

GLOBAL UTILITIES

DOCKET NO. SW-02445A-09-0077 ET AL.

SURREBUTTAL TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

DECEMBER 7, 2009

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15

TABLE OF CONTENTS

SUMMARY OF GLOBAL UTILITIES' REBUTTAL TESTIMONY2

REQUIRED REVENUE ISSUES 4

 Distributed Renewable Energy Recovery and Conservation4

 Infrastructure Coordination and Financing Agreements5

 Franchise Fee Pass-Through 13

 Public Private Partnership Agreements 14

COST OF CAPITAL 14

 Capital Structure 17

 Cost of Debt 18

 Cost of Equity Capital 19

RATE DESIGN ISSUES 22

 Rate Consolidation22

 Phased-In Rates 22

 Rebate Threshold Rates 22

1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6
7 Q. Please state the purpose of your surrebuttal testimony.

8 A. The purpose of my surrebuttal testimony is to respond to the rebuttal
9 testimony of Global Utilities on required revenue and cost of capital
10 issues, which was filed on November 20, 2009, and on rate design issues,
11 which was filed on November 30, 2009.

12
13 Q. Have you filed any prior testimony in this case on behalf of RUCO?

14 A. Yes, on October 26, 2009, I filed direct testimony with the ACC on the
15 following required revenue issues:

16
17 Distributed Renewable Energy Recovery and Conservation;
18 Infrastructure Coordination and Financing Agreements;
19 Franchise Fee Pass-Through; and
20 Public Private Partnership Agreements.

21
22 I also filed, under separate cover, direct testimony on the cost of capital
23 issues associated with the case. On November 6, 2009, I filed direct
24 testimony on the following rate design issues:

1 Rate Consolidation;
2 Phased-In Rates; and
3 Rebate Threshold Rates.

4

5 Q. How is your surrebuttal testimony organized?

6 A. My surrebuttal testimony contains five parts: the introduction that I have
7 just presented; a summary of Global Utilities' rebuttal testimony; a section
8 on the required revenue issues listed above, a section on the cost of
9 capital issues associated with the case and a final section on the rate
10 design issues also listed above.

11

12 **SUMMARY OF GLOBAL UTILITIES' REBUTTAL TESTIMONY**

13 Q. Have you reviewed Global Utilities' rebuttal testimony on the revenue
14 requirement issues of the case?

15 A. Yes. I have reviewed the rebuttal testimony of Company witnesses Trevor
16 T. Hill, Graham S. Symmonds, Matthew J. Rowell and Jamie Moe on the
17 required revenue, cost of capital and rate design issues in this case.

18

19 Q. Please provide a brief summary of the Company's rebuttal testimony on
20 required revenue.

21 A. Mr. Hill addresses the ICFA and CIAC issues associated with the case
22 and puts forth a compromise proposal on ICFA's. He also presents
23 rebuttal testimony on the P3 agreements that the unregulated Global

1 Parent entity has entered into with several of the cities and towns that
2 Global Utilities serves. Mr. Rowell's rebuttal testimony further addresses
3 the aforementioned ICFA and CIAC issues and also presents rebuttal
4 testimony on the cost of capital issues associated with the case. Mr.
5 Symmonds' testimony concentrates on a number of issues dealing with
6 water management, economics, low income relief, demand side
7 management, and engineering. Mr. Moe discusses the various
8 accounting adjustments that are at issue in the proceeding, pass through
9 mechanisms and the Company-proposed distributed renewable energy
10 recovery tariff for an adjustor mechanism.

11

12 Q. Which witnesses will you be addressing in your surrebuttal testimony?

13 A. My surrebuttal testimony will focus primarily on the issues addressed by
14 Company witnesses Hill, Rowell and Moe. In regard to Mr. Symmond's
15 rebuttal testimony on low income relief, RUCO would not oppose a low-
16 income relief tariff that the Commission may wish to implement in this
17 proceeding.

18

19 Q. Have you reviewed Global Utilities' rebuttal testimony on the rate design
20 issues of the case?

21 A. Yes. I have reviewed the rebuttal testimony of Company witnesses
22 Symmonds, Rowell and Moe.

23

1 Q. Please provide a brief summary of the Company's rebuttal testimony on
2 rate design.

3 A. Mr. Symmonds' rebuttal testimony addresses both the rebate threshold
4 rate design structure issue and various Company-proposed fees and
5 charges. Mr. Rowell's rebuttal testimony presents the Company's
6 positions on the rate consolidation issue in the case. Mr. Moe's rebuttal
7 testimony provides updated required revenue figures and revised rate
8 design schedules for Global Utilities six operating systems.

9

10 **REQUIRED REVENUE ISSUES**

11 **Distributed Renewable Energy Recovery and Conservation**

12 Q. Have you reviewed the rebuttal positions on Global Utilities' request for a
13 distributed renewable energy recovery tariff.

14 A. Yes, I have reviewed the testimony of Company witnesses Hill and Moe
15 on this issue. Both Mr. Hill and Mr. Moe express their disappointment with
16 RUCO's recommendation that the Commission deny the Company's
17 request for a distributed renewable energy recovery tariff.

18

19 Q. Has RUCO changed its position on this issue?

20 A. No. RUCO has not changed its position on this issue.

21

22

23

1 Q. Does RUCO have any response to the comments expressed by either Mr.
2 Hill or Mr. Moe on this particular issue?

3 A. RUCO would like to respond to Mr. Hill's comment, on page 32 of his
4 rebuttal testimony, in which he seems to infer that RUCO's
5 recommendation is intended to prevent the Company from installing plant
6 additions that utilize renewable technology such as solar. RUCO *is not*
7 recommending that the Company be denied the opportunity to install plant
8 additions that utilize renewable technology. As I stated in my direct
9 testimony, RUCO has no opposition to the use of plant additions that
10 employ renewable resources such as solar and is supportive of a
11 competitive market for solar generating devices that employ the type of
12 technology that could be used in the plant additions that the Company is
13 interested in. RUCO's recommendation is not so much concerned with
14 the type of plant that is being considered by Global Utilities, but rather the
15 way in which the Company wants to recover the costs of the plant. This is
16 why RUCO *is* recommending that the Commission deny the Company-
17 proposed distributed renewable energy recovery tariff for an adjustor
18 mechanism similar to an ACRM.

19

20 **Infrastructure Coordination and Financing Agreements**

21 Q. Has RUCO changed its position on the treatment of ICFA's?

22 A. Yes. RUCO has made the decision to adopt ACC Staff's recommendation
23 to treat amounts collected through ICFA's as CIAC in the current

1 proceeding as opposed to treating ICFA funds as CIAC on a going-
2 forward basis.

3

4 Q. Why has RUCO made the decision to adopt ACC Staff's recommendation
5 to treat ICFA funds as CIAC in the current proceeding?

6 A. RUCO was originally hesitant to treat ICFA funds as CIAC in the instant
7 case because the Commission had never made any formal decision on
8 how they should be treated for ratemaking purposes. Prior to filing direct
9 testimony, RUCO was unaware of an ACC Staff report that recommended
10 that ICFA's be treated as CIAC. After reviewing the aforementioned ACC
11 Staff Report¹, RUCO now believes that its original recommendation failed
12 to go far enough in regard to the treatment of ICFA funds and is now
13 recommending that they be treated as CIAC.

14

15 Q. Are there other reasons why RUCO has changed its original position on
16 ICFA's?

17 A. Yes. RUCO is extremely troubled by the position that Global Utilities has
18 taken against CIAC in its rebuttal testimony. RUCO views the Company's
19 position as part of a disturbing trend by other Arizona utilities to remove
20 CIAC from rate base in order to achieve higher levels of operating income.

¹ Staff Report for the Arizona Corporation Commission's Generic Evaluation of the Regulatory Impacts of non-Traditional Financing Arrangements by Water from the use of utilities and Their Affiliates – Docket No. W-00000C-06-0149.

1 The rebuttal testimony of Mr. Hill makes arguments against CIAC that
2 RUCO simply cannot allow to go uncontested.

3

4 Q. Please comment on the positions in Mr. Hill's rebuttal testimony that
5 prompted RUCO to reverse its original recommendation on the treatment
6 of ICFA's?

7 A. In my view, Mr. Hill has taken a strong position that his vision for total
8 water management in Arizona somehow trumps traditional ratemaking
9 practices that have been established to insure that utilities do not earn a
10 recovery on and a recovery of capital that is provided by third parties as
11 opposed to utility investors. These same ratemaking practices also shift
12 risk away from both utilities and their captive ratepayers.

13

14 Q. Please explain how the treatment of ICFA's as CIAC prevents the
15 Company from earning recovery on and recovery of capital that is
16 provided by third parties as opposed to utility shareholders.

17 A. Typically, a utility earns a rate of return on utility plant in service that has
18 been financed either by capital provided by its investors (i.e. equity) or by
19 capital provided through the issuance of debt (i.e. bonds or loans). In
20 addition to receiving a return on this invested capital (i.e. operating
21 income), utilities are also permitted a dollar-for-dollar recovery of it (over
22 the useful life of the plant assets that it financed) through annual
23 depreciation expense. Both the recovery on and the recovery of investor

1 supplied capital (either equity or debt) is embedded in the rates that are
2 paid by the utility's customers. In the case of ICFA's, the utility is
3 obtaining capital from third parties (typically developers) and not investors
4 to construct the plant needed to serve their development projects.
5 Ordinarily, if the developer provides the capital with no arrangement to be
6 repaid over time (as in the case of the ICFA's), it is booked as CIAC which
7 is subsequently treated as a deduction from rate base to offset the utility
8 plant that it financed (the same treatment applies to plant built by a third
9 party and contributed to the utility). By deducting the CIAC from the utility
10 plant that it financed, the utility does not earn a return on it that would be
11 recovered in rates. Because CIAC is amortized over time there is no
12 recovery of the contributed plant through depreciation expense because of
13 accounting entries that offset the amount of depreciation expense
14 associated with the contributed plant. The ratemaking practice just
15 described insures that utilities do not recover funds that were never
16 provided by its investors through the rates that are paid by captive
17 customers.

18
19 Q. You stated earlier that the ratemaking practice you just described also
20 shifts risk away from both utilities and their captive ratepayers. Please
21 explain how this occurs.

22 A. Since there is always the chance that a new development will not
23 succeed, a properly managed utility will not put its investor supplied capital

1 at risk in order to build plant to serve customers that may never
2 materialize. If this were to occur the utilities' existing ratepayers could end
3 up paying for plant that was intended to serve other customers that either
4 don't exist or have left the system and is not generating any revenues for
5 the utility. CIAC solves this problem by shifting the risk associated with
6 the construction of plant for new development away from both the
7 ratepayer and the utility and placing it on the third party developer that
8 must put his or her own funds at risk.

9
10 Q. How has Global Utilities avoided this ratemaking practice?

11 A. As I explained in my direct testimony ICFA's are negotiated at the Global
12 Parent level (as opposed to line extension agreements that are negotiated
13 between a utility and a developer and subject to Commission review). The
14 funds obtained through the ICFA's are then recorded as revenue by
15 Global Parent on its books. Global Parent then infuses the funds into its
16 operating utilities as equity capital as opposed to CIAC. By doing this,
17 Global Utilities earns a return on and a return of capital that was supplied
18 by a third party developer through the rates paid by its captive customers
19 who are now exposed to the risk of having to pay for plant that was
20 intended for customers who either never materialized or have left the
21 system.

22

1 Q. Please comment on Mr. Hill's position that "CIAC destroys utility
2 companies."

3 A. Mr. Hill's position is misguided at best. He makes an argument that CIAC
4 creates poor infrastructure and weak undercapitalized utilities. I would
5 argue that it is poor management that created this situation by the over-
6 reliance on CIAC as a means of financing utility plant. If utility managers
7 used a reasonable mix of debt, equity and third party zero-cost capital
8 (such as CIAC and AIAC) to finance utility plant, the situation that Mr. Hill
9 describes would not exist. I would also add that this same situation
10 applies to Global Utilities as well, since it has in effect relied too heavily on
11 funds provided by ICFA's which both Staff and RUCO agree are nothing
12 more than CIAC. In short, a proper mix of financing is something that can
13 and has been accomplished by utilities in Arizona without the need for
14 ICFA's.

15
16 Q. Do you agree with Mr. Hill that this case is about total water management
17 and not rate base, expenses and rate of return?

18 A. No. I believe Mr. Hill is attempting to make something more out of this
19 case than what it is in order to distract the parties from the real issue at
20 hand, which is who pays what for their water and wastewater services and
21 that involves a complete analysis of rate base, expenses and rate of
22 return. In my view, total water management is a broader policy issue that
23 should be debated in a generic docket and not in a rate case proceeding.

1 Q. Should the Company have considered the possibility that the ICFA's might
2 be converted to CIAC in a future rate case proceeding given the findings
3 of the ACC Staff report filed in Docket No. W-00000C-06-0149?

4 A. Yes. Like every other business decision, when a company decides to buy
5 a weak or distressed utility, the company needs to do a complete financial
6 analysis that includes the ratemaking treatment that the Commission
7 generally allows for acquisitions. If the traditional ratemaking treatment is
8 to treat third party funds as CIAC, then the company needs to consider
9 this before acquiring the utility. If the company wants to seek a different
10 ratemaking treatment, there is always the likelihood that it will not be
11 allowed in a later ratemaking proceeding. The accepted ratemaking
12 treatment of CIAC is what this issue is about and nothing more. The
13 Company could have booked the ICFA's as CIAC after the ACC Staff
14 report was issued in Docket No. W-00000C-06-0149. This could have
15 mitigated the situation that the Company finds itself in now.

16
17 Q. Do you agree with Mr. Hill's arguments that ICFA's are the solution to
18 eliminate developer control over water planning and infrastructure
19 construction?

20 A. No. Mr. Hill paints a picture of the tail wagging the dog when it comes to
21 the use of CIAC. It has been my experience (with other water providers in
22 Arizona) that utilities can insure that plant additions are built to their
23 specifications under line extension agreements with third party

1 developers. I see no reason why the goals Mr. Hill wants to achieve
2 cannot be accomplished under traditional methods of financing utility plant
3 which include the use of CIAC. In fact, I believe that his total water
4 management concept should be presented to potential investors in order
5 to raise equity capital that Global Utilities' management can use to achieve
6 their goals and provide them with invested capital that the Company can
7 be able to legitimately earn a return on and a return of.

8

9 Q. What is RUCO's response to the compromise position that Mr. Hill puts
10 forth regarding the use of ICFA's for acquiring undercapitalized systems;
11 financing regional water, wastewater and recycled water infrastructure;
12 construction of regional plant; and acquiring renewable water supplies?

13 A. RUCO believes that Mr. Hill is sincere in his belief that ICFA's can
14 accomplish the goals listed above. However, as I stated earlier, I am not
15 sure that a rate case proceeding is the proper forum to address these
16 types of broad public policy issues. Again, I would say that a generic
17 proceeding is probably a better way to evaluate what Mr. Hill is seeking.
18 RUCO would not be opposed to a Commission order included in the final
19 decision of this case that opens generic dockets on these issues and total
20 water management for Arizona.

21

22 ...

23

1 Q. Please comment on Mr. Rowell's rebuttal testimony on ICFA's.

2 A. Mr. Rowell provides extensive testimony in regard to ACC Staff's position
3 on the treatment of CIAC that RUCO has adopted. The arguments that I
4 have made in regard to Mr. Hill's arguments against CIAC apply also to
5 Mr. Rowell's arguments.

6

7 **Franchise Fee Pass-Through**

8 Q. What is Global Utilities' rebuttal position on the franchise fee issue in this
9 case?

10 A. Mr. Moe states in his rebuttal testimony that Global Utilities continues to
11 support a franchise fee pass through mechanism but believes that
12 RUCO's recommendation would be appropriate should the Commission
13 deny the Company's request.

14

15 Q. Has RUCO made any changes in its recommendation regarding franchise
16 fees?

17 A. No. RUCO continues to recommend that the Commission allow the
18 Company to increase operating expenses in order to recover the
19 Company-requested portion of the franchise fee in customer rates.

20

21

22 ...

23

1 **Public Private Partnership Agreements**

2 Q. Has the Company offered any rebuttal testimony that opposes RUCO's
3 recommendation regarding P3 agreements?

4 A. No. Mr. Hill's rebuttal testimony addresses ACC Staff's position on this
5 matter but does not take issue with RUCO's recommendation.

6

7 Q. Has RUCO modified or changed its original position on P3 agreements?

8 A. No. RUCO continues to recommend that any remaining portion of
9 franchise fees negotiated through P3 agreements (currently being paid for
10 by the unregulated Global Parent entity) that are not associated with
11 services typically included in a municipal franchise fee not be recovered in
12 rates.

13

14 **COST OF CAPITAL**

15 Q. Have you had an opportunity to read Global Utilities' rebuttal testimony on
16 the cost of capital issues associated with the case?

17 A. Yes. I have read Mr. Rowell's rebuttal testimony that addresses cost of
18 capital.

19

20 Q. Has Global Utilities made any changes to the Company's original cost of
21 capital proposals?

22 A. Yes. Global Utilities has adopted RUCO's recommended blanket capital
23 structure and cost of debt for WVWC, VWC – Town Div., VWC – GB Div.

1 and WUGT. The Company continues to propose the same capital
2 structure and cost of debt presented in its direct testimony for PVUC and
3 SCWC.

4

5 Q. Has RUCO revised its recommended cost of common equity?

6 A. Yes. Based on recent information on the improving state of the economy,
7 a rejuvenated stock market, and reports in the financial press which
8 anticipate Federal Reserve actions to raise interest rates, I have increased
9 my recommended cost of equity capital from 8.01 percent to 9.00 percent.

10 Value Line analysts recently summed up the improving economic situation
11 in its weekly Economic and Stock Market Commentary in its Selection &
12 Opinion publication dated November 27, 2009:

13 **The long recession has faded into history**, brought to an end
14 in the third quarter when the nation's gross domestic product
15 increased by a solid 3.5%. That notable rebound followed four
16 straight quarters of contracting economic activity. The recession
17 was the worst in decades. The third quarter's surge in activity,
18 which was underpinned to some degree by federal programs to
19 assist the troubled auto and housing industries, may not continue
20 to the same degree in the current period. In fact, we expect
21 GDP growth to ease to a level closer to 2.0%-2.5% during the
22 fourth quarter. We think that the evolving expansion will then
23 remain on a similarly subdued path for much of 2010.
24 Thereafter, an increasing level of aggregate demand is likely to
25 develop—with belated help from better employment and housing
26 trends—and push the economy onto a materially faster track by
27 2011. The 3.0%, or better, pace of economic growth that we see
28 evolving by that time is likely to then continue through the middle
29 years of the coming decade.

30

31 Value Line's analysts had this to say about the current state of the stock
32 market:

33

1 Unlike the economy, which has proceeded on an irregular path
2 during the formative stages of its comeback, the stock market,
3 which lost more than half of its value from October, 2007 through
4 March, 2009, has come roaring back. At press time, the Dow
5 Jones Industrial Average was up about 60% from its bear market
6 lows of this past March. However, it was still some 25% below
7 the record highs set in late 2007. The market's revival, which
8 began as the worst fears on the credit and business fronts didn't
9 materialize, has been sustained with an assist from the Federal
10 Reserve, the government's stimulus efforts, and the
11 aforementioned revivals on the economic and profit fronts. Now,
12 with valuations having become a little stretched following eight
13 months of steady market increases, the bulls may have to deliver
14 even more good news to keep the rally going.
15

16 In regard to possible Federal Reserve action on interest rates, Wall Street
17 Journal correspondent Jon Hilsenrath recently reported² that "Federal
18 Reserve officials are thinking mostly these days about how to unwind the
19 unprecedented stimulus they've pumped into the economy" and that
20 eventually will mean raising interest rates. Mr. Hilsenrath quoted former
21 Fed governor Frederic Mishkin, a former Fed governor who advocated
22 moving rates down swiftly leading up to crises and who says they might
23 someday need to move up swiftly too, as saying "If you move in a very
24 gradual fashion back up when you need to, you'll get behind the curve in
25 terms of tightening fast enough."
26
27
28
29

² Hilsenrath, Jon, "WSJ Fed's Path to Higher Interest Rates Begins to Take Shape" The Wall Street Journal, November 2, 2009

1 **Capital Structure**

2 Q. Have you made any changes to your recommended blanket capital
3 structure?

4 A. No. As I stated above, Global Utilities has adopted my recommended
5 blanket capital structure, comprised of approximately 38 percent debt and
6 62 percent common equity, for all of its operating systems with the
7 exception of PVUC (45.4 percent debt and 54.6 percent equity) and
8 SCWC (43.9 percent debt and 56.1 percent equity). RUCO is
9 recommending that its recommended blanket capital structure be applied
10 to all of the Company's operating systems with the exception of WUGT for
11 which RUCO is recommending an operating margin of 8.03 percent (due
12 to the negative rate base situation described earlier).

13

14 Q. What is ACC Staff's position regarding capital structure?

15 A. Based on the direct testimony of witness Linda Jaress, ACC Staff is
16 recommending, with the exception of WUGT (due to negative rate base),
17 the following capital structures:

18

19

20

21

22

		<u>Debt</u>	<u>Equity</u>
1			
2	PVUC	45.3%	54.7%
3	SCWC	43.9%	56.1%
4	VWC – Town Div.	40.0%	60.0%
5	VWC – GB Div.	54.9%	45.1%
6	WVWC	40.0%	60.0%

7

8 **Cost of Debt**

9 Q. Have you made any changes to your recommended cost of long-term
10 debt?

11 A. No. As I also stated above, Global Utilities has adopted my recommended
12 cost of debt of 6.45 percent with the exception of PVUC (6.34 percent)
13 and SCWC (6.57 percent). As with capital structure, RUCO is
14 recommending that its recommended cost of debt be applied to all of the
15 Company's operating systems with the exception of WUGT for which
16 RUCO is recommending an operating margin of 8.03 percent (again due
17 to the negative rate base situation described earlier).

18

19 Q. What cost(s) of long-term debt is ACC Staff recommending?

20 A. Ms. Jaress is recommending the following:

21

22

23

1	PVUC	6.3%
2	SCWC	6.6%
3	VWC – Town Div.	6.7%
4	VWC – GB Div.	6.6%
5	WVWC	5.5%
6	WUGT	n/a

7

8 **Cost of Equity Capital**

9 Q. Has there been any recent activity in regard to interest rates?

10 A. Yes. On November 4, 2009, the Federal Reserve decided not to increase
11 or decrease the federal funds rate and kept it between zero and 0.25
12 percent. According to an article³ that appeared in The Wall Street Journal
13 on Thursday November 5, 2009, the Federal Reserve affirmed its plan to
14 keep interest rates "exceptionally low" for a long time despite signs
15 of economic recovery. But the Fed began to lay rhetorical groundwork for
16 an eventual shift in its stance, suggesting that when the unemployment
17 rate falls or if expectations of inflation turn up, it could change course.
18 "Economic activity has continued to pick up," the Fed said in a statement
19 following a two-day meeting. The article went on to state that, although
20 consumer spending has improved and housing activity has increased,
21 businesses were retrenching at a slower pace.

³ Hilsenrath, Jon, "Fed to Keep Rates Low Despite Pickup," The Wall Street Journal, November 5, 2009.

1 Q. Have you made any changes to the 8.22 percent cost of common equity
2 that you recommended in your direct testimony?

3 A. Yes as I explained earlier, I have increased my cost of common equity
4 estimate from 8.22 percent to 9.00 percent.

5
6 Q. What costs of common equity capital are the parties to the case
7 recommending?

8 A. The costs of common equity presently being recommended by Global
9 Utilities, ACC Staff and RUCO are as follows:

10

11 Global Utilities 10.00%

12 ACC Staff 10.00%

13 RUCO 9.00%

14

15 Q. What are the WACC presently being recommended by Global Utilities,
16 ACC Staff and RUCO?

17 A. The WACC presently being recommended by the Company, ACC Staff
18 and RUCO are as follows:

19

20

21

22

23

	<u>Company</u>	<u>ACC Staff</u>	<u>RUCO</u>
1			
2	PVUC	8.34%	8.30%
3	SCWC	8.49%	8.50%
4	VWC – Town Div.	8.65%	8.70%
5	VWC – GB Div.	8.65%	8.10%
6	WVWC	8.65%	8.20%
7	WUGT	8.65%	n/a

8

9 Both ACC Staff and RUCO are recommending operating margins of 10.00
10 percent and 8.03 percent respectively for WUGT.

11

12 Q. Has Mr. Rowell taken issue with your cost of capital analysis.

13 A. No. Mr. Rowell stated that since the Company's cost of equity
14 recommendation is in line with the cost of equity being proposed by ACC
15 Staff, there is no need to counter my analysis.

16

17 Q. Did either Global Utilities or ACC Staff conduct a cost of equity analysis in
18 this case?

19 A. No. RUCO is the only party in this case that actually conducted a full cost
20 of equity analysis. For this reason I believe that the Commission should
21 adopt RUCO's recommended 9.00 percent cost of equity.

22

23

1 **RATE DESIGN ISSUES**

2 **Rate Consolidation**

3 Q. Have you read the rebuttal testimony of Mr. Rowell that addresses the rate
4 consolidation issues in this proceeding?

5 A. Yes.

6

7 Q. Has RUCO changed its position on rate consolidation as a result of any of
8 the testimony presented by Mr. Rowell?

9 A. No.

10

11 **Phased-In Rates**

12 Q. Is RUCO still recommending phased-in rates for PVUC?

13 A. Yes. RUCO is also open to phasing in rates in any of the other Global
14 Utilities systems should the Company extend an offer to do so.

15

16 **Rebate Threshold Rates**

17 Q. Have you reviewed the rebuttal testimony of Mr. Symmonds on the
18 Company-proposed rate design?

19 A. Yes. Despite some disagreement with RUCO on whether or not the
20 Company-proposed rate design will achieve its goals, Mr. Symmonds is
21 pleased that RUCO has adopted the six-tier rate design being proposed
22 by Global Utilities.

23

1 Q. Has RUCO changed its position on the Company-proposed volumetric
2 rebate?

3 A. No. RUCO is still recommending that the Commission reject the
4 Company-proposed volumetric rebate.

5
6 Q. Does RUCO still believe that the Company has made an upward
7 adjustment of \$514,806 to its level of operating revenue in anticipation of
8 customers taking advantage of the aforementioned volumetric rebate
9 program?

10 A. No. That was an error on RUCO's part and was resolved through
11 communications between RUCO witness Rodney L. Moore and the
12 Company's Mr. Moe.

13
14 Q. Does your silence on any of the issues, matters or findings addressed in
15 the testimony of any of the witnesses for Global Utilities constitute your
16 acceptance of their positions on such issues, matters or findings?

17 A. No, it does not.

18
19 Q. Does this conclude your testimony on Global Utilities?

20 A. Yes, it does.