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ARIZONA CORPORATION COMMISSION



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2013 MAY 28 P 3: 22

AZ CORP COMMISSION
DOCKET CONTROL

May 28, 2013

Mr. Thomas Campbell
Lewis and Roca, LLP
40 North Central Avenue
Phoenix, Arizona 85004

RE: CHAPARRAL CITY WATER COMPANY - APPLICATION FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASE IN ITS RATES AND CHARGES BASED THEREON (DOCKET NO. W-02113A-13-0118)

LETTER OF SUFFICIENCY

Dear Mr. Campbell:

This letter (per section R14-2-103.B.7 of the Arizona Administrative Code) is to inform you that your application, received on April 26, 2013, with an errata filing on May 2, 2013, has met the sufficiency requirements as outlined in Arizona Administrative Code R14-2-103. Your utility has been classified as Class A.

The Staff testimony regarding this application should be docketed on or about November 25, 2013, and a Commission decision should be rendered on or before May 23, 2014, barring any substantial amendments to the filing or extraordinary events. A Procedural Order will subsequently be issued establishing the exact due dates of all filings and hearing dates.

Please note that Data Requests are attached.

The Staff person assigned to your application is Gerald W. Becker. He can be reached at (602) 542-0831, or toll free at (800) 222-7000, if you have any questions or concerns.

Sincerely,

James R. Armstrong
Chief Accountant
Utilities Division

Arizona Corporation Commission
DOCKETED

MAY 28 2013

JRA:BNC:lh

cc: Docket Control Center
Lyn Farmer, Hearing Division
Delbert Smith, Engineering
Consumer Services
Legal Division

DOCKETED BY

Chaparral City Water Company
Docket No. W-02113A-13-0118
May 28, 2013

**Arizona Corporation Commission Staff's First Set of Data
Requests**

JAC 1.1 – The Chaparral City Rate Case Application (p. 2, line 18) states that “CCWC’s cost of capital is not less than 10.21%.” A review of Exhibit PMA-1, Schedule 1 (p. 1 of 2) in Pauline Ahern’s Direct Testimony supports a WACC/ROR of 10.21% based upon a capital structure consisting of 16.6% debt and 83.40% equity, a cost of debt of 5.97% and a cost of equity of 11.05%; however, the capital structure, cost of debt and WACC/ROR presented in Table 1 (page 5) of Ms. Ahern’s testimony conflicts with this information. Specifically, Table 1 reflects a WACC/ROR of 10.08%, 13 basis points lower than the 10.21% referred to in the Company’s Application. Please provide an explanation for these discrepancies and clarify what the Company’s actual cost of capital position is. (Note: Schedule D-1 in Company witness Thomas Broderick’s testimony shows a WACC/ROR of 10.21%).

JAC 1.2 – In Ms. Ahern’s testimony (see Table 2, p. 7) and Exhibit PMA-1, Schedule 1, (p. 1 of 2), the indicated cost of equity cost rate before consideration of adjustments for credit/business risk is 10.48%. Ms. Ahern arrived at this 10.48% cost rate utilizing estimates derived from three different cost of equity methodologies: DCF (8.84%), Risk Premium Model (11.04%), and CAPM (10.75%). However, the arithmetic mean of those three estimates equate to a cost of equity of 10.21% $((8.84\% + 11.04\% + 10.75\%) / 3 = 10.21\%)$, a figure 27 basis points lower than her 10.48% figure. In light of this fact, please indicate:

- a) The reason(s) why Ms. Ahern elected to use a mathematical computation other than the arithmetic mean of her DCF, Risk Premium Model, and CAPM cost of equity estimates to calculate her 10.48% indicated cost of common equity; and
- b) Identify where, in the narrative of her Direct testimony, Ms. Ahern provides an explanation of the computation used to calculate her 10.48% indicated cost of common equity.