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BEFORE THE ARIZONA CORPORATION CC

- 1 GARY PIERCE
- 2 CHAIRMAN
- 3 BOB STUMP
- 4 COMMISSIONER
- 5 SANDRA D. KENNEDY
- 6 COMMISSIONER
- 7 PAUL NEWMAN
- 8 COMMISSIONER
- 9 BRENDA BURNS
- 10 COMMISSIONER

Arizona Corporation Commission

DOCKETED

MAY 29 2012

DOCKETED BY	<i>DSM</i>
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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 FILING

25 The Residential Utility Consumer Office ("RUCO") hereby provides notice of  
 26 filing the Testimony Summaries of William A. Rigsby, Timothy J. Coley and Robert B.  
 27 Mease, in the above-referenced matter.

28 RESPECTFULLY SUBMITTED this 29<sup>th</sup> day of May, 2012.

29 DOCKET CONTROL  
 30 ARIZONA CORPORATION COMMISSION  
 31 2012 MAY 29 P 3:10

Daniel W. Pozefsky  
Chief Counsel

RECEIVED

1 AN ORIGINAL AND THIRTEEN COPIES  
2 of the foregoing filed this 29<sup>th</sup> day  
3 of May, 2012 with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/  
6 mailed this 29<sup>th</sup> day of May, 2012 to:

7 Teena Jibilian  
8 Administrative Law Judge  
9 Hearing Division  
10 Arizona Corporation Commission  
11 1200 West Washington  
12 Phoenix, Arizona 85007

10 Janice Alward, Chief Counsel  
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22 By Cheryl Fraulob  
23 Cheryl Fraulob

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24

Pima Utility Company  
Docket No. W-02199A-11-0329  
Rate Case

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY  
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 on Pima Utility Company's ("Pima" or "Company") application for a permanent rate increase that was filed with the Arizona Corporation Commission ("ACC" or "Commission") on August 29, 2011. Mr. Rigsby is providing direct and surrebuttal testimony on the recovery of income taxes in rates and 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:

**Recovery of Income Taxes in Rates**

Mr. Rigsby is recommending that the Arizona Corporation Commission reject Pima Utility Company's request to recover income taxes of its shareholders in rates for the company's Water and Wastewater Divisions.

**Cost of Capital**

Mr. Rigsby is recommending the following capital structure, cost of debt and weighted average cost of capital recommendations for Pima:

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

Capital Structure – Mr. Rigsby is recommending that the Commission adopt the Company's revised capital structure of 35.36 percent long-term debt and 64.64 percent common equity until more information is obtained on Pima's pending loan agreement and the repayment of existing debt.

Cost of Debt – Mr. Rigsby is recommending that, subject to updated information on Pima's pending loan agreement, the Commission adopt the Company's revised 4.25 percent cost of debt.

Cost of Common Equity – Mr. Rigsby is recommending that the Commission adopt a 9.40 percent cost of common equity.

Weighted Average Cost of Capital – Mr. Rigsby is recommending that the Commission adopt a weighted average cost of capital of 7.58 percent which is the weighted cost of his recommended cost of debt and his recommended cost of common equity.

Pima Utility Company – Wastewater Division  
Docket No. SW-02199A-11-0329 et al.  
Rate Application

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

The following is a summary of the direct and surrebuttal testimonies of the Residential Utility Consumer Office (“RUCO”) witness, Timothy J. Coley, for Pima Utility Company – Wastewater Division’s (“Pima” or “Company”) Application for a permanent rate increase for its wastewater division, which was filed with the Arizona Corporation Commission (“ACC” or “Commission”) on August 29, 2011. Mr. Coley is providing testimony on the Company’s revenue requirements and rate design. RUCO’s underlying theory and rationale for its recommendations on the issues are contained in the documents referenced above.

**Agreed upon Rate Base Recommendations** – The Company and RUCO have agreed on all of the rate base adjustments that include the following: (1) Utility Plant in Service (UPIS) and Accumulated Depreciation Balances, (2) Convert Advances In Aid of Construction (AIAC) to Contributions in Aid of Construction (CIAC), and (3) Capitalize an Expensed Plant Item.

**Agreed upon Operating Income Recommendations** - The Company and RUCO have agreed on many of the operating income adjustments that include the following: (1) Depreciation Expense, (2) Property Tax Expense, (3) Materials and Supplies Expense That Should Have Been Capitalized, (4) Reclassify an Expensed Item to Construction

Work in Progress (CWIP), (5) Miscellaneous Expense – Banking Fees, (6) Water Testing Expense, and (7) IDA Bond Fees Expense.

The areas that remain in dispute include the following:

**Salaries and Wages Officers** – RUCO is recommending that salaries and wages expense for officers, and more specifically Mr. Robson, Chairman of the Board, be reduced from the original requested amount of \$90,294 to \$7,085. Even though the Company, in its rebuttal testimony, agreed to reduce the amount of salary requested for Mr. Robson to \$40,198, RUCO continues to believe this to be excessive based on the amount of hours Mr. Robson reported as working for the wastewater division. The same adjustment is also being recommended by RUCO for the water division. RUCO witness, Mr. Mease, will provide detailed testimony regarding this issue.

**Rate Case Expense** – Mr. Coley will provide testimony recommending the reduction in the proforma test year adjustment requested by the Company for rate case expense. RUCO believes that the Company's requested rate case expense of \$400,000 is excessive and should not be borne entirely by the ratepayers.

**Income Tax Expense** – Mr. Coley's schedules provide the adjustment necessary to remove the Company's proforma adjustment for income tax expense. Mr. Rigsby, RUCO's Chief of Accounting and Rates, will address in detail the subject of income taxes.

**Rate Design** – Mr. Coley will provide testimony on RUCO's recommended rate design for residential, commercial and effluent ratepayers.

Pima Utility Company – Water Division  
Docket No. W-02199A-aa-.029, et. al.  
Rate Application

SUMMARY OF THE TESTIMONY OF ROBERT B. MEASE  
ON BEHALF OF THE RESIDENTIAL CONSUMERS UTILITY OFFICE

The following is a summary of the direct and surrebuttal testimony of Residential Utility Consumer Office (“RUCO”) witness Robert B. Mease, on Pima Utilities – Water Division (“Pima” or “Company”) application for a permanent rate increase for its water division, which was filed with the Arizona Corporation Commission (“ACC” or “Commission”) on August 29, 2011. Mr. Mease is providing testimony on the Company’s revenue requirements and rate design. The underlying theory, assumptions and rationale for Mr. Mease’s recommendations on these issues are contained in the documents referenced above.

**Agreed upon Recommendations** – The Company and RUCO have agreed on many of the adjustments including the following: (1) Rate Base Adjustment – Convert Advances In Aid of Construction (AIAC) to Contribution in Aid of Construction (CIAC); (2) Rate Base Adjustment – Capitalize an Expensed Plant Item; (3) Operating Income Adjustment – Depreciation Expense and a Change In Depreciation Rates; (4) Operating Income Adjustment – Property Tax Expense; (5) Operating Income Adjustment – Repairs and Maintenance Expense That Should Have Been Capitalized; (6) Operating Income Adjustment – Remove Contractual Services Expense – Engineering That Should Have Been Capitalized; (7) Operating Income Adjustment – Miscellaneous Expense – Banking Fees

In addition, RUCO adopted two recommendations made by Staff and accepted by the Company and include the following: (1) Operating Expense Adjustment – Repairs and Maintenance Expense – Tree Removal Normalization; (2) Operating Expense Adjustment – Contractual Services – Testing.

Those areas that remain in dispute include the following:

**Salaries and Wages Officers** – Mr. Mease is recommending that salaries and wages expense for officers, and more specifically Mr. Robson, Chairman of the Board, be reduced from the original requested amount of \$90,294 to \$7,085. Even though the Company, in its rebuttal testimony, agreed to reduce the amount of salary requested for Mr. Robson to \$40,198, RUCO continues to believe this to be excessive based on the amount of hours Mr. Robson reported as working for the water division. The same adjustment is also being recommended by RUCO for the wastewater division.

**Rate Case Expense** – Mr. Mease will provide testimony recommending the reduction in the test year adjustment requested by the Company for rate case expense. Mr. Mease believes that the Company's requested rate case expense of \$400,000 is excessive and should not be borne entirely by the rate payer.

**Income Tax Expense** – Mr. Mease will discuss very briefly RUCO's objection to a Sub-Chapter S Corporation's pass through of federal and state income taxes. However, Mr. Rigsby, Chief of Accounting and Rates, will address in more detail the subject of income taxes.

**Rate Design** – Mr. Mease will provide testimony on RUCO's recommended rate design for residential, commercial and irrigation rate payers.