



0000020137

RECEIVED

BEFORE THE ARIZONA CORPORATION COMMISSION

2003 SEP -5 P 2:46

MARC SPITZER, CHAIRMAN
JIM IRVIN, COMMISSIONER
WILLIAM A. MUNDELL, COMMISSIONER
MIKE GLEASON, COMMISSIONER
JEFF HATCH-MILLER, COMMISSIONER

ARIZONA CORPORATION COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION)
OF ARIZONA-AMERICAN WATER)
COMPANY, INC., 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 BASED)
THEREON FOR UTILITY SERVICE BY)
ITS SUN CITY WEST WATER AND)
WASTEWATER DISTRICTS.)

DOCKET NO. WS-01303A-02-0867

Arizona Corporation Commission
DOCKETED

SEP 05 2003

DOCKETED BY

IN THE MATTER OF THE APPLICATION)
OF ARIZONA-AMERICAN WATER)
COMPANY, INC., 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 BASED)
THEREON FOR UTILITY SERVICE BY)
ITS SUN CITY WATER AND)
WASTEWATER DISTRICTS.)

DOCKET NO. WS-01303A-02-0868

IN THE MATTER OF THE APPLICATION)
OF ARIZONA-AMERICAN WATER)
COMPANY, INC., 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 BASED)
THEREON FOR UTILITY SERVICE BY)
ITS MOHAVE WATER DISTRICT AND)
ITS HAVASU WATER DISTRICTS.)

DOCKET NO. WS-01303A-02-0869

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

IN THE MATTER OF THE APPLICATION) DOCKET NO. WS-01303A-02-0870
OF ARIZONA-AMERICAN WATER)
COMPANY, INC., 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 BASED)
THEREON FOR UTILITY SERVICE BY)
ITS ANTHEM WATER DISTRICT, ITS)
AGUA FRIA WATER DISTRICT, AND)
ITS ANTHEM/AGUA FRIA)
WASTEWATER DISTRICT.)

IN THE MATTER OF THE APPLICATION) DOCKET NO. ~~WS~~-01303A-02-0908
OF ARIZONA-AMERICAN WATER)
COMPANY, INC., 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 BASED)
THEREON FOR UTILITY SERVICE BY)
ITS TUBAC WATER DISTRICT.)

**TOWN OF YOUNGTOWN'S NOTICE OF FILING
PREFILED DIRECT TESTIMONY**

Town of Youngtown, by and through its attorneys, hereby files the Prefiled
Direct Testimony of Michael E. Burton and Andrew J. Burnham of the utility finance and
economics consulting firm of Burton & Associates, Inc.

RESPECTFULLY SUBMITTED, this 5th day of September, 2003.

MARTINEZ & CURTIS, P.C.
Paul R. Michaud
William P. Sullivan
Paul R. Michaud
Attorneys for Town of Youngtown

1 **Original and twenty-one (21) copies of**
2 **the foregoing filed this 5th day of September, 2003 with:**

3 Docket Control Division
4 ARIZONA CORPORATION COMMISSION
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 **Copies of the foregoing hand-delivered and/or mailed**
8 **this 5th day of September, 2003 to:**

9 Teena Wolfe, Administrative Law Judge
10 ARIZONA CORPORATION COMMISSION
11 Hearing Division
12 1200 West Washington Street
13 Phoenix, Arizona 85007

14 Christopher Kempsey, Chief Counsel
15 Legal Division
16 ARIZONA CORPORATION COMMISSION
17 1200 West Washington Street
18 Phoenix, Arizona 85007

19 Ernest Johnson, Director
20 Utilities Division
21 ARIZONA CORPORATION COMMISSION
22 1200 West Washington Street
23 Phoenix, Arizona 85007

24 Daniel Posefsky, Esq.
25 RUCO
26 1110 West Washington Street, Suite 220
Phoenix, Arizona 85007

Norman D. James
Jay L. Shapiro
FENNEMORE CRAIG
3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012
Attorneys for Arizona-American Water Company

Carlton G. Young
3203 W. Steinbeck Drive
Anthem, Arizona 85068-1540

Frank J. Grimmelmann
42441 N. Cross Timbers Court
Anthem, Arizona 85086

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

Raymond E. Dare
SUN CITY TAXPAYERS' ASSOCIATION
12611 N. 103rd Avenue, Suite D
Sun City, Arizona 85351-3467

Walter W. Meek
AUIA
2100 N. Central Avenue
Suit 210
Phoenix, Arizona 85004

John A. Buric
WARNER ANGLE HALLAM JACKSON & FORMANEK, PLC
3550 North Central Avenue, Suite 1500
Phoenix, Arizona 85012

Paul R. Michael

1753\10-1\pleadings\Notice of Filing

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

PREFILED DIRECT TESTIMONY OF MICHAEL E. BURTON

ON BEHALF OF TOWN OF YOUNGTOWN

- Docket No. WS-01303A-02-0867**
- Docket No. WS-01303A-02-0868**
- Docket No. WS-01303A-02-0869**
- Docket No. WS-01303A-02-0870**
- Docket No. WS-01303A-02-0908**

SEPTEMBER 5, 2003

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

TABLE OF CONTENTS

PREFILED DIRECT TESTIMONY OF MICHAEL E. BURTON

	<u>Page</u>
I. INTRODUCTION.....	1
II. SUMMARY OF RECOMMENDATIONS.....	6
III. DETERMINATION OF FVRB.....	7
IV. DEFERRAL OF ACCOUNTING TREATMENT FOR ACQUISITION ADJUSTMENT.....	12
V. IRRIGATION WATER TARIFF.....	13
VI. ADEQUACY OF WATER SERVICE TO YOUNGTOWN FIRE HYDRANTS.....	15

1 **I. INTRODUCTION AND QUALIFICATIONS**

2
3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is Michael E. Burton and my business address is 2902 Isabella Blvd.,
5 Suite 20, Jacksonville Beach, Florida.

6
7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am the President and Owner of Burton & Associates, Inc., a utility finance and
9 economics consulting firm.

10
11
12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
13 **BUSINESS EXPERIENCE.**

14 A. I graduated from the University of Florida with a Bachelor of Science Degree in
15 Industrial Engineering. I also completed MBA coursework in Finance at Georgia
16 State University. I have over 30 years experience in water resources economics
17 management consulting, ten years of which have been with Arthur Young &
18 Company (now Cap Gemini Ernst & Young), one of the largest accounting and
19 management-consulting firms in the nation. I was a principal of that firm and
20 served as Director of the Florida Utility Finance Consulting Practice. My lengthy
21 experience in the financial management of water, wastewater, reclaimed water
22 and stormwater utilities has included rate case assistance to private utilities, rate
23 regulation assistance to jurisdictional counties, utility acquisition analyses and
24 consensus building, user charge/rate studies, impact fee studies, financial advisory
25
26

1 services for the issuance of revenue bonds, bond issue feasibility studies/forecasts,
2 expert witness testimony, and strategic planning for the provision of utility
3 services for governmental jurisdictions and private developers. A copy of my
4 resume detailing my education and work experience is attached to this testimony
5 as MEB Exhibit 1.
6

7
8 **Q. PLEASE DESCRIBE BURTON & ASSOCIATES, INC.**

9 A. I founded Burton & Associates in April of 1988. Since that time, the firm has
10 specialized in utility economics. Burton & Associates has developed proprietary
11 software and an interactive process specifically to accomplish the integration of
12 the financial planning and ratemaking process with the capital planning process.
13 The firm provides services in multiple areas, including retail and wholesale cost
14 of service and rate studies, utility economics, financial program development,
15 system and property valuation and analyses, operations and performance reviews,
16 strategic planning, financial feasibility analyses, privatization and managed
17 competition analyses, and development of capital finance plans integrated with
18 the client's overall financial management program. A copy of the firm resume is
19 attached to this testimony as Exhibit MEB 2.
20
21
22
23
24
25
26

1 **Q. WHAT ARE YOUR RESPONSIBILITIES WITH BURTON &**
2 **ASSOCIATES, INC.?**

3 A. As President and Owner of Burton & Associates, I provide expert professional
4 utility economics services to the firm's clients, manage each client project as
5 Project Director, and oversee my staff's provision of professional services to our
6 clients on behalf of the firm. I also define and upgrade all technical tools used by
7 firm staff to deliver services to our clients. I oversee the education of firm staff
8 regarding industry and regulatory changes and have written a number of papers
9 for and have made multiple presentations to industry participants and professional
10 organizations that have a stake or interest in water resources. I upgrade and
11 change our services delivery process in response to feedback from our clients and
12 from industry professionals on a regular basis. I am personally involved in each
13 and every consulting project for the firm.

14
15
16
17 **Q. WHAT IS YOUR EXPERIENCE IN UTILITY RATE REGULATION?**

18 A. As explained in detail in my resume, I served for over ten years as the regulatory
19 consultant to the St. John's County Water and Sewer Authority ("SJCWSA"). In
20 this capacity, I reviewed all rate case applications and proceedings brought before
21 the authority and developed recommendations with regard to SJCWSA actions
22 relating to those proceedings. In addition, I have assisted in the preparation of
23 rate case applications and related proceedings for private utilities regulated by the
24
25
26

1 Florida Public Service Commission ("FPSC"). I have served as an expert witness
2 in numerous proceedings before both the SJCWSA and the FPSC.

3
4 **Q. ARE YOU A MEMBER OF ANY INDUSTRY GROUPS OR**
5 **ORGANIZATIONS?**
6

7 A. Yes. I am currently a member of the American Water Works Association, where
8 I serve as a member of its Rate and Charges Subcommittee. As a member of that
9 subcommittee, I am currently serving on a task force as a co-author of a Small
10 System Rates Manual.
11

12 **Q. WHAT MANUALS, PAPERS OR ARTICLES HAVE YOU WRITTEN**
13 **AND WHAT PRESENTATIONS HAVE YOU MADE AS A UTILITY**
14 **ECONOMICS PROFESSIONAL CONSULTANT?**
15

16 A. I have written, co-authored or presented the following: 1) AWWA MANUAL-
17 RATE MAKING FOR SMALL UTILITIES-Co-Authoring for AWWA. Due for
18 publication in 2004; 2) INTEGRATION OF CAPITAL AND FINANCIAL PLANNING-
19 Written and presented at the Florida Water Resources Conference-2003 -Tampa,
20 Florida; 3) FINANCIAL IMPLICATION OF ALTERNATIVE WATER SUPPLY - Written
21 and presented at the Florida Water Resources Conference-2003 Tampa, Florida;
22 4) THE EFFECT OF INCLINING BLOCK WATER RATES UPON WATER USAGE &
23 REVENUE -Presented at the Florida Water Resources Conference-2003 Tampa,
24 Florida; 5) IMPLEMENTATION OF RECLAIMED WATER RATES & METERING - Co-
25
26

1 Authored With Al Castro, P.E. – Orange County Utilities, written and presented at
2 the Florida Water Resources Conference-2002 Orlando, Florida, and published in
3 the FWR Journal – 2002; 6) WATER RATE MAKING FOR GOVERNMENTAL
4 UTILITIES - Written for presentation to the St. Johns River Water Management
5 District under contract with the Orange County Public Utilities (utilities serving
6 the greater Orlando area) – 2001; 7) EVALUATING & SETTING RATES- Written and
7 presented at the Water Environment Federation, Dallas, Texas 1998; 8)
8 RECLAIMED WATER RATE MAKING - Written and presented at the AWWA 1998
9 Water Reuse Symposium in Orlando, Florida (February 1998); 8) AN
10 AUTOMATED COMPUTER MODEL FOR THE FUNDING AND MANAGEMENT OF
11 REUSE SYSTEMS - Written and presented at the AWWA 1994 Water Reuse
12 Symposium in Dallas, Texas (March 1994).

13
14
15
16 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS RATE CASE?**

17 A. I am testifying on behalf of the Town of Youngtown (“Youngtown” or “Town”).
18 Youngtown and its residents are customers of Arizona-American Water Company
19 (“Arizona American” or “Company”) and thus have a direct and substantial
20 interest in the outcome of the Company’s requested rate increase. As such, my
21 associate Andrew J. Burnham and I expended a considerable amount of time
22 analyzing the Arizona-American’s Rate Increase Application to determine
23 whether the Company’s requested rate increase was in the public interest and fair
24 and reasonable to Youngtown and its residents.
25
26

1 **II. SUMMARY OF RECOMMENDATIONS**

2
3 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
4 **RATE CASE?**

5
6 A. The purpose of my Direct Testimony is to make the following four
7 recommendations to the Administrative Law Judge (“ALJ”), based on my
8 analysis of Arizona-American’s Rate Increase Application, in deciding the
9 outcome of this proceeding:

10
11 First, the Original Cost Rate Base (“OCRB”) should be utilized as Fair Value
12 Rate Base (“FVRB”) in this rate case.

13
14
15 Second, that as a matter of public interest, the Commission should defer the
16 accounting treatment of any acquisition adjustment from Arizona-American’s
17 purchase of Citizens’ assets until such point in time that the Company formally
18 requests recovery of an actual acquisition adjustment amount and there is
19 sufficient experience so the Commission can properly evaluate whether the
20 customers are receiving any demonstrable benefits as a result of the acquisition.

21
22
23 Third, that as matter of fairness to all of Arizona-American’s customers in the Sun
24 City Water District, the Company should revise its irrigation water rate tariff to
25
26

1 also include service to Youngtown, including Maricopa Lake maintained by
2 Youngtown and open to the public.

3
4 Lastly, the Commission should require Arizona-American to work with the
5 Youngtown Mayor and City Counsel as well as the Fire Marshal for the Sun City
6 Fire Department to develop a long-range plan to remedy any and all existing
7 water service adequacy problems to Youngtown's fire hydrants located within the
8 Company's Sun City Water District.
9

10
11 **III. DETERMINATION OF FVRB**

12
13 **Q. HOW DOES ARIZONA-AMERICAN PROPOSE TO CALCULATE FVRB**
14 **FOR ITS VARIOUS WATER AND WASTEWATER DISTRICTS?**

15 A. Arizona-American proposes to use its calculation of Reconstruction Cost New
16 less Depreciation ("RCND") rate base as FVRB for each of the Company's
17 districts. The RCND method is a calculated representation, in current dollars, of
18 what it might cost to reconstruct the existing plant that multiplies the original cost
19 of the facilities by a selected index (by month and year of acquisition). Arizona-
20 American made adjustments for retirements and additions, and trended
21 accumulated depreciation balances based on the ratio of total RCN plant value to
22 total original plant costs and subtracted those balances from the RCN. This
23 calculation was then used by Arizona-American as the FVRB.
24
25
26

1 **Q. DO YOU BELIEVE THAT ARIZONA-AMERICAN'S APPROACH TO**
2 **CALCULATE FVRB FOR ITS VARIOUS WATER AND WASTEWATER**
3 **DISTRICTS IS APPROPRIATE?**

4 A. No.

5
6
7 **Q. WHAT DO YOU BELIEVE IS THE APPROPRIATE APPROACH TO**
8 **CALCULATE THE CURRENT VALUE OF WATER AND**
9 **WASTEWATER ASSETS?**

10 A. Clearly the best approach to determine the fair value of assets upon which a utility
11 may earn a return is one that utilizes a combination of multiple valuation methods
12 that would likely include RCND and an income approach, based upon OCRB and
13 any other relevant factors that are relevant to the particular utility.
14

15
16 **Q. WHY THEN ARE YOU ADVOCATING THE USE OF OCRB ALONE AS**
17 **FVRB IN THIS INSTANCE?**

18 A. Because Arizona Corporation Commission ("Commission") Decision No. 63584,
19 dated April 24, 2001, approving Arizona-American's purchase of Citizens' water
20 and wastewater assets, essentially mandates that the use of RCND in a fair value
21 determination must be deferred until such time as Arizona-American requests
22 recovery of an acquisition amount. A copy of Decision No. 63584 is attached to
23 this testimony as MEB Exhibit 3. Furthermore, as I read the Decision, Arizona-
24 American's purchase of Citizens' water and wastewater assets included the
25

26

1 express condition that any request for an acquisition must include a showing of a
2 clear and quantifiable public benefit that would not have existed had the sale not
3 occurred.

4
5
6 **Q. YOU MENTIONED THE SHOWING OF "PUBLIC BENEFIT" IN YOUR**
7 **PRIOR ANSWER. DO YOU BELIEVE THAT PUBLIC BENEFITS**
8 **FACTOR INTO THE FVRB DETERMINATION?**

9 A. Yes. The OCRB reflects the amount actually paid for property when it was
10 initially devoted to a public purpose, less the amount consumed through use (i.e.,
11 depreciation). Use of any FVRB greater than the OCRB causes the ratepayers to
12 provide a return on dollars that were not actually expended on property devoted to
13 a public purpose. On the other hand, RCND is an estimate of the depreciated
14 value of the property adjusted for current prices. If a FVRB based on RCND
15 causes rates to be higher than what they would be under a straight OCRB
16 approach as in this case, then the utility must demonstrate a public benefit
17 justifying the use of RCND in the FVRB determination. For Arizona-American's
18 assets acquired from Citizens to be worth more than OCRB, the Company must
19 prove that awarding additional "worth" resulting from using RCND in the FVRB
20 determination provides incremental public benefit above that provided if OCRB
21 were used as FVRB. If no additional public benefit can be proven from the
22 awarding of higher rates resulting from a FVRB calculation relying upon RCND,
23 there should not be a premium of value above OCRB.
24
25
26

1 **Q. PLEASE EXPLAIN WHY THE RECOVERY OF AN ACQUISITION**
2 **ADJUSTMENT AND THE USE OF RCND RATE BASE FOR**
3 **CALCULATING FVRB MUST BE CONSIDERED SIMULTANEOUSLY**
4 **IN THE CASE OF ARIZONA-AMERICAN.**

5
6 **A.** As I mentioned, RCND is one factor, that when considered in conjunction with
7 other valuation methods and all other factors relevant to the utility, can assist a
8 regulatory body, such as the Commission, in establishing a reasonable estimation
9 of fair value of the plant. A purchaser in determining what to pay for a utility
10 should consider these same factors. On the other hand, an acquisition adjustment
11 seeks to adjust the utility's books so that the plant's book value is closer to the
12 amount paid by the willing buyer. Thus, two recovery of an acquisition
13 adjustment and the use of RCND rate base for calculating FVRB are related and
14 are intended to accomplish the same purpose – to reflect the value of the plant
15 placed in service.

16
17
18 The Commission, however, has already set forth the criteria that must be met
19 before Arizona-American can request recovery of an amount above the original
20 costs of these assets. Because of Arizona-American's proposal to defer the
21 determination of an acquisition adjustment amount, any determination of current
22 fair value that is based on anything but original cost has in essence been held in
23 abeyance. By deferring its request for an amount of an acquisition adjustment,
24 Arizona-American has effectively deferred the Commission's determination of
25
26

1 the appropriateness of valuing Arizona-American's utility assets above original
2 cost less depreciation. By allowing any use of RCND in determining FVRB now,
3 the Commission would be allowing Arizona-American to side-step a condition
4 from the previous Decision and Order (Decision No. 63584) and achieve a
5 premium in value (indicative of an acquisition adjustment) without demonstrating
6 public benefit. Therefore, with the decision still looming regarding the recovery
7 and size of an acquisition adjustment, the Commission should require the use of
8 OCRB as the FVRB.
9

10
11 **Q THEN WHY DO YOU BELIEVE THAT ARIZONA-AMERICAN HAS**
12 **REQUESTED DEFERRAL OF AN ACQUISITION ADJUSTMENT IF IT**
13 **IS CRITICAL TO THE DETERMINATION OF FAIR VALUE?**
14

15 **A.** An acquisition adjustment is an adjustment to rate base to reflect the difference
16 between OCRB and the fair value of the utility acquired. As I stated before, the
17 Commission has conditioned the award of the amount of an acquisition
18 adjustment, if any, by requiring that Arizona-American clearly demonstrate the
19 public benefit of the acquisition. I believe that logically, Arizona-American must
20 know that demonstrating a public benefit will be difficult; therefore, the strategy
21 of asking for RCND as FVRB, prior to having to demonstrate public benefit,
22 effectively bypasses the issue. Furthermore, if the Commission accepts Arizona-
23 American's proposal to use RCND as FVRB in this proceeding, the Commission
24 will have effectively approved an acquisition adjustment without Arizona-
25
26

1 American having to comply with the provision of the Commission's prior
2 Decision and Order that public benefit must be demonstrated.

3
4 **IV. DEFERRAL OF ACCOUNTING TREATMENT FOR**
5 **ACQUISITION ADJUSTMENT**
6

7 **Q. WHAT IS YOUR POSITION REGARDING ARIZONA-AMERICAN'S**
8 **REQUEST TO RECEIVE REGULATORY APPROVAL FOR CERTAIN**
9 **ACCOUNTING TREATMENT OF AN ACQUISITION ADJUSTMENT,**
10 **BUT DEFER THE DETERMINATION OF AN ACTUAL AMOUNT OF**
11 **THE ACQUISITION ADJUSTMENT?**
12

13 **A.** Arizona-American's request for accounting treatment prior to establishing the
14 dollar amount which, the accounting would be applied, is simply illogical and
15 inappropriate. The more prudent, and appropriate approach is to have the specific
16 dollar amount and the accounting treatment for that dollar amount established
17 simultaneously for the following reasons:
18

- 19 1. The appropriate accounting approach for an acquisition adjustment
20 may well vary depending upon the amount of the adjustment;
- 21 2. The establishment of accounting treatment for something that may
22 not exist could result in a wasted effort if an acquisition adjustment
23 is not awarded; and
- 24 3. This proceeding likely has different participants than will the
25 proceeding in which the dollar value of any acquisition adjustment
26

1 is to be established due to the fundamental topical differences and
2 timing. That means that parties who would take issue with any and
3 all aspects of an acquisition adjustment in a future proceeding will
4 be bound by the results of this proceeding (in regards to accounting
5 treatment of an acquisition adjustment), of which they might not
6 have been a participant.
7

8
9 **V. IRRIGATION WATER TARIFF**

10
11 **Q. DOES ARIZONA-AMERICAN CURRENTLY HAVE IN ITS RATE**
12 **STRUCTURE AN IRRIGATION WATER TARIFF FOR THE**
13 **COMPANY'S SUN CITY WATER DISTRICT?**

14 **A.** Yes. Arizona-American has in its existing rate structure an irrigation water tariff,
15 which applies to recreation lakes located in the Company's Sun City Water
16 District.
17

18
19 **Q. DOES ARIZONA-AMERICAN'S IRRIGATION WATER TARIFF ALSO**
20 **APPLY TO THE RECREATION LAKES IN YOUNGTOWN?**

21 **A.** No. Arizona-American's irrigation water tariff is currently not available to the
22 recreation lake in Youngtown; namely the Maricopa Lake. Because the irrigation
23 water tariff is a lower rate than general service rates, Youngtown currently pays
24 more for water service to its recreation lake than Arizona-American's other
25 recreation lake customers in the Company's Sun City Water District.
26

1 Town Council. A copy of the letter is attached to this testimony as MEB Exhibit

2 5.

3
4 Youngtown, as well as the Sun City Fire Department, are concerned that several
5 areas of Arizona-American's water system serving Youngtown may have sub-
6 standard size main and branch lines to support the required size and type fire
7 hydrant to achieve required fire flows for residential and commercial structures.
8 They are also concerned that pocket areas of Youngtown may lack fire hydrants
9 altogether. Lastly, they are concerned with flow pressure depending on location
10 of fire hydrant within Youngtown and time of day the fire hydrant would need to
11 be used by the fire department.
12
13

14
15 **Q. DOES YOUNGTOWN PROPOSED A SOLUTION TO REMEDYING THE**
16 **DEFICIENCIES IN ARIZONA-AMERICAN'S WATER SERVICE TO**
17 **YOUNGTOWN'S FIRE HYDRANTS?**

18 A. Yes. Youngtown proposes that Arizona-American commence a "Fire Hydrant
19 Water Service Improvement Plan", which would be a five-year plan, to remedy
20 any identified deficiencies in the Company's water service to Youngtown's fire
21 hydrants, including those deficiencies specifically identified above by the Sun
22 City Fire Department in MEB Exhibit 5. This proposal includes the requirement
23 that Arizona-American include the participation of Youngtown, as well as the Sun
24
25
26

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

City Fire Department, in the Company's development of the five-year Fire Hydrant Water Service Improvement Plan.

Q. DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY?

A. Yes.

MICHAEL E. BURTON



SUMMARY

Mr. Burton has over **30 years experience** in water resources economics management consulting, ten years of which have been with Arthur Young & Company, one of the "Big Eight" national accounting and management consulting firms. Mr. Burton was a principal of the firm and served as Director of the Florida Governmental Services - Utility Finance Consulting Practice.

His experience in the financial management of water, wastewater, reclaimed water and stormwater utilities includes user charge/rate studies, impact fee studies, financial advisory services for the issuance of revenue bonds, bond issue feasibility studies/forecasts, strategic planning for the provision of utility services for governmental jurisdictions and private developers, rate case assistance to private utilities, rate regulation assistance to jurisdictional counties, utility acquisition analyses and consensus building.

PROFESSIONAL EXPERIENCE

Mr. Burton's experience includes the following areas of practice:

γ **Water, Wastewater, Reclaimed Water, and Stormwater** -

- Revenue sufficiency analysis,
- Cost allocation determination,
- CIP program development,
- Funding analyses,
- Financial management programs,
- Regulatory assistance,
- Rates programs,
- Rate structure design,
- Impact fees,
- Unaccounted for water audits
- Utility valuations,
- Acquisition planning and analyses,
- Strategic planning and economic impact quantification,
- Water resources planning including alternative source of supply, and
- Rate case assistance
- Expert Witness Testimony

γ **Governmental Services** - Impact fees, capital improvement programs, user fees, contracting with the private sector, general government financial analysis and management program development.

γ **Solid Waste** - Governmental, regulated private franchises, rates, tipping fees, operations audits.

MICHAEL E. BURTON



- γ Regulatory Agencies - Counties, municipalities, Public Service Commissions, Department of Environmental Regulation, U. S. Environmental Protection Agency, water management districts, water and sewer authorities.

γ EXPERTISE

Functional areas of expertise and direct consulting experience include:

γ Fully Allocated Cost of Service, Water, Wastewater, Reclaimed Water and Stormwater Rate Studies

- < Determination of operations & maintenance costs
 - \$ Direct costs
 - \$ Indirect costs identification of capital costs
 - \$ Capital improvement Programs
 - \$ Debt service requirements
 - \$ Renewal & replacement
- < Determination of rate base (regulated utilities)
 - \$ Fixed assets/plant investments
 - \$ Contributions in aid of construction (CIAC)
 - \$ Service availability fees
 - \$ Used and useful analysis
 - \$ Weighted cost of capital to include:
 - T *Debt/equity ratios*
 - T *Cost of money*
 - T *Return on equity*
- < Allocation of costs
 - \$ Fixed
 - \$ Variable
 - \$ Capacity
 - \$ Demand
 - \$ Special services
- < Commodity demand projections
- < Rate structure design
 - \$ ERC Determination
 - \$ Fixed or minimum charges
 - \$ Usage/commodity charges
 - \$ Specific service charges

MICHAEL E. BURTON



γ Impact Fee Development

EXPERTISE - CONTINUED

Functional areas of expertise and direct consulting experience include:

γ Fully Allocated Cost of Service, Water, Wastewater, Reclaimed Water and Stormwater Rate Studies - Continued

- < Utility impact fees
 - \$ Water & sewer
 - \$ Solid waste
- < Municipal services impact fees
 - \$ Parks and recreation
 - \$ Fire
 - \$ Police
 - \$ Transportation
 - \$ General government

γ Capital Improvement Programs

- < Concurrency management plans
- < Regulatory compliance
- < Funding source analysis
- < Financial feasibility analysis
- < Developer regulations/agreements

γ Special Fee Determination (consumptive use permits application fees, etc.)

γ Regulatory Compliance

γ Operations Audit/Analysis

- < Organization and staffing
- < Customer service
- < Resource management

γ Revenue Bond Financing

- < Financial advisory services
 - \$ Underwriter evaluation/selection
 - \$ Structure of financing
- < Feasibility studies/forecasts

γ Inventory and Valuation of Fixed Assets

γ Utility Valuation for Sale/Acquisition

MICHAEL E. BURTON



EXPERTISE - CONTINUED

γ Strategic Planning

- < Governmental jurisdictions
 - § Definition of service objectives
 - T *Service area(s)*
 - T *Service area jurisdiction policy*
 - T *Level of service*
 - § Regulatory policies and procedures
 - § Definition of framework for growth
 - T *Facilities and operations*
 - .. Main extension policies
 - .. Utility acquisition plans
 - .. Organization and staffing requirements
 - .. Regulatory resources (staff, consultants, etc.)
 - T *Funding*
 - .. Utility acquisition funding strategy
 - .. Cost impact/rate projections
 - .. Capital requirements
 - .. Contributions in aid of construction policy
 - .. Assessment policies
 - .. Impact fees
- < Private utilities and developers
 - § Utility planning relative to regulatory constraints and development plan alternatives
 - § Capital requirements, projected rates, plant investment strategy
 - T *Phasing relative to growth and impact on used and useful plant*
 - T *Analysis of debt/equity ratios to maximize return*

MICHAEL E. BURTON



PUBLICATIONS & PRESENTATIONS

Recent publications and presentations written, co-written and presented by Mr. Burton include:

AAWWA MANUAL - RATE MAKING FOR SMALL UTILITIES@ - Co-Authoring for AWWA. Due for publication in 2004.

AINTEGRATION OF CAPITAL AND FINANCIAL PLANNING@ - Written and presented at the Florida Water Resources Conference-2003 -Tampa, Florida

AFINANCIAL IMPLICATION OF ALTERNATIVE WATER SUPPLY@ - Written and presented at the Florida Water Resources Conference-2003 Tampa, Florida

ATHE EFFECT OF INCLINING BLOCK WATER RATES UPON WATER USAGE & REVENUE”
Presented at the Florida Water Resources Conference-2003 Tampa, Florida

AIMPLEMENTATION OF RECLAIMED WATER RATES & METERING@ - Co-Authored With Al Castro, P.E. – Orange County Utilities, written and presented at the Florida Water Resources Conference-2002 Orlando, Florida, and published in the FWR Journal - 2002

AWATER RATE MAKING FOR GOVERNMENTAL UTILITIES@ - Written for presentation to the St. Johns River Water Management District under contract with the Orange County Public Utilities (utilities serving the greater Orlando area) - 2001

AEVALUATING & SETTING RATES@ - Written and presented at the Water Environemnt Federation, Dallas, Texas 1998

ARECLAIMED WATER RATE MAKING@ - Written and presented at the AWWA 1998 Water Reuse Symposium in Orlando, Florida (February 1998)

AAN AUTOMATED COMPUTER MODEL FOR THE FUNDING AND MANAGEMENT OF REUSE SYSTEMS@ - Written and presented at the AWWA 1994 Water Reuse Symposium in Dallas, Texas (March 1994)

AWATER RATE MAKING FOR GOVERNMENTAL UTILITIES@ - Currently developing this paper for presentation to the St. Johns River Water Management District under contract with the Orange County Public Utilities (utilities serving the greater Orlando area)

MICHAEL E. BURTON



BUSINESS EXPERIENCE

President

*Burton & Associates
Jacksonville Beach, FL*

Director of Consulting

*Florida Systems Consulting Group, Inc.
Jacksonville, FL*

Principal

*Arthur Young & Company
Director of Florida Governmental Services
Jacksonville, FL*

Associate Vice President

*Plantec Corporation
Director of Financial & Planning Consulting Services Division
Jacksonville, FL*

EDUCATION

MBA Coursework, Finance
Georgia State University
Atlanta, GA

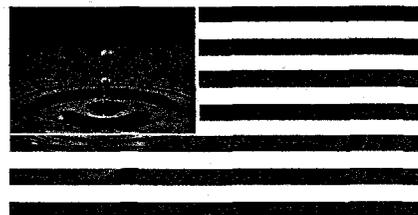
BSIE
University of Florida
Gainesville, FL

Burton & Associates

Burton & Associates

As a specialty firm, **Burton & Associates** has successfully provided financial assistance to our governmental utility clients for more than a decade in the following areas of practice:

- Utility economics**
- Financial program development**
- System & property valuation and analyses**
- Retail and wholesale cost of service & rate studies**
- Operations and performance reviews, strategic planning, financial feasibility analyses and reports, annexation analyses and reports**
- Privatization and managed competition analyses and reports**
- Administrative and negotiations assistance with ordinances, interlocal agreements, regulatory mandates and impact analyses**
- Bond feasibility reports for inclusion in the office statements of revenue bonds**
- The development of capital finance plans integrated with the utility's overall financial management program**
- The development of an interactive automated process which allows us to quickly evaluate revenue sufficiency, alternative capital plans and alternative financing scenarios with regard to those plans in order to evaluate the implications regarding all aspects of the utility's financial management program**



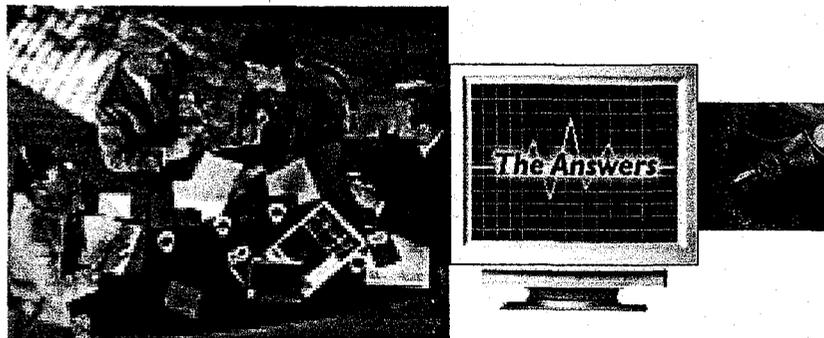
- **Coordination with rating agencies in support of our bond feasibility reports for the issuance of revenue bonds.**
- **Evaluation of and assistance in negotiations with regard to contract services, utility acquisitions, developer agreements and utility main extension policies.**
- **Development of capital cost recovery fees.**

A. Our Utility Economics Experience

Michael Burton, President of Burton & Associates has over 30 years of direct experience providing revenue sufficiency analyses services. He has provided those services as a rate consultant, project manager, and project director for many local governments over the past 30 years. In the early 1990s, Mike developed a unique interactive process for his clients that has set him and Burton & Associates apart from others providing similar services. This powerful proprietary process, coupled with his lengthy and extensive experience as a Utility Economics Consultant has placed him as the most senior and knowledgeable resource available to you. Mike and his staff provide the most effective and efficient utility economics services (especially revenue sufficiency analyses services) available.

FAMS-XL©

Recently, Mike has developed a new version of the model used in this process. The new model is an EXCEL version of FAMS known as FAMS-XL©.



This powerful new version encompasses many improvements over the original FAMS model including:

- γ A more straight forward depiction of the flow of funds
- γ Projection of revenues that includes consideration of:
 - the effect of growth in customers upon fixed charge revenues and,
 - the effects of growth in customers and changes in usage patterns upon usage charge revenues
- γ The ability to perform:
 - a *capital requirements driven analysis* which determines the level of revenue necessary to fund specified capital improvement program requirements, and/or
 - a *revenues driven analysis* which determines the window of funding available for capital improvement program requirements in each year of the forecast period given the specified limit on rate revenue increases.
- γ The ability to provide extended projection periods of up to 10-years, with anticipatory projection periods for up to 20 years.

We are currently using FAMS-XL© in projects for many cities and counties.

To further demonstrate the ability of our Firm to provide superior utility economics services, it is important to note that Mike currently sits on the Rates and Charges Subcommittee for the AWWA, where he is co-authoring a Rates, Fees and Charges Manual for publication by the AWWA.

What is significant to this project is that the section of this manual for which Mike has sole responsibility is the Revenue Requirements Determination section. The other members of the AWWA Rates and Charges Committee felt that Mike had the most "hands-on" experience and overall knowledge where local government utility revenue sufficiency, capital planning and rate making in general were concerned.

Mike has written, been published, educated and/or made presentations on water, wastewater, reclaimed water and stormwater issues including water and wastewater revenue sufficiency for the following:

*/ American Water Works Association
/ Florida Water Resources Conference
/ Volusia Water Alliance
/ Orange County Utility Consortium
/ St. Johns River Water Mgt. District,
/ Lee County Water Authority,*

*/ St. Johns Co. Water & Sewer Authority,
/ US Environmental Protection Agency,
/ Florida Department of Environmental
Regulation, Bureau of Wastewater
Management and Grants,*

Mike has written and presented many papers and articles which speak to the issues included in a study such as this. These include:

- ∅ **AWWA MANUAL - RATE MAKING FOR SMALL UTILITIES** - *Co-Authored for AWWA. Due for publication in 2004.*
- ∅ **INTEGRATION OF CAPITAL AND FINANCIAL PLANNING** - *Written and presented at the Florida Water Resources Conference-2003 -Tampa, Florida*
- ∅ **FINANCIAL IMPLICATIONS OF ALTERNATIVE WATER SUPPLY** - *Written and presented at the Florida Water Resources Conference-2003 Tampa, Florida*
- ∅ **THE EFFECT OF INCLINING BLOCK WATER RATES UPON WATER USAGE & REVENUE** *Presented at the Florida Water Resources Conference-2003 Tampa, Florida*
- ∅ **Utility Rate Studies** - *A paper and presentation to the Gulf Coast Chapter of the Florida Governmental Finance Officers Association - 2002.*
- ∅ **IMPLEMENTATION OF RECLAIMED WATER RATES & METERING** - *Co-Authored With Al Castro, P.E. – Orange County Utilities, written and presented at the Florida Water Resources Conference-2002 Orlando, Florida, and published in the FWR Journal - 2002*
- ∅ **EVALUATING & SETTING RATES** - *Written and presented at the Water Environment Federation, Dallas, Texas 1998*
- ∅ **RECLAIMED WATER RATE MAKING** - *Written and presented at the AWWA 1998 Water Reuse Symposium in Orlando, Florida (February 1998)*
- ∅ **AN AUTOMATED COMPUTER MODEL FOR THE FUNDING AND MANAGEMENT OF REUSE SYSTEMS** - *Written and presented at the AWWA 1994 Water Reuse Symposium in Dallas, Texas (March 1994)*
- ∅ **WATER RATE MAKING FOR GOVERNMENTAL UTILITIES** - *This paper was developed for presentation to the St. Johns River Water Management District under contract with the Orange County Public Utilities (utilities serving the greater Orlando area)*

Mr. Burton has also assisted his clients in the development of rate programs that meet the requirements and mandates of:

- γ *The Southwest Florida Water Management District,*
- γ *The South Florida Water Management District,*
- γ *The Suwannee River Water Management District,*
- γ *The Northwest Florida Water Management District, and*
- γ *The St. Johns River Water Management District*

Burton & Associates is a vital company emerging as one of the premiere Utility Consulting companies in the Southeast. Our consultants possess the breadth and depth of knowledge that will enhance each project and provide our clients with substantial resources.

B. Key Members Of Our Staff

Steven McDonald has recently provided water, sewer, stormwater and/or reclaimed utility economics consulting services to Clay County Utility Authority, the Cities of Clearwater, Cape Coral, Cooper City and Fort Myers. His other Burton & Associates clients include New Port Richey and Tarpon Springs, where he has provided billing unit analyses and bill frequency analyses in support of the rate making process. Steven is an economist who has over thirteen years of experience in the development of econometric models for the purpose of demand forecasting analyses, and financial analyses.

Steven began his career with Fishkind & Associates, a Florida based economic consulting firm, where he provided these services to his clients for six years, and has continued to apply his expertise on projects focusing on economic and environmental issues for local governments in Florida. Over the past twelve years, he has developed a high degree of technical expertise balanced with strategic management experience from high profile, innovative public and private projects. His education and technical expertise lies in the areas of public policy and financing, financial modeling and analysis, economic modeling and forecasting, strategic planning and analysis, and market and industry analysis.

Steven's consulting, business, teaching, and government experience has allowed him to develop a solid understanding of political environments, financial and capital markets, economic principles, and statistical and research methods. In addition to his ability to perform fully allocated cost of service rate studies, he has the qualifications and unique skills required to successfully model and analyze water use patterns, perform unaccounted water audits, and customer billing and bill frequency analyses.

Another member of our team is **Andrew Burnham**. Andy is a Utilities Rate Analyst. He has four years of experience on utility projects that include revenue sufficiency analyses and development of comprehensive financial plans, modeling of financial implications of energy policies, rate design, wholesale cost of service analyses, and contract administration. He has frequently prepared expert witness testimony and provided affidavits in state and federal proceedings. Andy has been responsible for a variety of issues and initiatives, including the coordination of federal regulatory filings for our client, Consumers Energy Company - a public electric and gas utility that serves over 3 million customers. He has performed utility revenue and profit margins on a macro and micro level and has coordinated our client's initiatives in federal regulatory proceedings.

Finally, **Cynthia Griffin** served as a support consultant for our team. Over the past 13 years, Cyndy has conducted over 65 utility rate surveys for our clients. She has written ordinances, resolutions and developed policy manuals as well as rates fees and charges handbooks for our clients. She provides project management assistance to the project manager and serves as client liaison regarding project deliverables and quality control.

C. History of Firm

Burton & Associates, a Florida firm, was founded by Mr. Michael Burton in April of 1988 and has specialized since its inception in water resources economics, that is, water and wastewater rate structure review, utility revenue sufficiency analyses, cost of service analyses, utility financial planning, rate making and the integration of financial planning and rate making with the capital planning process. Burton & Associates has developed proprietary software and an interactive process specifically to accomplish the integration of the financial planning and rate making process with the capital planning process.

Burton and Associates is a specialty firm. The focus of our practice is water resources economics. We assist numerous local governments throughout the state of Florida in the conduct of water, wastewater, reclaimed water and stormwater rate studies (which include rate structure review and revenue sufficiency analyses), the development of Five Year Financial Plans for these utilities and in the development of Capital Finance Plans for the funding of required water, wastewater, reclaimed and stormwater infrastructure. Burton and Associates is headquartered in Jacksonville Beach, Florida with an office also in Orlando, Florida. Since our inception in 1988, our practice has focused almost exclusively with City and County governments, private utilities, agencies, authorities and special districts.

D. Our Services

We regularly use our proprietary Funding Analysis and Management System (FAMS-XL©), in the conduct of revenue sufficiency analyses for our clients.

Our city and county clients have the need to regularly meet financial goals and regulatory requirements and therefore request that we conduct periodic studies for them that evaluate the overall financial condition of their utility. During the course of these studies, we utilize our proprietary interactive process and FAMS-XL© in order to cost effectively examine all viable funding sources, capital requirements, and means of financing. We then develop short term (five years), medium term (10 years) and/or long term (20+ years) financial management programs, including a capital finance plan that will:

- 1) Provide adequate funding to meet projected capital improvement program requirements as well as other funding requirements facing the Utility,*
- 2) Comply with outstanding and/or new bond covenants,*

- 3) *Address and comply with regulatory requirements, and*
- 4) *Minimize the impact upon the Utility's customers.*

Each of these criteria is important for the conduct of a successful revenue sufficiency analysis. Also, each utility is unique and it is important to newly consider review each aspect of the utility each time a revenue sufficiency analysis is conducted.

Rate structure changes can also be reviewed and redesigned interactively with customer impact assessment, allowing clear vision of the implications of rate making decisions during this process.

1) Cost of Service/Rate Studies & Financial Management Programs

We regularly use our proprietary Funding Analysis and Management System (FAMS-XL©), in the conduct of revenue sufficiency analyses, retail and wholesale cost of service and rate studies and utility valuation analyses for water, sewer and storm water utilities. In the development of feasible rate programs, FAMS-XL© allows 1) cost effective testing of "what-if" scenarios regarding funding of alternative capital requirements, 2) evaluation of alternative sources and means of financing, and 3) development of viable short term (five years) medium term (10 years) and long term (20+ years) financial management programs, including a capital finance plan to provide adequate funding to meet projected capital improvement program requirements and a rate plan to meet annual revenue requirements. During our development of a rate adjustment plan that will adequately respond to the fiscal requirements of the Utility while meeting regulatory mandates, we try to structure a plan structure that will keep rates as low as possible. Required adjustments can be developed interactively with customer impact assessments, allowing clear vision of the implications of rate making decisions.

2) Interactive Decision Workshops

We regularly use our FAMS-XL© automated model as a decision support tool in the conduct of "real time" decision workshops with utility staff, management and elected officials. In these sessions, we use state of the art automated presentation and analysis techniques to demonstrate, with the FAMS-XL© model "up and running", the impact of various assumptions. Through this interactive process, we are able to assist in the development of optimum solutions regarding alternative capital improvement programs, service delivery configurations, financing sources, rates and charges and the impact of each alternative scenario upon rate payers within various classes of customers.

3) Integration of Financial and Capital Planning

In addition to our cost of service and rate making expertise, we also bring a unique perspective and contribution to engineering planning and evaluation projects that is not adequately addressed by the typical approach to such projects. That is the ability, by use of our automated modeling, to quickly evaluate the full financial impact of

alternative capital plans and financing sources as part of the master planning and or capital improvement program development process.

4) Capital Finance Plans

We also work regularly with financial advisors and underwriters in the development of capital finance plans for municipal clients, and have prepared numerous Rate Consultant's Reports, including revenue forecasts, for inclusion in the Official Statements of Water and Wastewater revenue bond issues or in applications for low interest State loans.

5) Rate Design

We are also industry leaders in the evaluation of rate structure and the development of rate structure design, including conservation rate programs, capacity fees and specific service charges. We are at the leading edge in the development of water conservation rates as evidenced by our recent work with the St. Johns River Water Management District.

6) Interjurisdictional Coordination

We are regularly involved in the conduct of cost of service and rate studies where the ultimate service is provided to users in multiple jurisdictions. Sometimes this involves the development of wholesale rates in accordance with specific interlocal agreements, sometimes this involves the development of a wholesale rate to be applied by ordinance to all wholesale or bulk use customers and sometimes this involves the development of rates to be charged to individual end users in other jurisdictions. We are also experienced in the development of outside of jurisdiction surcharges based upon cost of service and in the compilation of data and the allocation of costs in such a way as to derive fair and equitable rates for all of the above referenced types of interjurisdictional service.

7) Utility Valuations

We regularly assist clients in the conduct of utility valuation analyses. Burton & Associates has extensive experience in the use and proper allocation of all commonly used system and property valuation approaches, such as the depreciated replacement cost approach, the comparable sales approach, the income approach, etc. However, the differentiating factor regarding our approach to utility valuation is our ability to use our FAMS-XL[®] modeling approach to precisely determine 1) the funds available for acquisition supportable solely from the revenues of the acquired system, including consideration of required remedial capital improvements, and 2) the effects upon the rates of the acquiring utility, if any, of "negotiated" acquisition price alternatives if negotiations for purchase are initiated.

8) *Expert Witness Testimony*

We regularly provide expert witness testimony regarding utility litigation and regulatory matters. We have provided such expert witness testimony in circuit court cases.

9) *Leader in Use of Automated Analysis Techniques*

We have developed for our clients a truly revolutionary interactive process utilizing FAMS-XL©. Our automated utility financial planning and rate allocation modeling system which we use in the conduct of a study such as this. FAMS-XL© and our interactive process are described on the following page. We use our unique process and interactive model on each of our revenue sufficiency analysis projects with great success. We tailor our model to meet each client's specific financial requirements and utility management objectives using their specific data. We provide for them a clear vision of all viable options with regard to the financial management of their utility and the implications of possible decisions upon utility customers.

THE INTERACTIVE PROCESS

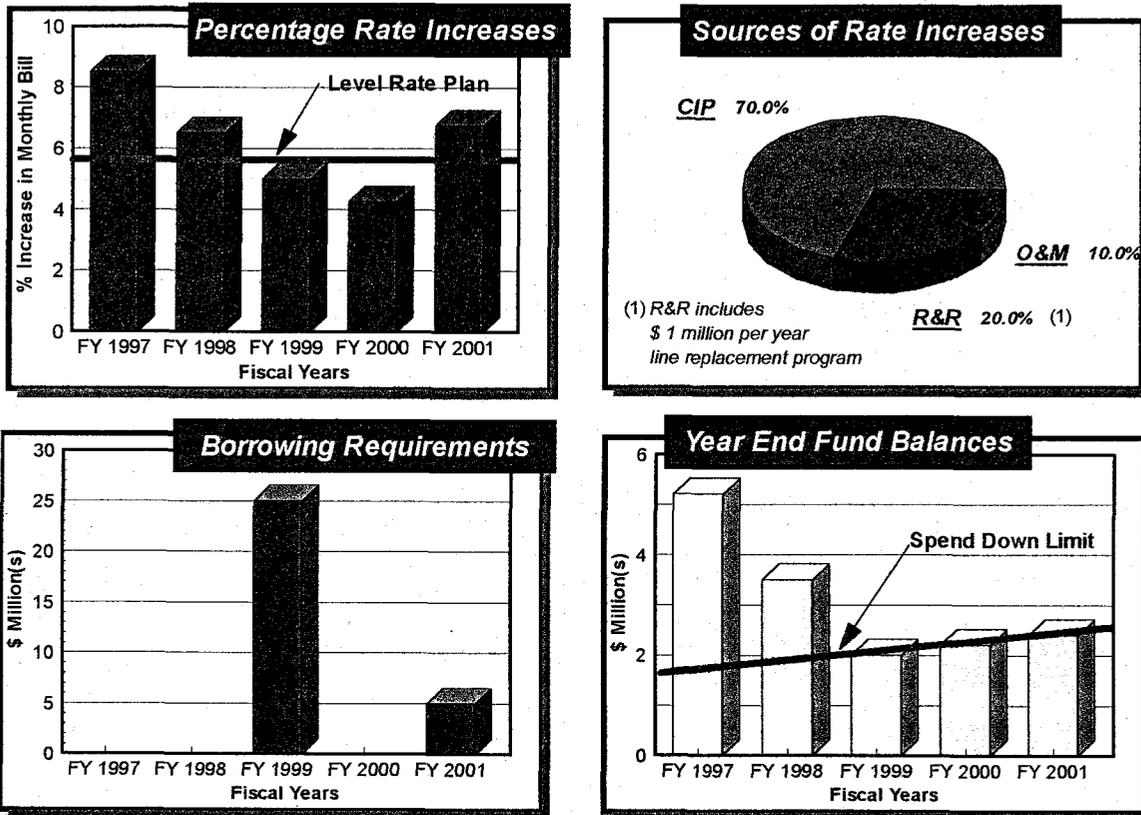
We have developed a truly revolutionary interactive, automated process. This process utilizes FAMS-XL©, our automated utility financial planning and rate allocation modeling system which we use to develop alternative Five Year Financial Management Plans for your utility. The Plans are necessary to develop alternative rate programs to provide the required resources to support the above mentioned Financial Management Plans. A FAMS-XL© schematic is presented on the following page.

The truly differentiating aspects of our interactive, automated process are that:

1. FAMS-XL© simulates *all* aspects of your utility's financial dynamics over a five year forecast period,
2. FAMS-XL© presents key financial indicators graphically on a "control panel" which allows you to visually see the implications upon key financial indicators of alternative scenarios, and
3. We conduct alternative scenario analyses in "interactive sessions" with you, so that in one morning or afternoon you can explore, and receive immediate feedback, regarding numerous "what if" scenarios such as alternative capital improvement programs, lower or higher levels of working capital reserves, alternative funding sources for capital projects, etc.

The most important aspect of this process is the *interactive work sessions* we conduct at several points during the course of the project. During these interactive sessions we have our computer models up and running and use the latest in computer monitor projection equipment to display the outputs from our analysis in various graphical formats on a four by five foot screen. Descriptions of the graphical representations presented in interactive work sessions are presented on below.

Five Year Revenue Sufficiency Analysis: We typically present the results of our analyses by displaying key financial indicators in four quadrants of a colorful graphical display, projected with our state-of-the-art monitor/projector equipment during interactive client work sessions. An example of such a display is presented below.



This display presents the results of a five year revenue sufficiency analysis. In this display the upper left quadrant shows the required percentage rate increases required in each year of a five year rate plan. This quadrant also shows a level rate plan which dampens rate shock in any one year. The pie chart in the upper right quadrant shows the sources of the rate increase. This gives insights into areas in which cost controls might reduce the required rate increases. The chart in the lower right quadrant shows year end fund balances of unrestricted reserves after funding eligible capital projects and R&R expenses and compares the reserve levels with the working capital reserve target, and the chart in the lower left quadrant shows the bond issues necessary to fund the five year Capital Improvement Program after funding as much as possible with unrestricted reserves and capital cost recovery fees.

Other financial indicators can also be monitored graphically as we test "what if" scenarios, depending upon the circumstances of the City. For example, we often include a five year bar chart of debt service coverage. This is often important in cases where rate covenants do not provide a revenue "buffer" such as capital cost recovery fees in the coverage calculation.

We can run numerous alternative scenarios during these interactive sessions and City staff can see graphically the implications, to key financial and customer impact indicators, of changes to variables in the rate making process such as timing and amount of capital projects funded in the capital improvements program (CIP), various levels of renewal and replacement expenditures, adjusting spend-down limits on reserve funds, rate structure changes, alternatives for levelizing rate increases over multiple years, growth rates, cost escalation factors and numerous other variables.

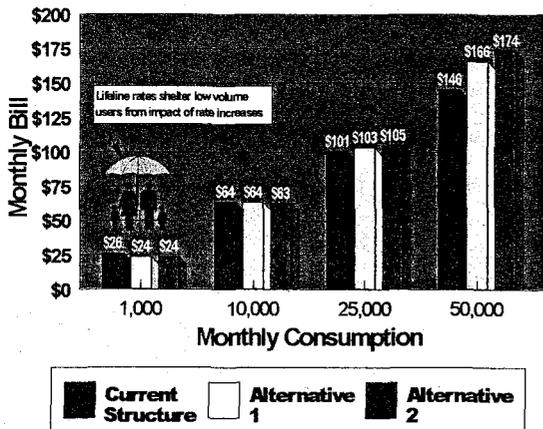
These interactive sessions provide the basis for you to make informed decisions relating to the rate making process by allowing you to see and understand, first hand, and maybe for the first time, the full range of the financial dynamics of your utility, all displayed at the same time.

Rate Design : As with the development of a five year revenue sufficiency analysis and financial management program, in these work sessions, we will conduct alternative scenario analyses regarding alternative rate structure designs interactively with City staff with our rate models up and running on the computer. This allows us to develop final rates and fees that generate sufficient revenues, yet are structured so as to be sensitive to your objectives with regard to customer impact. Customer impact will be examined for each utility rate structure alternative identified. This analysis examines the impact of alternative rates upon customers of varying sizes and with various usage profiles within customer classes.

Examples of two types of customer impact analysis charts used in our interactive work sessions are presented on the following page.

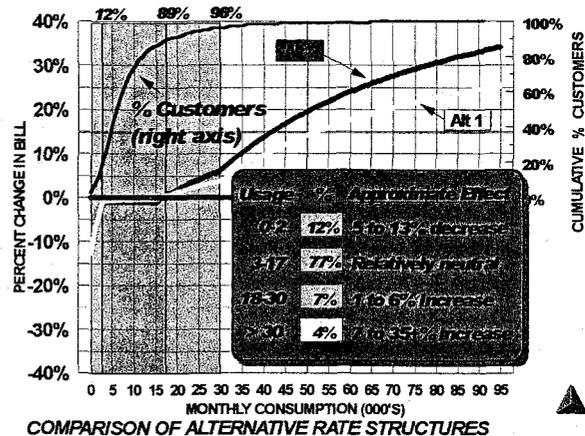
Comparison of Monthly Bills - All Alternatives

Residential Customers - 5/8" X 3/4" METERS



RESIDENTIAL CUSTOMERS

5/8" X 3/4" METERS - WATER & SEWER



The chart on the left examines the impact of two rate structure alternatives on single family customers at various identified levels of water usage. The chart on the right examines the impact of the same two rate structure alternatives in terms of percentage increase in monthly bill along a continuum of water usage from 0 to 95,000 gallons per month. This chart also shows the percentage of customers at all levels of usage. This can be used to determine the percentage of customers affected by each rate structure alternative at different levels of usage.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

BEFORE THE ARIZONA CORPORATIONS COMMISSION
DOCKETED

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

APR 24 2001

DOCKETED BY *sd*

IN THE MATTER OF THE JOINT
APPLICATION OF CITIZENS UTILITIES
COMPANY; AGUA FRIA WATER DIVISION
OF CITIZENS UTILITIES COMPANY;
MOHAVE WATER DIVISION OF CITIZENS
UTILITIES COMPANY; SUN CITY WATER
COMPANY; SUN CITY SEWER COMPANY;
SUN CITY WEST UTILITIES COMPANY;
CITIZENS WATER SERVICES COMPANY
OF ARIZONA; CITIZENS WATER
RESOURCES COMPANY OF ARIZONA;
HAVASU WATER COMPANY AND TUBAC
VALLEY WATER COMPANY, INC., FOR
APPROVAL OF THE TRANSFER OF THEIR
WATER AND WASTEWATER UTILITY
ASSETS AND THE TRANSFER OF THEIR
CERTIFICATES OF PUBLIC CONVENIENCE
AND NECESSITY TO ARIZONA-
AMERICAN WATER COMPANY AND FOR
CERTAIN RELATED APPROVALS.

DOCKET NOS. W-01032A-00-0192
W-01032B-00-0192
W-01032C-00-0192
S-02276A-00-0192
WS-02334A-00-0192
WS-03454A-00-0192
WS-03455A-00-0192
W-02013A-00-0192
W-01595A-00-0192
W-01303A-00-0192

DECISION NO. 63584

OPINION AND ORDER

DATE OF HEARING: September 27, 2000
PLACE OF HEARING: Phoenix, Arizona
PRESIDING ADMINISTRATIVE
LAW JUDGE: Karen E. Nally'
IN ATTENDANCE: Chairman William A. Mundell and
Commissioner Jim Irvin
APPEARANCES: Mr. Michael M. Grant, GALLAGHER &
KENNEDY, and Mr. Craig Marks, Associate
General Counsel, on behalf of Citizens
Communications Company;

¹ This Recommended Opinion and Order was prepared by Administrative Law Judge Marc E. Stern upon review of the testimony and exhibits admitted into evidence in the proceeding.

1 Mr. Norman D. James, FENNEMORE CRAIG, on
2 behalf of Arizona-American Water Company;

3 Mr. Daniel W. Pozefsky, Staff Attorney, on behalf
4 of Residential Utility Consumer Office;

5 Mr. Bill Meek on behalf of the Arizona Utility
6 Investors Association; and

7 Ms. Teena Wolfe, Staff Attorney, Legal Division,
8 on behalf of the Utilities Division of the Arizona
9 Corporation Commission.

8 BY THE COMMISSION:

9 On March 24, 2000, Citizens Utilities Company, now known as Citizens
10 Communications Company, together with its Agua Fria Water Division, Mohave Water
11 Division, Sun City Water Company, Sun City Sewer Company, Sun City West Utilities
12 Company, Citizens Water Services Company of Arizona, Citizens Water Resources Company of
13 Arizona, Havasu Water Company and Tubac Valley Water Company (collectively "Citizens"),
14 and Arizona-American Water Company ("Arizona-American") filed with the Arizona Corporation
15 Commission ("Commission") a Joint Application to Transfer Assets and Related Approvals
16 ("Application") of Citizens' water and wastewater utility assets in Arizona including Citizens'
17 Certificates of Convenience and Necessity ("Certificates") held by Citizens to Arizona-American.

18 On May 17, 2000 and on June 1, 2000, the Residential Utility Consumer Office
19 ("RUCO") and the Arizona Utility Investors Association ("AUIA") filed applications for leave to
20 intervene. Subsequently, intervention was granted to RUCO and to AUIA.²

21 On May 30, 2000, by Procedural Order, a hearing was scheduled on the above-captioned
22 matter for September 27, 2000. Citizens and Arizona-American caused public notice of the
23 Application and hearing thereon to be published in various newspapers throughout Arizona. In
24

25 ² On April 10, 2000, Mr. Marvin Lustiger filed an application to intervene in the above-captioned matter.
26 However, by subsequent filing, Mr. Lustiger clarified that he was only interested in electric or telephone
service in Mohave County, and therefore, Mr. Lustiger's request to intervene was deemed to have been
withdrawn.

1 addition. Citizens notified all its customers of the Application by means of a written bill insert.

2 On September 14, 2000, a formal public comment session was held in Sun City.

3 On September 26, 2000, the Commission's Utilities Division ("Staff") filed a Settlement
4 Agreement ("Agreement") marked Exhibit A which is incorporated by reference and attached
5 hereto.

6 On September 27, 2000, a full public hearing took place at the offices of the Commission
7 in Phoenix, Arizona. Citizens, Arizona-American, RUCO, AUIA and Staff were present with
8 counsel. Following the presentation of evidence, Citizens and RUCO submitted written briefs on
9 the issue of whether Citizens should be required to pay a portion of the gain resulting from the
10 sale of its utility assets to Citizens' customers. The matter was then taken under advisement
11 pending submission of a recommended Opinion and Order to the Commission.

12 DISCUSSION

13 Parties to the Transaction

14 Citizens, through its various divisions and subsidiaries, provides water, wastewater,
15 electric, natural gas and telecommunications services to approximately 1.8 million customers in
16 22 states, including in excess of 100,000 customers in Arizona. Citizens' current business
17 strategy is to focus on the provision of telecommunications services and the expansion of those
18 operations through the acquisition of wire centers and access lines from other providers,
19 primarily in rural areas, as was the case in the recently approved transfer of rural wire centers by
20 Qwest Corporation to Citizens Utilities Rural Company, Inc.

21 In connection with this business strategy, Citizens intends to sell its water, wastewater,
22 electric, and natural gas utilities and to apply the proceeds to finance acquisitions and other
23 business activities in the telecommunications area. In April 2000, Citizens also announced the
24 sale of its Louisiana natural gas operations for \$375 million.

25 The Commission granted Arizona-American a Certificate of Convenience and Necessity
26 to provide water service to approximately 4,600 customers in portions of the Town of Paradise

1 Valley, the City of Scottsdale and certain unincorporated portions of Maricopa County. Arizona-
2 American is a wholly owned subsidiary of American Water Works Company, Inc. ("AWW")
3 which is the largest privately-owned water utility system in the United States, providing water,
4 wastewater and other water resource management services to approximately 3 million customers
5 in 23 states, and with a reported consolidated net plant of \$5.1 billion and operating revenues of
6 \$1.26 billion. AWW's December 31, 1999, balance sheet reflected a capital structure of 58.4
7 percent long-term debt, 2.3 percent preferred stock and 39.3 percent common equity.

8 In 1999, AWW's subsidiaries invested \$467 million in improving and upgrading their
9 facilities, and for the past several years, AWW has made similar expenditures averaging nearly
10 \$400 million per year. According to AWW witnesses, AWW's acquisition policy is motivated,
11 at least in part, by anticipated capital expenditures resulting from new regulatory requirements
12 and programs and the need to replace or upgrade aged infrastructure to maintain high quality
13 service. With the additional water and wastewater systems, AWW and its subsidiaries hope to
14 obtain economies of scale and to strengthen their financial capability by expanding their
15 customer base.

16 The Transaction

17 On October 15, 1999, Citizens, Arizona-American and AWW entered into an agreement
18 under which Arizona-American is to acquire the water and wastewater assets and the Certificates
19 held by Citizens in Arizona ("the Acquired Assets") for approximately \$231 million, subject to
20 adjustment at the time of closing. The purchase price will be increased based on utility plant
21 added by Citizens after June 30, 1999, and will be reduced based on plant retirements occurring
22 after such date. The Acquired Assets include all utility plant, property and interests relating to
23 Citizens' water and wastewater operations in Arizona, with certain exceptions, including assets
24 commonly used by Citizens in connection with other utility operations, cash and cash
25 equivalents, and assets related to benefit plans. Citizens will also retain certain liabilities,
26 including obligations for taxes payable, obligations relating to employee compensation and

1 benefits, and refunds of certain advances in aid of construction. Arizona-American will assume
2 and be liable for all contracts and permits assigned at closing, certain Industrial Development
3 Revenue Bonds ("IDRBs"), and unperformed obligations.

4 Arizona-American will finance the purchase of the Acquired Assets by a combination of
5 debt and equity. AWW has recently formed a new subsidiary, American Water Capital
6 Corporation ("AWCC"), that will provide loans and other financial services to AWW
7 subsidiaries. Initially, Arizona-American will borrow funds from AWCC on a short-term basis,
8 and receive additional funds in the form of common equity directly from AWW. Within 12
9 months, the short-term debt will be converted to long-term debt with a planned capital structure
10 which will contain 55 to 60 percent debt and 45 to 40 percent common equity, including
11 Arizona-American's existing debt and equity capital and the Citizens' IDRBs that will be
12 assumed.³

13 The Position of Staff and the Staff Settlement Agreement

14 Staff generally supported the application, and recommended that the transfer of the
15 Acquired Assets to Arizona-American be approved, subject to several conditions.

16 First, Staff recommended that the Commission defer any decision on the ratemaking
17 treatment of an acquisition adjustment, deferred taxes, excess deferred taxes, and investment tax
18 credits until a future rate proceeding.

19 Second, Staff recommended that the decision to allow recovery of an acquisition
20 adjustment be based on Arizona-American's ability to demonstrate that clear, quantifiable and
21 substantial net benefits have been realized by ratepayers, which would not have been realized
22 had the transaction not occurred.

23 Third, Staff recommended that Arizona-American should be ordered to file, 13 months
24

25 ³ Arizona-American has filed an application for authority to issue short-term and long-term debt in
26 connection with financing the purchase of the Acquired Assets, which is pending in Docket No. W-
01303A-00-0929.

1 after the closing of the transaction, a report comparing the number of complaints received by the
2 Commission prior to and after the transaction. The report should provide an explanation of any
3 significant changes in the number and importance of the complaints. Staff would then review
4 this report and, if necessary, make a recommendation to the Commission of any further action to
5 be taken.

6 Fourth, Staff recommended that an imputation of the benefits related to advances in aid
7 of construction ("AIAC") and contributions in aid of construction ("CIAC") received by
8 Arizona-American be made in subsequent rate proceedings for each former Citizens' system.
9 The purpose of the imputation would be to recognize those portions of the Acquired Assets that
10 were financed by AIAC and CIAC which Arizona-American will not be assuming. Staff also
11 recommended that imputed AIAC be amortized over a period of 10 years, while imputed CIAC
12 would be amortized below the line in the same manner as would have otherwise occurred.

13 Fifth, Staff recommended that Arizona-American be required to seek Commission
14 approval of any amendments to, or transfers of agreements relating to the purchase of water,
15 such as Citizens' Central Arizona Project ("CAP") water subcontracts.

16 Finally, Staff recommended that the Commission order Arizona-American to charge
17 ratepayers for services based on the rates, charges, and service tariffs in effect at the time of
18 closing in each Citizens service territory, until such time as Arizona-American files general rate
19 proceedings for each service territory.

20 In its rebuttal filing, Arizona-American indicated that it would stipulate to the conditions
21 recommended by Staff, including the deferral of a decision concerning the recognition of an
22 acquisition adjustment and the conditions under which an acquisition adjustment would be
23 recognized, and would adopt and utilize the rates and charges for service, and all other service
24 tariffs currently in effect in each of the affected Citizens service territories. However, Arizona-
25 American disagreed with imputing Citizens' AIAC and CIAC to Arizona-American.

26

1 Subsequently, Staff and Arizona-American entered into the Agreement, which resolved
2 all areas of disagreement relating to the terms and conditions under which the Acquired Assets
3 would be transferred to Arizona-American.

4 Pursuant to the terms of the Agreement, Citizens' AIAC and CIAC will be imputed to
5 Arizona-American for ratemaking purposes. This adjustment will reduce rate base. The amount
6 of the AIAC and CIAC to be imputed to Arizona-American for ratemaking purposes will be
7 based on the actual balances shown on Citizens' regulatory books as of the date of the transfer of
8 the Acquired Assets, adjusted as follows: an amount equal to 5 percent of Citizens' AIAC
9 balance at the time of the transfer will be reclassified as CIAC and added to the CIAC balance,
10 and the same amount will be deducted from Citizens' AIAC balance. The adjusted amount of
11 AIAC will be amortized below the line (i.e., no impact on expenses) over a period of 6.5 years,
12 with the amortization period beginning on the day on which the transfer takes place. The
13 adjusted amount of CIAC will be amortized above the line (i.e., as a reduction to depreciation
14 expense that would otherwise be recoverable in rates) over a period of 10 years, with the
15 amortization period beginning on the day on which the transfer takes place. The imputation of
16 AIAC and CIAC to Arizona-American is solely for ratemaking purposes, and not for financial
17 accounting or any other purpose.

18 In addition to agreeing to the imputation of AIAC and CIAC, Arizona-American agreed
19 that the Commission may adopt Staff's remaining conditions concerning the sale and transfer of
20 the Acquired Assets. Staff and Arizona-American also agreed that Arizona-American's request
21 for an accounting order to establish the amortization method for any acquisition adjustment
22 resulting from the transaction should be deferred until a future rate case.

23 Based on these agreements by Arizona-American, Staff is recommending that the
24 Commission should approve the transfer of the Acquired Assets to Arizona-American and should
25 not impose any additional terms, conditions or requirements on Arizona-American.

26

1 During the hearing, Staff and Arizona-American voiced their support of the Agreement,
2 believing that its terms are reasonable and in the public interest. AUIA also expressed its
3 support for the Agreement. However, the remaining party to the proceeding, RUCO, objects to
4 the approval of the Agreement and to the transaction generally, as discussed below.

5 Position of RUCO

6 RUCO maintains the proposed transaction believing that it is not in the public interest
7 and should not be approved unless it is restructured. RUCO argued that the transaction could
8 possibly, in the future, impact on ratepayers. While RUCO did not disagree that consideration of
9 an acquisition adjustment should be deferred until a future ratecase, RUCO argued that the gain
10 resulting from the sale of the Acquired Assets received by Citizens, i.e., the difference between
11 the net book value of the Acquired Assets and the purchase price being paid by Arizona-
12 American, should be shared equally between Citizens stockholders and the ratepayers. RUCO
13 further argued that the Commission should adopt a set of criteria to determine what, if any,
14 acquisition adjustment should be allowed in a future rate proceeding. RUCO also suggested that
15 to make this transaction in the public interest, among other things, the transaction should be
16 contingent upon Arizona-American's Board of Director's approving a letter pledging to invest no
17 less than 15 percent of the purchase price in acquisitions and capital improvements of "resources
18 stressed" water and/or wastewater utilities in Arizona no later than 72 months after the date the
19 Commission authorizes the transaction.

20 Analysis of Disposition of Gain Issue

21 RUCO contended that fundamental principles of fairness support sharing the gain in this
22 case. RUCO maintained that ratepayers have shared in the risk associated with the operation of
23 the utility assets and that it necessarily follows that ratepayers should share in the gain realized
24 from the sale of those assets. According to RUCO, this risk sharing results from the accounting
25 treatment provided in the National Association of Regulatory Utility Commissioners
26 ("NARUC") Uniform System of Accounts when an asset is retired prematurely, i.e., before a

1 utility fully recovers its original cost via depreciation. RUCO also stated that prior Commission
2 decisions support gain sharing.

3 In response, Citizens argued that ratepayers have assumed no risk in connection with the
4 operation of Citizens' water and wastewater utility business. Investors have provided the
5 utility's capital and bear the financial risks associated with its operations. Therefore, the
6 investors should be entitled to receive any gain resulting from the transaction. As to prior
7 Commission decisions, Citizens cited three analogous cases involving a sale of an entire line of
8 utility business in which the Commission did not order gain sharing.⁴ Citizens also cited
9 Decision No. 60167 (April 17, 1997) in which a utility's natural gas business was sold at a loss.
10 In that case, the Commission did not order the customers to share in the loss.⁵

11 This proceeding is similar to the three cases cited earlier by Citizens since it is selling its
12 entire business and will have no further water and wastewater operations in Arizona. The
13 Commission has never required gain sharing under these circumstances. In the Contel of the
14 West matter, in which Citizens was authorized to acquire all of Contel's telephone properties in
15 Arizona, Staff urged that the gain resulting from the sale be shared equally with ratepayers.
16 However, the Commission rejected gain sharing in that case.

17 We also do not believe that ratepayers bear a substantial risk by virtue of receiving utility
18 service in this case. The particular accounting treatment for depreciable plant provided under the
19 Uniform System of Accounts does not shift risk to customers, but rather prescribes particular
20 accounting adjustments to properly reflect rate base before and after the retirement of a plant
21 item. The utility's owners, i.e., its shareholders, ultimately bear the risks associated with the
22 utility's business. While regulation may reduce those risks relative to most non-regulated
23

24 _____
25 ⁴ Citizens/Southern Union, Decision No. 57647 (December 2, 1991); Contel/Citizens, Decision No. 58819,
(October 17, 1994); and GTE/Citizens, Decision No. 62648 (June 13, 2000).

26 ⁵ Ajo Improvement Company/Southwest Gas, Decision No. 60167 (April 17, 1997).

1 businesses. regulation does not shift that risk to ratepayers, who are entitled to receive utility
2 service at rates set by the Commission.

3 Accordingly, we do not find it appropriate under the circumstances in this case to require
4 Citizens to share with ratepayers any part of the gain it receives from the sale of the Acquired
5 Assets to Arizona-American. However, this will not preclude the Commission from protecting
6 the ratepayers in the future. In any claim for an acquisition adjustment in a future rate case, the
7 Commission can strictly scrutinize the foundation of the claim and determine what amount, if
8 any, should be approved.

9 Analysis of Remaining RUCO Recommendations

10 RUCO's other recommendations pertained to the structure of the transaction and
11 RUCO's concerns that this structure could lead to rate increases in the future. RUCO's concern
12 primarily relates to the fact that Arizona-American will not be assuming all of Citizens'
13 liabilities associated with AIAC and CIAC, which totaled approximately \$80.8 million and \$4.7
14 million, respectively, at December 31, 1999. According to RUCO, the structure of the
15 transaction will result in the elimination of AIAC and CIAC as reductions from rate base, which
16 will in turn result in an increase in rate base and, eventually, to rate increases.

17 We believe that the Agreement appropriately deals with this issue. Citizens' AIAC and
18 CIAC will be recognized for ratemaking purposes by Arizona-American, even though Arizona-
19 American is not assuming those liabilities. By virtue of this imputation, the impact of the
20 structure of the transaction will be ameliorated. Based on the evidence and the testimony, the
21 approach utilized in the Agreement is reasonable.

22 Further, the evidence indicates that the transaction between Citizens, Arizona-American
23 and AWW was the product of arms-length negotiations that occurred after Citizens had adopted
24 its current business strategy of focusing on telecommunications services and divesting itself of
25 its water and wastewater systems, as well as its electric and natural gas systems throughout the
26

1 country. This is not a transaction between affiliated companies. The payment by Arizona-
2 American will constitute an investment in the Acquired Assets.

3 RUCO also expressed concern regarding the impact of the transaction on Citizens'
4 accumulated deferred income taxes ("ADITs"), which totaled approximately \$5.2 million as of
5 December 31, 1999, and Citizens' investment tax credits ("ITCs"), which totaled approximately
6 \$2.2 million as of the same date. Under the Agreement, any decision on the treatment of ADITs
7 and ITCs will be deferred until Arizona-American seeks new rates in a future proceeding.
8 Staff's recommendation is appropriate under the circumstances herein.

9 Next, RUCO questioned the approach proposed by Arizona-American and Staff, as
10 adopted in the Agreement, for dealing with the possible future recognition of an acquisition
11 adjustment in rates. RUCO agreed with Arizona-American and Staff that it is appropriate to
12 defer consideration of any acquisition adjustment resulting from the transaction until a future rate
13 proceeding, in order to afford Arizona-American an opportunity to demonstrate that the
14 acquisition has provided a net benefit to ratepayers by virtue of improved operating efficiencies,
15 economies of scale and other synergies. However, RUCO's witnesses also contended that the
16 Commission should adopt a set formula that would be used in connection with any future
17 determination of the amount of the acquisition adjustment.

18 We have concerns about the adoption of a set, mechanical formula to quantify a future
19 acquisition adjustment. We believe that such a determination should be made at the time all the
20 facts and circumstances are known. Staff's recommendation concerning the basis on which the
21 Commission will allow the recovery of an acquisition adjustment is reasonable and in the public
22 interest. Arizona-American is cautioned that the Commission will require Arizona-American to
23 demonstrate that clear, quantifiable and substantial net benefits to ratepayers have resulted from
24 the acquisition of Citizens' systems that would not have been realized had the transaction not
25 occurred before the Commission will consider recovery of any acquisition adjustment in a future
26 rate proceeding.

1 RUCO was also critical of Arizona-American's failure to assume all of Citizens' IDRBs.
2 As stated, Arizona-American will assume certain IDRBs, which total approximately \$10.6
3 million. The IDRBs that will be assumed constitute low-cost capital. The average cost of the
4 IDRBs that will be assumed by Arizona-American was 3.55 percent per annum during 1999.
5 RUCO believes that there may be three additional Citizens bond issues, representing low-cost
6 capital, that will not be assumed in connection with the transaction.

7 Arizona-American, in its testimony, has acknowledged that other bonds have been issued
8 by Citizens. The evidence indicates, however, that in contrast to the IDRBs that will be
9 assumed, the other bonds would require unanimous consent from all bond holders in order to be
10 assumed, which would be administratively difficult, if not impossible, to accomplish within the
11 time frame of the transaction. The additional costs to Arizona-American to replace these low-
12 cost IDRBs with alternative forms of financing was not ascertained.

13 We find that it would not be feasible for Arizona-American to assume the remaining
14 bonds and it would not be reasonable to impute these bonds to Arizona-American's capital
15 structure. The remaining bonds will continue to be an obligation of Citizens and will continue to
16 be included in Citizens' capital structure in its ongoing telecommunications business.

17 Finally, RUCO recommends that authorization of the transaction be made contingent on
18 Arizona-American pledging to invest not less than 15 percent of the purchase price for the
19 Acquired Assets, or approximately \$35 million, in acquisitions and capital improvements of
20 "resource stressed" water and/or wastewater utilities in Arizona. These acquisitions and capital
21 improvements would have to be made within 72 months from the date on which the Commission
22 approves the transaction.

23 The Commission recognizes that there are small water and wastewater utilities in Arizona
24 that may need technical and financial assistance. Indeed, the Commission has provided such
25 assistance to small water and wastewater utilities through workshops and the development of
26 policies aimed at improving their financial viability. However, it is not reasonable to compel a

1 private utility to spend in excess of \$35 million to solve these problems, nor is it clear that the
2 Commission has the authority to do so.

3 Arizona-American has indicated its willingness to work with the Commission in
4 developing solutions to service problems being experienced by small, troubled utilities. By
5 virtue of acquiring Citizens' systems in Arizona, Arizona-American will be in closer proximity
6 to a number of these systems, and the Commission would expect Arizona-American, as
7 circumstances warrant, to seriously consider acquiring these systems or otherwise provide
8 technical or financial assistance. For these reasons, we do not believe it is appropriate to impose
9 such a mandate on Arizona-American.

10 * * * * *

11 Having considered the entire record herein and being fully advised in the premises, the
12 Commission finds, concludes, and orders that:

13 FINDINGS OF FACT

14 1. Pursuant to authority granted by the Commission, Citizens provides public water,
15 wastewater, electric, natural gas and telecommunications services in various parts of Arizona.

16 2. Pursuant to authority by the Commission, Arizona-American, a wholly owned
17 subsidiary of AWW, provides public water service to approximately 4,600 customers in the
18 Town of Paradise Valley, the City of Scottsdale and in certain unincorporated portions of
19 Maricopa County, Arizona. Arizona-American is presently classified as a Class B water utility.

20 3. On March 24, 2000, Citizens and Arizona-American filed an Application
21 requesting approval of the sale and transfer of Citizens' water and wastewater utility assets in
22 Arizona together with the transfer of Citizens' Certificates to Arizona-American.

23 4. RUCO and the AUIA were granted intervention in this Docket.

24 5. Public notice of the Application and hearing thereon was published in various
25 newspapers throughout Arizona within and in the vicinity of Citizens' and Arizona-American's
26 certificated service areas.

1 6. Customers of Citizens were also notified of the Application by means of a written
2 bill insert.

3 7. Citizens' current business strategy is to focus on the provision of
4 telecommunication services and to expand its telecommunications subsidiaries' operations
5 through the acquisition of wire centers and access lines from other providers, primarily in rural
6 areas.

7 8. In the furtherance of this business strategy, Citizens is selling its water,
8 wastewater, electric and natural gas utilities and applying the proceeds to finance acquisitions
9 and other business activities in the telecommunications industry.

10 9. AWW and its subsidiaries, including Arizona-American, are the largest privately-
11 owned water utility system in the United States, providing water, wastewater and other water
12 resource management services to approximately three million customers in 23 states.

13 10. AWW is financially sound, and has the experience, expertise and resources to
14 assume and perform Citizens' public service obligations.

15 11. On October 15, 1999, Citizens, Arizona-American and AWW entered into an
16 asset purchase agreement under which Arizona-American will acquire all of the water and
17 wastewater utility assets together with the requisite Certificates held by Citizens in Arizona.

18 12. Arizona-American will pay a purchase price of approximately \$231 million which
19 includes the assumption of approximately \$10.6 million of existing debt in the form of
20 outstanding IDRBS. The purchase price is subject to adjustment either higher or lower based on
21 plant additions and retirements occurring after June 30, 1999.

22 13. Arizona-American will finance the transaction through a combination of debt and
23 equity, resulting in Arizona-American having a capital structure of 55 to 60 percent debt and 45
24 to 40 percent common equity. This debt to equity ratio is comparable to the capital structures of
25 most large, publicly-traded water utilities.

26

1 14. Staff is recommending that the Application be approved for the sale and transfer
2 of Citizens' water and wastewater utility assets including the Certificates to Arizona-American
3 subject to the following conditions:

- 4 • that any decision on the ratemaking treatment of an acquisition adjustment, deferred taxes, excess deferred taxes and investment tax credits be deferred until a
5 future rate proceeding;
- 6 • that if recovery of any acquisition adjustment is authorized in the future it should
7 be based on Arizona-American's ability to demonstrate that clear, quantifiable
8 and substantial net benefits have been realized by ratepayers in the affected areas,
9 which would not have been realized had the transaction not occurred;
- 10 • that Arizona-American file, 30 days after the first anniversary of the transaction, a
11 report which compares the number of complaints received by the Commission
12 under Citizens' ownership and under Arizona-American's ownership and provide
13 an explanation of any significant changes in the number and importance of the
14 complaints received. Staff should review the data and, if necessary, make a
15 recommendation to the Commission of any further action to be taken;
- 16 • that an imputation of the benefits related to AIAC and CIAC received by Arizona-
17 American should be made in subsequent rate proceedings for each former
18 Citizens system as recommended by Staff in its direct testimony;
- 19 • that Arizona-American shall be required to secure prior Commission approval of
20 any amendments to, or transfers of agreements relating to the purchase of water,
21 such as Citizens' CAP water subcontracts; and
- 22 • that Arizona-American shall charge ratepayers for services based on the rates,
23 charges, and service tariffs in effect at the time of closing in each Citizens service
24 territory, until such time as Arizona-American files general rate proceedings for
25 each service territory.

19 15. On September 26, 2000, Staff filed the Agreement that is marked Exhibit A. The
20 Agreement resolves all issues relating to the terms and conditions under which the Acquired
21 Assets may be sold and transferred to Arizona-American.

22 16. In the Agreement, Arizona-American acknowledged that it will follow Staff's
23 recommendations if they are adopted by the Commission.

24 17. While RUCO did not oppose the treatment of the acquisition adjustment in a
25 future rate proceeding, it neither joined in signing the Agreement nor suggested a workable
26

1 alternative approach to that agreed upon by Arizona-American and Staff in the Agreement in this
2 instance based on our prior treatment of similar transactions.

3 18. Arizona-American is a fit and proper entity to acquire Citizens' utility assets and
4 Certificates and to assume Citizens' public service obligations for the operation of the utility
5 systems in Arizona.

6 19. Staff and Arizona-American believe that the approval of the Agreement attached
7 hereto as Exhibit A is in the public interest.

8 20. Based on our review of the evidence, Staff's recommendations in Findings of Fact
9 No. 14 and the Agreement are reasonable and in the public interest. Therefore, the transfer of
10 Citizens' water and wastewater utility assets and Certificates to Arizona-American should be
11 approved.

12 CONCLUSIONS OF LAW

13 1. Citizens and Arizona-American are public service corporations within the
14 meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281, 40-282 and 40-285.

15 2. The Commission has jurisdiction over Citizens and Arizona-American and over
16 the subject matter of the Application.

17 3. Citizens and Arizona-American provided notice of this proceeding in accordance
18 with the law.

19 4. There is a continuing need for public water and wastewater service in the
20 certificated service areas of Citizens.

21 5. Arizona-American is a fit and proper entity to receive the Certificates of Citizens.

22 6. The Application of Citizens and Arizona-American, the Agreement and the
23 conditions recommended by Staff in Findings of Fact No. 14 should be approved.
24
25
26

ORDER

1
2 IT IS THEREFORE ORDERED that the Joint Application for Approval to Transfer the
3 Assets and Certificates of Convenience and Necessity of Citizens Utilities Company, now known
4 as Citizens Communications Company, together with its Agua Fria Water Division, Mohave
5 Water Division. Sun City Water Company, Sun City Sewer Company, Sun City West Utilities
6 Company, Citizens Water Services Company of Arizona, Citizens Water Resources Company of
7 Arizona, Havasu Water Company and Tubac Valley Water Company, to Arizona-American
8 Water Company be, and is hereby, approved.

9 IT IS FURTHER ORDERED that Arizona-American Water Company shall comply with
10 the terms, conditions and requirements as set forth in the Staff Settlement Agreement, attached
11 hereto as Exhibit A. and with Staff's recommendations in Findings of Fact No. 14 hereinabove.

12 IT IS FURTHER ORDERED that Arizona-American Water Company shall file, within
13 30 days from the date on which the acquisition has been completed, with the Director of the
14 Commission's Utilities Division, appropriate documentation evidencing its acquisition of the
15 Citizens Utilities Company now known as Citizens Communications Company's Arizona water
16 and wastewater utility assets.

17 IT IS FURTHER ORDERED that Arizona-American Water Company shall notify its
18 customers of the effective date of the transfer of the utility assets and of its assumption of the
19 obligation to provide water and wastewater utility services at the existing rates by means of an
20 insert in its first regular monthly billing or by other appropriate means immediately following the
21 date it files the documentation with the Director of the Utilities Division.

22 IT IS FURTHER ORDERED that Arizona-American Water Company shall file, within
23 15 days of the date it files the documentation with the Director of the Utilities Division, a copy
24 of the notice it provides its customers.

25
26

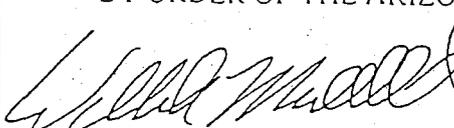
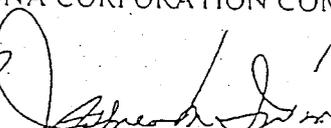
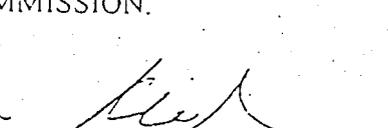
1 IT IS FURTHER ORDERED that Arizona-American Water Company shall continue to
2 charge the existing rates and charges of the transferred utility companies until further Order by
3 the Commission.

4 IT IS FURTHER ORDERED that Arizona-American Water Company shall continue to
5 file all periodic reports, and comply with all outstanding compliance matters previously required
6 of Citizens Utilities Company, now known as Citizens Communications Company relative to the
7 acquired water and wastewater operations.

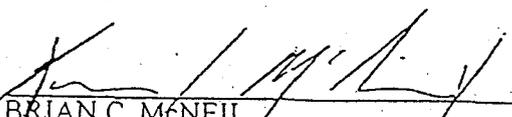
8 IT IS FURTHER ORDERED that Citizens Utilities Company shall maintain its books
9 and records for the transferred utility companies for a period of 5 years from the effective date of
10 this Decision.

11 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

12 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

13
14   
15 CHAIRMAN COMMISSIONER COMMISSIONER

16 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,
17 Executive Secretary of the Arizona Corporation
18 Commission, have hereunto set my hand and caused the
19 official seal of the Commission to be affixed at the Capitol,
20 in the City of Phoenix, this 24th day of
April, 2001

21 
22 BRIAN C. McNEIL
23 EXECUTIVE SECRETARY

24 DISSENT _____

1 SERVICE LIST FOR:

CITIZENS COMMUNICATIONS COMPANY
ET AL.

2 DOCKET NOS.:

3 W-01032A-00-0192; W-01032B-00-0192; W-
4 01032C-00-0192; S-02276A-00-0192; WS-
5 02334A-00-0192; WS-03454A-00-0192; WS-
6 03455A-00-0192; W-02013A-00-0192; W-01595A-
7 00-0192; and W-01303A-00-0192

8 Michael M. Grant
9 GALLAGHER & KENNEDY
10 2575 East Camelback Road
11 Phoenix, Arizona 85016-9225
12 Attorneys for Citizens Communications
13 Company, et al.

14 Norman D. James
15 FENNEMORE CRAIG
16 3003 N. Central Avenue, Suite 2600
17 Phoenix, Arizona 85012-2913
18 Attorneys for Arizona-American Water Company

19 Walter W. Meek, President
20 Arizona Utility Investors Association
21 P. O. Box 34805
22 Phoenix, AZ 85067

23 Christopher C. Kempley, Chief Counsel
24 Legal Division
25 ARIZONA CORPORATION COMMISSION
26 1200 West Washington
Phoenix, AZ 85007

Deborah Scott, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, AZ 85007

Daniel W. Pozefsky
Staff Attorney
Residential Utility Consumer Office
Suite 1200
2828 North Central Avenue
Phoenix, AZ 85004

3099-0035/898296

0001920&0

DECISION NO. 63584

1 CARL J. KUNASEK
CHAIRMAN
2 JIM IRVIN
COMMISSIONER
3 WILLIAM A. MUNDELL
COMMISSIONER
4

BEFORE THE ARIZONA CORPORATION COMMISSION

5
6 IN THE MATTER OF THE JOINT
APPLICATION OF CITIZENS UTILITIES
7 COMPANY; AGUA FRIA WATER
DIVISION OF CITIZENS UTILITIES
8 COMPANY; MOHAVE WATER DIVISION
OF CITIZENS UTILITIES COMPANY; SUN
9 CITY WATER COMPANY; SUN CITY
SEWER COMPANY; SUN CITY WEST
10 UTILITIES COMPANY; CITIZENS WATER
SERVICES COMPANY OF ARIZONA;
11 CITIZENS WATER RESOURCES
COMPANY OF ARIZONA; HAVASU
12 WATER COMPANY AND TUBAC VALLEY
WATER COMPANY, INC., FOR
13 APPROVAL OF THE TRANSFER OF THEIR
WATER AND WASTEWATER UTILITY
14 ASSETS AND THE TRANSFER OF THEIR
CERTIFICATES OF PUBLIC CONVENIENCE
15 AND NECESSITY TO ARIZONA-
AMERICAN WATER COMPANY AND FOR
16 CERTAIN RELATED APPROVALS.

DOCKET NOS. W-01032A-00- 0192
W-01032B-00- 0192
W-01032C-00- 0192
S-02276A-00- 0192
WS-02334A-00-0192
WS-03454A-00-0192
WS-03455A-00-0192
W-02013A-00- 0192
W-01595A-00- 0192
W-01303A-00- 0192

SETTLEMENT AGREEMENT BETWEEN
ARIZONA CORPORATION
COMMISSION STAFF AND ARIZONA-
AMERICAN WATER COMPANY

17 On March 24, 2000, Citizens Utilities Company (now known as Citizens
18 Communications Company), its Agua Fria Water Division, its Mohave Water
19 Division, Sun City Water Company, Sun City Sewer Company, Sun City West
20 Utilities Company, Citizens Water Services Company of Arizona, Citizens Water
21 Resources Company of Arizona, Havasu Water Company and Tubac Valley Water
22 Company (collectively, "Citizens") and Arizona-American Water Company
23 ("Arizona-American") filed with the Arizona Corporation Commission
24 ("Commission") a joint application for the approval of the sale and transfer of
25 Citizens water and wastewater utility plant, property and assets in Arizona,
26 including transfer of Citizens' certificates of convenience and necessity

1 ("Certificates"), to Arizona-American pursuant to A.R.S. § 40-285.

2 The Commission's Utilities Division Staff ("Staff") has investigated the
3 application and has recommended that the application be approved by the
4 Commission, subject, however, to certain conditions and requirements, which are
5 set forth in the Direct Testimony of Linda A. Jaress, filed in this docket on August
6 14, 2000, at pages 18-19 ("Staff Recommendations"). Arizona-American has
7 indicated that it is willing to accept the Staff Recommendations, with the exception
8 of the recommendation that Citizens' advances in aid of construction ("AIAC") and
9 contributions in aid of construction ("CIAC") be imputed to Arizona-American.

10 Representatives of Staff and Arizona-American have had discussions
11 concerning the matters in dispute with respect to the application and have reached
12 a settlement. The purpose of this Settlement Agreement is to memorialize the
13 agreement that has been made by and among Staff and Arizona-American, which
14 resolves all areas of disagreement relating to the terms and conditions under which
15 Citizens' Arizona water and wastewater assets and Citizens' Certificates may be
16 transferred to Arizona-American.

17 1. AIAC Imputation; Amortization. As of December 31, 1999, Citizens'
18 AIAC balance was \$80,818,669. Citizens' AIAC balance as of the date on which
19 Citizens' water and wastewater assets and Certificates are transferred to Arizona-
20 American and Arizona-American becomes responsible for the provision of water
21 and wastewater services will be imputed to Arizona-American. Such imputation
22 shall be solely for ratemaking purposes. The total amount of AIAC imputed will be
23 adjusted as more particularly provided below. The adjusted amount of AIAC will be
24 amortized below the line (i.e., no impact on expenses) over a period of 6.5 years,
25 with the amortization period beginning on the day on which the transfer takes
26 place.

1 2. CIAC Imputation; Amortization. As of December 31, 1999, Citizens'
2 CIAC balance was \$4,734,430. Citizens' CIAC balance as of the date on which
3 Citizens' water and wastewater assets and Certificates are transferred to Arizona-
4 American and Arizona-American become responsible for the provision of water and
5 wastewater services will also be imputed to Arizona-American. Such imputation
6 shall be solely for ratemaking purposes. The total amount of CIAC to be imputed
7 to Arizona-American will also be adjusted as provided below. The adjusted CIAC
8 balance imputed to Arizona-American will be amortized above the line (i.e., as a
9 reduction to depreciation expense) over a period of 10 years, with the amortization
10 period beginning on the day on which the transfer takes place.

11 3. Adjustment to Recorded AIAC and CIAC Balances. The amounts of
12 AIAC and CIAC to be imputed to Arizona-American for ratemaking purposes will be
13 based on the actual balances shown on Citizens' regulatory books as of the date of
14 the transfer, adjusted as follows: An amount equal to five percent (5%) of
15 Citizens' AIAC balance at the time of the transfer will be reclassified as CIAC and
16 added to the CIAC balance, and the same amount will be deducted from Citizens'
17 AIAC balance in computing the amounts to be imputed to Arizona-American for
18 ratemaking purposes hereunder.

19 4. Adoption of Remaining Staff Recommendations. Arizona-American
20 agrees that the Commission may adopt the remaining Staff Recommendations, as
21 set forth in the Direct Testimony of Linda A. Jares.

22 5. Deferral of Determination of Amortization Method. The parties agree
23 that Arizona-American's request for an accounting order to establish the
24 amortization method for any acquisition adjustment resulting from the transaction
25 should be deferred until a future rate case.

26 6. Transfer in the Public Interest. Based on the foregoing agreements

1 and understandings, Staff agrees that Arizona-American is a fit and proper entity to
2 acquire the Certificates and that the Commission should authorize and approve the
3 transfer of Citizens' Arizona water and wastewater assets to Arizona-American on
4 the terms set forth herein. No additional terms, conditions or requirements are
5 necessary or appropriate.

6 7. Support and Defend. This Settlement Agreement will be introduced as
7 an exhibit during the hearing on the application, presently set for September 27,
8 2000. Arizona-American and Staff will jointly request that the Settlement
9 Agreement be received into evidence, and agree to support and defend this
10 Settlement Agreement and the transfer of Citizens' water and wastewater assets
11 and the Certificates to Arizona-American on the terms set forth herein as just,
12 reasonable and appropriate based on the particular circumstances presented in this
13 application.

14 8. Compromise; No Precedent. This Settlement Agreement represents a
15 compromise in the positions of the parties hereto. By entering into this Settlement
16 Agreement, neither Staff nor Arizona-American acknowledges the validity or
17 invalidity of any particular method, theory or principle of regulation, or agrees that
18 any method, theory or principle of regulation employed in reaching a settlement is
19 appropriate for resolving any issue in any other proceeding, including (without
20 limitation) any issues that are deferred to a subsequent rate proceeding. Except as
21 specifically agreed upon in this Settlement Agreement, nothing contained herein
22 will constitute a settled regulatory practice or other precedent.

23 9. Privileged and Confidential Negotiations. All negotiations and other
24 communications relating to this Settlement Agreement are privileged and
25 confidential, and no party is bound by any position asserted during the
26 negotiations, except to the extent expressly stated in this Settlement Agreement.

1 As such, evidence of statements that were made or other conduct occurring during
2 the course of the negotiation of this Settlement Agreement is not admissible in any
3 proceeding before the Commission or a court.

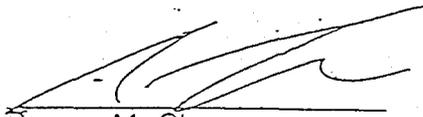
4 10. Complete Agreement. This Settlement Agreement represents the
5 complete agreement of the parties with respect to its subject matter. There are no
6 understandings or commitments other than those expressly set forth herein.

7 DATED this 26 day of September, 2000.

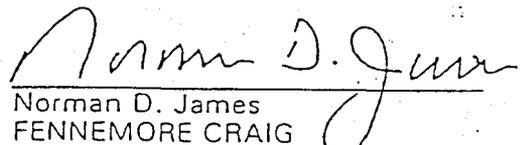
8 ARIZONA CORPORATION
9 COMMISSION STAFF

ARIZONA-AMERICAN WATER COMPANY

10 By:

11 
12 Steven M. Olea
13 Acting Director, Utilities Division
14 Arizona Corporation Commission
15 1200 West Washington Street
16 Phoenix, Arizona 85007

By:

17 
18 Norman D. James
19 FENNEMORE CRAIG
20 3003 N. Central Avenue, Suite 2600
21 Phoenix, Arizona 85012-2913
22 Attorneys for Arizona-American
23 Water Company

14 An original and 10 copies of the
15 foregoing was delivered this
16 ___ day of September, 2000, to:

17 Docket Control
18 Arizona Corporation Commission
19 1200 West Washington
20 Phoenix, AZ 85007

21 A copy of the foregoing
22 was delivered this ___ day of
23 September, 2000, to:

24 Karen E. Nally
25 Assistant Chief Administrative
26 Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

1 A copy of the foregoing
2 was telecopied/delivered and mailed this _____
3 day of September, 2000, to:

4 Daniel W. Pozefsky
5 Staff Attorney
6 Residential Utility Consumer Office
7 2828 North Central Avenue
8 Suite 1200
9 Phoenix, AZ 85004
10 (602) 285-0350
11 Walter W. Meek, President
12 Arizona Utility Investors Association
13 P. O. Box 34805
14 Phoenix, AZ 85067
15 (602) 254-4300

16 Craig A. Marks
17 Associate General Counsel
18 Citizens Communications Company
19 2901 N. Central, Suite 1660
20 Phoenix, AZ 85012
21 (602) 265-3415

22 By: _____
23
24
25
26



Arizona-American Water Company

19820 North 7th Street, Suite 201 • Phoenix, Arizona 85024 • (623) 445-2400 • Fax (623) 445-2454

January 7, 2003

Daphne J. Green
Mayor
Town of Youngtown
12030 Clubhouse Square
Youngtown, Arizona 85363

SUBJECT: IRRIGATION WATER TARIFF**Maricopa Lake**

Dear Mayor:

Earlier last month I had the pleasure of meeting with Town Manager, Mr. Mark Fooks, and Public Works Director, Jesse Mendez, to discuss Arizona-American Water Company's (AAWC's) service to the Town of Youngtown (the "Town"). One of the discussion points covered in our meeting concerned Maricopa Lake and the desire by the Town to reduce its cost of water service by, among other things, changing service to a lower cost irrigation water rate rather than the current convention of billing pursuant to the general rate tariff. While the water district serving the Town does in fact have in its existing rate structure an irrigation water tariff, that rate is currently not available to the Town's water accounts.

AAWC does not have the authority to change rates for services to its customers; that power rests with the Arizona Corporation Commission. As you know, in November 2002, AAWC submitted applications for general rate increases for many of its water and wastewater systems, including the district serving Youngtown. This general rate proceeding provides an appropriate regulatory forum for the Town to request a revision to the irrigation water rate to allow it to cover service to the Town. The Town may do so by moving to intervene in the rate proceeding for such purpose. AAWC would not oppose such a motion and believes that this course of action will best suit both the needs of the Town and the resources of the ACC. Assuming the Town can demonstrate that the requested rate change is in the public interest and that no other party to the proceeding opposes the Town's request, it will likely be granted.

Kuta to Green

Page 2

1/7/2003

I trust that you will contact me should you have concerns on this matter or any other issues related to your service from AAWC. I look forward to continuing to work closely with your staff to learn how we may better serve Youngtown.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert J. Kuta". The signature is fluid and cursive, with the first name "Robert" being the most prominent part.

Robert J. Kuta

Manager

Arizona-American Water Company

C: Mark Fooks, Town of Youngtown
Ray Jones, AAWC
David Stephenson, AWSC
Brian Biesemeyer, AAWC

Sun City Fire Department

August 17, 2003

Town of Youngtown
12030 North Clubhouse Square
Youngtown, Arizona 85363

Mayor Bryan Hackbarth,

This letter is to express concerns the Sun City Fire Department has with the current water system established inside the Town of Youngtown, Arizona.

There are several areas of the water system that have sub-standard size main and branch lines to support the required size and type of fire hydrants. These lines are to achieve required fire flows for residential and commercial structures. This requirement is in accordance with the Uniform Fire Code 1997 edition, which has been adopted by the Town of Youngtown as well the Sun City Fire District, in which the Town of Youngtown is a part of. Additional areas of concern are pocket areas of the Town of Youngtown in which there is a lack of fire hydrants as required per code. The standard required spacing for fire hydrants is 600 feet of travel distance.

The flow pressure of the water system is a concern. Appropriate flow pressure for fire departments use during emergency activities, pressure variants from static and residuals range wildly depending on the location and time of day the flow test are conducted.

I believe that long range planning and engineering with all parties involved is required. Planning with the water system operators, inclusive of the systems owners, Town Officials and the fire department is imperative. With proper planning we can provide adequate relief from it's current condition and provide a systematic upgrade to substandard areas of the system.

If you have need for additional information please feel free to contact me at your convenience at 6230974-2321 ext 13.

Sun City Fire Department



Steve D. Morrow Fire Marshal

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

PREFILED DIRECT TESTIMONY OF ANDREW J. BURNHAM
ON BEHALF OF TOWN OF YOUNGTOWN

- Docket No. WS-01303A-02-0867**
- Docket No. WS-01303A-02-0868**
- Docket No. WS-01303A-02-0869**
- Docket No. WS-01303A-02-0870**
- Docket No. WS-01303A-02-0908**

SEPTEMBER 5, 2003

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

TABLE OF CONTENTS

PREFILED DIRECT TESTIMONY OF ANDREW J. BURNHAM

	<u>Page</u>
I. INTRODUCTION.....	1
II. SUMMARY OF RECOMMENDATIONS.....	2
III. OCRB AS FVRB AND DEFERRAL OF ACCOUNTING TREATMENT OF ACQUISITION ADJUSTMENT.....	5
IV. EXTENDING PERIODS OF CERTAIN EXPENSES FOR ANNUALIZING COSTS.....	10
V. AMORTIZATION PERIOD FOR RATE CASE EXPENSES.....	12
VI. CONFORMING CHANGES TO EXPENSES.....	13
VII. RATE INCREASE PHASE-IN PERIOD.....	14
VIII. SUMMARY AND RESULTS.....	15

1 **I. INTRODUCTION**

2
3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is Andrew J. Burnham and my business address is 2902 Isabella Blvd.,
5 Suite 20, Jacksonville Beach, Florida.

6
7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by Burton & Associates, Inc., a utility finance and economics
9 consulting firm, as a Utility Rate Consultant.

10
11
12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
13 **BUSINESS EXPERIENCE.**

14 A. I earned a Bachelor of Business Administration degree as well as an Associate of
15 PC Specialist degree from Lake Superior State University. In addition, I have
16 completed a number of special courses on ratemaking and utility economics
17 sponsored by industry organizations. I have been a Utility Rate Consultant with
18 Burton & Associates since July of this year. Prior to joining Burton & Associates,
19 I was employed by Consumers Energy Company in Michigan as a General Rate
20 Analyst. A copy of my resume detailing my education and work experience is
21 attached to this testimony as AJB Exhibit 1.
22
23
24
25
26

1 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS RATE CASE?**

2 **A.** I am testifying on behalf of the Town of Youngtown (“Youngtown” or “Town”).
3 As explained by Michael E. Burton (“Mr. Burton”) in his Direct Testimony,
4 Youngtown and its residents are customers of Arizona-American Water Company
5 (“Arizona American” or “Company”) and thus have a direct and substantial
6 interest in the outcome of the Company’s requested rate increase. As such, Mr.
7 Burton and I thoroughly analyzed Arizona-American’s Rate Increase Application
8 and associated schedules to determine whether the Company’s requested rate
9 increase was in the public interest and fair and reasonable to Youngtown and its
10 residents.
11

12
13
14 **II. SUMMARY OF RECOMMENDATIONS**

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
16 **PROCEEDING?**

17 **A.** I present the calculations of Burton & Associates’ recommendations as they apply
18 to certain components of the rate increase proposal put forth by Arizona-
19 American for the Sun City Water and Wastewater Districts. In conjunction with
20 certain calculations, I provide explanations as to the appropriateness of the
21 adjustments. I am sponsoring these as exhibits in connection with my testimony,
22 which have been made as modifications to the Arizona-American standard
23 schedules A- F for the Sun City Water and Wastewater Districts as filed by the
24 Company. I have not created a Schedule G or modified Arizona-American’s
25
26

1 filed Schedule H because our proposed adjustments are directly related to the total
2 amount of revenue necessary for the Sun City Water and Wastewater Districts,
3 and are independent of the allocation of any final revenue adjustments ultimately
4 authorized by the Commission in this rate case proceeding. The adjustments Mr.
5 Burton and I recommend on behalf of Youngtown are as follows:
6

- 7 1. The use of Original Cost Rate Base (“OCRB”) alone as the basis
8 for determining Fair Value Rate Base (“FVRB”) and deferring the
9 accounting treatment of the acquisition adjustment;
- 10 2. Extending the period used as the basis for annualizing certain
11 operating expenses;
- 12 3. Extending the time period over which rate case costs are amortized;
13 and
14
- 15 4. Modifying the phase-in of any rate increase, depending upon the
16 level of rate increase, which may be authorized by the Commission
17 in this proceeding.

18 Mr. Burton provides a thorough discussion and explanation for adjustment 1
19 above in his Direct Testimony. All of these specific adjustments are necessary to
20 the filed rate increase proposal of Arizona-American in order to produce fair and
21 reasonable rates that do not cause undue harm and burden to the ratepayers of the
22 Company’s Sun City Water and Wastewater Districts, including the Town of
23 Youngtown.
24
25
26

1 **Q. PLEASE SUMMARIZE HOW THE ABOVE RECOMMENDED**
2 **ADJUSTMENTS WOULD AFFECT ARIZONA-AMERICAN'S**
3 **PROPOSED RATE INCREASE FOR THE SUN CITY WATER AND**
4 **WASTEWATER DISTRICTS?**

5
6 A. As explained in detail below, our analysis and the resulting recommended
7 adjustments show that a maximum potential rate increase of \$2,369,086 for the
8 Company's Sun City Water District can be justified. This represents a 38.25%
9 increase in Arizona-American's existing rates instead of the approximate 87%
10 increase proposed by the Company. Using our recommended phase-in approach
11 results in a 19.125% rate increase in the first year, and a subsequent 19.125%
12 increase in the second year, following a Commission order in this proceeding.
13 This compares to a 40% and 47% increase in the first and second years following
14 the Commission's order as proposed by Arizona-American.

15
16
17 For the Arizona-American's Sun City Wastewater District, our recommended
18 adjustments result in a (\$562,342) or an 11.05% decrease in the Company's
19 existing rates instead of the approximate 15% increase proposed by Arizona-
20 American. This full rate decrease would be effective immediately following the
21 Commission's order approving the rate decrease.
22
23
24
25
26

1 **III. OCRB AS FVRB AND DEFERRAL OF ACCOUNTING**

2 **TREATMENT OF ACQUISITION ADJUSTMENT**

3
4 **Q HOW DID YOU CALCULATE FVRB FOR THE SUN CITY WATER AND**
5 **WASTEWATER DISTRICTS?**

6 A. As recommended by Mr. Burton in his Direct Testimony, OCRB should serve as
7 FVRB instead of Reconstruction Cost New less Depreciation (“RCND”) rate base
8 as proposed by Arizona-American. Exhibit Schedule B-1 attached to this
9 testimony shows this calculation. For this calculation, the modified OCRB
10 calculation is simply carried over into the Fair Value Rate Base Column, which
11 serves as rate base for ratemaking purposes. The result is a FVRB of \$22,220,302
12 for the Company’s Sun City Water District and a FVRB of \$8,777,097 for the
13 Company’s Sun City Wastewater District.
14

15
16
17 **Q. ARE ANY EXPENSE AMOUNTS ATTRIBUTABLE TO ARIZONA-**
18 **AMERICAN’S SUN CITY WATER AND WASTEWATER DISTRICTS**
19 **AFFECTED BY THE USE OF OCRB AS FVRB?**

20 A. Yes. Exhibit Schedule C-2, pages X and Xa attached to this testimony, assume
21 that OCRB is to be used as FVRB for all of Arizona-American’s water and
22 wastewater districts that are the subject of this rate case. The resulting FVRB
23 values for each of Arizona-American’s districts are different from those proposed
24 by the Company as are the subsequent FVRB allocators, which are used for
25 allocating certain Arizona-American expenses such as insurance and office
26

1 expenses to each district. For the Company's Sun City Water District, the
2 allocation of annual insurance expense is reduced from \$84,152 to \$62,200, while
3 the allocation of annual office expenses is reduced from \$207,343 to \$153,255.
4 For Arizona-American's Sun City Wastewater District, the Company's proposed
5 allocation of annual insurance expense is reduced from \$34,960 to \$24,569, while
6 Arizona-American's proposed allocation of annual office expenses is reduced
7 from \$86,139 to \$60,536.
8

9
10 Another calculation affected is the synchronized interest expense. Since the
11 modified FVRB is lower than that proposed by Arizona-American, the calculated
12 interest expense is lower, and a larger adjustment to the test-year interest expense
13 is needed for each of the Company's districts. Exhibit Schedule C-2 Page 8.
14 attached to this testimony shows the necessary adjustments. For Arizona-
15 American's Sun City Water District, the Company's proposed synchronization
16 interest expense was \$1,533,935, and the adjustment to the test-year interest
17 expense was (\$1,883,331). However, with the lower FVRB, the synchronization
18 interest expense is reduced to \$699,837, and the adjustment to the test-year
19 interest expense is (\$2,717,429). For Arizona-American's Sun City Wastewater
20 District, the Company's proposed synchronization interest expense was \$637,265,
21 and the adjustment to the test-year interest expense was (\$418,941). With the
22 lower FVRB, the synchronization interest expense is reduced to \$276,438, and the
23 adjustment to the test-year interest expense is (\$779,767).
24
25
26

1 The final calculated expense affected is annual property tax and the corresponding
2 adjustment to the test-year amount recorded. Arizona-American proposes to use
3 the same method as the Arizona Department of Revenue (“ADOR”), which I
4 understand determines annual property tax expense by using the average of three
5 years of revenue as the utility's full cash value and applies an assessment ratio to
6 calculate the assessed value to which the property tax is applied. Arizona-
7 American proposes to use as part of its 3-year revenue average the annual
8 proposed revenues for each of its districts, which are the sum of the amount of the
9 rate increase and the adjusted test-year revenues. Making our recommended
10 adjustments, the amount of the Company’s proposed rate increase is reduced. As
11 such, the annual calculation of property tax and the associated adjustment to the
12 test-year expense are affected. Arizona-American’s proposed annual expense for
13 its Sun City Water District was \$284,477 and the adjustment required to the test-
14 year expense was (\$51,855). After the appropriate adjustments are made, the
15 annual expense is reduced to \$248,483, which has a corresponding adjustment to
16 the test-year expense of (\$87,849). Arizona-American’s proposed annual expense
17 for its Sun City Wastewater District is \$193,701 and the adjustment required to
18 the test-year expense was \$43,837. After our proposed adjustments are made, the
19 annual expense is reduced to \$178,483, which has a corresponding adjustment to
20 the test-year expense of \$28,619. These calculations are shown on Schedule C-2,
21 Page 7 attached to this testimony.
22
23
24
25
26

1 **Q. WHAT MODIFICATIONS NEED TO BE MADE TO THE**
2 **CALCULATION OF OCRB FOR THE SUN CITY WATER AND**
3 **WASTEWATER DISTRICTS AS PROPOSED BY ARIZONA-**
4 **AMERICAN?**

5
6 **A. The Citizens' Acquisition Adjustment amounts on Exhibit Schedules B-1 and B-2**
7 **(shown attached to this testimony) were reduced to zero to reflect our position**
8 **that the determination of appropriate accounting treatment for an acquisition**
9 **adjustment should be deferred. Explanation for removing the acquisition**
10 **adjustment is provided in the Direct Testimony of Mr. Burton.**

11
12
13 **Q. WHAT EXPENSE AMOUNTS ARE DIRECTLY AFFECTED BY**
14 **REMOVING THE ACQUISITION ADJUSTMENT RELATED TO**
15 **CITIZENS' ASSETS?**

16 **A. Only the depreciation expense amount and the corresponding adjustment to the**
17 **test-year are affected. This is because the depreciation expense amount was**
18 **calculated by Arizona-American to include the amount of principal reduction of**
19 **the acquisition adjustment during the second year of the amortization schedule as**
20 **a depreciable expense. The expense associated with the amortization of the**
21 **acquisition adjustment for the Sun City Water District as proposed by Arizona-**
22 **American was \$20,500, which produced a total depreciation expense of**
23 **\$1,025,028 and an adjustment to the test-year depreciation expense of (\$174,912).**
24 **Deferring the acquisition adjustment reduces the total annual expense to**
25
26

1 \$1,004,528, and the adjustment to the test-year expense of (\$195,412). According
2 to Arizona-American, the expense associated with the amortization of the
3 acquisition adjustment for the Sun City Wastewater District is \$11,100, which
4 produced a total depreciation expense of \$514,852 and an adjustment to the test-
5 year depreciation expense of (\$29,653). However, deferring the acquisition
6 adjustment, as we recommend, reduces the total annual expense to \$503,752, and
7 the adjustment to the test-year expense to (\$40,753). The modified expense
8 values are shown on Exhibit Schedule C-2, Page 6 attached to this testimony.
9

10
11 **Q. IF THE COMMISSION WAS TO DECIDE THE ISSUE OF**
12 **ACCOUNTING TREATMENT AND ALLOCATION OF AN**
13 **ACQUISITION ADJUSTMENT IN THIS PROCEEDING, DESPITE YOUR**
14 **POSITION TO THE CONTRARY, DO YOU AGREE WITH THE**
15 **PROPOSAL AS PUT FORTH BY ARIZONA-AMERICAN?**
16

17 **A.** We do not disagree with the proposed accounting treatment, however, we believe
18 the allocation of the acquisition adjustment among the Company's water and
19 wastewater districts should be based on net plant in service values as opposed to
20 gross plant values at the time the sale of the assets to Arizona-American closed.
21
22
23
24
25
26

1 **Q. WHY IS IT MORE APPROPRIATE TO MAKE AN ALLOCATION**
2 **BASED UPON NET PLANT RATHER THAN GROSS PLANT?**

3 A. Because gross plant, or un-depreciated original cost, does not completely reflect
4 current value. Depreciation must be considered in the determination of current
5 value. Therefore, at the time the sale of Citizens' assets to Arizona-American was
6 closed, net plant values for each district, which consider depreciation, would
7 provide a better basis for allocating any acquisition adjustment to each district.
8

9
10 **IV. EXTENDING PERIODS OF CERTAIN EXPENSES FOR**
11 **ANNUALIZING COSTS**

12
13 **Q. WHAT ANNUALIZED EXPENSES SHOULD HAVE EXTENDED**
14 **PERIODS OF RECORDED COSTS USED IN CALCULATING ANNUAL**
15 **EXPENSE AMOUNTS?**

16
17 A. The Arizona-American group insurance expense, as well as the management fee
18 expense, should be based upon extended time periods for which cost data is
19 available. The group insurance expense on Exhibit 3 attached to this testimony
20 has appropriate cost data available extending back to the month of January.
21 However, the annualized expense as proposed by Arizona-American was based
22 on the time period of March to July only, despite the fact that the costs incurred in
23 January and February are indeed comparable to the months of June and July and
24 in fact are greater than the amount recorded in May. The Company's proposed
25 annual expense for group insurance was \$622,145. When the annualized expense
26

1 is calculated based on the monthly average cost spanning from January to July,
2 the annual expense is reduced to \$552,847. The group insurance annual expense
3 is part of the total salary and wage classification on Schedule C-2, Page Xa
4 attached to this testimony. Thus, Arizona-American's proposed cost allocation of
5 salary and wages to its Sun City Water and Wastewater Districts is reduced from
6 \$432,625 and \$72,104 to \$413,726 and \$68,954 respectively. The annualized
7 management fee expense as proposed by Arizona-American was based upon a
8 monthly cost average from April to July. Cost data was recorded from January
9 through July, and while January and February do appear to be incomplete, the
10 cost information recorded for March is very comparable to the costs recorded for
11 April through July and in fact is almost identical to the cost recorded in June. As
12 such, the annualized expense should be based on the cost information recorded
13 from March to July. As proposed by Arizona-American, the annualized expense
14 was \$5,153,711, of which \$926,122 was allocated to the Sun City Water District
15 and \$522,586 was allocated to the Sun City Wastewater District. When the
16 annualized expense is based on the March to July time period, however, the
17 annual expense is reduced to \$5,060,811, of which \$909,428 is allocated to the
18 Sun City Water District and \$513,166 is allocated to the Sun City Wastewater
19 District. These specific recalculated expenses for each district are shown on
20 Exhibit 4 attached to this testimony. Exhibit Schedule C-2, Page 11 attached to
21 this testimony shows a categorical summary of the total annual Arizona-American
22 expense allocations to each district.
23
24
25
26

1 **V. AMORTIZATION PERIOD FOR RATE CASE EXPENSES**

2
3 **Q. WHAT IS THE APPROPRIATE TIME PERIOD OVER WHICH RATE**
4 **CASE EXPENSES SHOULD BE AMORTIZED?**

5 A. The appropriate time period over which rate case costs should be amortized is a
6 time period adequate to give the filing entity enough time to recover the total rate
7 case expense prior to it filing a new rate proceeding. Based on recent history, for
8 the Sun City Districts, this time period is approximately five (5) years. The most
9 recent rate order pertaining to the Sun City Water and Wastewater Districts came
10 on May 7, 1997, over five (5) years after the previous rate order issued on
11 February 21, 1992. The current rate case proceeding was initially filed with the
12 Commission on November 22, 2002, and will likely create a time span between
13 Commission Decisions of greater than six (6) years. As Arizona-American
14 proposes, the estimated rate case expenses would be amortized over a 3-year
15 period and the amount of the amortized annual expense above the level in the test-
16 year would be added as an adjustment to each district. As such, the Company's
17 total rate case expense proposed for its Sun City Water District was \$40,874,
18 which requires an adjustment to the test-year expense of \$29,000. The
19 Company's total rate case expense proposed for its Sun City Wastewater District
20 was \$33,583, which requires an adjustment to the test-year expense of \$21,019.
21 Re-calculating the expense based on a five (5) year amortization period produces
22 a total expense for the Sun City Water District of \$24,525, which requires an
23 adjustment to the test-year expense of \$12,651. Making the same re-calculation
24
25
26

1 for the Sun City Wastewater District produces a total expense of \$20,150, which
2 requires an adjustment to the test-year expense of \$7,586. The recalculated
3 expenses and test-year adjustments are identified on Exhibit Schedule C-2, Page 9
4 attached to this testimony.
5

6
7 **VI. CONFORMING CHANGES TO EXPENSES**

8
9 **Q. ARE THERE ANY EXPENSES THAT ARE AFFECTED BY YOUR**
10 **PROPOSED ADJUSTMENTS?**

11 A. Yes. The calculation of income taxes is a direct result of Arizona-American's net
12 profit or loss, which essentially equals revenues minus expenses. Because test-
13 year revenues remain constant and many of our proposed adjustments affect
14 expenses, the Sun City Water and Wastewater Districts' test-year profit or loss
15 calculations are subsequently affected. Since our proposed adjustments serve to
16 reduce adjusted test-year expense amounts, they increase the amount of profit or
17 reduce the magnitude of loss for the test-year, which therefore increases the
18 amount of the income tax expense. Once the entire rate related adjustments we
19 recommend are implemented, the cumulative effects on this expense can be
20 observed. As proposed by Arizona-American, the annual income tax expense for
21 the adjusted test-year for the Sun City Water District was (\$665,050) and for the
22 Sun City Wastewater District it was \$216,390. After our proposed adjustments
23 have been made, the expense for the Sun City Water District is (\$271,892) and for
24 the Sun City Wastewater District it is \$389,754. The recalculated expenses for
25
26

1 the adjusted test-year for each district are identified on Exhibit Schedule C-1
2 attached to this testimony along with all other test-year adjusted expenses.
3 Exhibit Schedule C-2, Page 1 attached to this testimony contains a summary of
4 the recalculated adjustments made to certain test-year expenses for each of the
5 Sun City Districts.
6

7
8 **VII. RATE INCREASE PHASE-IN PERIOD**

9
10 **Q. WHAT DO YOU RECOMMEND TO MITIGATE POTENTIAL RATE**
11 **SHOCK TO CUSTOMERS DEPENDING UPON THE ORDER OF**
12 **MAGNITUDE OF THE FINAL RATE INCREASE AUTHORIZED BY**
13 **THE COMMISSION?**

14 **A.** I recommend that if the final rate increase authorized for any of the Sun City
15 Districts is greater than or equal to 20% and less than or equal to 40%, it be
16 equally divided over a two-year period immediately following a Commission
17 order. If the final authorized rate increase is greater than 40%, it should be
18 equally divided over a three-year period. As proposed by Arizona-American,
19 customers would see no more than a 40% increase in their rates in the first year
20 following a Commission order in this proceeding, and the balance would be
21 recovered in the subsequent year. As proposed by Arizona-American, customers
22 in the Sun City Water District, would see a 40% hike in the first year following a
23 Commission order and approximately a 47% increase in the second year. Under
24 my recommended approach, should Arizona-American's rate relief request be
25
26

1 adopted, customers would see approximately a 29% increase in their rates each
2 year for the next three (3) years. My recommended approach goes further to
3 mitigate rate shock, which is especially critical for communities comprised of a
4 significant number of citizens with low and/or fixed incomes.
5

6
7 **VIII. SUMMARY AND RESULTS**

8
9 **Q. WHAT IS THE MAXIMUM RATE INCREASE YOU BELIEVE MAY BE**
10 **JUSTIFIED FOR ARIZONA-AMERICAN'S SUN CITY WATER AND**
11 **WASTEWATER DISTRICTS BASED UPON YOUR ANALYSIS OF THE**
12 **COMPANY'S RATE INCREASE APPLICATION?**

13 A. Our analysis shows that an ultimate rate increase no higher than \$2,369,086 for
14 Arizona-American's Sun City Water District is justified based on the evidence
15 presented by the Company in its Rate Increase Application. This represents a
16 38.25% increase above Arizona-American's existing rates instead of the
17 approximate 87% increase proposed by the Company. This would result in a
18 19.125% increase in the first year following the Commission order approving the
19 rate increase and a subsequent 19.125% increase in the second year following the
20 Commission's order. This compares to a 40% and 47% increase in the first and
21 second years following the Commission's order as proposed by the Company.
22

23
24 For Arizona-American's Sun City Wastewater District, the justifiable annual rate
25 increase would be (\$562,342) or an 11.05% decrease from the Company's
26

1 existing rates instead of the approximate 15% increase proposed by Arizona-
2 American. This full rate decrease would be effective immediately following the
3 Commission's order approving such a decrease.
4

5
6 The final rate increase or decrease warranted for each of Arizona-American's Sun
7 City Districts is shown on Exhibit Schedule A-1 attached to this testimony, which
8 then flows into Exhibit Schedule A-2 for determining net income. The net
9 income from Exhibit Schedule A-2 is then used on Exhibit Schedule A-5 attached
10 to this testimony, which is the summary statement of cash flows.
11

12
13 Of course these figures assume the cost of capital and return values requested by
14 Arizona-American are fair and reasonable, that all plant claimed to be in service
15 by Arizona-American is servicing the public and that no other adjustments to
16 expenses or plant is found to be necessary or appropriate by the Commission.
17 Such issues were beyond the scope of Burton & Associates' initial investigation
18 and the failure of Mr. Burton or myself to comment on any of them should not be
19 taken as acceptance of Arizona-American's position.
20

21
22 **Q. DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY?**

23 **A. Yes.**
24

ANDREW BURNHAM

RESUME



SUMMARY

Mr. Burnham is a Utility Rate Consultant. He has experience on utility projects that include revenue sufficiency analyses and development of comprehensive financial plans, modeling of financial implications of energy policies, rate design, wholesale cost of service analyses, and contract administration. He has frequently prepared expert witness testimony and provided affidavits in state and federal proceedings.

Andy has been also responsible for a variety of issues and initiatives, including the coordination of federal regulatory filings for Consumers Energy Company, a public electric and gas utility that serves over 3 million customers. He has performed utility revenue and profit margins on a macro and micro level to determine the utility's financial exposure in competitive markets and has coordinated company initiatives in federal regulatory proceedings. He has analyzed the financial impacts upon utilities of the implementation of federal utility policy, and he has assisted with filings that comply with regulatory directives. He has diverse financial and analytical skills, including statistical modeling, revenue and load forecasting and budgeting, as well as the creation of innovative pricing structures.

Prior to joining Burton & Associates, Andy was a General Rate Analyst and Federal Regulatory Affairs Section representative for Consumers Energy. Consumers Energy is one of the largest combination utilities, providing electric and natural gas service to more than 6 million of Michigan's 9.5 million residents, in all 68 of the counties of Michigan's Lower Peninsula. While at Consumers, his responsibilities encompassed federal energy policy Federal Energy Regulatory Commission ("FERC") actions. Andy served as the key technical expert in evaluating proposed transmission rate filings and was responsible for identifying and quantifying their fundamental effects and financial impacts. Frequently he represented Consumers Energy as its rate expert in federal settlement negotiations, stakeholder processes, and trade associations.

EXPERTISE

Functional areas of expertise and direct consulting experience include:

- Utility Financial Modeling & Analyses Including Cost of Service
- Revenue Sufficiency Analyses

- Continued -

Burton & Associates

ANDREW BURNHAM

RESUME



EXPERTISE - CONTINUED

- Utility Rate Structure Design
- Budget Preparation & Financial Reporting
- Specific Service Charge Analyses
- Strategic Planning & Analyses
- Expert Witness Testimony
- Settlement Negotiations & Representation
- Billing Processes & Daily Operations Analyses
- Development & Evaluation of Innovative Rate Structures utilized in a RTO

BUSINESS EXPERIENCE

<i>Rate Analyst & Consultant</i> Burton & Associates	2003 – Present
<i>General Rate Analyst</i> <i>Federal Regulatory Affairs</i> Consumers Energy Company	2003
<i>Rate Analyst</i> <i>Federal Regulatory Affairs</i> Consumers Energy Company	2001-2003
<i>Rate Analyst</i> <i>Rate Administration</i> Consumers Energy Company	2001

Burton & Associates

ANDREW BURNHAM

RESUME



EDUCATION

Bachelor of Business Administration
Lake Superior State University US-Michigan-Sault Ste. Marie
Graduated Magna Cum Laude
Recipient of Outstanding Business Student Award
December 2000

Associate Of Personal Computer Specialist
Lake Superior State University US-Michigan-Sault Ste. Mari
December 2000

Youngtown - Sun City Water
Index of Modified Standard Filing Schedules
Reflecting Town of Youngtown's Proposed Adjustments

Schedule
No.

- | | |
|-----|--|
| A-1 | Summary of the Increase in revenue requirement and the spread of the revenue increase by customer classification |
| A-2 | Summary of the results of operations for the test year and for the test year and the two fiscal years ended prior to the end of the test year, compared with the projected year. |
| A-5 | Summary of changes in financial position for the test year and the two fiscal years ended prior to the test year, compared to the projected year |
| B-1 | Schedule showing the elements of original cost and RCND rate bases. |
| B-2 | Schedule listing pro forma adjustments to gross plant in service and accumulated depreciation for the original cost rate base |
| C-1 | Test year income statement, with pro forma adjustments. |
| C-2 | Schedule showing the detail of all pro forma adjustments. |
| F-1 | Projected income statements for the projected year compared with the test year, at present and proposed rates. |
| F-2 | Projected changes in financial position for the projected year compared with the test year, at present and proposed rates |

Youngtown - Sun City Water
 Test Year Ended December 31, 2001
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Schedule A-1
 Page
 Witness: Burnham

Line
No.

1	Fair Value Rate Base				\$ 22,220,302
2					
3	Adjusted Operating Income				267,326
4					
5	Current Rate of Return				1.20%
6					
7	Required Operating Income				\$ 1,721,971
8					
9	Required Rate of Return on Fair Value Rate Base				7.75%
10					
11	Operating Income Deficiency				\$ 1,454,646
12					
13	Gross Revenue Conversion Factor				1.6286
14					
15	Increase in Gross Revenue				
16	Requirement				\$ 2,369,086
17					
18		Present	Proposed	Dollar	Percent
19	Customer	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
20	<u>Classification</u>				
21	5/8 X 3/4 Inch Meter			\$ -	38.25%
22	1 Inch Meter			-	38.25%
23	1.5 Inch Meter - Commercial			-	38.25%
24	2 Inch Meter			-	38.25%
25	Construction Water			-	38.25%
26	Church			-	38.25%
27	Golf Course			-	38.25%
28	Private Fire			-	38.25%
29	Public Authority			-	38.25%
30	Miscellaneous Revenues			-	38.25%
31				-	38.25%
32	Total of Water Revenues	\$0	\$0	\$ -	38.25%

36 SUPPORTING SCHEDULES:

37 B-1
 38 C-1
 39 C-3
 40 H-1

Youngtown - Sun City Water
 Test Year Ended December 31, 2001
 Summary of Results of Operations

Exhibit
 Schedule A-2
 Page 1
 Witness: Burnham

Line No.	Description	Prior Years Ended			Test Year		Projected Year	
		12/31/1998	12/31/1999	12/31/2000	Actual 12/31/2001	Adjusted 12/31/2001	Present Rates 12/31/2002	Proposed Rates 12/31/2002
1	Gross Revenues	\$ 6,265,249	\$ 6,433,486	\$ 7,139,309	\$ 6,559,683	\$ 6,193,090	\$ 6,193,090	\$ 8,562,177
2								
3	Revenue Deductions and	5,434,325	6,184,468	6,510,567	6,258,602	5,925,765	5,925,765	6,840,206
4	Operating Expenses							
5								
6	Operating Income	\$ 830,924	\$ 248,998	\$ 628,742	\$ 301,081	\$ 267,326	\$ 267,326	\$ 1,721,971
7								
8	Other Income and	(30,460)	(121,446)	(185,926)	(37,045)	-	-	-
9	Deductions							
10								
11	Interest Expense	-	13	101	3,417,266	699,837	699,837	699,837
12								
13	Net Income	\$ 800,464	\$ 127,539	\$ 442,715	\$ (3,153,230)	\$ (432,512)	\$ (432,512)	\$ 1,022,134
14								
15	Earned Per Average							
16	Common Share	1.74	0.28	0.96	(6.85)	(0.94)	(0.94)	2.22
17								
18	Dividends Per							
19	Common Share	-	-	-	-	-	-	1.67
20								
21	Payout Ratio	-	-	-	-	-	-	0.75
22								
23	Return on Average							
24	Invested Capital	4.94%	0.39%	1.25%	-9.13%	-1.17%	-1.56%	3.68%
25								
26	Return on Year End							
27	Capital	2.47%	0.39%	1.17%	-9.13%	-1.17%	-1.45%	3.42%
28								
29	Return on Average							
30	Common Equity	4.17%	0.40%	1.39%	-10.35%	-1.36%	-3.89%	9.19%
31								
32	Return on Year End							
33	Common Equity	2.54%	0.40%	1.38%	-10.92%	-1.37%	-3.61%	8.54%
34								
35	Times Bond Interest Earned							
36	Before Income Taxes	-	11,289.85	7,479.17	0.12	(0.01)	(0.01)	3.38
37								
38	Times Total Interest and							
39	Preferred Dividends Earned							
40	After Income Taxes	-	9,811.69	4,384.32	0.08	0.38	0.38	2.46
41								
42								
43	<u>SUPPORTING SCHEDULES</u>							
44	C-1							
45	E-2							
46	F-1							

Youngtown - Sun City Water
 Test Year Ended December 31, 2001
 Summary Statements of Cash Flows

Exhibit
 Schedule A-5
 Page 1
 Witness: Burnham

Line
 No.

	Prior Year Ended <u>12/31/1998</u>	Prior Year Ended <u>12/31/1999</u>	Prior Year Ended <u>12/31/2000</u>	Test Year Ended <u>12/31/2001</u>	Projected Year Present Rates <u>12/31/2002</u>	Projected Rates <u>12/31/2002</u>
5 Cash Flows from Operating Activities						
6 Net Income	\$ -	\$ 127,540	\$ 442,715	\$ (3,153,230)	\$ (432,512)	\$ 1,022,134
7 Adjustments to reconcile net income to not cash provided by operating activities:						
8 Depreciation and Amortization	-	1,077,278	1,173,808	1,199,940	1,004,528	1,004,528
9 Deferred Income Taxes	-	(728,228)	120,656	(244,429)	-	-
10 Accumulated Deferred ITC	-	(28,431)	(57,280)	(31,748)	-	-
11 Changes in Certain Assets and Liabilities:						
12 Accounts Receivable	-	(427,985)	(293,918)	496,979	-	-
13 Materials & Supplies	-	(55,084)	-	55,084	-	-
14 Prepaid Expenses	-	-	-	(5,912)	-	-
15 Misc Current Assets and Deferred Expenses	-	151,649	219,294	(120,871)	-	-
16 Accounts Payable and Accrued Liabilities	-	113,407	37,241	(23,046)	-	-
17 Accrued Income Taxes	-	265,848	(111,814)	76,876	-	-
18 Net Cash Flow provided by Operating Activities	\$ -	\$ 495,874	\$ 1,530,692	\$ (1,760,457)	\$ 672,017	\$ 2,024,682
19 Cash Flow From Investing Activities:						
20 Capital Expenditures	-	(2,867,658)	(1,640,741)	(1,555,385)	(5,346,205)	(5,346,205)
21 Plant Hold for Future Use	-	-	-	-	-	-
22 Non-Utility Property	-	-	96,804	33,810	-	-
23 Net Cash Flows from Investing Activities	\$ -	\$ (2,867,658)	\$ (1,541,837)	\$ (1,521,575)	\$ (5,346,205)	\$ (5,346,205)
24 Cash Flow From Financing Activities:						
25 (Decrease) Increase in Net Amounts due to Parent and Affiliates	-	1,490,783	(166,524)	3,067,874	-	-
26 Customer Deposits	-	2,558	10,807	(17,059)	-	-
27 Changes in Advances for Construction	-	840,356	180,242	246,296	-	-
28 Changes in Contributions for Construction	-	34,733	(22,168)	(24,878)	-	-
29 Proceeds from Long-Term Debt Borrowing	-	-	-	-	-	-
30 Repayments of Long-Term Debt	-	-	-	-	-	-
31 Dividends Paid	-	-	-	-	-	(706,600)
32 Deferred Financing Costs	-	-	-	-	-	-
33 Paid in Capital	-	-	-	-	-	-
34 Net Cash Flows Provided by Financing Activities	\$ -	\$ 2,366,430	\$ 6,139	\$ 3,272,032	\$ -	\$ (786,600)
35 Increase(decrease) in Cash and Cash Equivalents	-	(3,254)	(5,006)	-	(4,774,189)	(4,080,144)
36 Cash and Cash Equivalents at Beginning of Year	-	10,310	7,056	2,050	2,050	2,050
37 Cash and Cash Equivalents at End of Year	\$ -	\$ 7,056	\$ 2,050	\$ 2,050	\$ (4,772,139)	\$ (4,084,094)

43 SUPPORTING SCHEDULES:
 44 E-3
 45 F-2

Youngtown - Sun City Water
 Test Year Ended December 31, 2001
 Summary of Rate Base

Exhibit
 Schedule B-1
 Page 1
 Witness: Burnham

Line No.		Original Cost Rate base	RCND Rate base	Fair Value Rate base (OCRB Only)
1				
2	Gross Utility Plant In Service	\$ 39,396,793	\$ 87,395,276	\$ 39,396,793
3	Less: Accumulated Depreciation	13,717,002	31,018,998	13,717,002
4				
5	Net Utility Plant In Service	\$ 25,679,791	\$ 56,376,278	\$ 25,679,791
6				
7	Less:			
8	Advances in Aid of			
9	Construction	2,331,186	5,171,351	2,331,186
10	Contributions In Aid of			
11	Construction - Net of amortization	1,127,078	2,500,237	1,127,078
12	Customer Meter Deposits	1,225	1,225	1,225
13	Deferred Income Taxes & Credits	-	-	-
14	Investment tax Credits	-	-	-
15	Plus:			
16	Unamortized Finance			
17	Charges	-	-	-
18	Deferred Tax Assets	-	-	-
19	Allowance for Working Capital	-	-	-
20	Citizens Acquisition Adjustment	-	-	-
21				
22	Total Rate Base	\$ 22,220,302	\$ 48,703,466	\$ 22,220,302

26 SUPPORTING SCHEDULES:
 27 B-2
 28 B-3
 29 B-5
 30 E-1

RECAP SCHEDULES:
 A-1

Youngtown - Sun City Water
 Test Year Ended December 31, 2001
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 1
 Witness: Burnham

Line No.		Actual at End of Test Year	Proforma Label	Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant In Service	\$ 38,367,124	(1)	897,345	\$ 39,398,793
3			(2)	2,002,900	
4	Less:		(6)	-	
5			(8)	129,424	
6	Accumulated				
7	Depreciation	<u>13,169,068</u>	(3)	547,933	<u>13,717,002</u>
8					
9	Net Utility Plant				
10	In Service	\$ 23,198,056			\$ 25,679,791
11					
12	Less:				
13	Advances in Aid of				
14	Construction (Ratemaking Purposes Only)	2,441,506	(4a)	-	2,331,186
15			(5a)	(110,420)	
16	Contributions in Aid of				
17	Construction - Net (Ratemaking	1,017,908	(4b)	(1,250)	1,127,078
18	Purposes Only)		(5b)	110,420	
19	Customer Meter Deposits	1,225			1,225
20	Deferred Income Taxes	-			-
21	Investment Tax Credits	-			-
22	Plus:				
23	Unamortized Finance				
24	Charges	-			-
25	Deferred Tax Assets	-			-
26	Working capital	-			-
27	Citizens Acquisition Adjustment	-	(7)	-	-
28					
29	Total	<u>\$ 19,737,317</u>			<u>\$ 22,220,302</u>
30					

- 31
- 32 (1) Additional Plant at Closing
- 33 (2) Plant to be completed by 12/31/2002.
- 34 (3) Additional Accumulated Depreciation at Closing
- 35 (4) Increase (decrease) AIAC (4a) and CIAC (4b) to Amount at Closing
- 36 (5) Adjust AIAC (5a) and CIAC (5b) for Ratemaking Purposes
- 37 (6) Intentionally Left Blank
- 38 (7) Acquisition Adjustment Premium
- 39

40 SUPPORTING SCHEDULES:
 41 B-2
 42 E-1

RECAP SCHEDULES:
 B-1

Youngtown - Sun City Water
 Test Year Ended December 31, 2001
 Income Statement

Exhibit
 Schedule C-1
 Page 1
 Witness: Burnham

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues						
2	Metered Water Revenues	\$ 6,446,264	11/17	(366,593)	\$ 6,079,671	2,369,086	\$ 8,448,758
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	113,419			113,419		113,419
5		<u>\$ 6,559,683</u>		<u>\$ (366,593)</u>	<u>\$ 6,193,090</u>	<u>\$ 2,369,086</u>	<u>\$ 8,562,177</u>
6	Operating Expenses						
7	Salaries and Wages	\$ 833,969	2a, 4a, 10a	314,205	\$ 1,148,174		\$ 1,148,174
8	Purchased Water	515,909	18	(515,909)	-		-
9	Purchased Power	1,377,044	1b, 18	39,366	1,416,410		1,416,410
10	Chemicals	17,413	1c	-	17,413		17,413
11	Repairs and Maintenance	540,312	1d	37	540,349		540,349
12	Office Supplies and Expense	189,519	1a, 10b	259,534	429,053		429,053
13	Outside Services	104,564	1f	(70,923)	93,641		93,641
14	Service Company Charges	-	3	909,428	909,428		909,428
15	Water Testing	-	13	6,878	6,878		6,878
16	Rents	2,570	1a, 12	25,799	28,369		28,369
17	Transportation Expenses	22	22	-	22		22
18	Insurance - General Liability	78,436	1h, 10c	(12,540)	65,896		65,896
19	Insurance - health and Life	-		-	-		-
20	Regulatory Commission Expense - Rate Case	11,874	8	12,651	24,525		24,525
21	Miscellaneous Expense	864,694	1i, 10d	(564,572)	300,122		300,122
22	Depreciation Expense	1,199,940	5	(195,412)	1,004,528		1,004,528
23	Taxes Other Than Income	114,600	1a, 2b, 4b	(52,615)	62,065		62,065
24	Property Taxes	238,834	6	(87,849)	150,785		150,785
25	Income Tax	129,022			(271,892)		642,549
26							
27	Total Operating Expenses	<u>\$ 6,258,602</u>		<u>\$ 68,077</u>	<u>\$ 5,925,765</u>	<u>\$ -</u>	<u>\$ 6,840,208</u>
28	Operating Income	<u>\$ 301,081</u>		<u>\$ (434,669)</u>	<u>\$ 267,326</u>	<u>\$ 2,369,086</u>	<u>\$ 1,721,971</u>
29	Other Income (Expense)						
30	Interest Income	-			-		-
31	Other Income	26,688	14a	(26,688)	-		-
32	Interest Expense	(3,417,266)	7	2,717,429	(699,837)		(699,837)
33	Other Expense	(63,731)	14b	63,731	-		-
34	Gain/Loss Sale of Fixed Assets	-			-		-
35	Total Other Income (Expense)	<u>\$ (3,454,309)</u>		<u>\$ 2,751,472</u>	<u>\$ (699,837)</u>	<u>\$ -</u>	<u>\$ (699,837)</u>
36	Net Profit (Loss)	<u>\$ (3,153,228)</u>		<u>\$ (432,512)</u>	<u>\$ 2,319,802</u>	<u>\$ 2,369,086</u>	<u>\$ 1,022,134</u>

37
 38 **SUPPORTING SCHEDULES:**
 39 C-2
 40 E-2

RECAP SCHEDULES:
 A-1

Youngtown - Sun City Water
 Test Year Ended December 31, 2001
 Adjustments to Revenues and Expenses

Exhibit
 Schedule C-2
 Page 1
 Witness: Burnham

Line No.		<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	
1	Revenues							
2								
3	Expenses	(741,541)	(948,649)	909,428	796,513	(195,412)	(87,849)	(267,510)
4								
5	Operating							
6	Income	741,541	948,649	(909,428)	(796,513)	195,412	87,849	267,510
7								
8	Interest							
9	Expense							
10	Other							
11	Income /							
12	Expense							
13								
14	Net Income	741,541	948,649	(909,428)	(796,513)	195,412	87,849	267,510
15								
16								
17								
18								
19	Revenues	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Subtotal</u>
20						100,185		100,185
21	Expenses		12,651	-	766,041		25,799	536,981
22								
23	Operating							
24	Income	-	(12,651)	-	(766,041)	100,185	(25,799)	(436,795)
25								
26	Interest							
27	Expense	2,717,429						2,717,429
28	Other							
29	Income /							
30	Expense							
31								
32	Net Income	2,717,429	(12,651)	-	(766,041)	100,185	(25,799)	2,280,633
33								
34								
35								
36								
37	Revenues	<u>13</u>	<u>14</u>	<u>15</u>	<u>16</u>	<u>17</u>	<u>18</u>	<u>Total</u>
38						(466,778)		(366,593)
39	Expenses	6,878		-	40,127		(515,909)	68,077
40								
41	Operating							
42	Income	(6,878)	-	-	(40,127)	(466,778)	515,909	(434,669)
43								
44	Interest							
45	Expense							2,717,429
46	Other							
47	Income /		37,043					37,043
48	Expense							
49								
50	Net Income	(6,878)	37,043	-	(40,127)	(466,778)	515,909	2,319,802

Youngtown - Sun City Water
Test Year Ended December 31, 2001
Adjustments to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Burnham

Line

No.

1	Service Company Charges		
2			
3	Total Service Charges	\$ 5,060,811	
4	Allocation Factor (4 Factor Formula)	0.1797	
5	Total Charges		<u>\$ 909,428</u>
6			
7			
8			
9			
10			
11			
12			
13	Adjustment to Revenues and/or Expenses		<u>\$ 909,428</u>

Youngtown - Sun City Water
 Test Year Ended December 31, 2001
 Adjustments to Revenues and Expenses
 Adjustment Number 5

Exhibit
 Schedule C-2
 Page 6
 Witness: Burnham

Line No.	Account No.	Description	Original Cost	Rate	Depreciation Expense
1	<u>Depreciation Expense</u>				
2					
3					
4		Intangible			
5					
6	301.00	Organization	\$ 471	0.00%	\$ -
7	302.00	Franchises	2,851	0.00%	-
8	303.00	Miscellaneous Intangibles	4,591	0.00%	-
9		Subtotal Intangible	<u>\$ 7,913</u>		<u>\$ -</u>
10					
11		Source of Supply			
12	310.00	Land and Land Rights	\$ 180,083	0.00%	\$ -
13	311.00	Structures and Improvements	881,798	2.50%	18,545
14	312.00	Collecting and Impounding Res.	314	2.60%	8
15	313.00	Lakes, Rivers, Other Intakes	-	0.00%	-
16	314.00	Wells and Springs	2,387,315	2.52%	60,160
17		Subtotal Source of Supply	<u>\$ 3,229,508</u>		<u>\$ 78,713</u>
18					
19		Pumping			
20	320.00	Land and Land Rights	\$ 8,458	0.00%	\$ -
21	321.00	Structures and Improvements	582,491	1.87%	9,728
22	323.00	Other Power Production	9,554	4.42%	422
23	325.00	Electric Pumping Equipment	6,605,888	4.42%	291,979
24	326.00	Diesel Pumping Equipment	25,151	5.00%	1,258
25	328.10	Gas Engine Pumping Equipment	249,781	5.01%	12,514
26		Subtotal Pumping	<u>\$ 7,481,300</u>		<u>\$ 315,801</u>
27					
28		Water Treatment			
29	330.00	Land and Land Rights	\$ -	0.00%	\$ -
30	331.00	Structures and Improvements	80,580	1.87%	1,345
31	332.00	Water Treatment Equipment	407,427	4.00%	16,297
32		Subtotal Water Treatment	<u>\$ 488,007</u>		<u>\$ 17,643</u>
33					
34		Transmission and Distribution			
35	340.00	Land and Land Rights	\$ 10,483	0.00%	\$ -
36	341.00	Structures and Improvements	28,804	2.00%	572
37	342.00	Distribution, Reservoirs, & ST	1,374,148	1.87%	22,948
38	343.00	Transmission and Distribution	12,357,895	1.53%	189,076
39	344.00	Fire Mains	-	0.00%	-
40	345.00	Services	4,783,788	2.48%	118,038
41	346.00	Motors	3,232,044	2.51%	81,124
42	348.00	Hydrants	1,797,909	2.00%	36,958
43	349.00	Other Transmission & Distribution	523	2.00%	10
44		Subtotal Transmission and Distribution	<u>\$ 23,585,412</u>		<u>\$ 448,327</u>
45					
46		General			
47	389.00	Land and Land Rights	\$ 1,183	0.00%	\$ -
48	390.00	Structures and Improvements	798,274	1.87%	13,331
49	391.00	Office Furniture and Equipment	237,788	4.58%	10,914
50	391.10	Computer Equipment	340,444	4.58%	15,626
51	392.00	Transportation Equipment	428,409	25.00%	107,102
52	393.00	Stores Equipment	6,847	3.91%	268
53	394.00	Tools, Shop and Garage	97,973	4.02%	3,939
54	395.00	Laboratory Equipment	31,035	3.71%	1,151
55	396.00	Power Operated Equipment	28,578	5.20%	1,491
56	397.00	Communication Equipment	137,843	10.30%	14,177
57	398.00	Miscellaneous Equipment	86,047	4.93%	3,258
58		Subtotal General	<u>\$ 2,174,303</u>		<u>\$ 171,297</u>
59					
60					
61		Youngtown Plant	(148,497)	2.83%	(4,205)
62		ADFUC adjustment 3/99	(450,822)	2.83%	(12,788)
63		TOTALS	<u>\$ 30,367,124</u>		<u>\$ 1,012,869</u>
64					
65					
66					
67	Proforma Plant (to be completed by 12/31/2002)		\$ 3,029,889	2.8318%	85,794
68					
69	Amortization of Deferred Regulatory Assets		\$ 655,877	2.8318%	18,573
70					
71	Loss: Amortization of Contributions		\$ 1,127,078	10.0000%	(112,708)
72					
73	Total Depreciation Expense				<u>\$ 1,004,528</u>
74					
75	Test Year Depreciation Expense				<u>1,199,940</u>
76					
77	Increase (decrease) in Depreciation Expense				<u>(195,412)</u>
78					
79	Adjustment to Revenues and/or Expenses				<u>\$ (195,412)</u>

Youngtown - Sun City Water
 Test Year Ended December 31, 2001
 Adjustments to Revenues and Expenses
 Adjustment Number 6

Exhibit
 Schedule C-2
 Page 7
 Witness: Burnham

Line No.		
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Revenues in year ended 12/31/01	\$ 6,559,883
4	Adjusted Revenues in year ended 12/31/01	6,193,090
5	Proposed Revenues	8,562,177
6	Average of three year's of revenue	<u>\$7,104,983</u>
7	Average of three year's of revenue, times 2	<u>\$14,209,967</u>
8	Add:	
9	Construction Work in Progress at 10%	
10	Deduct:	
11	Book Value of Transportation Equipment	247,444
12	Book Value of Transportation Equipment (proforma)	176,600
13	Total Book Value of Transportation Equipment	<u>\$ 424,044</u>
14		
15	Full Cash Value	\$ 13,785,923
16	Assessment Ratio	25%
17	Assessed Value	<u>3,448,481</u>
18	Property Tax Rate	7.205292%
19		
20	Property Tax	248,329
21	Tax on Parcels	154
22		
23	Total Property Tax at Proposed Rates	<u>\$ 248,483</u>
24	Property Taxes in the test year	336,332
25	Change in Property Taxes	<u>\$ (87,849)</u>
26		
27		
28	Adjustment to Revenues and/or Expenses	<u>\$ (87,849)</u>

Youngtown - Sun City Water
Test Year Ended December 31, 2001
Adjustments to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Burnham

Line
No.

1	<u>Interest Synchronization with Rate Base</u>	
2		
3	Fair Value Rate Base	\$22,220,302
4	Weighted Cost of Debt from Schedule D-1	3.15%
5	Synchronized Interest Expense	<u>699,837</u>
6	Test Year Interest Expense, Per Books	3,417,266
7	Increase in Interest Expense	<u>\$ (2,717,429)</u>
8		
9	Adjustment to Revenues and/or Expense	<u>2,717,429</u>

Youngtown - Sun City Water
Test Year Ended December 31, 2001
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Burnham

Line No.		
1	<u>Rate Case Expense</u>	
2		
3	Estimated Rate Case Expense	\$ 122,623
4		
5	Estimated Amortization Period in Years	5
6		
7	Annual Rate Case Expense	<u>\$ 24,525</u>
8		
9	Test Year Rate Case Expense	\$ 11,874
10		
11	Increase(decrease) Rate Case Expense	<u>\$ 12,651</u>
12		
13	Adjustment to Revenue and/or Expense	<u>\$ 24,525</u>

Youngtown - Sun City Water
Test Year Ended December 31, 2001
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 10

Exhibit
Schedule C-2
Page 11
Witness: Burnham

Line No.			Adjustment Label
1	<u>Projected Additional Expenses</u>		
2			
3			
4	Salaries & Wages	\$ 413,726	10a
5	Office Expense	286,670	10b
6	Insurance	62,200	10c
7	Misc Expense	3,446	10d
8			
9			
10			
11	Adjustment to Revenue and/or Expense	<u>\$ 766,041</u>	

Youngtown - Sun City Water
 Test Year Ended December 31, 2001
 Projected Income Statements - Present & Proposed Rates

Exhibit
 Schedule F-1
 Page 1
 Witness: Burnham

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2002	At Proposed Rates Year Ended 12/31/2002
1	Revenues			
2	Metered Water Revenues	\$ 6,446,264	\$ 6,079,671	\$ 8,448,758
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	113,419	113,419	113,419
5		<u>\$ 6,559,683</u>	<u>\$ 6,193,090</u>	<u>\$ 8,562,177</u>
6	Operating Expenses			
7	Salaries and Wages	\$ 833,969	\$ 1,148,174	\$ 1,148,174
8	Purchased Water	515,909	-	-
9	Purchased Power	1,377,044	1,416,410	1,416,410
10	Chemicals	17,413	17,413	17,413
11	Repairs and Maintenance	540,312	540,349	540,349
12	Office Supplies and Expense	169,519	429,053	429,053
13	Outside Services	184,564	93,641	93,641
14	Service Company Charges	-	909,428	909,428
15	Water Testing	-	6,878	6,878
16	Rents	2,570	28,369	28,369
17	Transportation Expenses	22	22	22
18	Insurance - General Liability	78,436	65,896	65,896
19	Insurance - health and Life	-	-	-
20	Regulatory Commission Expense - Rate Case	11,874	24,525	24,525
21	Miscellaneous Expense	864,694	300,122	300,122
22	Depreciation Expense	1,199,940	1,004,528	1,004,528
23	Taxes Other Than Income	114,680	62,065	62,065
24	Property Taxes	238,834	150,785	150,785
25	Income Tax	129,022	(271,892)	642,549
26				
27	Total Operating Expenses	<u>\$ 6,258,602</u>	<u>\$ 5,925,765</u>	<u>\$ 6,840,206</u>
28	Operating Income	<u>\$ 301,081</u>	<u>\$ 267,326</u>	<u>\$ 1,721,971</u>
29	Other Income (Expense)			
30	Interest Income	-	-	-
31	Other income	26,688	-	-
32	Interest Expense	(3,417,266)	(699,837)	(699,837)
33	Other Expense	(63,731)	-	-
34	Gain/Loss Sale of Fixed Assets	-	-	-
35	Total Other Income (Expense)	<u>\$ (3,454,309)</u>	<u>\$ (699,837)</u>	<u>\$ (699,837)</u>
36	Net Profit (Loss)	<u>\$ (3,153,228)</u>	<u>\$ (432,512)</u>	<u>\$ 1,022,134</u>
37				

Youngtown - Sun City Water
 Test Year Ended December 31, 2001
 Projected Statements of Changes in Financial Position
 Present and Proposed Rates

Exhibit
 Schedule F-2
 Page 1
 Witness: Burnham

Line No.		Test Year Ended <u>12/31/2001</u>	At Present Rates Year Ended <u>12/31/2002</u>	At Proposed Rates Year Ended <u>12/31/2002</u>
1				
2				
3				
4				
5	Cash Flows from Operating Activities			
6	Net Income	\$ (3,153,230)	\$ (432,512)	\$ 1,022,134
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	1,199,940		
10	Deferred Income Taxes	(244,429)		
11	Accumulated Deferred ITC	(31,748)		
12	Changes in Certain Assets and Liabilities:			
13	Accounts Receivable	496,979		
14	Materials & Supplies	55,084		
15	Prepaid Expenses	(5,912)		
16	Misc Current Assets and Deferred Expense	(120,971)		
17	Accounts Payable and Accrued Liabilities	(23,046)		
18	Accrued Taxes	76,876		
19	Net Cash Flow provided by Operating Activities	<u>\$ (1,750,457)</u>	<u>\$ (432,512)</u>	<u>\$ 1,022,134</u>
20	Cash Flow From Investing Activities:			
21	Capital Expenditures	(1,555,385)	(5,346,205)	(5,346,205)
22	Plant Held for Future Use	-		
23	Non-Utility Property	33,810		
24	Net Cash Flows from Investing Activities	<u>\$ (1,521,575)</u>	<u>\$ (5,346,205)</u>	<u>\$ (5,346,205)</u>
25	Cash Flow From Financing Activities			
26	(Decrease) Increase in Net Amounts due to Parent and			
27	Affiliates	3,067,674		
28	Customer Deposits	(17,059)		
29	Changes in Advances for Construction	246,295		
30	Changes in Contributions for Construction	(24,878)		
31	Proceeds from Long-Term Debt Borrowing	-		
32	Repayments of Long-Term Debt	-		
33	Dividends Paid	-		(766,600)
34	Deferred Financing Costs	-		
35	Net Cash Flows Provided by Financing Activities	<u>\$ 3,272,032</u>	<u>\$ -</u>	<u>\$ (766,600)</u>
36	Increase(decrease) in Cash and Cash Equivalents	<u>\$ -</u>	<u>\$ (5,778,717)</u>	<u>\$ (5,090,672)</u>
37	Cash and Cash Equivalents at Beginning of Year	2,050	2,050	2,050
38	Cash and Cash Equivalents at End of Year	<u>\$ 2,050</u>	<u>\$ (5,776,667)</u>	<u>\$ (5,088,622)</u>
39				
40				
41	SUPPORTING SCHEDULES:			
42	E-3			
43	F-3			

EXHIBIT 3
Schedules C-2
Witness: Burtham

Arizona American - Other Expenses
per 169 Annual (no Svc Co Expenses included)

CATEGORY	Actual												YTD	Mar-May	YE Forecast	TYPE CODE	AMOUNT
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec					
Directors Fees	1,290	1,380	5,794	1,304	1,260	3,369	925	1,250	2,510	500	5,000	6,000	CC	6,000			
Bank Svc Charges CA	-	-	440	-	796	926	-	925	13,569	2,142	28,307	28,307	CC	28,307			
ET Inserts - CA	-	-	-	-	-	-	-	-	1,364	341	3,010	4,051	CC	4,051			
Co Action Agencies	-	-	-	-	-	-	-	-	145	73	583	756	CC	756			
Bank Svc City AG	-	366	-	-	-	236	-	145	341	17	75	583	CC	583			
Forums	-	-	1,295	365	3,524	172	1,758	145	7,114	1,423	14,224	17,073	CC	17,073			
Required Meetings	-	100	3,160	-	78,781	3,183	5,819	70	59,053	19,191	182,061	251,277	CC	251,277			
ET Inserts AG	-	-	-	-	10,600	-	-	-	10,670	2,144	21,140	25,603	CC	25,603			
Brochures and Handouts	-	-	834	-	-	-	-	-	834	219	1,917	2,953	CC	2,953			
Community Relations	-	-	76	1,786	889	-	680	680	3,220	844	6,411	7,250	CC	7,250			
Postage CA	-	-	31	189	90,401	18,559	27,910	27,910	137,461	27,456	274,961	312,353	CC	312,353			
Incentive Plan	1,290	1,260	16,863	20,290	14,156	17,256	25,830	27,368	97,004	83,645	301,478	378,629	CC	378,629			
Group Insurance	32,663	30,069	60,159	83,721	21,843	47,631	14,374	27,368	322,485	29,073	522,818	597,849	EE	597,849			
FROP	5,295	3,826	104,822	32,393	28,990	28,133	14,374	27,368	227,879	23,459	370,172	411,500	EE	411,500			
Wks Camp	860	484	(155)	3,749	(7,845)	(1,317)	(2,333)	(2,333)	(6,578)	(1,560)	(14,534)	(14,534)	EE	(14,534)			
Dues/Memberships Deduct	-	697	973	262	170	(170)	170	170	2,202	301	1,707	2,612	EE	2,612			
Dues/Memberships NonDeduct	-	40	147	53	546	(389)	770	770	1,167	225	2,281	2,703	EE	2,703			
Employee Exp	173	173	3,716	11,498	32,543	(10,476)	10,315	10,315	48,169	3,663	56,203	64,529	EE	64,529			
Employee Exp Corp Registration	-	-	1,067	710	1,373	2,284	4,744	4,744	10,249	2,160	20,497	24,355	EE	24,355			
Meal/Travel	-	239	1,773	4,978	10,818	(3,864)	3,160	3,160	18,405	3,375	13,371	36,736	EE	36,736			
Other Welfare	-	-	120	472	759	559	335	335	2,285	651	1,951	2,883	EE	2,883			
Employee Awards	-	-	270	265	42	80	80	80	614	154	1,302	1,812	EE	1,812			
Employee Physicals	-	-	1,620	2,420	5,926	(3,366)	5,738	5,738	12,298	2,460	13,302	15,116	EE	15,116			
Tuition	-	-	530	170	2,283	(1,846)	9,224	9,224	10,341	2,008	21,596	23,519	EE	23,519			
Training	-	-	5,883	8,674	5,876	5,217	5,377	5,377	37,070	6,203	44,173	49,916	EE	49,916			
401K	297	5,732	7,522	10,724	6,884	6,703	6,450	6,450	47,769	7,517	64,002	74,597	EE	74,597			
ESCP	2,045	1,600	1,243	1,243	1,610	1,233	1,600	1,600	8,528	1,472	15,058	17,149	EE	17,149			
Trustee Fees	101	103	1,094	269	215	1,168	834	834	3,683	898	7,161	8,068	FFP	8,068			
Credit Line Fees	2,568	2,569	3,169	2,968	2,674	5,628	3,263	3,263	22,241	3,145	38,364	41,537	RB	41,537			
General Lib Insurance, Property	-	-	1,003	460	460	449	449	449	2,372	593	5,397	6,049	RB	6,049			
Security Svc CA	-	-	44,104	52,184	50,256	32,047	44,028	44,028	278,177	92,992	641,987	631,987	RB	631,987			
Insurance Other, Gen. Liability	1,911	2,311	1,911	14,511	23,569	20,025	14,411	14,411	69,597	19,115	160,161	217,401	RB	217,401			
Co Dues/Memberships Deduct	-	350	2,509	2,020	-	(1,950)	4,211	4,211	6,931	1,346	13,672	15,118	NOT ALLOCATED	15,118			
Co Dues/Memberships NonDeduct	-	-	495	8,501	340	2,710	156	156	794	74	162	862	NOT ALLOCATED	862			
Co Dues/Memberships A:WVA Deduct	-	-	30	108	-	156	54	54	643	162	1,460	1,460	NOT ALLOCATED	1,460			
Co Dues/Memberships A:WVA NonDeduct	-	-	443	152	533	(109)	375	375	2,533	292	2,533	2,533	NOT ALLOCATED	2,533			
Charitable Contributions Deduct	-	-	100	100	100	100	100	100	200	67	533	600	NOT ALLOCATED	600			
Charitable Contributions NonDeduct	-	-	-	-	-	-	-	-	-	-	-	-	NOT ALLOCATED	-			
Property Taxes	23,403	23,403	23,403	24,553	773,403	174,471	174,471	174,471	1,217,107	178,373	2,069,453	2,192,733	Total	2,192,733			

6,000

847,981

17,053

8,347

-11,335

637,500

217,401

3,027,617

EXHIBIT 4
 Schedule C-2
 Witness: Burnham

Youngtown Revised Annualization of Arizona-American Management Fee

Management Fees
 per 168 Line 13

	Actual												Forecast	
	January	February	March	April	May	June	July	Ytd	MAR	2002	July - AVG	YE Forecast	Annual Est	
Arizona	22,441	215,344	398,049	429,178	471,821	396,921	451,837	2,384,191	429,281	4,530,597	5,151,374			
per Dbaka amt includes Amort Crs Time Costs			(5,081)	(1,960)	(4,295)	(6,681)	(2,815)	(21,951)						
per 168 Line 13 Less Amort One Time Costs	22,441	215,344	390,768	422,923	465,214	387,325	442,341	2,346,456	421,734	4,455,127	5,060,811			

Call Cr
 SSC

Current	74,325
AZ Total Water	40,198
AZ Total Sewer	114,523

Customers

Per JDE STAT Report

	Total	Residential	Commercial	Industrial	Fire	CPA	Resale
Paradise Valley	4,669	4,350	239	-	55	6	19
WhiteStone Water	-	-	-	-	-	-	-
WhiteStone WasteWater	13,566	13,271	240	-	44	1	4
Agua Fria - Water	22,068	21,118	713	-	113	123	1
Sun City Water	21,144	20,806	448	-	-	-	-
Sun City WasteWater	15,303	14,925	337	-	41	-	-
Sun City West Water	14,889	14,697	192	-	-	-	-
Sun City West WasteWater	46	1	5	-	-	40	-
Treatco Water	7	1	4	-	-	2	-
Treatco WasteWater	3,307	3,208	83	-	16	-	-
Cristco Water	3,593	3,557	36	-	-	-	-
Distco WasteWater	-	-	-	-	-	-	-
Tusayan	23	15	8	-	-	-	-
Surprise Water	488	428	62	-	-	-	-
Cave Creek	13,823	12,741	686	-	98	68	-
Tubac Water	565	553	5	-	-	2	-
Michave Water	1,232	1,184	48	-	-	-	-
Somerston WasteWater	-	-	-	-	-	-	-
Havasut Water	-	-	-	-	-	-	-
Havasut WasteWater	-	-	-	-	-	-	-
Check total	114,523						

Youngtown Revised Arizona American
Cost Allocation Factors

Exhibit
Schedule C2
Page X
Witness: Blinham

Line No.	Description	Fair Value Rate Base	Fair Value Rate Factor	Employee Count	Employee Count Factor	Customer Count	Customer Count Factor	Proforma Plant	Proforma Plant Factor	Present Revenues	With PV Adjusted TY Revenues Factor	4F Factor	Without PV Adjusted TY Revenues Factor
1	Sun City Water	22,220,302	0.2404	24	0.2727	22,165	0.2042	5,346,205	0.1302	6,193,690	0.1508	0.2130	0.1737
2	Sun City Wastewater	8,777,097	0.0950	4	0.0455	21,144	0.1945	165,716	0.0048	5,089,340	0.1239	0.1667	0.1427
3	Sun City West Water	11,818,391	0.1279	6	0.0682	15,581	0.1434	576,012	0.0140	3,380,774	0.0823	0.1266	0.0948
4	Sun City West Wastewater	8,849,291	0.0957	9	0.1023	14,889	0.1370	238,759	0.0058	3,535,680	0.0861	0.1298	0.0992
5	Agua Fria	16,550,636	0.1791	7	0.0795	13,004	0.1196	10,303,148	0.2509	6,186,037	0.1507	0.1203	0.1735
6	Anthem Water	9,168,370	0.0992	12	0.1364	3,269	0.0301	9,917,159	0.2415	4,010,895	0.0977	0.0509	0.1125
7	Agua Fria/Anthem WW	2,746,898	0.0297	6	0.0692	2,544	0.0234	9,714,220	0.2385	1,866,546	0.0455	0.0509	0.0524
8	Tubac Valley	1,138,953	0.0123	1	0.0114	494	0.0045	487,313	0.0114	234,496	0.0062	0.0092	0.0071
9	Nichave Sewer	577,336	0.0073	1	0.0114	579	0.0053	379,629	0.0092	303,894	0.0074	0.0116	0.0085
10	Nichave Water	9,534,736	0.1037	15	0.1706	13,796	0.1269	1,560,237	0.0085	4,394,132	0.1070	0.1042	0.1232
11	Heavasu Water	869,240	0.0097	3	0.0341	1,169	0.0109	2,352,427	0.0373	440,924	0.0107	0.0139	0.0124
12	PV									5,405,505	0.1317		
13	Totals	92,430,597	1.0000	88	1.0000	108,884	1.0000	41,068,828	1.0000	41,068,315	1.0000	1.0000	1.0000

Youngtown Revised Arizona American
Expense Projections

Exhibit
Schedule C2
Page Xa
Witness: Burnham

Line No.	Expense Category	Rate Case		Directs Fees		Office Exp.		Sal. & Wages		Trustee Fees		Office Exp.		Insurance		Office Exp.		Insurance		Rents		Circum Costs		Organizational	
		Amount	ATYR	Misc Exp.	CC	EE	PPF	CC	CC	EE	PPF	Misc Exp.	PPF	PPF	FVRB	FVRB	FVRB	FVRB	FVRB	ATYR	ATYR	4F	ATYR	ATYR	
1	Amount	\$ 706,000		\$ 6,000		\$ 1,516,886		\$ 647,681		\$ 17,058		\$ 8,347		\$ 41,335		\$ 637,500		\$ 217,401		\$ 171,049		\$ 607,722		\$ -	
2	Factor Basis*																								
3	Property																								
4																									
5																									
6	Sun City Water	\$ 122,623		\$ 1,225		\$ 413,726		\$ 132,328		\$ 2,221		\$ 1,087		\$ 9,937		\$ 153,255		\$ 52,263		\$ 25,799		\$ 129,424		\$ -	
7	Sun City Wastewater	100,749		1,167		88,964		126,062		81		40		3,925		60,536		20,644		21,197		101,300		-	
8	Sun City West Water	66,939		860		103,431		92,695		239		117		5,295		81,512		27,797		14,068		78,774		-	
9	Sun City West Wastewater	70,006		322		155,147		88,769		58		48		3,967		61,005		20,814		14,729		78,774		-	
10	Agua Fria Water	122,482		718		120,670		77,531		4,279		2,094		7,401		114,347		38,927		25,770		73,337		-	
11	Anthem Water	79,413		180		266,663		19,490		4,119		2,016		4,100		63,235		21,564		16,768		30,862		-	
12	Agua Fria/Anthem WW	36,958		140		103,431		15,168		4,005		1,974		1,228		18,946		6,461		7,776		30,552		-	
13	Tribac Valley	5,039		27		17,239		2,845		794		95		509		7,955		2,879		1,060		5,617		-	
14	Alchava Sewer	6,017		32		17,239		3,452		159		77		303		4,670		1,593		1,266		7,035		-	
15	Alchava Water	87,016		762		258,579		82,253		656		321		4,296		68,107		22,544		18,265		63,313		-	
16	Havasai Water	8,730		66		51,716		7,289		977		478		402		6,202		2,115		1,837		8,445		-	
Totals		\$ 706,000		\$ 6,000		\$ 1,516,886		\$ 647,681		\$ 17,058		\$ 8,347		\$ 41,335		\$ 637,500		\$ 217,401		\$ 171,049		\$ 607,722		\$ -	

Youngtown - Sun City Wastewater
Index of Standard Filing Schedules

Schedule
No.

- | | |
|-----|--|
| A-1 | Summary of the increase in revenue requirement and the spread of the revenue increase by customer classification |
| A-2 | Summary of the results of operations for the test year and for the test year and the two fiscal years ended prior to the end of the test year, compared with the projected year. |
| A-5 | Summary of changes in financial position for the test year and the two fiscal years ended prior to the test year, compared to the projected year |
| B-1 | Schedule showing the elements of original cost and RCND rate bases. |
| B-2 | Schedule listing pro forma adjustments to gross plant in service and accumulated depreciation for the original cost rate base |
| C-1 | Test year income statement, with pro forma adjustments. |
| C-2 | Schedule showing the detail of all pro forma adjustments. |
| F-1 | Projected income statements for the projected year compared with the test year, at present and proposed rates. |
| F-2 | Projected changes in financial position for the projected year compared with the test year, at present and proposed rates |

Youngtown - Sun City Wastewater
 Test Year Ended December 31, 2001
 Computation of Increase In Gross Revenue
 Requirements As Adjusted

Exhibit
 Schedule A-1
 Page
 Witness: Burnham

Line
No.

1	Fair Value Rate Base	\$ 8,777,097
2		
3	Adjusted Operating Income	1,025,469
4		
5	Current Rate of Return	11.68%
6		
7	Required Operating Income	\$ 680,185
8		
9	Required Rate of Return on Fair Value Rate Base	7.75%
10		
11	Operating Income Deficiency	\$ (345,284)
12		
13	Gross Revenue Conversion Factor	1.6286
14		
15	Increase in Gross Revenue	
16	Requirement	\$ (562,342)
17		

	<u>Present</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
18				
19	Customer			
20	<u>Classification</u>			
21	5/8 X 3/4 Inch Meter		\$ -	-11.05%
22	1 Inch Meter		-	-11.05%
23	1.5 Inch Meter - Commercial		-	-11.05%
24	2 Inch Meter		-	-11.05%
25	Construction Water		-	-11.05%
26	Church		-	-11.05%
27	Golf Course		-	-11.05%
28	Private Fire		-	-11.05%
29	Public Authority		-	-11.05%
30	Miscellaneous Revenues		-	-11.05%
31			-	-11.05%
32	Total of Water Revenues	\$0	\$0	\$ -11.05%
33				
34				
35				

36 SUPPORTING SCHEDULES:

- 37 B-1
- 38 C-1
- 39 C-3
- 40 H-1

Youngtown - Sun City Wastewater
 Test Year Ended December 31, 2001
 Summary of Results of Operations

Exhibit
 Schedule A-2
 Page 1
 Witness: Burnham

Line No.	Description	Prior Years Ended			Test Year		Projected Year	
		12/31/1998	12/31/1999	12/31/2000	Actual 12/31/2001	Adjusted 12/31/2001	Present Rates 12/31/2002	Proposed Rates 12/31/2002
1	Gross Revenues	\$ 4,927,913	\$ 4,958,136	\$ 5,001,158	\$ 5,055,107	\$ 5,088,340	\$ 5,088,340	\$ 4,525,998
2								
3	Revenue Deductions and	4,098,505	4,524,321	4,301,143	4,727,432	4,082,871	4,082,871	3,845,814
4	Operating Expenses							
5								
6	Operating Income	\$ 829,408	\$ 433,815	\$ 700,015	\$ 327,675	\$ 1,025,469	\$ 1,025,469	\$ 680,185
7								
8	Other Income and	3,559	20,816	(26,685)	59,772	-	-	-
9	Deductions							
10								
11	Interest Expense	-	-	75	1,185,235	405,468	405,468	405,468
12								
13	Net Income	\$ 832,967	\$ 454,631	\$ 673,255	\$ (797,788)	\$ 620,001	\$ 620,001	\$ 274,717
14								
15	Earned Per Average							
16	Common Share	1.81	0.99	1.46	(1.73)	1.35	1.35	0.60
17								
18	Dividends Per							
19	Common Share	-	-	-	-	-	1.01	0.45
20								
21	Payout Ratio	-	-	-	-	-	0.75	0.75
22								
23	Return on Average							
24	Invested Capital	16.00%	3.96%	3.23%	-2.85%	2.24%	3.48%	1.54%
25								
26	Return on Year End							
27	Capital	8.00%	3.62%	2.31%	-2.85%	2.26%	3.52%	1.56%
28								
29	Return on Average							
30	Common Equity	6.07%	2.19%	3.16%	-3.75%	2.82%	8.69%	3.85%
31								
32	Return on Year End							
33	Common Equity	4.06%	2.17%	3.11%	-3.82%	2.78%	8.79%	3.90%
34								
35	Times Bond Interest Earned							
36	Before Income Taxes	-	-	14,555.91	0.54	3.49	3.49	2.10
37								
38	Times Total Interest and							
39	Preferred Dividends Earned							
40	After Income Taxes	-	-	8,977.73	0.33	2.53	2.53	1.68
41								
42								
43	<u>SUPPORTING SCHEDULES</u>							
44	C-1							
45	E-2							
46	F-1							

Youngtown - Sun City Wastewater
 Test Year Ended December 31, 2001
 Summary Statements of Cash Flows

Exhibit
 Schedule A-5
 Page 1
 Witness: Burnham

Line No.	Prior Year Ended 12/31/1998	Prior Year Ended 12/31/1999	Prior Year Ended 12/31/2000	Test Year Ended 12/31/2001	Projected Year Present Rates 12/31/2002	Projected Year Proposed Rates 12/31/2002
5						
6						
7	\$ -	\$ 454,631	\$ 673,255	\$ (797,788)	\$ 620,001	\$ 274,717
8						
9	-	415,643	538,018	644,505	503,752	503,752
10	-	(358,964)	(193,031)	(166,145)	-	-
11	-	(8,598)	(7,024)	(9,548)	-	-
12						
13	-	(175,898)	658,981	(638,375)	-	-
14	-	-	-	-	-	-
15	-	-	-	(23)	-	-
16	-	604,397	27,745	12,718	-	-
17	-	539,154	395,947	672,931	-	-
18	-	(21,160)	2,918	(5,080)	-	-
19	\$ -	\$ 1,449,205	\$ 2,098,185	\$ (388,785)	\$ 1,123,753	\$ 778,489
20						
21	-	(2,731,842)	(905,902)	(194,688)	(195,718)	(195,718)
22	-	-	-	-	-	-
23	-	110,974	(37,214)	179,944	-	-
24	\$ -	\$ (2,620,868)	\$ (943,110)	\$ (14,745)	\$ (195,718)	\$ (195,718)
25						
26						
27	-	(306,303)	(1,660,477)	1,289,559	-	-
28	-	175	(175)	-	-	-
29	-	1,543,112	543,261	(888,028)	-	-
30	-	(5,321)	(35,678)	-	-	-
31	-	-	-	-	-	-
32	-	-	-	-	-	-
33	-	-	-	-	(465,001)	(208,038)
34	-	-	-	-	-	-
35	-	-	-	-	-	-
36	\$ -	\$ 1,171,883	\$ (1,153,089)	\$ 401,530	\$ (405,001)	\$ (208,038)
37	-	-	-	-	463,034	376,713
38	-	-	-	-	-	-
39	\$ -	\$ -	\$ -	\$ -	\$ 463,034	\$ 376,713

43 SUPPORTING SCHEDULES:
 44 E-3
 45 F-2

Youngtown - Sun City Wastewater
 Test Year Ended December 31, 2001
 Summary of Fair Value Rate Base

Exhibit
 Schedule B-1
 Page 1
 Witness: Burnham

Line No.		Original Cost Rate base	RCND Rate base	Fair Value Rate base (OCRB Only)
1				
2	Gross Utility Plant in Service	\$ 19,962,780	\$ 51,811,232	\$ 19,962,780
3	Less: Accumulated Depreciation	7,189,539	20,408,401	7,189,539
4				
5	Net Utility Plant in Service	\$ 12,773,241	\$ 31,402,831	\$ 12,773,241
6				
7	<u>Less:</u>			
8	Advances in Aid of			
9	Construction	3,309,005	8,588,165	3,309,005
10	Contributions in Aid of			
11	Construction - Net of amortization	1,187,139	3,081,090	1,187,139
12	Customer Meter Deposits	-	-	-
13	Deferred Income Taxes & Credits	-	-	-
14	Investment tax Credits	-	-	-
15	<u>Plus:</u>			
16	Tolleson Trickling			
17	Filter	500,000	500,000	500,000
18	Deferred Tax Assets	-	-	-
19	Allowance for Working Capital	-	-	-
20	Citizens Acquisition Adjustment	-	-	-
21				
22	Total Rate Base	\$ 8,777,097	\$ 20,233,577	\$ 8,777,097

26 SUPPORTING SCHEDULES:
 27 B-2
 28 B-3
 29 B-5
 30 E-1

RECAP SCHEDULES:
 A-1

Youngtown - Sun City Wastewater
 Test Year Ended December 31, 2001
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 1
 Witness: Burnham

Line No.		Actual at End of Test Year	Proforma Adjustments Label	Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	\$ 19,643,850	(1)	1,330	\$ 19,962,780
3			(2)	216,300	
4			(8)	-	
5	Less:		(8)	101,300	
6	Accumulated				
7	Depreciation	6,967,677	(3)	221,862	7,189,539
8					
9	Net Utility Plant				
10	in Service	\$ 12,676,172			\$ 12,773,241
11					
12	Less:				
13	Advances in Aid of				
14	Construction (Ratemaking Purposes Only)	3,479,030	(4a)	-	3,309,005
15			(5a)	(170,025)	
16	Contributions In Aid of				
17	Construction - Net (Ratemaking	1,018,380	(4b)	(1,266)	1,187,139
18	Purposes Only)		(5b)	170,025	
19	Customer Meter Deposits	-			-
20	Deferred Income Taxes	-			-
21	Investment Tax Credits	-			-
22	Plus:				
23	Tolleson Trickling				
24	Filter	-	(9)	500,000	500,000
25	Deferred Assets	-			-
26	Working capital	-			-
27	Citizens Acquisition Adjustment	-	(7)	-	-
28					
29	Total	\$ 8,178,762			\$ 8,777,097

- 31
- 32 (1) Additional Plant at Closing
- 33 (2) Plant to be completed by 12/31/2002.
- 34 (3) Additional Accumulated Depreciation at Closing
- 35 (4) Increase (decrease) AIAC (4a) and CIAC (4b) to Amount at Closing
- 36 (5) Adjust AIAC (5a) and CIAC (5b) for Ratemaking Purposes
- 37 (6) Intentionally Left Blank
- 38 (7) Acquisition Adjustment Premium
- 39 (8) Orcorn Costs
- 40 (9) Tolleson Trickling Filter

41

42 SUPPORTING SCHEDULES:

43 B-2

44 E-1

RECAP SCHEDULES:

B-1

Youngtown - Sun City Wastewater
 Test Year Ended December 31, 2001
 Income Statement

Exhibit
 Schedule C-1
 Page 1
 Witness: Burnham

Line No.	Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues					
2	\$ 5,052,248	11	33,233	\$ 5,085,481	(562,342)	\$ 4,523,139
3	-			-		-
4	2,859			2,859		2,859
5	<u>\$ 5,055,107</u>		<u>\$ 33,233</u>	<u>\$ 5,088,340</u>	<u>\$ (562,342)</u>	<u>\$ 4,525,998</u>
6	Operating Expenses					
7	\$ 332,898	2a,4a,10a	(175,194)	\$ 157,504		\$ 157,504
8	2,728,855	1c,16a,17,18	(1,736,408)	992,447		992,447
9	1,621	1b,15	(111)	1,510		1,510
10	-			-		-
11	-			-		-
12	108,581	1d	(2,885)	105,696		105,696
13	-			-		-
14	-	1e,10b	179,039	179,039		179,039
15	32,119	1f	(28,996)	3,123		3,123
16	-	3	513,166	513,166		513,166
17	-			-		-
18	68	1g,12	21,197	21,265		21,265
19	-			-		-
20	50,858	1h,10c	(24,849)	26,009		26,009
21	-			-		-
22	12,564	8	7,586	20,150		20,150
23	492,448	1i,10d	(347,318)	145,130		145,130
24	544,505	5	(40,753)	503,752		503,752
25	24,872	1a,2b,4b	(17,118)	7,754		7,754
26	149,864	6	28,619	178,483		178,483
27	248,379			389,754		172,697
28	-	16b	818,091	818,091		818,091
29	<u>\$ 4,727,432</u>		<u>\$ (805,936)</u>	<u>\$ 4,062,871</u>	<u>\$ -</u>	<u>\$ 3,845,814</u>
30	<u>\$ 327,675</u>		<u>\$ 839,169</u>	<u>\$ 1,025,469</u>	<u>\$ (562,342)</u>	<u>\$ 680,185</u>
31	Other Income (Expense)					
32	-			-		-
33	69,616	13a	(69,616)	-		-
34	(1,185,235)	7	779,767	(405,468)		(405,468)
35	(9,844)	13b	9,844	-		-
36	-			-		-
37	<u>\$ (1,125,463)</u>		<u>\$ 719,995</u>	<u>\$ (405,468)</u>	<u>\$ -</u>	<u>\$ (405,468)</u>
38	<u>\$ (797,788)</u>		<u>\$ 1,559,164</u>	<u>\$ 820,001</u>	<u>\$ (562,342)</u>	<u>\$ 274,717</u>

39
 40 SUPPORTING SCHEDULES:
 41 C-2
 42 E-2

RECAP SCHEDULES:
 A-1

Youngtown - Sun City Wastewater
 Test Year Ended December 31, 2001
 Adjustments to Revenues and Expenses

Exhibit
 Schedule C-2
 Page 1
 Witness: Burnham

Line No.	<u>Adjustments to Revenues and Expenses</u>						Subtotal
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							
41							
42							
43							
44							
45							
46							
47							
48							
49							
50							

Line No.	<u>Adjustments to Revenues and Expenses</u>						Subtotal
	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30							
31							
32							
33							
34							
35							
36							
37							
38							
39							
40							
41							
42							
43							
44							
45							
46							
47							
48							
49							
50							

Line No.	<u>Adjustments to Revenues and Expenses</u>						Total
	<u>13</u>	<u>14</u>	<u>15</u>	<u>16</u>	<u>17</u>	<u>18</u>	
36							
37							
38							
39							
40							
41							
42							
43							
44							
45							
46							
47							
48							
49							
50							

Youngtown - Sun City Wastewater
Test Year Ended December 31, 2001
Adjustments to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Burnham

Line No.			
1	Service Company Charges		
2			
3	Total Service Charges	\$ 5,060,811	
4	Allocation Factor (4 Factor Formula)	0.1014	
5	Total Charges		<u>\$ 513,166</u>
6			
7			
8			
9			
10			
11			
12			
13	Adjustment to Revenues and/or Expenses		<u>\$ 513,166</u>

Youngtown - Sun City Wastewater
 Test Year Ended December 31, 2001
 Adjustments to Revenues and Expenses
 Adjustment Number 5

Exhibit
 Schedule C-2
 Page 6
 Witness: Burnham

Line No.	Account No.	Description	Original Cost	Rate	Depreciation Expense
1	<u>Depreciation Expense</u>				
2					
3					
4					
5		Intangible			
6	301.00	Organization	\$ 122,373	0.00%	\$ -
7	302.00	Franchises	6,132	0.00%	-
8	303.00	Miscellaneous Intangibles	10,495	0.00%	-
9		Subtotal Intangible	<u>\$ 139,000</u>		<u>\$ -</u>
10					
11		Treatment & Discharge			
12	310.00	Land and Land Rights	\$ 6,565	0.00%	\$ -
13	311.00	Structures and Improvements	22,095	2.50%	552
14	312.00	Preliminary Treatment	453	0.00%	-
15	313.00	Primary Treatment Equipment	-	0.00%	-
16	314.00	Secondary Treatment Equipment	2,575	2.52%	65
17	315.00	Tertiary Equipment	-	0.00%	-
18	316.00	Disinfection Equipment	-	0.00%	-
19	317.00	Effluent Lift Station E	1,503	2.00%	30
20	318.00	Outfall Line	291	2.00%	6
21	319.00	Sludge, Treatment & Distribution	-	2.50%	-
22	321.00	Influent Lift Station	178	2.00%	4
23	322.00	General Treatment Equipment	18,743	2.00%	375
24		Subtotal Treatment & Discharge	<u>\$ 52,403</u>		<u>\$ 1,032</u>
25					
26		Collection and Influent			
27	340.00	Land and Land Rights	\$ -	0.00%	\$ -
28	341.00	Structures and Improvements	350,713	2.00%	7,014
29	342.00	Collection System Lift	1,229,723	8.40%	103,297
30	343.00	Collection Mains	9,888,964	2.04%	201,694
31	344.00	Force Mains	1,300,266	2.07%	26,916
32	345.00	Discharge Services	2,307,454	2.04%	47,072
33	348.00	Manholes	2,495,785	2.03%	50,664
34		Subtotal Collection and Influent	<u>\$ 17,570,906</u>		<u>\$ 436,657</u>
35					
36		General			
37	389.00	Land and Land Rights	\$ 1,108	0.00%	\$ -
38	390.00	Structures and Improvements	760,473	1.68%	12,782
39	391.00	Office Furniture and Equipment	228,528	4.55%	10,296
40	391.10	Computer Equipment	324,323	4.55%	14,741
41	392.00	Transportation Equipment	408,123	25.00%	102,031
42	393.00	Stores Equipment	6,523	3.92%	256
43	394.00	Tools, Shop and Garage	93,334	4.14%	3,860
44	395.00	Laboratory Equipment	29,585	3.71%	1,097
45	396.00	Power Operated Equipment	27,321	5.14%	1,405
46	397.00	Communication Equipment	131,126	10.28%	13,478
47	398.00	Miscellaneous Equipment	62,919	4.98%	3,133
48		Subtotal General	<u>\$ 2,071,343</u>		<u>\$ 183,077</u>
49					
50		Youngtown Plant *	(86,727)	2.80%	(2,709)
51		ADFUC adjustment 3/95 **	(93,075)	2.80%	(2,606)
52		TOTALS	<u>\$ 19,643,850</u>		<u>\$ 595,450</u>
53					
54					
55		Proforma Plant (to be completed by 12/31/2002)	\$ 318,930	2.80%	8,931
56		Tolleson Trickling Filter	\$ 500,000	2.80%	14,000
57					
58		Amortization of Deferred Regulatory Assets	\$ 145,771	2.80%	4,082
59					
60		Loss: Amortization of Contributions	\$ 1,187,139	10.00%	(118,714)
61					
62		Total Depreciation Expense			<u>\$ 503,752</u>
63					
64		Test Year Depreciation Expense			<u>544,505</u>
65					
66		Increase (decrease) in Depreciation Expense			<u>(40,753)</u>
67					
68		Adjustment to Revenues and/or Expenses			<u>\$ (40,753)</u>

Youngtown - Sun City Wastewater
Test Year Ended December 31, 2001
Adjustments to Revenues and Expenses
Adjustment Number 6

Exhibit
 Schedule C-2
 Page 7
 Witness: Burnham

Line No.		
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Revenues in year ended 12/31/01	\$ 5,055,107
4	Adjusted Revenues in year ended 12/31/01	5,088,340
5	Proposed Revenues	4,525,998
6	Average of three year's of revenue	<u>\$4,888,815</u>
7	Average of three year's of revenue, times 2	<u>\$9,779,630</u>
8	Add:	
9	Construction Work in Progress at 10%	
10	Deduct:	
11	Book Value of Transportation Equipment	408,123
12	Book Value of Transportation Equipment (proforma)	-
13	Total Book Value of Transportation Equipment	<u>\$ 408,123</u>
14		
15	Full Cash Value	\$ 9,371,507
16	Assessment Ratio	25%
17	Assessed Value	2,342,877
18	Property Tax Rate	7.618094%
19		
20	Property Tax	178,483
21	Tax on Parcels	
22		
23	Total Property Tax at Proposed Rates	<u>\$ 178,483</u>
24	Property Taxes in the test year	149,864
25	Change in Property Taxes	<u>\$ 28,619</u>
26		
27		
28	Adjustment to Revenues and/or Expenses	<u>\$ 28,619</u>

Youngtown - Sun City Wastewater
Test Year Ended December 31, 2001
Adjustments to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Burnham

Line No.		
1	Interest Synchronization with Rate Base	
2	Fair Value Rate Base	\$8,777,097
3	Weighted Cost of Debt from Schedule D-1	3.15%
4	Synchronized Interest Expense	276,438
5	Tolleson Bond Interest Differential	129,029
6	Total Proposed Interest Expense	405,468
7	Test Year Interest Expense, Per Books	1,185,235
8	Increase In Interest Expense	\$ (779,767)
9		
10	Adjustment to Revenues and/or Expense	779,767

Youngtown - Sun City Wastewater
Test Year Ended December 31, 2001
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Burnham

Line
No.

1	<u>Rate Case Expense</u>		
2			
3	Estimated Rate Case Expense	\$	100,749
4			
5	Estimated Amortization Period In Years		5
6			
7	Annual Rate Case Expense	\$	20,150
8			
9	Test Year Rate Case Expense	\$	12,564
10			
11	Increase(decrease) Rate Case Expense	\$	<u>7,586</u>
12			
13	Adjustment to Revenue and/or Expense	\$	<u>7,586</u>

Youngtown - Sun City Wastewater
Test Year Ended December 31, 2001
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 10

Exhibit
Schedule C-2
Page 11
Witness: Burnham

Line No.			Adjustment Label
1	<u>Projected Additional Expenses</u>		
2			
3			
4	Salaries & Wages	\$ 68,954	10a
5	Office Expense	186,638	10b
6	Insurance	24,569	10c
7	Misc Expense	1,249	10d
8			
9			
10			
11	Adjustment to Revenue and/or Expense	<u>\$ 281,410</u>	

Youngtown - Sun City Wastewater
 Test Year Ended December 31, 2001
 Projected Income Statements - Present & Proposed Rates

Exhibit
 Schedule F-1
 Page 1
 Witness: Burnham

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2002	At Proposed Rates Year Ended 12/31/2002
1	Revenues			
2	Flat Rate Revenues	\$ 5,052,248	\$ 5,085,481	\$ 4,523,139
3	Measured Revenues	-	-	-
4	Other Wastewater Revenues	2,859	2,859	2,859
5		<u>\$ 5,055,107</u>	<u>\$ 5,088,340</u>	<u>\$ 4,525,998</u>
6	Operating Expenses			
7	Salaries and Wages	\$ 332,698	\$ 157,504	\$ 157,504
8	Purchased Wastewater Treatment	2,728,855	992,447	992,447
9	Purchased Power	1,621	1,510	1,510
10	Fuel for Power Production	-	-	-
11	Chemicals	-	-	-
12	Materials and Supplies	108,581	105,696	105,696
13	Repairs and Maintenance	-	-	-
14	Office Supplies and Expense	-	179,039	179,039
15	Outside Services	32,119	3,123	3,123
16	Service Company Charges	-	513,166	513,166
17	Water Testing	-	-	-
18	Rents	68	21,265	21,265
19	Transportation Expenses	-	-	-
20	Insurance - General Liability	50,858	26,009	26,009
21	Insurance - Health and Life	-	-	-
22	Regulatory Commission Expense - Rate Case	12,564	20,150	20,150
23	Miscellaneous Expense	492,448	145,130	145,130
24	Depreciation Expense	544,505	503,752	503,752
25	Taxes Other Than Income	24,872	7,754	7,754
26	Property Taxes	149,864	178,483	178,483
27	Income Tax	248,379	389,754	172,697
28	Tolleson Bond	-	818,091	818,091
29	Total Operating Expenses	<u>\$ 4,727,432</u>	<u>\$ 4,062,871</u>	<u>\$ 3,845,814</u>
30	Operating Income	<u>\$ 327,675</u>	<u>\$ 1,025,469</u>	<u>\$ 680,185</u>
31	Other Income (Expense)			
32	Interest Income	-	-	-
33	Other Income	69,616	-	-
34	Interest Expense	(1,185,235)	(405,468)	(405,468)
35	Other Expense	(9,844)	-	-
36	Gain/Loss Sale of Fixed Assets	-	-	-
37	Total Other Income (Expense)	<u>\$ (1,125,463)</u>	<u>\$ (405,468)</u>	<u>\$ (405,468)</u>
38	Net Profit (Loss)	<u>\$ (797,788)</u>	<u>\$ 620,001</u>	<u>\$ 274,717</u>

Youngtown - Sun City Wastewater
 Test Year Ended December 31, 2001
 Projected Statements of Changes in Financial Position
 Present and Proposed Rates

Exhibit
 Schedule F-2
 Page 1
 Witness: Burnham

Line No.		Test Year Ended <u>12/31/2001</u>	At Present Rates Year Ended <u>12/31/2002</u>	At Proposed Rates Year Ended <u>12/31/2002</u>
5	Cash Flows from Operating Activities			
6	Net Income	\$ (797,788)	\$ 620,001	\$ 274,717
7	Adjustments to reconcile net income to net cash provided by operating activities:			
9	Depreciation and Amortization	544,505	503,752	503,752
10	Deferred Income Taxes	(166,145)		
11	Accumulated Deferred ITC	(9,546)		
12	Changes in Certain Assets and Liabilities:			
13	Accounts Receivable	(638,375)		
14	Materials & Supplies	-		
15	Prepaid Expenses	(23)		
16	Misc Current Assets and Deferred Expense	12,716		
17	Accounts Payable and Accrued Liabilities	672,931		
18	Accrued Taxes	(5,060)		
19	Net Cash Flow provided by Operating Activities	<u>\$ (386,785)</u>	<u>\$ 1,123,753</u>	<u>\$ 778,469</u>
20	Cash Flow From Investing Activities:			
21	Capital Expenditures	(194,689)	(195,718)	(195,718)
22	Plant Held for Future Use	-		
23	Non-Utility Property	179,944		
24	Net Cash Flows from Investing Activities	<u>\$ (14,745)</u>	<u>\$ (195,718)</u>	<u>\$ (195,718)</u>
25	Cash Flow From Financing Activities			
26	(Decrease) Increase in Net Amounts due to Parent and Affiliates	1,289,559		
28	Customer Deposits	-		
29	Changes in Advances for Construction	(888,029)		
30	Changes in Contributions for Construction	-		
31	Proceeds from Long-Term Debt Borrowing	-		
32	Repayments of Long-Term Debt	-		
33	Dividends Paid	-	(465,001)	(206,038)
34	Deferred Financing Costs	-		
35	Net Cash Flows Provided by Financing Activities	<u>\$ 401,530</u>	<u>\$ (465,001)</u>	<u>\$ (206,038)</u>
36	Increase(decrease) In Cash and Cash Equivalents	<u>\$ -</u>	<u>\$ 463,034</u>	<u>\$ 376,713</u>
37	Cash and Cash Equivalents at Beginning of Year	-	-	-
38	Cash and Cash Equivalents at End of Year	<u>\$ -</u>	<u>\$ 463,034</u>	<u>\$ 376,713</u>
41	SUPPORTING SCHEDULES:			
42	E-3			
43	F-3			