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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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- 5 PAUL NEWMAN  
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- 6 BOB STUMP  
COMMISSIONER
- 7

8 IN THE MATTER OF THE APPLICATION OF  
9 BELLA VISTA WATER CO., INC., AN  
10 ARIZONA CORPORATION, FOR A  
11 DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANTS AND PROPERTY AND  
FOR INCREASES IN ITS WATER RATES  
AND CHARGES FOR UTILITY SERVICE  
BASED THEREON.

Docket No. W-02465A-09-0411

12 IN THE MATTER OF THE APPLICATION OF  
13 NORTHERN SUNRISE WATER COMPANY,  
14 INC., AN ARIZONA CORPORATION, FOR A  
15 DETERMINATION OF THE FAIR VALUE OF  
16 ITS UTILITY PLANTS AND PROPERTY AND  
FOR INCREASES IN ITS WATER RATES  
AND CHARGES FOR UTILITY SERVICE  
BASED THEREON.

Docket No. W-20453A-09-0412

17 IN THE MATTER OF THE APPLICATION OF  
18 SOUTHERN SUNRISE WATER COMPANY.,  
19 INC., AN ARIZONA CORPORATION, FOR A  
20 DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANTS AND PROPERTY AND  
FOR INCREASES IN ITS WATER RATES  
AND CHARGES FOR UTILITY SERVICE  
BASED THEREON.

Docket No. W-20454A-09-0413

21 IN THE MATTER OF THE JOINT  
22 APPLICATION OF BELLA VISTA WATER  
23 CO., INC., NORTHERN SUNRISE WATER  
24 COMPANY, INC., AND SOUTHERN  
SUNRISE WATER COMPANY., INC., FOR  
APPROVAL OF AUTHORITY TO  
CONSOLIDATE OPERATIONS, AND FOR

Docket No. W-02465A-09-0414

Docket No. W-20453A-09-0414

Docket No. W-20454A-09-0414

1 THE TRANSFER OF UTILITY ASSETS TO  
2 BELLA VISTA WATER CO., INC,  
3 PURSUANT TO ARIZONA REVISED  
4 STATUTES 40-285.

5 **NOTICE OF FILING**

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

9 RESPECTFULLY SUBMITTED this 16<sup>th</sup> day of July, 2010.

10 

11 Michelle L. Wood  
Counsel

12 AN ORIGINAL AND THIRTEEN COPIES  
13 of the foregoing filed this 16<sup>th</sup> day  
of July, 2010 with:

14 Docket Control  
15 Arizona Corporation Commission  
16 1200 West Washington  
Phoenix, Arizona 85007

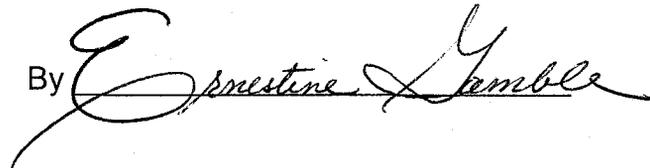
17 COPIES of the foregoing hand delivered/  
18 mailed this 16<sup>th</sup> day of July, 2010 to:

19 Jane L. Rodda  
20 Administrative Law Judge  
21 Hearing Division  
22 Arizona Corporation Commission

23 Janice Alward, Chief Counsel  
24 Robin Mitchell, Counsel  
Legal Division  
Arizona Corporation Commission

25 Steven M. Olea, Director  
Utilities Division  
Arizona Corporation Commission

Jay L. Shapiro, Esq.  
Fennemore Craig, P.C.  
3003 N. Central Avenue  
Suite 2600  
Phoenix, AZ 85012

By 

Bella Vista Water Company, Inc.  
Docket No. W-02465A-09-0411 et al.  
Rate Case

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

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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 Liberty Water's application for a permanent rate increase for Bella Vista Water Company ("BVWC"), Northern Sunrise Water Company ("NSWC") and Southern Sunrise Water Company ("SSWC"). Mr. Rigsby is providing direct and surrebuttal testimony on the cost of capital issues associated with the case. 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:

Mr. Rigsby is recommending the following capital structure, cost of debt and weighted average cost of capital recommendations for BVWC, NSWC and SSWC on a stand-alone basis:

**Bella Vista Water Company**

BVWC Capital Structure – For BVWC, Mr. Rigsby is recommending that the Commission adopt BVWC's proposed capital structure, which is comprised of 27.76 percent long-term debt and 72.24 percent common equity.

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

BVWC Cost of Debt – For BVWC, Mr. Rigsby is recommending that the Commission adopt a cost of debt of 6.27 percent, which is the average weighted cost of debt of BVWC's various loans.

BVWC Weighted Average Cost of Capital – Based on the results of his recommended capital structure, Mr. Rigsby is recommending an 8.24 percent cost of capital for BVWC, which is the weighted cost of his recommended 6.27 percent cost of long-term debt and my recommended 9.00 percent cost of common equity.

### **Northern and Southern Sunrise Water**

NSWC and SSWC Capital Structures – Mr. Rigsby is recommending that NSWC's and SSWC's proposed capital structures, which are comprised of 100 percent common equity be rejected by the ACC and that his recommended hypothetical capital structures, which are comprised of 60 percent common equity and 40 percent debt, be adopted by the Commission.

NSWC and SSWC Costs of Debt – For both NSWC and SSWC, Mr. Rigsby is recommending that the Commission adopt a hypothetical cost of debt of 6.26 percent, which is the average weighted cost of debt of eight

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

publicly traded water companies that are followed by securities analysts with The Value Line Investment Survey.

NSWC and SSWC Weighted Average Costs of Capital – Based on the results of his recommended hypothetical capital structures, Mr. Rigsby is recommending a 7.90 percent cost of capital for both NSWC and SSWC, which is the weighted cost of my recommended costs of common equity and hypothetical debt.

Mr. Rigsby is recommending the following capital structure, cost of debt and weighted average cost of capital recommendations for BWWC, NSWC and SSWC on a consolidated basis:

Capital Structure – On a consolidated basis, Mr. Rigsby is recommending that the Commission adopt BWWC's proposed capital structure, which is comprised of 21.08 percent long-term debt and 78.92 percent common equity.

Cost of Debt – On a consolidated basis, Mr. Rigsby is recommending that the Commission adopt a cost of debt of 6.27 percent, which is the average weighted cost of debt of BWWC's various loans.

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

Weighted Average Cost of Capital – On a consolidated basis, Mr. Rigsby is recommending an 8.42 percent cost of capital, which is the weighted cost of his recommended 6.27 percent cost of long-term debt and his recommended 9.00 percent cost of common equity.

Bella Vista Water Company  
Docket No. W-02453A-09-0411 et al.  
Rate Application

SUMMARY OF THE TESTIMONIES OF RODNEY L. MOORE  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

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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:

- Test Year Plant Retirements;
- Post Test Year Plant Additions;
- Post Test Year Plant Retirements;
- McLain Acquisition Costs;
- Depreciation Expense;
- Meals, Entertainment and Contributions Expenses;
- Water Testing Expense; and
- Transportation 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.

Rate Case Expense – Mr. Moore's current recommendation is \$200,000. 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 stand-alone 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.

## Other Issues

1. RUCO's Director Jodi Jerich provides an analysis of the rate design on a stand-alone basis.
2. RUCO's witness Timothy J. Coley provides an analysis of the adjustments associated with the accumulated deferred income taxes, central office cost allocations and the hook-up fee tariff.
3. RUCO's witness William A. Rigsby provides an analysis of the cost of capital.

## 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>SURREBUTTAL</u>
Percentage Increase In Average Typical Residential Customer's Monthly Bill:		
Bella Vista (Stand alone)	15.79%	8.44%
Northern Sunrise (Stand Alone)	95.33%	92.04%
Southern Sunrise (Stand Alone)	-12.52%	21.10%
Recommended Revenue Requirement:		
Bella Vista (Stand alone)	\$3,926,801	\$3,679,831
Northern Sunrise (Stand Alone)	\$359,250	\$353,258
Southern Sunrise (Stand Alone)	\$379,025	\$519,181
Bella Vista (Consolidated)	\$4,919,615	\$4,619,447

	<u>DIRECT TESTIMONY</u>	<u>SURREBUTTAL</u>
Recommended Percentage		
Increase In Revenue Requirement:		
Bella Vista (Stand alone)	11.37%	4.36%
Northern Sunrise (Stand Alone)	87.14%	84.02%
Southern Sunrise (Stand Alone)	-14.66%	16.90%
Bella Vista (Consolidated)	18.20%	10.99%
Recommended OCRB/FVRB:		
Bella Vista (Stand alone)	\$5,180,398	\$3,769,607
Northern Sunrise (Stand Alone)	\$689,708	\$660,635
Southern Sunrise (Stand Alone)	\$1,418,329	\$1,305,405
Bella Vista (Consolidated)	\$7,286,645	\$5,695,062
Recommended Required Operating Income:		
Bella Vista (Stand alone)	\$427,120	\$310,801
Northern Sunrise (Stand Alone)	\$54,515	\$52,217
Southern Sunrise (Stand Alone)	\$112,105	\$103,179
Bella Vista (Consolidated)	\$613,796	\$479,728

Bella Vista Water Company, Inc.  
Docket No. W-02465A-09-0411 et al.  
Rate Case

SUMMARY OF THE TESTIMONY OF TIMOTHY J. COLEY  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

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The following is a summary of the issues set forth in both the direct and the surrebuttal testimonies of RUCO witness Timothy J. Coley, on Liberty Water's application for a permanent rate increase for the water operations of Bella Vista Water Company ("BVWC"), Northern Sunrise Water Company ("NSWC"), and Southern Sunrise Water Company ("SSWC"). A full discussion of the rate base, operating income, and other issues associated with BVWC, NSWC, and SSWC request are contained in the above referenced documents. RUCO witness, Mr. Rodney Moore, will address the remaining revenue requirement issues for these companies in his testimony. RUCO witness, Mr. William A. Rigsby, will address the cost of capital issues associated with BVWC, NSWC, and SSWC requests for rate relief. RUCO Director, Ms. Jodi Jerich, will address the rate designs for each of the three companies on a stand-alone basis. I will address one rate base issue, one operating income issue, and one other issue associated with the case as follows:

**RATE BASE:**

RUCO Rate Base Adjustment #3 – Accumulated Deferred Income Taxes  
("ADIT") – This adjustment calculates the ADIT balances for BVWC, NSWC, and SSWC based on adjusted test-year book balance components that are included

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

in the ADIT calculation. The adjustment reduces BVWC consolidated rate base by \$2,879,543. On an individual stand-alone basis, RUCO's adjustments to the ADIT's are as follows:

<u>Company</u>	<u>RUCO ADIT Adjustments</u>
BVWC	\$ 2,703,488
NSWC	\$ 57,525
SSWC	\$ 84,614

**Note:** The three systems on a stand-alone basis do not reconcile to the consolidated BVWC ADIT Adjustment. This is due to the three systems different effective income tax rates on a stand-alone basis.

**OPERATING INCOME:**

RUCO Operating Adjustment #6(a) – Central Office Costs (“APT”) Allocations –  
RUCO disallowed the majority of the APT cost allocations as not needed and/or is not of a benefit in the provisioning of RRUI utility services to ratepayers. The adjustment reduces the consolidated BVWC APT cost allocations by \$140,134. On an individual stand-alone basis, RUCO's adjustments to the APT cost allocations are as follows:

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

<u>Company</u>	<u>RUCO APT Adjustments</u>
BVWC	\$ 122,927
NSWC	\$ 5,088
SSWC	\$ 12,118

RUCO Operating Adjustment #6(b) – Company Adjusted Rebuttal Central Office Costs (“APT”) Allocations – In the consolidated BVWC’s rebuttal testimony, the Company proposed a downward adjustment for the central office costs from \$144,906 to \$125,830, which is a difference of \$19,076. RUCO disallowed the majority of the APT costs but did allow a marginal amount of the costs. The adjustment decreases outside services costs by \$1,093 on a consolidated BVWC basis. On an individual stand-alone basis, RUCO’s adjustments to the Company’s rebuttal downward adjustment of the APT cost allocations are as follows:

<u>Company</u>	<u>RUCO APT Adjustments</u>
BVWC	\$ 959
NSWC	\$ 40
SSWC	\$ 95

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

RUCO Operating Adjustment #6(c) – Central Office Cost (“APT”) Allocations Overstated in Adjusted Test-Year – The Company provided a response to RUCO DR #3.01 that showed \$144,906 of APT costs for BVWC consolidated for the adjusted test-year. In a response to RUCO informal data request 5.01, the Company showed a total of \$156,149 in APT costs for the test-year rather than the \$144,906 that was shown in the response to RUCO DR 3.01. The Company’s response to RUCO DR 5.01 reconciled to the Company’s Outside Services – Other account found in the rate application on a consolidated BVWC basis. Apparently, the Company’s test-year book amount was overstated by the difference of the two amounts (\$156,149 - \$144,906), which is a difference of \$11,243. The \$11,243 was allocated to the stand-alone BVWC, NSWC, and SSWC based on customer count. On an individual stand-alone basis, RUCO’s adjustments to the Company’s overstatement of the APT cost allocations in its rate application are as follows:

<u>Company</u>	<u>RUCO APT Adjustments</u>
BVWC	\$ 9,863
NSWC	\$ 408
SSWC	\$ 972

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

**OTHER ISSUES:**

Hook Up Fee Tariff ("HUF")

RUCO does not support the Company's HUF as proposed for the reason that any monies received pursuant to the HUF tariff should immediately be recorded as CIAC on receipt, in compliance with NARUC USOA and the Commission's prior determinations of the proper treatment of non-investor supplied funds.