filing. Staff remains steadfast on recommending a rate design that provides affordable service of non-discretionary usage levels and encourages efficient use of water. Staff will immediately follow this filing with updated rate design, as necessary, to reflect any changes in revenue requirements that arise from the testimony herein.

**EXECUTIVE SUMMARY
RIO RICO UTILITIES, INC.
DOCKET NO. WS-02676A-09-0257**

The Surrebuttal Testimony of Staff witness Juan C. Manrique addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Rio Rico Utilities, Inc. (“Rio Rico” or “Applicant”) for this proceeding consisting of 0.0 percent debt and 100.0 percent equity.

Cost of Equity – Staff recommends that the Commission adopt a 9.2 percent return on equity (“ROE”) for the Applicant. Staff’s estimated ROE for the Applicant is based on cost of equity estimates for the sample companies ranging from 9.9 percent for the discounted cash flow method (“DCF”) to 10.6 percent for the capital asset pricing model (“CAPM”). Staff’s ROE recommendation includes a 1.1 percent downward adjustment to reflect a lower financial risk in the Applicant’s capital structure compared to that of the sample companies.

Overall Rate of Return – Staff recommends that the Commission adopt an overall rate of return (“ROR”) of 9.2 percent.

Response to the Rebuttal Testimony of Applicant’s witness Mr. Thomas J. Bourassa - The Commission should reject the Company’s proposals to allow for a firm size adjustment, to selectively eliminate inputs in Staff’s cost of equity estimation method with unfavorable outputs to create an unbalanced cost of equity estimation method and skewed result, and to rely heavily on analysts’ forecasts for DCF estimates.

**EXECUTIVE SUMMARY
RIO RICO UTILITIES, INC.
DOCKET NO. WS-02676A-09-0257
Jian W. Liu**

1. NON-ACCOUNT WATER

Staff recommends that Rio Rico Utilities be required to report in detail by March 8, 2010 how the 30.523 million gallons water used by the Company in 2008.

Staff recommends that Rio Rico Utilities file, annually after the effective date of the Decision in this matter, reports within 30 days of the end of each calendar year, with the Commission's Docket control, which indicate the quantity of water pumped and sold each month during the year. In the event the non-account water level for the Company exceeds 10% during a reporting period, the Company shall report on the efforts taken to reduce water loss, such as number of leaks repaired. If after three consecutive reports have been filed the Company's non-account water levels remain below the 10 percent threshold, Staff recommends that the reporting requirement be eliminated.

2. PROPOSED HOOK UP FEE TARIFF ("HUF")

Staff continues to recommend the proposed HUF tariffs be denied.