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5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: WS-02676A-09-0257

**NOTICE OF FILING PROPOSED
AMENDMENT**

13 Rio Rico Utilities, Inc. hereby submits this Notice of Filing Proposed Amendment
14 in the above-referenced matter. Attached as **Attachment 1** is RRUI's Proposed
15 Amendment #1 to the Recommended Opinion and Order issued on November 30, 2010.

16 DATED this 14th day of December, 2010.

17 FENNEMORE CRAIG, P.C.

18
19 By 
20 Jay L. Shapiro
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21 3003 North Central Avenue
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22 Phoenix, Arizona 85012
Attorneys for Rio Rico Utilities, Inc.

Arizona Corporation Commission
DOCKETED
DEC 14 2010

DOCKETED BY 

1 **ORIGINAL** and thirteen (13) copies
2 of the foregoing were filed
3 this 14th day of December, 2010, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 W. Washington St.
6 Phoenix, AZ 85007

5 **COPY** of the foregoing hand-delivered
6 this 14th day of December, 2010 to:

7 Chairman Kristin K. Mayes
8 Arizona Corporation Commission
9 1200 W. Washington Street
10 Phoenix, AZ 85007

10 Commissioner Gary Pierce
11 Arizona Corporation Commission
12 1200 W. Washington Street
13 Phoenix, AZ 85007

12 Commissioner Paul Newman
13 Arizona Corporation Commission
14 1200 W. Washington Street
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15 Commissioner Sandra D. Kennedy
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7 **COPY** of the foregoing emailed/mailed
this 14th day of December, 2010 to:

8 Jane L. Rodda
9 Administrative Law Judge
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18 By: 
19 2377956.1/80191.006

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Attachment 1

THIS AMENDMENT:		
<input type="checkbox"/> Passed	<input type="checkbox"/> Passed as amended by _____	
<input type="checkbox"/> Failed	<input type="checkbox"/> Not Offered	<input type="checkbox"/> Withdrawn

**PROPOSED AMENDMENT #1
TO RECOMMENDED OPINION AND ORDER**

DATE PREPARED: December 14, 2010

COMPANY: Rio Rico Utilities, Inc.

AGENDA ITEM: U-12

DOCKET NO. WS-02676A-09-0257

OPEN MEETING DATE: December 14-15, 2010

Page 33, line 18 to Page 34, line 4 modified as follows:

We adopt Staff's unadjusted recommended cost of equity and cost of capital in this case. Staff's witness utilized the DCF and CAPM to determine the cost of equity and the Hamada method to adjust for the lower risk associated with a 100 percent capital structure. The Commission has long utilized the approach Staff used in this case (constant growth DCF, two-state DCF and two-part CAPM) to determine the cost of equity. ~~Staff's recommended cost of equity of 9.2 percent is reasonable and comparable to recent approved returns and provides the Company with the opportunity to earn sufficient returns to comply with the *Bluefield* and *Hope* standards.~~

~~The Company's proposed cost of equity is unreasonably high in light of current economic conditions. RUCO's methodology utilizing a hypothetical capital structure requires assumptions about an appropriate amount of debt and cost of debt which are subjective. RUCO cites the Commission's decision in the Gold Canyon Sewer rate case to utilize a hypothetical capital structure, but other than the common ownership of the two companies, RUCO does not offer any reason for us to depart from our usual practice of utilizing the actual capital structure and adjusting for risk using the Hamada equation. At open meeting, the Company committed to file a financing application with the Commission in 2011 to infuse 20 percent debt into the Company's capital structure with an actual cost of debt of 5.7 percent. Based on that commitment, the Company has offered to use a hypothetical capital structure in this case of 20 percent debt and 80 percent equity, with a cost of debt of 5.7 percent. The Company also proposes that the Commission adopt a hypothetical capital structure consistent with the methodology adopted in the *Black Mountain Sewer Company Decision No. 71865*. We agree with a proposed hypothetical capital structure of 20 percent debt and 80 percent equity. Given~~

our adoption of a hypothetical capital structure consisting of 80 percent equity and 20 percent debt, it is not necessary to make the additional downward adjustment for cost of equity set forth in Staff's recommendation. We adopt Staff's revised, unadjusted average DCF and CAPM results, which produces a 10.30 percent cost of equity capital. Applying the 10.3 percent cost of equity and 5.7 percent cost of debt to the hypothetical capital structure results in an overall weighted cost of capital for the Company of 9.38.

Make all conforming changes.