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1 A copy of the foregoing Notice will
2 be emailed or mailed this same date :

3 Jane L. Rodda, Administrative Law Judge
4 Hearing Division
5 Arizona Corporation Commission
6 400 West Congress, Suite 218
7 Tucson, Arizona 85701

8 Janice Alward, Chief Counsel
9 Legal Division
10 Arizona Corporation Commission
11 1200 W. Washington Street
12 Phoenix, Arizona 85007

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14 Attorney, Legal Division
15 Arizona Corporation Commission
16 1200 West Washington
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18 Steven Olea, Director
19 Utilities Division
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28 Lawrence Wawrzyniak
39485 S. Mountain Shadow Dr.
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James Schoemperlen
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wages for Mr. Sears. Moreover, as Mr. Shiner's Rebuttal Testimony indicates, his responsibilities and time devoted to the Company also increased between 2005 and 2009. The Company proposed annual fees for Mr. Shiner of \$20,000 is more than reasonable and should be adopted.

V. RATE DESIGN

Q84. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?

A84. The rebuttal proposed rates are listed below.

All Classes

<u>Meter Size</u>	<u>Monthly Minimum</u>	<u>Gallons included in Monthly Minimum</u>
5/8	\$ 52.20	0
3/4	\$ 78.30	0
1	\$ 130.50	0
1 1/2	\$ 261.01	0
2	\$ 417.61	0
3	\$ 835.22	0
4	\$1,305.04	0
6	\$2,610.07	0

The commodity charges and tiers by meter size are:

Residential, Commercial and Irrigation Class

<u>Meter Size</u>	<u>Tier (gallons)</u>	<u>Charge per 1,000 gallons</u>
5/8x3/4 Inch	1 to 4,000	\$ 6.28
	4,001 to 10,000	\$11.27

1		Over 10,000	\$13.41
2	3/4 Inch	1 to 4,000	\$ 6.28
3		4,001 to 9,000	\$11.27
4		Over 9,000	\$13.41
5	1 Inch	1 to 22,500	\$11.27
6		Over 22,500	\$13.41
7	1 1/2 Inch	1 to 34,000	\$11.27
8		Over 34,000	\$13.41
9	2 Inch	1 to 45,000	\$11.27
10		Over 45,000	\$13.41
11	3 Inch	1 to 68,000	\$11.27
12		Over 68,000	\$13.41
13	4 Inch	1 to 90,000	\$11.27
14		Over 90,000	\$13.41
15	6 Inch	1 to 135,000	\$11.27
16		Over 135,000	\$13.41
17	<u>Standpipe (Construction)</u>		
18	All Meter Sizes	All gallons	\$13.41

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Q85. WHAT IS THE IMPACT OF THE COMPANY'S REBUTTAL PROPOSED RATES ON AN AVERAGE 5/8x3/4 INCH METERED RESIDENTIAL CUSTOMER?

A85. The present monthly bill for a 5/8x3/4 inch metered residential customer using an average of 5,520 gallons is \$66.98. The proposed monthly bill for a 5/8x3/4 inch metered residential customer using an average of 5,520 gallons would be \$94.46,

1 **ESTIMATES AND RECOMMENDATIONS.**

2 A14. The respective parties' cost of equity recommendations are summarized below:

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4 <u>Party</u>	<u>DCF</u>	<u>CAPM</u>	<u>Avg.</u>	<u>Size& Fin. Risk</u>	<u>Overall</u>	<u>Recommended</u>
5 GWC	9.1%	11.8%	10.4%	0.3%	10.7%	10.2%
6 Staff	9.0%	9.1%	9.1%	-	9.1%	9.1%
7 RUCO	9.2%	5.85%	7.52%	-	7.72%	9.0%
8 Intervener Schoemperlen						7.17%

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10 **Q15. THE COST OF EQUITY RECOMMENDATION OF RUCO DIFFERS**
11 **SIGNIFICANTLY FROM THE ESTIMATES PRODUCED BY RUCO'S**
12 **DCF MODEL AND CAPM MODEL. PLEASE COMMENT.**

13 A15. RUCO proposes a cost of capital of 9.0 percent, even though RUCO's models
14 produce an indicated cost of equity of 7.52 percent. This would make sense if
15 RUCO intends to recognize GWC's smaller size, lack of liquidity and other firm-
16 specific risks. The explanation given by Mr. Rigsby for his higher
17 recommendation was that he believed the 9.0 percent would cover any investor
18 concerns regarding any unique business risk associated with GWC.¹⁴

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20 **Q16. DESPITE MR. RIGSBY'S RECOMMENDATION OF 9.0 PERCENT, MR.**
21 **RIGSBY'S PROPOSED A HYPOTHETICAL CAPITAL STRUCTURE FOR**
22 **GWC WHICH RESULTS IN AN EFFECTIVE RATE OF RETURN ON**
23 **EQUITY OF 6.6 PERCENT LESS THAN MR. RIGSBY'S COST OF**
24 **EQUITY ESTIMATE OF 7.52 PERCENT. PLEASE COMMENT.**

25 A16. I will discuss RUCO's effective rate of return on equity of 6.6 percent later in my

26 ¹⁴ Rigsby Dt. at 52.