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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Docket No. W-02199A-11-0329

18 IN THE MATTER OF THE APPLICATION OF
 19 PIMA UTILITY COMPANY, AN ARIZONA
 20 CORPORATION, FOR A DETERMINATION OF
 21 THE FAIR VALUE OF ITS UTILITY PLANT AND
 22 PROPERTY AND FOR INCREASES IN ITS
 23 WASTEWATER RATES AND CHARGES FOR
 24 UTILITY SERVICE BASED THEREON.

Docket No. SW-02199A-11-0330

RUCO'S NOTICE OF ERRATA

18 The Residential Utility Consumer Office ("RUCO") hereby provides notice of
 19 filing an Errata to the Direct Testimony of William A. Rigsby on Cost of Capital and the
 20 Direct Testimony of Timothy J. Coley. The corrected pages are attached which
 21 include Mr. Rigsby's Executive Summary to his Cost of Capital Testimony and Mr.
 22 Coley's Table of Contents to his Rate Design Schedules.

1 RESPECTFULLY SUBMITTED this 29th day of March, 2012.

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4 Daniel W. Pozefsky
5 Chief Counsel

6 AN ORIGINAL AND THIRTEEN COPIES
7 of the foregoing filed this 29th day
8 of March, 2012 with:

9 Docket Control
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

13 COPIES of the foregoing hand delivered/
14 mailed this 29th day of March, 2012 to:

15 Teena Jibilian
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By Cheryl Fraulob
Cheryl Fraulob

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EXECUTIVE SUMMARY

Based on the Residential Utility Consumer Office's ("RUCO") analysis of Pima Utility Company's amended application for a permanent rate increase, filed with the Arizona Corporation Commission ("ACC" or "Commission") on August 5, 2011, RUCO recommends the following:

Cost of Equity – RUCO recommends that the Commission adopt a 9.40 percent cost of equity. This 9.40 percent figure falls just under the high side of the range of results obtained in RUCO's cost of equity analysis, and is 110 basis points lower than the 10.50 percent cost of equity capital proposed by Pima Utility Company in its application for a permanent rate increase.

Cost of Debt – RUCO recommends that the Commission adopt Pima Utility Company's proposed 7.696 percent cost of Long-term debt.

Capital Structure – RUCO recommends that the Commission adopt Pima Utility Company's adjusted test year capital structure comprised of 77.47 percent common equity and 22.53 percent long-term debt subject to the outcome of a financing application that is now before the ACC.

Weighted Average Cost of Capital – RUCO recommends that the Commission adopt RUCO's recommended 9.01 percent weighted average cost of capital ("WACC"), subject to the outcome of a financing application that is now before the ACC, which is the weighted cost of RUCO's recommended costs of common equity and long-term debt, and is 46 basis points lower than the 9.47 percent WACC being proposed by Pima Utility Company.

RUCO disagrees with a number of inputs that Pima Utility Company's cost of capital consultant used in both the discounted cash flow ("DCF") model and the capital asset pricing model ("CAPM") which were used to develop Pima Utility Company's proposed cost of common equity estimate of 10.50 percent. This includes changes in the values of inputs that he relied on since Pima Utility Company's application was filed in August of 2011, his use of forecasted yields on long-term U.S. Treasury instruments, his calculation of a market risk premium using a narrow range of economic data, and his assumptions regarding risk as it relates to company size.

TABLE OF CONTENTS TO TJC RATE DESIGN SCHEDULES

SCH NO.	TITLE
	<u>RESIDENTIAL RATE DESIGN</u>
TJC RD - 1	RATE SUMMARY - RESIDENTIAL
TJC RD - 2	REVENUE COMPARISON
TJC RD - 3	PROPOSED RATES
TJC RD - 4	MONTHLY MINIMUM CHARGES
	<u>COMMERCIAL RATE DESIGN</u>
TJC RD - 1	RATE SUMMARY - COMMERCIAL
TJC RD - 2	REVENUE COMPARISON
TJC RD - 3	PROPOSED RATES
TJC RD - 4	MONTHLY MINIMUM CHARGES
	<u>EFFLUENT SALES RATE DESIGN</u>
TJC RD - 1	RATE SUMMARY - EFFLUENT
TJC RD - 2	REVENUE COMPARISON
TJC RD - 3	PROPOSED RATES
TJC RD - 4	MONTHLY MINIMUM CHARGES
	<u>RECOVERED EFFLUENT SALES RATE DESIGN</u>
TJC RD - 1	RATE SUMMARY
TJC RD - 2	REVENUE COMPARISON
TJC RD - 3	PROPOSED RATES
TJC RD - 4	MONTHLY MINIMUM CHARGES