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BEFORE THE ARIZONA CORPORATION COMMISSION

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11 IN THE MATTER OF THE APPLICATION OF
 12 RIO RICO UTILITIES, INC., AN ARIZONA
 13 CORPORATION, FOR A DETERMINATION
 14 OF THE FAIR VALUE OF ITS UTILITY
 15 PLANTS AND PROPERTY AND FOR
 16 INCREASES IN ITS WATER AND
 17 WASTEWATER RATES AND CHARGES
 18 FOR UTILITY SERVICE BASED THEREON.

Docket No. WS-02676A-12-0196

NOTICE OF FILING

19 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing
 20 the Testimony Summaries of Timothy J. Coley and William A. Rigsby, in the above-
 21 referenced matter.

RESPECTFULLY SUBMITTED this 25th day of March, 2013.

Michelle L. Wood
Counsel

Arizona Corporation Commission

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1 AN ORIGINAL AND THIRTEEN COPIES
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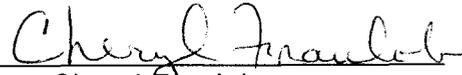
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5 COPIES of the foregoing hand delivered/
6 mailed this 25th day of March, 2013 to:

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Rio Rico Utilities, Inc.
Docket No. WS-02676A-12-0196
Rate Case

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

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness Timothy J. Coley on Rio Rico Utilities, Inc.'s ("RRUI" or "Company") application for a permanent rate increase. Mr. Coley is providing testimony on the required revenue and rate design issues associated with RRUI's request for a rate increase. The underlying theory and rationales for Mr. Coley's recommendations on these issues are contained in the above referenced documents. The significant issues associated with the case are as follows:

Rate Base Issues – RUCO and the Company are in general agreement on RUCO's recommended rate base adjustments with the exception of utility plant in service ("UPIS") and accumulated depreciation balances ("A/D") for both the Water and Wastewater Divisions. RUCO maintains its fully depreciated plant approach as the Company's rate consultant, Mr. Bourassa, acknowledges. The Company's underlying rebuttal retirement alternative will be decided by the decision rendered by the Arizona Corporation Commission ("ACC" or "Commission") in this case.

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

Operating Income Issues – For the Water Division, there are a number of contested outstanding issues between RUCO and the Company as listed below:

1. Depreciation Expense;
2. Property Tax Expense;
3. Recovery Period of Rate Case Expense;
4. Expense Annualization;
5. Achievement / Incentive Pay;
6. APUC Corporate Allocations;
7. Declining Usage;
8. Forecasted UNS Electric Rate Increase;
9. Employee Benefit Expense; and
10. Income Tax Expense.

For the Wastewater Division, there are similar contested outstanding issues between RUCO and the Company as listed below:

1. Depreciation Expense;
2. Property Tax Expense;
3. Recovery Period of Rate Case Expense;
4. Expense Annualization;
5. Achievement / Incentive Pay;
6. City of Nogales Wastewater Treatment Expense.
7. APUC Corporate Allocations;
8. Declining Usage;
9. Forecasted UNS Electric Rate Increase;
10. Employee Benefit Expense; and
11. Income Tax Expense.

For both the Water and Wastewater Divisions, RUCO had originally upon conditions made a placeholder adjustment for the Company's requested rebuttal employee benefit expense increase. Due to a number of time constraints, RUCO was unable to verify the reasonableness of this late request and removed this adjustment.

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

Revenue Requirements - For the Water and Wastewater Divisions, RUCO's recommended revenue requirement are shown on the following tables:

Water Division Rate Base

RRUI Direct <u>Application</u>	RRUI Rebuttal <u>Filing</u>	RRUI Rejoinder <u>Filing</u>	RUCO Direct <u>Filing</u>	RUCO Surrebuttal <u>Filing</u>	RUCO Final <u>Filing</u>
\$7,629,607	\$7,730,108	\$7,730,108	\$7,592,850	\$7,592,850	\$7,592,850

Wastewater Division Rate Base

RRUI Direct <u>Application</u>	RRUI Rebuttal <u>Filing</u>	RRUI Rejoinder <u>Filing</u>	RUCO Direct <u>Filing</u>	RUCO Surrebuttal <u>Filing</u>	RUCO Final <u>Filing</u>
\$4,600,012	\$4,735,192	\$4,735,192	\$4,663,510	\$4,677,834	\$4,677,834

Water Division Required Dollar Increase in Gross Revenues

RRUI Direct <u>Application</u>	RRUI Rebuttal <u>Filing</u>	RRUI Rejoinder <u>Filing</u>	RUCO Direct <u>Filing</u>	RUCO Surrebuttal <u>Filing</u>	RUCO Final <u>Filing</u>
\$604,079	\$581,865	\$644,939	\$90,894	\$206,273	\$173,798

Wastewater Division Required Dollar Increase in Gross Revenues

RRUI Direct <u>Application</u>	RRUI Rebuttal <u>Filing</u>	RRUI Rejoinder <u>Filing</u>	RUCO Direct <u>Filing</u>	RUCO Surrebuttal <u>Filing</u>	RUCO Final <u>Filing</u>
\$393,612	\$235,540	\$279,532	\$3,060	\$65,054	\$53,027

Water Division Required Percentage Increase in Gross Revenues

RRUI Direct <u>Application</u>	RRUI Rebuttal <u>Filing</u>	RRUI Rejoinder <u>Filing</u>	RUCO Direct <u>Filing</u>	RUCO Surrebuttal <u>Filing</u>	RUCO Final <u>Filing</u>
21.16%	20.94%	23.13%	3.14%	7.20%	6.07%

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

Wastewater Division Required Percentage Increase in Gross Revenues

RRUI	RRUI	RRUI	RUCO	RUCO	RUCO
Direct	Rebuttal	Rejoinder	Direct	Surrebuttal	Final
<u>Application</u>	<u>Filing</u>	<u>Filing</u>	<u>Filing</u>	<u>Filing</u>	<u>Filing</u>
28.93%	17.19%	20.40%	0.22%	4.64%	3.78%

RUCO's final schedules will include its final rate design.

Rio Rico Utilities, Inc.
Docket No. WS-02676A-12-0196
Rate Case

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

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 Rio Rico Utilities, Inc.'s ("RRUI" or "Company") application for a permanent rate increase. Mr. Rigsby is providing testimony on the cost of capital issues associated with RRUI's request for a rate increase. 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:

Weighted Average Cost of Capital – Mr. Rigsby is recommending that an 8.25 percent weighted average cost of capital be applied to RRUI's fair value rate base ("FVRB"). Mr. Rigsby's 8.25 percent figure is the result of his recommended capital structure and his recommended cost of common equity.

Capital Structure – Mr. Rigsby is recommending that the Commission adopt a capital structure comprised of 100.0 percent common equity.

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

Cost of Common Equity – Mr. Rigsby is recommending an 8.25 percent cost of common equity. His 8.25 percent figure is 50 basis points lower than the high side of the range of results obtained from his cost of equity analysis which used both the discounted cash flow (“DCF”) and capital asset pricing model (“CAPM”) methodologies. Mr. Rigsby’s 50 basis point downward adjustment takes into account RRUI’s 100.0 percent equity capital structure which investors would perceive as having lower financial risk than the sample companies with more balanced capital structures from which he derived his cost of common equity.