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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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AZ CORP COMMISSION  
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IN THE MATTER OF THE APPLICATION OF ABRA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE.

DOCKET NO. W-01782A-14-0084

**STAFF'S REQUEST FOR CLARIFICATION OF RECOMMENDED OPINION AND ORDER**

Arizona Corporation Commission Staff ("Staff") hereby requests clarification of the Recommended Opinion & Order ("ROO"), docketed herein on November 5, 2014, regarding the application of Abra Water Co. ("Abra" or "Company").

ROO Language Regarding Use of a Single COE Model

The ROO in this proceeding recommends that the Company's authorized cost of equity ("COE") remain at the 10.3 percent level approved in the Company's last rate case (which utilized a 2009 test year<sup>1</sup>) because neither Staff nor the Company relied upon more than one model for estimating the COE. Line 19, page 19, of the ROO states:

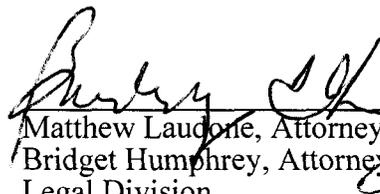
Because neither party has provided a COE analysis that does not rely upon a single model, we do not adopt either party's estimated COE.

Staff is concerned with including the language "*Because neither party has provided a COE analysis that does not rely upon a single model.*" Effectively, this language is saying that COE recommendations must always be supported by more than one model. However, the Commission is not bound to any formula or method in rate setting, including the determination of COE.

<sup>1</sup> Dec. No. 72287 dated May 4, 2011.

1 For example, Staff has recommended and the Commission has adopted Staff's COE estimates  
2 that were derived from using one model with two variations<sup>2</sup> in numerous rate proceedings. Further,  
3 Staff notes that there has been at least one utility<sup>3</sup> that has proposed a COE that relied only upon the  
4 average COE granted by the Commission in recent cases. If the language ruling out the use of a  
5 single model is adopted in this case, any cost savings efforts built around a single model/approach to  
6 develop a recommended COE might be viewed as unacceptable in other instances. As a  
7 consequence, some utilities may incur additional costs to support a COE recommendation that is  
8 developed from more than one model, even if this is unwarranted under the facts presented.  
9 Moreover, if the ROO's current language is retained, the next question to be addressed would be  
10 "what is the appropriate number of models to use in estimating a COE?" For these reasons, Staff  
11 recommends that the phrase, "*Because neither party has provided a COE analysis that does not rely*  
12 *upon a single model*" be stricken.

13 RESPECTFULLY SUBMITTED this 14<sup>th</sup> day of November 2014.

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15   
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23 Original and thirteen (13) copies  
24 of the foregoing filed this  
25 14<sup>th</sup> day of November 2014 with:

26 Docket Control  
27 Arizona Corporation Commission  
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<sup>2</sup> The constant growth Discount Cash Flow ("DCF") model which assumes that a company's dividends will grow indefinitely and the multistate DCF which assumes that the dividend growth rate will change at some point in the future.

<sup>3</sup> New River Utility Company, Docket No. W-01737A-12-0478.

1 Copy of the foregoing emailed/ mailed  
this 14<sup>th</sup> day of November 2014 to:

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