ORIGINAL NEW APPLICATION

RECEIVED

2005 SEP 16 P 4:37

AZ CORP COMMISSION
DOCUMENT CONTROL

FENNEMORE CRAIG, P.C.
Jay L. Shapiro
Patrick J. Black
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Attorneys for Black Mountain Sewer Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF BLACK MOUNTAIN SEWER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: **SW-02361A-05-**0657 **APPLICATION**

Black Mountain Sewer Company, an Arizona public service corporation ("BMSC" or "the Company"), hereby applies for an order establishing the fair value of its plant and property used for the provision of public wastewater utility service and, based on such finding, approving permanent rates and charges for utility service designed to produce a fair return thereon. In support thereof, BMSC states as follows:

1. BMSC is a public service corporation engaged in providing wastewater utility services in portions of Maricopa County, Arizona, pursuant to certificates of convenience and necessity granted by the Arizona Corporation Commission (the "Commission"). At the present time, the Company provides wastewater utility service to more than 1950 customers.

2. BMSC's business office is located at 111 W. Wigwam Blvd, Suite B, Litchfield Park, AZ 85340 and its telephone number is (623) 935-9367. The Company's primary management contact is Mr. Michael Weber (General Manager). The Company also has an operations office located in Carefree, Arizona.

3. The persons responsible for overseeing and directing the conduct of this rate application are Mr. Weber and the Company's rate case consultant, Mr. Thomas Bourassa. Mr. Weber's mailing address is 111 W. Wigwam Blvd, Suite B, Litchfield Park, AZ 85340 and his telephone number is (623) 935-9429; his telecopier number is (623) 935-1020, and his e-mail address is mike.weber@algonquinwater.com. Mr. Bourassa's mailing address is 139 W. Wood Drive, Phoenix, Arizona 85029, his telephone number is (602) 246-7150; his telecopier number is (602) 246-1040, and his e-mail address is tjb114@cox.net. **All discovery, data requests and other requests for information concerning this Application should be directed to Mr. Weber, including copies by e-mail, and to Mr. Bourassa, with a copy to undersigned counsel for the Company, including by e-mail to** jshapiro@fclaw.com**.**

4. The Company's present rates and charges for utility service were approved by the Commission in December 26, 1996 (Decision No. 59944) using a test year ending June 30, 1994. Thus, this is the first general increase in rates and charges requested for BMSC since its existing rates and charges became effective on or about January 1997.

5. BMSC maintains that revenues from its utility operations are presently inadequate to provide the Company a fair rate of return on the fair value of its utility plant and property devoted to public service. The Company's costs of providing service as well as its rate base have increased substantially since the previous rate proceeding, and the Company is annually adding and replacing utility plant to its wastewater system in order to ensure continued safe and reliable utility service to its customers. These increases since the test year in the prior rate proceeding have caused the revenues produced by the current rates and charges for service to become inadequate to meet operating expenses and provide a reasonable rate of return. Therefore, the Company requests that certain adjustments to its rates and charges for utility service be approved by the Commission so that the Company may recover its operating expenses and earn a just and reasonable rate

of return on the fair value of its property.

6. Filed concurrently herewith as separately bound exhibits are the schedules required pursuant to A.A.C. R14-2-103 for rate applications by Class "B" utilities, with the exception of the schedules labeled "G" (cost of service analysis). The latter schedules have been omitted because the Company is not proposing a change in its rate design. The test year utilized by the Company in connection with the preparation of such schedules is the 12-month period that ended December 31, 2004. The Company requests that the Commission utilize such test year in connection with this Application, with appropriate adjustments for utility plant that has been completed and placed in service to serve existing customers after the test year in order to obtain a normal or more realistic relationship between revenues, expenses and rate base during the period in which the rates established in this proceeding are in effect.

7. During the test year, the Company's adjusted gross revenues were $1,207,740 from wastewater utility service. The adjusted operating income from wastewater service was a negative $(14,233). The adjusted fair value rate base was $887,449. Thus, the rate of return on the Company's wastewater operations during the test year was a negative 1.6 percent. The Company submits that these rates of return are inadequate to allow it to obtain debt, pay a reasonable dividend to its stockholders, maintain a sound credit rating, and/or enable BMSC to attract additional capital on reasonable and acceptable terms in order to continue the investment in utility plant necessary to adequately serve customers.

8. The Company is requesting an increase in revenues equal to $163,279, an increase in revenues of 13.52%. The adjustments to the Company's rates and charges that are proposed herein, when fully implemented, will produce a rate of return on the fair value rate base equal to 11.0% from wastewater operations.

9. Filed concurrently in support of this Application is the Direct Testimony of

Michael Weber, providing an overview of the Company, and of Thomas Bourassa, providing an overview of the Company's rate filing, discussion of the revenue requirement, including the "A" through "F" schedules, development of the rate base and income statement adjustments, cost of equity capital and related issues, proposed rates, including the "H" schedules, and discussion of the effects of the proposed rates on customers' bills.

WHEREFORE, BMSC requests the following relief:

A. That the Commission, upon proper notice and at the earliest possible time, conduct a hearing in accordance with A.R.S. § 40-251 and determine the fair value of BMSC's utility plant and property devoted to providing wastewater utility service;

B. Based upon such determination, that the Commission approve permanent adjustments to the rates and charges for utility service provided by BMSC, as proposed by the Company herein, or approve such other rates and charges as will produce a just and reasonable rate of return on the fair value of the Company's utility plant and property; and

C. That the Commission authorize such other and further relief as may be appropriate to ensure that BMSC has an opportunity to earn a just and reasonable return on the fair value of their utility plant and property and as may otherwise be required under Arizona law.

RESPECTFULLY SUBMITTED this 16th day of September, 2005.

FENNEMORE CRAIG, P.C.

By _____
Jay L. Shapiro
Patrick Black
3003 North Central Avenue
Suite 2600
Phoenix, Arizona 85012
Attorneys for Black Mountain Sewer Company.

ORIGINAL and thirteen (13) copies of the foregoing, together with the separately bound direct testimonies and schedules supporting this application, were delivered this 16th day of September, 2005, to:

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

By: Whitney Bilk

1707491.2

NEW APPLICATION

FENNEMORE CRAIG
Jay L. Shapiro
Patrick J. Black
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Attorneys for Black Mountain Sewer Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF BLACK MOUNTAIN SEWER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	SW-02361A-05-0657 DOCKET NO: SW-02361A-05-

DIRECT TESTIMONY OF

MICHAEL D. WEBER

THOMAS J. BOURASSA

FENNEMORE CRAIG
Jay L. Shapiro
Patrick J. Black
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Attorneys for Black Mountain Sewer Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF BLACK MOUNTAIN SEWER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-05-

DIRECT TESTIMONY OF

MICHAEL D. WEBER

THOMAS J. BOURASSA

Weber Direct Testimony

FENNEMORE CRAIG, P.C.
Jay L. Shapiro
Patrick J. Black
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Attorneys for Black Mountain Sewer Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF BLACK MOUNTAIN SEWER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-05-_____

DIRECT TESTIMONY OF

MICHAEL D. WEBER

TABLE OF CONTENTS

I. INTRODUCTION, PURPOSE OF TESTIMONY AND SUMMARY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Michael D. Weber, 111 W. Wigwam Blvd, Suite B, Litchfield Park, AZ 85340.

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

A. I am the employed by Algonquin Water Services ("AWS"). My title is Vice President and General Manager and my responsibilities include directing the day-to-day management and operation of the water and wastewater utility systems owned by Algonquin Water Resources of America, Inc. ("AWRA") (AWS and AWRA are collectively referred to as "Algonquin"). AWS employees the staff that operates all the facilities owned by AWRA.

Q. WHAT WATER AND WASTEWATER UTILITY SYSTEMS DOES ALGONQUIN OWN AND OPERATE?

A. Besides Black Mountain Sewer Company ("BMSC" or "Company"), formerly known as Boulders Carefree Sewer Corporation and the applicant in this docket, Algonquin owns and operates the Litchfield Park Service Company, Gold Canyon Sewer Company, and Bella Vista Water Company. In addition, Algonquin also owns and/or operates 5 water and wastewater utility systems in Illinois and Texas. AWRA is currently seeking approval from the Missouri Public Service Commission for the acquisition of three additional water and/or sewer systems.

Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AS VICE PRESIDENT AND GENERAL MANAGER.

A. I am generally responsible for budgeting, long rang planning, strategic decision making, financial performance, and overseeing the day-to-day operations of the facilities owned by AWRA.

Q. WHAT RESPONSIBILITIES DO YOU HAVE SPECIFIC TO THE APPLICANT, BMSC?

A. In addition to the responsibilities as stated above, I am responsible for developing policy for the Company and coordinating the activities of the Engineering and Construction, Development Services, and Operations, Accounting, and Customer Service workgroups. I assist when needed the efforts involved with CC&N expansions and other development related issues.

Q. WHAT WAS YOUR WORK HISTORY BEFORE JOINING ALGONQUIN?

A. Prior to joining Algonquin, I was employed as the President and General Manager of Community Water Company of Green Valley, Arizona. Prior to that I was employed by Citizens Water Resources and served in many capacities of increasing responsibility during that tenure, the last position being Manager of Operations. Prior to my private utility engagements, I was employed by various civil engineering consulting firms including Black & Veatch, HDR Engineering, and Burgess & Niple, all in Arizona.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND TECHNICAL BACKGROUND.

A. I have a Bachelor of Science degree in Civil Engineering and a Master of Business Administration, both from the Arizona State University. I am a registered professional civil engineer in the State of Arizona and possess grade four operator certificates in wastewater treatment and collections.

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

A. To support BMSC's application for rate relief. Specifically, I will provide background on the Company and its operations, including identifying the Company's recent upgrades and improvements to the Boulders wastewater

treatment plant and other facilities.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA CORPORATION COMMISSION?

A. Yes, on two occasions.

II. OVERVIEW OF BLACK MOUNTAIN SEWER COMPANY.

Q. IN YOUR CAPACITY AS GENERAL MANAGER, ARE YOU FAMILIAR WITH THE COMPANY'S OPERATIONS?

A. Yes.

Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY.

A. BMSC's service area is located in the northeastern portion of the Phoenix metropolitan area. We serve primarily in the Town of Carefree and in unincorporated Maricopa County, as well as portions of the City of Scottsdale. At the present time, BMSC serves approximately 1957 customers, 1,836 of which are residential and 121 are commercial.

The Company operates one 120,000 gallon per day wastewater treatment facility located near the Boulders Resort. All other wastewater flows are diverted into the City of Scottsdale's wastewater treatment system and then delivered with wastewater flows from the City's customers to the regional City of Phoenix 91st Avenue Wastewater Treatment Plant.

AWRA is BMSC's sole shareholder. AWRA is an indirect wholly owned subsidiary of the publicly traded entity Algonquin Power Income Fund (ticker symbol APF.UN on the Toronto Stock Exchange). This fund was established to own energy and infrastructure related assets in the United States and Canada. Since its inception in 1997, the Algonquin Power Income Fund has grown to hold approximately $800 million in such assets.

Q. WHEN DID ALGONQUIN ACQUIRE BMSC?

A. In March 2001 Algonquin acquired the Company's stock from the shareholder of the Wyndham resort chain.

Q. WHEN DID THE CURRENT RATES GO INTO EFFECT?

A. The Company's current rates were approved in Decision No. 59166 and became effective on July 21, 1995. Thus, it will be at least 10 years between rate increases.

Q. WOULD YOU PLEASE DESCRIBE ANY SIGNIFICANT RECENT PLANT UPGRADES OR IMPROVEMENTS?

A. The Company has invested more than $1.4 million since 2000 to improve its wastewater treatment plant. Specifically, the Company has conducted various studies leading to several odor, sound, and process improvements at the treatment plant site and in the collection system. Improvements made over roughly the past three years are identified in Exhibit A attached to my direct testimony.

Q. WAS THE PLANT OPERATING IN VIOLATION OF ANY APPLICABLE LAWS OR REGULATIONS?

A. No, but we were hearing a lot of complaints from nearby property owners and from the Town of Carefree. The majority of the recent improvements were made for the benefit our customers because they reduce odor and sound at the plant. We continue to operate in total compliance and we have done everything feasible to reduce odors, sound, and other impacts of the plant on our community.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

1662345/16040.031

EXHIBIT

A

Black Mountain Sewer Company
Aesthetic Improvement Project
December 2003 - December 2005

Capital Improvement	Completion Date
Effluent overflow to Scottsdale	12/30/02
Peaceful Place LS Improvements	12/30/02
Sewer Realingment Staghorn & Boulders Drive	12/30/02
Sealed Manholes@ CIE/WWTP	2/2/04
Installed Odor Scrubber CIE Lift	2/11/04
Installed Basin Sealing Material WWTP	2/27/04
Installed Bio Filter MH Insert Quartz Drive	3/8/04
Installed Two-Stage MH Inserts at Six Locations	2/27/04
Installed Perma-seal MH Rings Boulder/Quartz Drive	3/5/04
Conducted Phase I Odor / Noise Assessment	6/16/04
Completed Landscaping Improvements CIE LS	4/13/04
Completed Landscaping South of WWTP	4/20/04
Installed Two-Stage MH Inserts at Two CIE Locations	4/27/04
Contracted DSWA for Phase II Noise Assessment	12/23/04
Contracted LTS for Phase II OdorAssesement	7/28/04
LTS Conducts 22-pt / 200 hr Odor Assessment	6/24/04
DSWA meeting D/B Noise Specifications Developed	6/16/04
Additional Trees added to WWTP	6/28/04
LTS PHS II Odor Study Report	6/24/04
Additional Landscaping Improvements WWTP	8/12/04
LTS Phs II Report	7/28/04
Chemical Feed study - Sage Brush LS	10/26/04
LTS Phs III Odor Evaluation Report	11/1/04
DSWA - Plant Sound Evaluation - AM	12/23/04
DSWA - Plant Sound Evaluation - PM	1/10/05
BMSC Asthetic Improvements Schedule to ADEQ	1/31/05
DSWA Sound Improvement Evaluation Report	1/31/05
Odor Scrubber Air Balance	2/11/05
Odor Scrubber Stack Sampling and Speciation	2/18/05
Plant / Collection System pH Profiling	2/23/05
LTS Phs IV - Odor Scrubber Air Balance - Report	3/31/05
LTS Phs V -Odor Scrubber Stack - Report	4/1/05
Repair MH Hydrulic Surcharge at Century Drive	3/17/05
Plant / Collection System pH Profiling Analysis	7/29/05
Sewer Rehabilitation - Boulders Drive - 3,000 LF	7/17/05
Sage Brush - Automated Chemical Feed System	12/30/05
Industrial Pretreatment Sample Ordinance	6/30/05
Peaceful Place Lift Station Improvements	7/30/05

Bourassa Direct Testimony

FENNEMORE CRAIG, P.C.
Jay L. Shapiro
Patrick J. Black
3003 N. Central Ave.
Suite 2600
Phoenix, Arizona 85012
Attorneys for Black Mountain Sewer Company

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF BLACK MOUNTAIN SEWER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	DOCKET NO: SW-02361A-05-_____

DIRECT TESTIMONY OF

THOMAS J. BOURASSA

TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

A. I am a Certified Public Accountant and am self-employed, providing consulting services to utility companies as well as general accounting services. I have a B.S. in Chemistry and Accounting from Northern Arizona University (1980) and an M.B.A. with an emphasis in Finance from the University of Phoenix (1991).

Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND REGULATORY EXPERIENCE?

A. Yes. Prior to becoming a private consultant, I was employed by High-Tech Institute, Inc., and served as controller and chief financial officer. Prior to working for High-Tech Institute, I worked as a division controller for the Apollo Group, Inc. Before joining the Apollo Group, I was employed at Kozoman & Kermode, CPAs. In that position, I prepared compilations and other write-up work for water and wastewater utilities, as well as tax returns.

In my consulting practice, I have prepared and/or assisted in the preparation of various water and wastewater utility rate applications before the Arizona Corporation Commission ("Commission"), including Vail Water Company, E&T Water Company, Ponderosa Utility Company, Diablo Village Water Company, New River Utility Company, Far West Water & Sewer, Sedona Venture Water and Sewer, Bella Vista Water Company, Rio Verde Utilities, Gold Canyon Sewer Company, Green Valley Water Company, Beardsley Water Company, Livco Water and Sewer Company, Pine Water Company, Arizona-American Water Company, Chaparral City Water Company, Valley Utilities Water Company, and

Community Water of Green Valley.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying in this proceeding on behalf of the applicant, Black Mountain Sewer Company ("BMSC" or "the Company"). BMSC is seeking increases in its rates and charges for water utility service in its certificated service area, which is located in portions of Scottsdale and Carefree, in Maricopa County, Arizona. BMSC was previously named Boulders Carefree Sewer Corporation.

II. OVERVIEW OF THE COMPANY'S REQUEST FOR RATE RELIEF.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I will testify in support of the Company's proposed adjustments to its rates and charges for sewer utility service. I am sponsoring Schedules A through H, which are filed concurrently herewith in support of the Company's application. I was responsible for the preparation of these schedules based on my investigation and review of the relevant books and records for the Company. The Company has not prepared a cost of service study, so the G Schedules are omitted.

Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.

A. The test year used by BMSC is the 12-month period ending December 31, 2004. The Company is requesting an 11.0 percent return on its fair value rate base ("FVRB"). The Company has also proposed certain pro forma adjustments to take into account known and measurable changes to rate base, expenses and revenues. These pro forma adjustments are consistent with normal ratemaking and are contemplated by the Commission's rules and regulations governing rate applications. *See* R14-2-103. These adjustments are necessary to obtain a normal or realistic relationship between revenues, expenses and rate base on a going-forward basis.

The Company's fair value rate base is $887,449. The increase in revenues

to provide for recovery of operating expenses and a 11.0 percent return on rate base is approximately $163,279, an increase of approximately 13.52 percent over the adjusted and annualized test year revenues.

Q. WHY IS THE COMPANY FILING FOR RATE INCREASES AT THIS TIME?

A. The Company's last rate increase was approved on December 26, 1996 (Decision No. 59944) using a test year ending June 30, 1994. In 2000, the Company, formerly known as Boulders Carefree Sewer Company, was acquired by Algonquin Water Resources of America ("Algonquin"). Algonquin is cognizant of the need to avoid long delays between rate filings and believes enough time has passed since the last rate case. It has been nearly 10 years since the Company's prior rate case, and since that case, the Company has made investments in plant, acquired additional wastewater treatment capacity from the City of Scottsdale, and various operating expenses have increased. The Company's current rate of return, based on the adjusted test year data, is a negative 1.6 percent. Consequently, rate increases are necessary to ensure that the Company has an opportunity to earn a reasonable return on the fair value of its utility plant and property devoted to public service.

III. SUMMARY OF A, E AND F SCHEDULES.

Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S SCHEDULES. PLEASE DESCRIBE THE SCHEDULES LABELED AS A, E, AND F.

A. The A-1 Schedule is a summary of the rate base, operating income, current operating margin, required operating margin, operating income deficiency, and the increase in gross revenue. A 11.0 percent return on FVRB is requested. The increase in the revenue requirement is $163,279. Revenues at present and proposed and customer classifications are also shown on this schedule.

The A-2 Schedule is a summary of results of operations for the test year, prior years, and a projected year at present rates and proposed rates.

Schedule A-3 contains the Company's capital structure for the test year and the two prior years.

Schedule A-4 contains the plant construction, and plant in service for the test year and prior years. The projected plant additions are also shown on this schedule.

Schedule A-5 is the summary of the Company's changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates.

The E Schedules are based on the Company's actual operating results, as reported by the Company in annual reports filed with the Commission. The E-1 Schedule contains the comparative balance sheet data the years 2002, 2003, and 2004.

Schedule E-2, page 1, contains the income statement for the years 2002, 2003, and 2004.

Schedule E-3 contains the statements of changes in the Company's financial position for the test year and the two prior years.

Schedule E-4 provides the changes in membership equity.

Schedule E-5 contains the Company's plant in service at the end of the test year, and one year prior to the end of the test year.

Schedule E-7 contains operating statistics for the years ended December 31, 2002, December 31, 2003, and December 31, 2004.

Schedule E-8 contains the taxes charged to operations.

The accountant's notes to the financial statements and the financial assumptions used in preparing the rate filing schedules are shown on Schedules E-

9 and F-4, respectively, in accordance with the Commission's standard filing requirements. The Company does not prepare audited financial statements.

Schedule F-1 contains the results of operations at the present rates (actual and adjusted), and at proposed rates.

Schedule F-2 contains the summary of changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates.

Schedule F-4 shows the Company's projected construction requirements for 2005, 2006, and 2007.

Schedule F-4 contains the assumptions used in developing the adjustments and projections contained in the rate filing.

IV. RATE BASE (B SCHEDULES).

Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE LABELED AS THE B SCHEDULES?

A. Yes. I will start with Schedule B-5, which is the working capital allowance. Because BMSC is a small sewer utility, I used the "formula method" of computing the working capital allowance to reduce costs. The result is $130,508.

Q. PLEASE CONTINUE.

A. The Company did not file Schedules B-3 and B-4. To reduce costs, the Company is requesting that its original cost rate base ("OCRB") be used as its FVRB.

Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO THE ORIGINAL COST RATE BASE?

A. Yes. Schedule B-2 shows adjustments to the OCRB cost rate base proposed by the Company. Schedules B-2, pages 2 through 4, are the supporting schedules. These adjustments are, in summary:

Adjustment number 1 increases plant for revenue neutral post-test year

plant. Post-test year plant in the amount of $94,297 consists primarily of upgrades and improvements to the system. Specific plant additions are identified in direct testimony of Mr. Weber.

Adjustment number 2 increases accumulated depreciation to the re-computed amounts per the Company's plant schedules.

Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON B-2 REFLECT THE LAST COMMISSION RATE ORDER?

A. Yes. The plant shown on Schedule B-2 started with the Commission-determined plant from the last rate case. Plant additions and retirements since the test year in that case have been added to and deducted from total plant shown on Schedule B-2. Pages 2a through 2q of the schedule, show the details for the accumulated depreciation through the end of the test year using half-year convention for depreciation.

Q. PLEASE CONTINUE.

A. Adjustment number 3, labeled as 3a and 3b, adjust contributions in aid of construction ("CIAC") for the amounts associated with the acquisition of wastewater treatment capacity from Scottsdale. The Scottsdale treatment capacity has been excluded from rate base in conformance with Decision No. 59944. Because the Company's right to use wastewater treatment capacity acquired from Scottsdale is excluded from rate base, any associated CIAC must also be excluded to prevent a mismatch between the Company's rate base and its regulatory capital structure and balance sheet. I will discuss this further later in my testimony.

Q. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON A-1 DETERMINED?

A. As stated, the FVRB shown on Schedule A-1 is based on OCRB, with no adjustment for the current values of the Company's plant and property.

V. INCOME STATEMENT (C SCHEDULES).

Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO THE INCOME STATEMENT AS SHOWN ON SCHEDULES C-1 AND C-2.

A. The following is a summary of adjustments shown on Schedule C-1:

Adjustment 1 annualizes depreciation expense. The proposed depreciation rate for each component of utility plant is shown on Schedule C-2, page 2. The depreciation rates approved in the Company's prior rate case was 5.0 percent for all plant. The Company requests authority to use individual rates by plant account to more accurately reflect individual plant lives. The Commission has been moving away from the use of composite depreciation rates in favor of individual rates. Uniform rates are not always appropriate because they do not reflect a realistic expected life of the plant. The Company's proposed depreciation rates are published by the ACC Staff and are considered typical and customary.

Adjustment 2 increases the property taxes based on proposed revenues. The Company has recognized the recently passed Arizona legislation (H.B. 2779) now codified in A.R.S. § 42-15001, entitled "Assessed Valuation of Class One Property"). The law reduces the assessment ratio ½ percent (0.5%) for the next 10 years starting in 2006. The Company has proposed a two-year reduction in the assessment ratio or a reduction from 25 percent to 24 percent.

Q. HOW DID YOU COMPUTE THE PROPERTY TAXES AT PROPOSED RATES?

A. To determine full cash value, I used the method employed by the Arizona Department of Revenue - Centrally Valued Properties ("ADOR" or "the Department"). This method determines full cash value by using twice the average of three years of revenue, plus an addition for CWIP and a deduction for the book value of transportation equipment. In the instant case, I used two times the

adjusted revenues for 2004, and revenues at proposed rates. The assessed value (24 percent of full cash value) was then multiplied by the property tax rate to determined adjusted property tax expense.

Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?

A. Yes. *E.g., Rio Rico Utilities*, Decision No. 67279 at 8; *Arizona Water Company*, Decision No. 64282 at 12-13; *Bella Vista Water Company*, Decision No. 65350 at 16; *Arizona-American Water Company*, Decision No. 67093 at 9-10.

Q. IS THIS SYNCHRONIZATION OF PROPERTY TAX EXPENSE WITH REVENUES PROPER RATE MAKING?

A. Yes. Like income taxes, property taxes must be adjusted to ensure that the new rates are sufficient to produce the authorized return on rate base. For this reason, the Commission has repeatedly approved the use of proposed revenues to determine an appropriate level of property tax expense to be recovered through rates.

To eliminate issues, I used the methodology approved by the Commission in recent Arizona-American Water Company's recent rate case, Decision No. 67093 (June 30, 2004), where two years of adjusted test year revenues and one year of proposed revenues were used to determine full cash value. In that decision, the Commission concluded: "Staff calculated property taxes using its proposed adjusted test year revenues twice and its recommended revenues once to calculate a three year average of revenues. We agree with Staff that using only historical revenues to calculate property taxes to include in the cost of service fails to capture the effects of future revenue from new rates, and can result in an understatement or overstatement of property tax expense." Decision No. 67093 at 9-10.

Q. MR. BOURASSA, ISN'T THERE A LAG FROM THE TIME NEW RATES CHARGED CUSTOMERS GO INTO EFFECT AND THE DATE ON

WHICH PROPERTY TAXES ARE ACTUALLY PAID?

A. Yes. As an example, if new rates for the Company went into effect on January 1, 2006, property taxes based on these new rates would first appear on the property tax bill received in September 2007. However, the Company should be accruing property taxes to match the revenues collected. Thus, there is no mismatch between revenues and expenses. Moreover, the property taxes resulting from my calculation are based on only a portion of proposed revenues. To properly consider the future impact of the rate increases, I should have computed the proposed property taxes based solely on proposed revenues rather than averaging proposed and historic revenues. Consequently, this adjustment is conservative.

Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE INCOME STATEMENT ADJUSTMENTS.

A. Adjustment number 3 adjusts operating expenses for "lease" costs associated with the Scottsdale treatment capacity. These costs reflect the annual debt service on the long-term debt the Company incurred to finance the acquisition of wastewater treatment capacity from Scottsdale.

Q. WHAT AMOUNT OF LONG-TERM DEBT IS FINANCING THE SCOTTSDALE TREATMENT CAPACITY?

A. The Commission granted approval of long-term debt in the amount $960,000 in Decision No. 59944 (December 26, 1996) to acquire wastewater treatment capacity from Scottsdale. The Company paid a total of $1,260,000 for the right to utilize 210,000 gallons of treatment capacity, of which $960,000 was financed by debt and $300,000 was financed by CIAC. Another $500,000 of long-term debt was approved in Decision No. 60240 (June, 1997). The Company used those funds to acquire an additional 108,951 gallons of treatment capacity from Scottsdale for $653,706, of which $500,000 was financed by long-term debt and

$153,706 was financed by CIAC. Both loans have a 9.4% interest rate and a term of 20 years.

The principle balance of the long-term debt at December 31, 2004 was $1,184,732 (approximately $775,226 for the loan approved in Decision No. 59944 and $409,506 for the loan approved in Decision No. 60240).

Q. DOES THE ANNUAL "LEASE" EXPENSE INCLUDE A GROSS UP FOR INCOME TAXES?

A. Yes. This is necessary because the principle portion of the annual debt service is not a deductible expense for income tax purposes.

Q. PLEASE CONTINUE.

A. Adjustment 4 shows the rate case expense. The Company estimates rate case expense of $120,000 amortized over four years because it believes a four-year cycle for future rate cases is reasonable given this utility's circumstances.

Q. DO YOU BELIEVE THIS IS A REASONABLE AMOUNT OF RATE CASE EXPENSE GIVEN THE REQUESTED INCREASE IN REVENUE?

A. Yes. To begin with, the amount of rate case expense is not directly related to the level of rate case expense. Rate case expense is primarily driven by three factors: (1) the Commission's ratemaking process; (2) the length of time between rate cases; and (3) the number of parties, issues and complexity of the proceedings.

Q. PLEASE DISCUSS THE FIRST OF THESE FACTORS?

A. The Company cannot raise its rates except by filing for rate relief and the Commission dictates the process for obtaining rate relief. BMSC, with roughly 1900 customers, has to file the same schedules as a Class A (*i.e.,* APS, Arizona Water, SW Gas) utility with hundreds of thousands of customers. While a larger utility's filing would obviously be "larger", BMSC still faces essentially the same requirement of filing multiple copies of every document and notice requirements

as a larger utility. In addition to the filing and notice requirements imposed by the Commission, the Company must has to prepare three rounds of pre-filed testimony, participate in all of the procedural and evidentiary hearings and open meetings, and file closing briefs. To meet all of the requirements of obtaining rate relief, BMSC requires the assistance and expertise of a regulatory accountant and attorney. These are the primary source of rate case expense.

Q. PLEASE DISCUSS THE SECOND FACTOR?

A. The length of time between rate cases has a substantial impact on rate case expense. Every rate case involves reconciliation of plant accounts since the last rate case. Obviously, the longer it has been, the more difficult the reconciliation. Similarly, longer periods between the determination of operating expenses typically means more increases in expenses. This leads to larger increases which are always more controversial.

Q. BUT MR. BOURASSA, DOESN'T THE UTILITY DECIDE WHEN TO FILE A RATE CASE?

A. I would say it has a lot more control over the timing of filing for rate relief than it does over the other two factors. However, the Commission often restricts utilities from filing for a period of time, as it did in the Company's last rate case. In addition, in this case, there was an ownership change after the last rate case. The new owner inherited a utility that had been out for a number of years and then needed time to establish its own operating history.

Q. THANK YOU. PLEASE DISCUSS THE THIRD FACTOR THAT YOU HAVE IDENTIFIED AS DRIVING RATE CASE EXPENSE.

A. The number of parties has a substantial impact on rate case expense. Cases where RUCO is a party require more effort than cases in which the only adverse party is Staff. Customers and other interveners add to rate case expense and the

complexity of the proceedings. The number and complexity of disputed issues also influences total rate case expense, and those impacts cannot be known until the case proceeds.

Q. IS THIS THE REASON YOU REFERRED TO THE RATE CASE EXPENSE AS AN ESTIMATE?

A. Yes, it is an estimate based on my experience. But I can only consider the foreseeable. If things turn out more complicated than anticipated, if there are intervenes for example, the Company will modify its request to account for that increased expense. Conversely, if the case proceeds and rate case expense is lower than expected, we would make an appropriate adjustment downward.

Q. SHOULDN'T THE COMPANY'S SHAREHOLDERS BEAR SOME OF THE BURDEN OF RATE CASE EXPENSE?

A. As a practical matter, the utility always does. My estimate of $120,000 assumes BMSC will actually incur a higher amount of total rate case expense. I would also agree that if the utility does something improper, or advances positions in bad-faith, it should shoulder the burden of such actions. But, as I testified, the Commission dictates the process, not the utility and absent such circumstances, the utility must be allowed to recover its reasonably incurred rate case expense.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME STATEMENT ADJUSTMENTS?

A. Adjustment 4 removes sales taxes from water revenues. A corresponding amount is removed from expense.

Adjustment 5 annualizes revenues to the year-end number of customers. The annualization was based on the number of customers at the end of the test year, compared to the actual number of customers during each month of the test year. Average revenues by month were computed for the test year. The average

revenues were then multiplied by the increase (or decrease) in number of customers for each month of the test year.

Adjustment 6, labeled as 6a, 6b, and 6c, removes other income and expenses to eliminate their effects on income taxes.

Adjustment 7 annualizes purchased wastewater treatment based on the additional gallons treated from annualizing revenues to the year-end number of customers.

Adjustment 8 annualizes chemicals expense based on the additional gallons treated from annualizing revenues to the year-end number of customers.

Adjustment 9 annualizes purchased power expense based on the additional gallons treated from annualizing revenues to the year-end number of customers.

Adjustment 10 increases purchased power reflecting the recent 4.21 percent increase in rates for power from APS (Decision No. 67744 (April 7, 2005).

VI. COST OF CAPITAL (D SCHEDULES).

A. Rate Of Return Summary

Q. WOULD YOU PLEASE SUMMARIZE YOUR RECOMMENDED EQUITY RETURN?

A. Yes. I am recommending a return on equity of 11.00 percent. My recommendation is based on cost of equity estimates using constant growth and multi-stage growth discounted cash flow ("DCF") models and is confirmed by a risk premium analysis, current and projected equity returns for the sample group of publicly traded utilities, and my review of the economic conditions expected to prevail during the period in which new rates will be in effect. While BMSC has debt, it has been excluded from the cost of capital. Therefore, the overall cost of capital is 11.0 percent.

The cost of equity for BMSC cannot be estimated directly because it is

extremely small and is not publicly traded. Therefore, there is no market data for BMSC. Consequently, I applied the DCF models to a sample of water utilities selected from the *Value Line Investment Survey*. I use water utilities as a proxy for wastewater utilities because there is no market data available for the wastewater industry. There are six water utilities in my sample: American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, and SJW Corp. I selected these water utilities because Staff has used them in recent water utility rate cases. To test my DCF results, I performed a risk premium analysis based on 10-year Treasury rates. Computations of common equity returns using DCF and risk premium approaches are shown on schedules D-4.9 through D-4.13.

My DCF analysis indicates that a return on equity ("ROE") in the range of 9.1 percent to 12.0 percent is appropriate. My risk premium analysis serves as a check of reasonableness for the DCF results. That analysis indicates a ROE in the range of 10.2 percent to 11.4 percent. A return on equity of 11.0% is within the ranges produced by both types of equity cost estimates, and is conservative when BMSC's extremely small size and other business risks are considered.

Q. HAVE YOU PREPARED ANY SCHEDULES AND ATTACHMENTS TO ACCOMPANY YOUR TESTIMONY?

A. Yes. The D-1 Schedule shows the common equity, relevant long-term debt and the weighted cost of capital. The Company has a total of $1,184,732 of long-term debt in its capital structure, which was borrowed to finance the acquisition of wastewater treatment capacity from Scottsdale. There is no other long-term debt.

Q. WHY HAVE YOU EXLCUDED LONG-TERM DEBT RELATED TO SCOTTSDALE TREATMENT CAPACITY FROM THE COST OF CAPITAL?

A. As I explained in discussing the Company's income statement adjustments, BMSC

is treating its annual payments on the long-term debt related to BMSC's lease of treatment capacity from Scottsdale as an operating expense, not a capital cost, to be consistent with the Commission's prior rate decision, Decision No. 59944. Under that decision, the Company's debt service (principle and interest) is treated as an expense, and the Company's right to use a portion of Scottsdale's wastewater treatment capacity is not included in rate base. Therefore, the Company's long-term debt is excluded from the D-1 Schedule, and is not used to determine the weighted cost of capital. Otherwise, there would be a significant mismatch between BMSC's capital structure and its rate base.

Q. DOES THE DEBT HAVE AN IMPACT ON THE COST OF CAPITAL?

A. Yes. The regulatory treatment approved in Decision No. 59944 does not alter the fact that over 45 percent of BMSC's capital structure consists of long-term debt, which must be repaid. Regardless of how this debt is treated from a regulatory accounting standpoint, the debt cannot be ignored when evaluating the cost of equity. As I will explain later, financial risk is a component of risk and impacts the cost of capital.

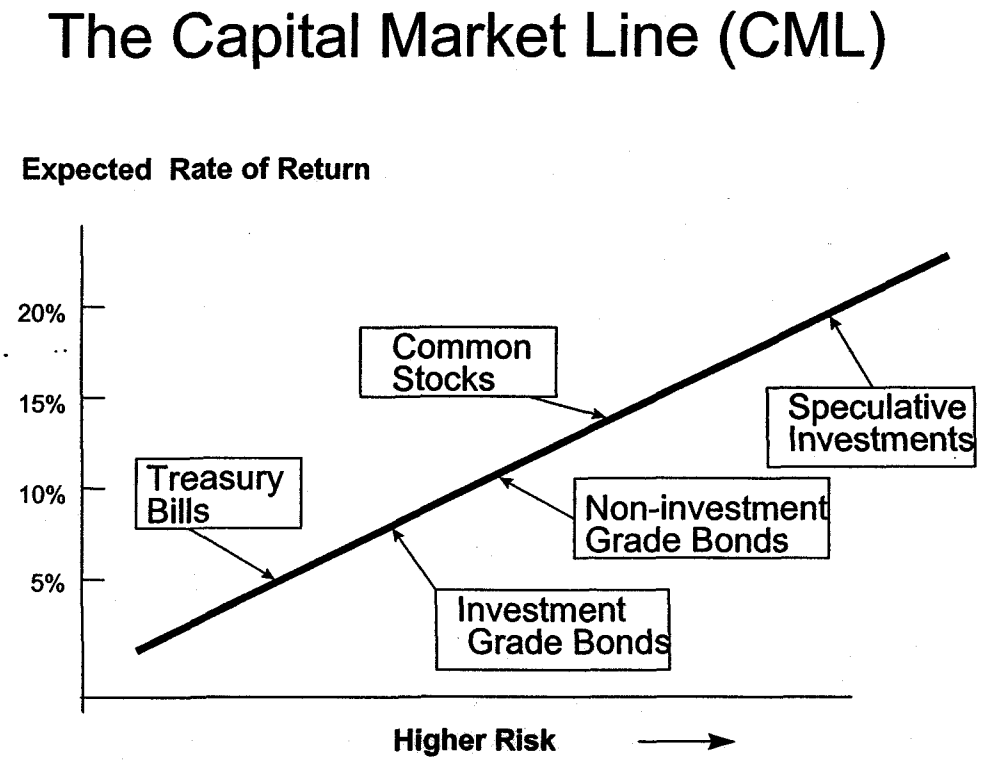
B. <u>Overview of the Cost of Capital</u>

Q. PLEASE PROVIDE AN OVERVIEW OF THE COST OF CAPITAL.

A. Put simply, the cost of capital is the rate of return that equity investors expect to receive. Investors can choose to invest in many types of assets. Each will have varying degrees of risk, ranging from relatively low risk assets such as Treasury securities to somewhat higher risk corporate bonds to even higher risk common stocks. As the level of risk increases, investors require higher returns on their invested capital.

Q. CAN YOU ILLUSTRATE THE CAPITAL MARKET RISK-RETURN CONCEPT?

A. Yes. The following graph depicts the risk-return relationship that has become widely known as the Capital Market Line ("CML"). The CML illustrates in a general way the risk-return relationship.



The CML can be viewed as a continuum of the available investment opportunities for investors. Investment risk increases as one moves upward and to the right along the CML. As the risk of an investment increases, the expected return on the investment also increases.

Q. HOW DOES THE RISK-RETURN TRADE-OFF CONCEPT WORK IN THE CAPITAL MARKET?

A. As already suggested by the CML, the allocation of capital in a free market

economy is based upon the relative risk of, and expected return from, an investment. In general, investors rank investment opportunities in the order of their relative risks. Investment alternatives in which the expected return is commensurate with the perceived risk become viable investment options. If all other factors remain equal, the greater the risk, the higher the rate of return investors will require to compensate investors for the possibility of loss of either the principal amount invested or the expected annual income from such investment.

Short-term Treasury bills provide a high degree of certainty and in nominal terms (after considering inflation) are considered virtually risk free. Long-term bonds and preferred stocks, having priority claims to assets and fixed income payments, are relatively low risk, but are not risk free. The market values of long-term bonds often fluctuate when government policies or other factors cause interest rates to change. Common stocks are higher and to the right on the CML continuum because they are exposed to more risk. Common stock risk includes the nature of the underlying business and financial strength of the issuing corporation as well as market-wide factors, such as general changes in capital costs.

The capital markets reflect investor expectations and requirements each day through market prices. Prices for stocks and bonds change to reflect investor expectations and the relative attractiveness of one investment versus another. While the example provided above seems straightforward, returns on common stocks are not directly observable in advance, in contrast to debt or preferred stocks with fixed payment terms, and therefore they must be estimated from market data. Estimating the cost of equity capital is a matter of informed judgment about the relative risk of the company in question and the expected rate of return characteristics of other alternative investments.

Q. HOW IS THE COST OF CAPITAL FOR A PARTICULAR UTILITY

DETERMINED?

A. The measurement of a utility's cost of capital is a complex topic. It requires an analysis of the factors influencing the cost of various types of capital, such as interest on long-term debt, dividends on preferred stock, and earnings on common equity. Each of these sources of funds has a cost. The unit cost of the various component sources of capital is an important input into the calculation of a utility's overall cost of capital.

The data for such an analysis comes from the capital market where the firm raises funds by issuing common stock, selling bonds, and by borrowing (both long- and short-term) from banks and other financial institutions. In the highly competitive capital markets, the cost of capital, whether the capital is in the form of debt or equity, is determined by two important factors:

1) The pure or real rate of interest, often called the risk-free rate of interest; and

2) The uncertainty or risk premium (the compensation the investor requires over and above the real or pure rate of interest for subjecting his capital to additional risk).

Q. WOULD YOU DISCUSS THESE FACTORS IN GREATER DETAIL?

A. The pure rate of interest essentially reflects both the time preference for, and the productivity of, capital. From the standpoint of the individual, it is the rate of interest required to induce the individual to forego present consumption and offer the funds thus saved to others for a specified length of time. Moreover, the pure rate of interest concept is based on the assumption that no uncertainty affects the investment undertaken by the individual, i.e., there is no doubt that the periodic interest payments will be made and the principal returned at the end of the time period. In reality, investments without risk do not exist. Every commitment of funds involves some degree of uncertainty. U.S. Government obligations,

however, may at times approach something like a risk free rate of interest. It must be pointed out, however, that U.S. Treasury obligations are only "risk free" in the sense that they are typically regarded as being free of default risk. Holders of these obligations still face the dangers of purchasing power loss (inflation risk) and the loss of capital values if real interest rates rise (interest rate risk).

Turning to the second factor affecting the cost of capital, it is generally accepted that the higher the degree of uncertainty, the higher the cost of capital. Investors are regarded as risk adverse and require that the rate of return increase as the risks (uncertainty) associated with an investment increase.

Q. CAN YOU PROVIDE SOME PERSPECTIVE ON YOUR PREVIOUS DISCUSSION WITH RESPECT TO RETURNS ON COMMON STOCKS?

A. Yes. Conceptually,

Required Return for Common Stocks	=	Return on a risk-free asset	+	Risk Premuin

where the risk premium investors require for common stocks will be higher than the risk premium they require for investment grade bonds. This relationship is depicted in the graph of the CML, above. As I will discuss in the next section, this concept is the basis of risk premium methods I used to estimate the cost of equity.

Q. WHAT HAS BEEN THE RECENT EXPERIENCE IN THE U.S. CAPITAL MARKETS?

A. In the past 10 years, inflation and capital market costs have generally declined. Interest rates have been lower than in previous decades. Inflation, as measured by the Consumer Price Index, has been at relatively low levels. The uneven pace of the economy kept consumer prices in check and resulted in low interest rates. Since the first quarter 2004, however, improving economic growth and concerns about inflation have led to fluctuating interest rates. The Federal Reserve began

raising interest rates in June 2004 to address these concerns.

The economic forecast data show clear expectations for continuing economic growth. Projected real GDP growth for 2005 and 2006 is 3.7 percent and 3.4 percent, respectively. Consistent with these economic projections, the unemployment rate is expected to be below 5.3 percent for 2005 and 2006, and interest rates are expected to increase. The Federal Reserve, confronted with above-trend growth, is expected to continue to raise the federal funds rate to 3.75 percent by the end of 2005. The 10-year Treasury bond is projected to increase from its current level of about 4.2 percent to 4.6 percent by the end of 2005. Further increases are projected for 2006 and 2007.

Q. IS BMSC AFFECTED BY THESE SAME MARKET UNCERTAINTIES AND CONCERNS?

A. Yes. To varying degrees, all the water utilities in the sample are affected.

Q. IS THERE A RELATIONSHIP BETWEEN THE COST OF EQUITY AND INTEREST RATES?

A. Yes. The cost of equity moves in the same direction as interest rates. Rising interest rates indicate the cost of equity is also rising. The upward trend in interest rates discussed above is an important factor in estimating the cost of capital.

Q. WOULD YOU PLEASE DISCUSS IN MORE DETAIL THE IMPACT OF RISK ON CAPITAL COSTS?

A. Certainly. With reference to specific utilities, risk is often discussed as consisting of two separate types of risk: business risk and financial risk.

Business risk, the basic risk associated with any business undertaking, is the uncertainty associated with the enterprise's day-to-day operations. In essence, it is a function of the normal day-to-day business environment, both locally and nationally. Business risks include the condition of the economy and capital

markets, the state of labor markets, regional stability, government regulation, technological obsolescence, and other similar factors that may impact demand for the business product and its cost of production. For example, one of the biggest risks BMSC faces is the ever-changing regulatory climate. Wastewater utilities are subject to strict regulation because of the health and risks associated with their operations. The environmental rules frequently change, usually resulting in additional requirements and increased costs.

The greater the degree of uncertainty regarding the various factors affecting a company's business, the greater the risk of an investment in the company and the greater the compensation required by the investor.

Financial risk, on the other hand, concerns the distribution of business risk to the various capital investors in the utility. As discussed earlier, permanent capital is normally divided into three categories: long-term debt, preferred stock, and common equity. Because common equity owners have only a residual claim on earnings after debt and preferred stockholders are paid, financial risk tends to be concentrated in that element of the firm's capital. Thus, a decision by management to raise additional capital by issuing additional debt concentrates even more of the financial risk of the utility in the common equity owners.

Although often discussed separately, the two types of risks are interrelated. Specifically, a common equity investor may seek to offset exposure to high financial risk by investing in a firm perceived to have a low degree of business risk. In other words, the total risk to an investor would be high if the enterprise was characterized as a high business risk with a large portion of its permanent capital financed with senior debt. To attract capital under these circumstances, the firm would have to offer higher rates of return to its common equity investors.

Q. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL

STRUCTURE AND ITS COST OF CAPITAL?

A. Generally, when a firm engages in debt financing, it exposes itself to risks that, once debt becomes significant relative to the total capital structure, increase in a geometric fashion compared to the linear percentage increase in the debt ratio itself. This risk is illustrated by considering the effect of leverage on net earnings. For example, as leverage increases, the equity ratio falls. This creates two adverse effects on the investor. First, equity earnings decline rapidly and may even disappear. Second, the "cushion" of equity protection for debt falls. A decline in the protection afforded debt holders, or the possibility of a serious decline in debt protection, will act to increase the cost of debt financing. Therefore, one may conclude that each new financing, whether through debt or equity, impacts the marginal cost of future financing by any alternative method. For a firm already perceived as being over-leveraged, this additional borrowing would cause the marginal cost of both equity and debt to increase. On the other hand, if the same firm instead employed equity funding, this could actually reduce the real marginal cost of additional borrowing, even if the particular equity issuance occurred at a higher unit cost than an equivalent amount of debt.

The theoretical optimum ratio of debt to equity in the capital structure will vary considerably from one industry to another and, to a very significant extent, among companies within a given industry, based on the size of the company and its ability (or inability) to attract capital. A theoretically "balanced" capital structure is one that provides debt with adequate protection, yet contains enough leverage to produce equity earnings sufficient to attract new equity capital (but not so large a degree of leverage as to introduce earnings instability and render equity investment speculative). For smaller utilities, for example, financial leverage often has detrimental impacts with very slight increases in expenses. As a consequence,

smaller utilities like BMSC cannot support the same percentage of debt in their capital structure as a larger utility.

Q. HAS THE U.S. SUPREME COURT SET FORTH ANY STANDARDS THAT APPLY TO EQUITY RETURNS?

A. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for determining whether a rate of return is reasonable in *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923):

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments on other business undertaking which are attended by corresponding risks and uncertainties.... The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management to maintain and support its credit and enable it to raise money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally.

In *Federal Power Commission v. Hope Natural Gas*, 320 U.S. 591, 603 (1944), the Supreme Court stated the following regarding the return to owners of a company:

> [T]he return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return moreover, should be sufficient to assure confidence to the financial integrity of the enterprise so as to maintain its credit and to attract capital.

Taken together, these cases provide the foundation for later cases dealing with the issue of rate of return. In summary:

(1) The rate of return should be similar to the return in businesses with similar or comparable risks;

(2) The return should be sufficient to ensure the confidence in the financial

integrity of the utility;

(3) The return should be sufficient to maintain and support the utilities credit; and

(4) The return should enable the utility to attract capital necessary for the proper discharge of its duties.

Based on these principles, the fair rate of return should closely parallel investor opportunity costs as discussed above. If the utility earns its market cost of equity, neither its stockholders nor its customers should be disadvantaged.

Q. HOW HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY PROCEEDINGS?

A. The application of the "reasonableness" criteria laid down in these Supreme Court cases has resulted in significant controversy. The typical method of computing the overall cost of capital is quite straightforward: it is the composite, weighted cost of the various classes of capital (debt, preferred stock, and common equity), used by the utility. The weighting is done by calculating the proportion that each class of capital bears to total capital. However, there is no consensus regarding the best method of measuring the cost of equity capital. The increasing regulatory emphasis on objectivity in determining of return has resulted in a proliferation of quasi-mechanical techniques and formulae for use in equity return determination. As will be discussed more fully below, however, none of the techniques introduced has been universally accepted.

C. <u>Estimating the Cost of Equity Capital</u>

Q. WOULD YOU BRIEFLY DESCRIBE THE APPROACH YOU FOLLOWED IN YOUR COST OF CAPITAL STUDY?

A. Estimating the cost of equity is a matter of informed judgment. The development of an appropriate rate of return for a regulated enterprise involves the determination

the level of risk associated with that enterprise and the determination of an appropriate return for that risk level. Practitioners employ various techniques that provide a link to actual capital market data and assist in defining the various relationships that underlie the equity cost estimation process.

As I have testified, BMSC is not publicly traded so the information required to directly estimate BMSC's cost of equity is not available. Accordingly, I used a sample of water utilities to provide means of developing an appropriate cost of equity for BMSC. Water utilities are used because there are no publicly traded companies that derive the bulk of their revenue from wastewater collection and treatment services. There are six water utilities included in my sample and include American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, and SJW Corp. All these companies are followed by the *Value Line Investment Survey*.

Q. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY COMPARABLE TO BMSC?

A. No. Their primary source of revenues is from water services. However, they have enough similarity to provide a useful starting point for developing a cost of equity for BMSC. All of these companies are regulated utilities, and their primary source of revenues is from regulated services. While all of them primarily provide water service, some of the companies provide both water and wastewater services.

Q. DOES THE MARKET DATA PROVIDED BY THE WATER UTILITY SAMPLE CAPTURE ALL OF THE MARKET RISKS BMSC MIGHT FACE IF IT WERE PUBLICLY TRADED?

A. In my opinion, no. The market data for the sample water utilities do not include data for water or wastewater utilities primarily serving the Arizona market and thus primarily subject to Arizona rate regulation. Arizona rate regulation requires use

of historical test years and limited out of period adjustments. Further, BMSC faces the risk that unexpected changes in costs in the period in which new rates will be in effect will not be recovered without a costly and lengthy general rate case.

The water sample is heavily weighted with utilities doing business in California. American States, California Water, and SJW Corp. are based in California and receive the bulk of revenues from utility service in that state. These utilities are face less regulatory risk because the California Public Utilities Commission ("PUC") allows the use of future test years and balancing accounts for expenses such as purchased power and purchased water. Aqua America, the largest water utility in the group, has operations in more than 10 states. As a result, its systems are regulated by different state commissions and are less affected by unfavorable decisions and policies of a particular regulatory commission.

Q. CAN YOU PROVIDE A GENERAL DESCRIPTION OF THE WATER UTILITIES IN YOUR SAMPLE?

A. Certainly. Schedule D-4.1 lists the operating revenues and net plant for the six water utilities as reported by *AUS Utility Reports* (formerly *C.A. Turner Utility Reports*) and BMSC. In addition, below is a general description of each of the companies:

(1) American States primarily serves the California market though Southern California Water Company with over 250,000 California customers. It has one subsidiary serving the Arizona market with approximately 12,000 customers. Approximately 91 percent of American States revenues were derived from Southern California Water. Revenues for American States were over $228 million in 2004 and net plant was over $591 million at the end of 2004.

(2) Aqua America owns regulated utilities in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, Maine, Missouri, New

York, and South Carolina, serving over 835,000 customers at the end of 2004. The Pennsylvania subsidiary provides over 50 percent of Aqua America's operating revenues. Revenues for Aqua America were over $442 million in 2004 and net plant was over $1.79 billion at the end of 2004.

(3) California Water Service Group owns subsidiaries in California, New Mexico, Washington, and Hawaii serving over 470,000 customers. The California operations account for over 95 percent of customers and over 96 percent of operating revenues. Revenues for California Water were over $315 million in 2004 and net plant was over $705 million at the end of 2004.

(4) Connecticut Water Services owns subsidiaries in Connecticut and Massachusetts serving over 87,000 customers. Revenues for Connecticut Water Service were over $53 million in 2004 and net plant was over $195 million at the end of 2004.

(5) Middlesex Water owns subsidiaries in New Jersey and Delaware serving over 84,000 customers and provides water service under contract to municipalities in central New Jersey to a population of over 267,000. Revenues for Middlesex Water were over $71 million in 2004 and net plant was over $235 million at the end of 2004.

(6) SJW Corp. owns San Jose Water which provides water service in an 138 square mile area in San Jose, California, and surrounding communities. Revenues for SJW Corp were over $166 million in 2004 and net plant was over $286 million at the end of 2004.

Q. HOW DOES BMSC COMPARE TO THE SAMPLE WATER UTILITES?

A. It is much smaller. At the end of the test year, BMSC had 1864 sewer utility customers. Its revenues totaled less than $1.2 million, and its original cost rate base was approximately $887,500. And BMSC is not diversified. It has a small

service territory in the northeastern Phoenix area with little growth potential, and no alternative sources of revenue.

Q. IS BMSC COMPARABLE TO THE SAMPLE WATER UTILITIES?

A. Certainly, a good argument can be made that BMSC is not comparable to the six publicly traded water utilities in the same group. Unfortunately, as I testified, the approaches commonly used to estimate a utility's cost of equity require market data, which is not available for small private businesses, like BMSC. As a result, much larger, public companies must be used as proxies. This is an important factor to keep in mind, since the criteria established by the Supreme Court in decisions such as *Bluefield Water Works* and *Hope Natural Gas* require the use of comparable companies, i.e., companies that would be viewed by investors as having similar risks.

Q. YOU PREVIOUSLY DISCUSSED FINANCIAL RISK, WHICH IS RELATED TO A FIRM'S CAPITAL STRUCTURE. HOW DO THE CAPITAL STRUCTURES OF THE SAMPLE WATER UTILITIES COMPARE TO BMSC?

A. Schedule D-4.2 shows the capital structure of BMSC contains approximately 45 percent debt and 55 percent equity compared to the average of the water utility sample of 48 percent debt and 52 percent equity. Consequently, there is little difference. However, because of its small size, limited customer base and other factors, the impact of BMSC's leverage is magnified, resulting in greater financial risk.

Q. DO YOU HAVE ANY GENERAL CONCERNS WITH THE DATA AVILABLE TO MAKE COST OF EQUITY ESTIMATES FOR THE WATER UTILITIES?

A. Yes. Schedule D-4.3 shows that common stock prices have increased significantly

during the past five years, and those increases have exceeded the average annual increases in dividends per share (DPS), earnings per share (EPS) and book value per share. *Value Line* (January 2004) suggests part of the reason for this is consolidation in the water utility industry. *Value Line* has advised investors to expect mergers and acquisitions to continue and stock prices from an acquisition to be as much as four times book value.

Irrespective of investor merger and acquisition expectations, stock price growth has exceeded book growth. Schedule D-4.4 shows that common stock prices have had annual average price increases during the past 10 years that have exceeded the average annual increases in dividends per share, earnings per share, and book value per share. In fact, the price and book growth over the past 10 years exceed analyst forecasts of growth used in my DCF methods of estimating the cost of equity.

Q. ARE THERE OTHER DATA SHOWING THAT STOCK PRICES FOR THE WATER UTILITY STOCKS HAVE BEEN INCREASING?

A. Yes. Schedule D-4.5 compares the average high/low stock prices for the three months April, May, and June 2005 to the spot price at July 22, 2005. In this short period of time, the average increase in prices was over $5.11 per share. This is an average of over 16 percent in just a few months.

Q. WHAT IMPLICATIONS DOES THIS HAVE FOR ESTIMATING THE COST OF EQUITY USING THE SAMPLE WATER UTILITIES?

A. If investors have bid up prices for utility stocks in anticipation of a merger or acquisition, the stock prices will reflect the investor's expected premium at acquisition. As I will discuss later, this distorts the results produced the DCF model and lowers the indicated equity cost.

Q. WHAT METHODS AND CAPITAL MARKT DATA ARE USED TO

EVALUATE THE COST OF EQUITY CAPITAL?

A. Techniques for estimating the cost of equity generally fall into three groups:

(1) comparable earnings methods,

(2) risk premium methods, and

(3) DCF methods.

The comparable earnings methods used to determine the cost of equity is a direct outgrowth of judicial opinions on the rate of return. The *Bluefield* decision suggests that opportunity cost, as defined in the economic literature, is the appropriate measure of the actual cost of common equity for a regulated utility. This approach involves direct observation of market returns, an assessment of the persistence of those returns, and an evaluation of the risk accepted by that return. The advantage of the comparable earnings approach is that it is easy to calculate and the amount of subjective judgment required is minimal. The basis for comparison is the book value of common equity, which less vulnerable to regulatory influences, in contrast to the market-based DCF model and the capital asset pricing model ("CAPM").

The second group of estimation techniques are risk premium methods, which begin with currently observable market returns, such as yields on government or corporate bonds, and add an incremental amount for the additional risk associated with common equity. The CAPM, for example, is a type of risk premium approach. Although the CAPM method is widely used in academic research, questionable assumptions that underlie the model have detracted from its practical application. Other risk premium methods, such as the bond-yield plus risk premium method, are less subjective than the CAPM and are easier to implement. The risk premium method does not require estimates of beta or market risk premiums, for example, or depend on what interest rate is chosen as the proxy

for the risk free rate.

Q. CAN YOU ELABORATE?

A. Yes. Despite more than 30 years of attempts to empirically validate the CAPM approach, there is no consensus on its legitimacy. There are a few hints that the model is incorrect. For starters, we all hold different portfolios. Therefore, it cannot be exactly true. Researchers have focused on the more interesting issue of whether rates of return depend upon beta (ß) and whether the elegant, linear form of the model holds for all types of stocks. What they have found is that real markets typically deviate broadly from the original version of the CAPM, which is sometimes called the Sharpe-Linter model. Some of the most forceful arguments against the CAPM are presented in a recent article written by Dr. Eugene Fama and Dr. Kenneth French.[1] Reviewing various empirical studies of the CAPM, these authors found that beta does a relatively poor job at explaining differences in the actual returns of portfolios of U.S. stocks. They noted that there are variables besides beta (ß) explain portfolio returns better, suggesting the CAPM, while theoretically interesting, is incomplete and has little practical use.

Q. PLEASE CONTINUE.

The final commonly used technique, the DCF method, is simply the sum of a stock's expected dividend yield and the expected long-term dividend (or price) growth rate. Dividend yields are readily available, but long-term growth estimates are more difficult to obtain. DCF constant growth models require very long-term growth estimates, and it can be argued that more explicit multi-stage models are preferred. The DCF model results are generally more consistent with actual capital market behavior. However, as I have stated, the DCF model does require judgment

[1] Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and Evidence," *Journal of Economic Perspectives* (Summer 2004) 25-46.

in selecting appropriate growth rates.

In the final analysis ROE estimates are subjective and should be based on sound, informed judgment. I have applied several versions of the DCF and risk premium methods that I believe brackets the fair cost of equity capital for BMSC, without taking into account the additional risks BMSC possesses.

Q. PLEASE EXPLAIN THE DCF METHOD OF ESTIMATING THE COST OF EQUITY.

A. The DCF model is based on the concept that the current price of a share of stock is equal to the present value of future cash flows from the purchase of the stock. In its most general form:

(1) $P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + ... + CF_n/(1+k)^n$

where k is the cost of equity; n is a very large number; P_0 is the current stock price; and, CF_1, CF_2,...CF_n are all the expected future cash flows expected to be received in periods 1, 2, ...n. Equation (1) can be written to show that the current price (P_0) is also equal to

(2) $P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + ... + P_t/(1+k)^t$

where P_t is the price expected to be received at the end of the period t. If the future price (P_t) included a premium (an expected increase in the stock price), the price the investor would pay today in anticipation of receiving that premium would increase. This is a Market Price version of the DCF model. As with the general form of the DCF model in equation (1), in the Market Price approach the current stock price (P_0) is the present value of the expected cash inflows. The cash flows are comprised of dividends and the final selling price of the stock. The estimated cost of equity (k) is the rate of return investors expect if they bought the stock at today's price, held it, and received dividends through the transition period, and then sold it for price (P_t).

Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE MARKET PRICE VERSION OF THE DCF MODEL?

A. Yes. Assume an investor buys a share of common stock for $40. If the expected dividend during the coming year is $2.00, then the expected dividend yield is 5 percent ($2.00/$40 = 5.0 percent). If the stock price is also expected to increase to $43.00 after one year, this $3.00 expected gain adds an additional 7.5 percent to the expected total rate of return ($3.00/$40 = 7.5 percent). Thus, the investor buying the stock at $40 per share, expects a total return of 12.5 percent (5 percent dividend yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the appropriate measure of the cost of capital because this is the rate of return that caused the investor to commit $40 of his capital by purchasing the stock.

I have provided a Market Price DCF model in Exhibit 1 to illustrate the Market Price DCF model approach further. The model computes the implied rate of return from a stream of cash flows. The first cash flow is negative and is the purchase price of the stock. I used the spot price at July 22, 2005 as reported by *Zack's Investment Research* as the initial purchase price. The next series of cash flows are the expected dividends for the next four years. The final cash flow is the dividend in year 5 plus the expected selling price of the stock. The selling price of the stock is based on the historical five-year annual average of price growth for each of the stocks. The average implied rate of return is 11.1 percent. Although this result is consistent with my other DCF results, I do not rely on this method, and have instead used it to evaluate the reasonableness of the results produced by the other versions of the DCF model I have used.

Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF MODEL.

A. Under the assumption that future cash flows are expected to grow at a constant rate

("g"), equation (1) can be solved for k and rearranged into the simple form:

(3) $k = CF_1/P_0 + g$

where CF_1/P_0 is the expected dividend yield and g is the expected long term dividend (price) growth rate ("g"). The expected dividend yield is computed as the ratio of next period's expected dividend ("CF_1") divided by the current stock price ("P_0").

Q. HOW IS THE FORMULA FOR THE MULTI-STAGE DCF MODEL DERIVED?

Under the multi-stage growth DCF model, equation (1) is expanded to incorporate two or more growth rate periods and is written as:

(4) $P_0 = CF_0(1+g_1)/(1+k) + \ldots + CF_0(1+g_2)^n/(1+k)^n + CF_0(1+g_t)^{(t+1)}/k-g_t)$

where g_1, g_2, etc., represent growth rates for periods 1, 2, etc., and g_t represents the growth rate from period t to infinity. This version of the DCF model assumes that cash flow growth will occur at different rates for one or more periods and ultimately reach a terminal growth stage that continues indefinitely.

Q. LET'S TURN TO SPECIFIC INPUTS USED IN YOUR DCF MODELS. WHAT DATA HAVE YOU USED TO COMPUTE THE DIVIDEND YIELD (CF_1/P_0) IN YOUR MODELS?

A. I used the spot price for each of stocks of the water utilities in the sample group on July 22, 2005, as reported by *Zacks Investment Research*. The dividend is the expected 2006 dividend.

Q. EARLIER YOU TESTIFIED THAT STOCK PRICES HAVE BEEN INCREASING DUE TO POTENTIAL MERGERS AND ACQUISTIONS, HOW DOES THIS IMPACT THE DIVIDEND YIELD?

A. The DCF model results will be negatively biased because the dividend yield (CF_1/P_0) is reduced by virtue of having a larger denominator, the stock price (P_0).

This impact is not by itself problematic, since the DCF model is intended to take into account changes in the stock price (upward or downward). Investors may have bid up the price of the stocks of the water utilities in the sample group because they expect increased growth in earnings and, as a result, increased dividend growth and appreciation in the price of the stock. However, if stock prices have been bid up in anticipation of a merger or an acquisition, then the DCF model estimate will not reflect true market conditions and understate the cost of equity.

Q. WHAT MEASURES OF GROWTH ("g") HAVE YOU USED?

A. I have used earnings growth forecasts, where available, from three different, widely-followed sources: *Zack's Investment Research, Standard & Poor Earning Guide*, and *Value Line Investment Survey*. Schedule D-4.6 reflects estimates of earnings growth.

I have also used forecasts of book returns, retention ratios, and growth in the number of common shares from *Value Line* to determine sustainable growth estimates, which I describe in more detail below. Schedules D-4.7 and D-4.8 show my calculations of sustainable growth.

For the multi-stage DCF, I employed a two-stage model with short-term and long-term growth rates. Staff normally uses two growth stages in its multi-stage DCF model, so I used that approach as well. I used analysts' forecasts of EPS growth for the near term and average long-term GDP growth for the long-term.

Q. DID YOU USE THE ARITHMETIC MEAN OR THE GEOMETRIC MEAN FOR GDP GROWTH?

A. The arithmetic mean. It is well established that if the cost of capital is estimated from historical data, an arithmetic average should be used.[2]

[2] Ibbotson Associates, *SBBI Valuation Edition 2005 Yearbook* 75-77; Richard A. Brealey and Stewart C. Myers, *Principles of Corporation Finance* (7th ed. 2003) 156-157.

Q. WHY DID YOU USE FORECASTED GROWTH RATES IN YOUR MODELS?

A. The DCF model requires estimates of growth that investors expect in the future. Accordingly, I used analysts' forecasts of growth. Logically, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information.[3] To the extent that past results provide useful indications of future growth prospects, analysts' forecasts would already incorporate that information. In addition, a stock's current price reflects known historic information on that company, including its past earnings history. Any further recognition of the past will double count what has already occurred. Therefore, forward-looking growth rates should be used.

Q. WHY HAVE YOU NOT USED FORECASTS OF DIVIDEND GROWTH?

A. The average annual forecast of dividend growth is very low. When forecasted dividend growth is used in the DCF model, it produces a cost of equity below the cost of debt.

Q. HAVE YOU PREPARED CONSTANT GROWTH DCF MODELS USING HISTORICAL DPS AND EPS GROWTH RATES?

A. Yes. Exhibits 2 and 3, attached hereto, reflect constant growth DCF results using five-year historical annual growth rates for DPS and EPS. The results are 5.3 percent and 5.7 percent, respectively. The current yield on a Moody's Baa investment grade bond is 6.0 percent. Forecasted Moody's Baa investment grade bonds for 2007-2009 is 7.3 percent.

Q. YOU MENTIONED SUSTAINABLE GROWTH EARLIER. PLEASE

[3] See David A. Gordon, Myron J. Gordon and Lawrence I Gould, "Choice Among Methods of Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55.

EXPLAIN WHAT SUSTAINABLE GROWTH IS?

A. Sustainable growth is derived by combining the expected growth from future retained earnings and expected future growth from sales of common stock. The growth rate (g) becomes:

(5) $g = br + sv$

where b is the expected retention ratio; r is the expected return on common equity; s is the funds raised from the sale of stock as a fraction of existing common equity; and, v is fraction of funds raised from the sale of stock that accrues to shareholders.[4]

Q. HOW DID YOU ESTIMATE "br" GROWTH?

A. I used projected rates of return, dividends per share, and earnings per share found in *Value* Line to estimate "br" growth.

Q. HOW DID YOU ESTIMATE "sv" GROWTH?

A. I used *Value Line*'s projections of new issues of common stock to estimate "s" and reported books values and the spot price to estimate "v". All of the water utility stocks used in my sample are currently selling at prices above book value and thus have "sv" growth.

Q. LET'S MOVE ON TO YOUR OTHER EQUITY COST ESTIMATION METHOD, MR. BOURASSA. PLEASE EXPLAIN YOUR RISK PREMIUM METHODOLOGY.

A. Risk premium methods are based on the assumption that equity securities are riskier than debt. Since equity securities are riskier, investors require a higher rate of return. The risk premium between equity securities and debt can be directly estimated by comparing authorized and actual returns on equity with the current yields of investment grade bonds or other debt instruments:

[4] See Gordon Myron J., *The Cost of Capital to a Public Utility* (Michigan, 1974).

> The risk premium method of determining the cost of equity, sometimes referred to as the "stock-bond-yield spread method" or the "risk positioning method," or again the "bond-yield plus risk-premium" method, recognizes that common equity capital is more risky than debt from an investor's standpoint, and that investors require higher returns on stocks than on bonds to compensate for the additional risk. The general approach is relatively straightforward: First, determine the historical spread between the return on debt and the return on equity. Second, add this spread to the current debt yield to derive an estimate of current equity return requirements.
>
> The risk premium approach to estimating the cost of equity derives its usefulness from the simple fact that while equity return requirements cannot be readily quantified at any given time, the returns on bonds can be assessed precisely at every instant in time. If the magnitude of the risk premium between stocks and bonds is known, then this information can be used to produce the cost of common equity. This can be accomplished retrospectively using historical risk premiums or prospectively using expected risk premiums.

Roger A. Morin, *Regulatory Finance: Utilities' Cost of Capital* (1994) 269. As I have testified, there is no need to estimate betas or market risk premiums, as required in implementing the CAPM. It is a simpler and less subjective approach.

Q. CAN YOU EXPLAIN YOUR BOND-YIELD PLUS RISK PREMIUM APPROACH?

A. Yes. I have computed the average risk premium for the actual and authorized returns from 1995 to 2004 (10 years) when compared to the 10-year Treasury rate for the six water utilities in the sample group. I then add the average risk premium to the forecasted interest rates for 10-year Treasuries for 2007-2008.

Q. WHY DO YOU USE PROJECTED INTEREST RATES FOR 2007-2008?

A. I have used this period because it is the period in which BMSC's rates will be in effect.

Q. WHY NOT USE CURRENT RATES FOR TREASURY SECURITIES?

A. The goal is to determine the cost of capital for BMSC when new rates are in effect,

not the cost of capital 12 months before new rates are approved. Current interest rates are sometimes higher and sometimes lower than rates during future periods. However, interest rates have been close to 40 year lows in past few years, and are expected to increase.

Q. ARE RISK PREMIUM ESTIMATES OF THE COST OF EQUITY CONSISTENT WITH OTHER CURRENT CAPITAL MARKET COSTS?

A. Yes. The risk premium approach is founded on directly observable, market interest rates. This assures that the premium estimates of the cost of equity begin with a sound basis, are tied to current capital market costs.

D. <u>Details of Cost of Equity Estimates</u>

Q. PLEASE DISCUSS YOUR ANALYSIS OF THE COST OF EQUITY FOR BMSC.

A. In the first part of my analysis, I applied two versions of the constant growth DCF and a two-stage DCF models to the six water utilities in the sample group. The DCF analyses appear on schedules D-4.9, D-4.10, and D-4.11. The DCF models produce an indicated equity cost in the range of 9.1 percent to 12.0 percent.

In the second part of my analysis, I developed and reviewed cost of equity estimates based on the bond-yield plus risk premium method. The risk premium analysis based on actual and authorized returns on equity indicates an equity cost in the range of 10.4 percent to 11.1 percent.

In the third part of my analysis, I compared the actual and authorized returns reported in *AUS Utility Reports* to the results of my DCF and risk premium methods. The range of actual returns is from 9.1 percent to 11.8 percent. The range of authorized returns is from 9.9 percent to 12.7 percent.

Finally, I also considered *Value Line*'s most current forecasts of the composite equity return for the water utility industry. *Value Line*'s forecasts a

composite return of 11% for 2005, 11% for 2006, and 11.5% for the 2008-10 period.

Based on the DCF and risk premium results, and with consideration for current market, industry, and other factors, I believe a return on equity of 11.0 percent is appropriate. BMSC has a higher cost of equity than the water utility sample group due to its small size, leverage and other characteristics. Thus, an equity return of 11.0% is conservative for BMSC.

Q. PLEASE DISCUSS YOUR CONSTANT GROWTH DCF MODELS.

A. I computed the cost of equity using two constant growth models. The first, shown on schedule D-4.9, uses analyst's forecasts of earning per share growth. The average of the results is 10.6 percent.

The second constant growth DCF model, shown on schedule D-4.10, uses my computations of sustainable growth ("br + sv"). To compute sustainable growth I used analysts forecasts of the retention ratio and return of common equity to estimate "br" growth. I also used analysts' forecast of the growth in the number of common shares and the current market to book ratio to estimate "vs" growth. The current market to book ratio is based on the spot price and the book value at June 30, 2005. The average of the results is 11.2 percent.

Q. PLEASE DISCUSS YOUR MULTISTAGE DCF MODEL.

A. I use a two-stage growth DCF model. The average of the analysts' expected growth is used for the near-term and GDP growth for the long-term. Short-term growth is given a weight of .67. The average result of the two-stage DCF model, shown on schedule D-4.11, is 10.2 percent.

Q. PLEASE DISCUSS YOUR RISK PREMIUM ANALYSIS?

A. The first risk premium analysis, shown on schedule D-4.12, computes the average risk premium on the actual returns for the six water companies from 1995 to 2004

(10 years) when compared to the 10-year Treasury rates. The average risk premium is then added to the forecasted interest rates for 10-year Treasuries for 2007-2008. The result of the first risk premium analysis is 10.4 percent.

The second risk premium analysis, shown on schedule D-4.13, computes the average risk premium on the authorized returns for the six water companies from 1995 to 2004 (10 years) when compared to the 10-year Treasury rate. The average risk premium is then added to the forecasted interest rates for 10-year Treasuries for 2007-2008. The result of second risk premium analysis is 11.0 percent.

Q. WHAT ARE THE ACTUAL AND AUTHORIZED RETURNS FOR THE SAMPLE WATER UTILITIES?

A. Schedule D-4-14 shows the actual and authorized returns for the six water utilities. The average of the actual returns is 10.4 percent. The average of the authorized returns is 10.5 percent.

Q. PLEASE SUMMARIZE YOUR RESULTS.

A. The following table summarizes the results of the models I have used, and provides the comparable earnings data I used as I check on my estimates:

DCF Analysis	Range	Midpoint
Constant Growth (earnings growth)	9.1% - 12.0%	10.6%
Constant Growth (sustainable growth)	9.9% - 11.7%	10.8%
Two-Stage Growth Model	9.3% - 10.9%	10.1%
Risk Premium Analysis		
Actual Returns	10.2% - 10.4%	10.3%
Authorized Returns	11.0% - 11.4%	11.3%
Comparable Earnings		
Actual Returns	9.1% - 11.8%	10.5%
Authorized Returns	9.9% - 12.7%	11.3%

Value Line Industry Composite (2005)	11.0%
Value Line Industry Composite (2006)	11.0%
Value Line Industry Composite (2008)	11.5%

At 11.0 percent, my recommended cost of equity is near the upper end of the range of estimates produced by the DCF and risk premium models, but nevertheless within the ranges of both sets of estimates. My recommendation represents a reasonable balance between the economic forecasts of higher interest rates during the period in which rates will be in effect, the reduced equity costs obtained from low dividend yields using the DCF model, and my judgment about BMSC's additional risks not captured by the market models, including the risk of rate regulation and the level of debt for BMSC.

VII. RATE DESIGN (H SCHEDULES).

Q. WHAT ARE THE COMPANY'S PRESENT RATES?

A. The Company's present rates are:

Residential Charge:	$38.00
Commercial – Std. Rate (Per gallon)[5]:	$0.15236
Commercial – Special Rate (Per gallon)[6]:	
B-H Enterprises (7518 Elbow Bend West)	$0.11685
B-H Enterprises (7518 Elbow Bend East)	$0.11685
Barb's Pet Grooming	$0.11685
Boulders Resort	$0.118427

[5] Commercial wastewater flows are based on the average daily flows set forth in Engineering Bulletin No. 12, Table 1, published by the Arizona Department of Environmental Quality (June 1989).

[6] Wastewater flows are based on Engineering Bulletin No. 12, Table 1. A one-bedroom dwelling is assumed to generate 200 gallons per day, each additional bedroom is assumed to generate an additional 100 gallons per day.

Carefree Dental	$0.11685
Ridgecrest Realty	$0.11818
Desert Forest	$0.13609
Desert Hills Pharmacy	$0.14206
El Pedegral	$0.11685
Lemon Tree	$0.1440
Body Shop	$0.14544
Spanish Village	$0.11685
Boulders Club	$0.11685
Anthony Vuitaggio	$0.12987

In addition, the price for reclaimed (non-potable) water is $122.00 per acre-foot.

Q. WHAT ARE THE PROPOSED RATES?

A. The proposed rates are:

Residential Charge:	$43.19
Commercial – Std. Rate (Per gallon)[7]:	$0.17316
Commercial – Special Rate (Per gallon)[8]:	
B-H Enterprises (7518 Elbow Bend West)	$0.13280
B-H Enterprises (7518 Elbow Bend East)	$0.13280
Barb's Pet Grooming	$0.13280
Boulders Resort	$0.13459
Carefree Dental	$0.13280
Ridgecrest Realty	$0.13431

[7] Commercial wastewater flows are based on the average daily flows set forth in Engineering Bulletin No. 12, Table 1, published by the Arizona Department of Environmental Quality (June 1989).

[8] Wastewater flows are based on Engineering Bulletin No. 12, Table 1. A one-bedroom dwelling is assumed to generate 200 gallons per day, each additional bedroom is assumed to generate an additional 100 gallons per day.

Desert Forest	$0.15467
Desert Hills Pharmacy	$0.16145
El Pedegral	$0.13280
Lemon Tree	$0.12956
Body Shop	$0.16529
Spanish Village	$0.13280
Boulders Club	$0.13280
Anthony Vuitaggio	$0.14760

In addition, the price for reclaimed (non-potable) water is $138.65 per acre-foot.

Q. ARE THERE ANY PROPOSED CHANGES TO THE COMPANY'S MISCELLANEOUS SERVICE CHARGES?

A. No.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

1702858.2

BOURASSA EXHIBITS

EXHIBIT

1

Black Mountain Sewer Company

Discounted Cash Flow Analysis (Water)
Market Price

Exhibit 1
Witness: Bourassa

Line No.		Company	(1) Next Year's Div	(2) 2006 Div	(3) Annual Change to 2006	(4) Recent Price	(5) 5 Yr. Historical Avg. Annual Price Growth	(6) Year 5 Price	EXPECTED CASH FLOWS (7) Recent Price	(8) Year 1 Div	(9) Year 2 Div	(10) Year 3 Div	(11) Year 4 Div	(12) Year 5 Div + Price	(13) Implied ROE = Internal Rate of Return (Cols 7-12)	(14) Implied ROE = Internal Rate of Return (Cols 7-12)
1			(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
2																
3																
4			Next		Annual		5 Yr. Historical		EXPECTED CASH FLOWS						Implied	Implied
5			Year's	2006	Change	Recent	Avg. Annual	Year 5	Recent	Year 1	Year 2	Year 3	Year 4	Year 5	ROE = Internal	ROE = Internal
6		Company	Div	Div	to 2006	Price	Price Growth	Price	Price	Div	Div	Div	Div	Div + Price	Rate of Return (Cols 7-12)	Rate of Return (Cols 7-12)
7	1.	American States	$ 0.90	$ 0.91	$ 0.01	$ 31.07	4.95%	$ 39.56	$ (31.07)	$ 0.90	$ 0.91	$ 0.92	$ 0.93	$ 40.49	7.6%	7.6%
8	2.	Aqua America	0.52	0.55	0.03	30.78	16.94%	67.31	(30.78)	0.52	0.55	0.58	0.61	67.92	18.3%	18.3%
9	3.	California Water	1.14	1.15	0.01	40.00	8.80%	60.97	(40.00)	1.14	1.15	1.16	1.17	62.14	11.3%	11.3%
10	4.	Connecticut Water	0.85	0.86	0.01	26.92	6.22%	36.41	(26.92)	0.85	0.86	0.87	0.88	37.29	9.1%	9.1%
11	5.	Middlesex	0.67	0.68	0.01	21.77	6.56%	29.91	(21.77)	0.67	0.68	0.69	0.70	30.61	9.4%	9.4%
12	6.	SJW Corp.	1.07	1.12	0.05	53.75	0.17%	54.22	(53.75)	1.07	1.12	1.17	1.22	55.44	2.3%	N/A*
13																
14																
15		GROUP AVERAGE					7.27%								9.7%	11.1%
16		GROUP MEDIAN					6.39%								9.2%	9.4%
17																
18	* Excluded. Results lower than cost of debt.															
19																
20	Sources:															
21	Value Line Investment Survey Dated July 29, 2005															
22	Zacks Investment Research															
23																

EXHIBIT

2

Black Mountain Sewer Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using 5 Year Historical Dividend Growth

Exhibit 2
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Historical Div. Growth	(5) Indicated Equity Cost k=Div Yld + G (Cols 1+4)
1	1.	American States	31.07	0.90	2.90%	0.93%	3.8%
2	2.	Aqua America	30.78	0.52	1.69%	6.36%	8.1%
3	3.	California Water	40.00	1.14	2.85%	0.73%	3.6%
4	4.	Connecticut Water	26.92	0.85	3.16%	1.24%	4.4%
5	5.	Middlesex	21.77	0.67	3.08%	1.93%	5.0%
6	6.	SJW Corp.	53.75	1.07	1.99%	4.99%	7.0%
7							
8		GROUP AVERAGE					5.3%
9		GROUP MEDIAN					4.7%
10							
11		Current Baa interest rate					6.0%
12							
13		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Top 10					8.7%
14		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Bottom 10					6.2%
15		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Average					7.3%
16							
17	Sources:						
18		Value Line data report on July 29, 2005					
19		Zacks Investment Research data for July 22, 2005					
20		Federal Reserve for July 22, 2005					
21		Blue Chip Financial Forecast June 2005					

EXHIBIT

3

Black Mountain Sewer Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using 5 Year Historical EPS Growth

Exhibit 3
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Historical Div. Growth	(5) Indicated Equity Cost k=Div Yld + G (Cols 1+4)
7	1.	American States	31.07	0.90	2.90%	1.02%	3.9%
8	2.	Aqua America	30.78	0.52	1.69%	8.73%	10.4%
9	3.	California Water	40.00	1.14	2.85%	1.56%	4.4%
10	4.	Connecticut Water	26.92	0.85	3.16%	2.43%	5.6%
11	5.	Middlesex	21.77	0.67	3.08%	2.07%	5.1%
12	6.	SJW Corp.	53.75	1.07	1.99%	2.55%	4.5%
15		GROUP AVERAGE					5.7%
16		GROUP MEDIAN					4.8%
18		Current Baa interest rate					6.0%
20		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Top 10					8.7%
21		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Bottom 10					6.2%
22		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Average					7.3%

Sources:
Value Line data report on July 29, 2005
Zacks Investment Research data for July 22, 2005
Federal Reserve for July 22, 2005
Blue Chip Financial Forecast June 2005

BOURASSA SCHEDULES

A
SCHEDULES

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	887,449
2			
3	Adjusted Operating Income		(14,233)
4			
5	Current Rate of Return		-1.60%
6			
7	Required Operating Income	$	97,619
8			
9	Required Rate of Return on Fair Value Rate Base		11.00%
10			
11	Operating Income Deficiency	$	111,852
12			
13	Gross Revenue Conversion Factor		1.4598
14			
15	Increase in Gross Revenue		
16	Requirement	$	163,279

17	18 Customer	19 Present	20 Proposed	21 Dollar	22 Percent
	Classification	**Rates**	**Rates**	**Increase**	**Increase**
	(Residential Commercial, Irrigation)				
23	Residential	$ 768,816	$ 873,820	$ 105,004	13.66%
24	Commercial (Standard Rate)	312,725	355,418	42,693	13.65%
25	Commercial (Special Rate)	81,967	93,155	11,188	13.65%
26	Effluent Sales	14,498	16,477	1,979	13.65%
27					
28	Annualization	17,328	19,695	2,367	13.66%
29				-	0.00%
30	**Subtotal**	$ 1,195,334	$ 1,358,565	$ 163,231	13.66%
31					
32	Other Wastewater Revenues	16,472	16,472	-	0.00%
33				-	0.00%
34				-	0.00%
35	**Total of Water Revenues (a)**	$ 1,211,806	$ 1,375,037	$ 163,231	13.47%

41 SUPPORTING SCHEDULES:
42 B-1
43 C-1
44 C-3
45 H-1
46

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Summary of Results of Operations

Exhibit
Schedule A-2
Page 1
Witness: Bourassa

Line No.	Description	Prior Years Ended 12/31/2002	Prior Years Ended 12/31/2003	Test Year Actual 12/31/2004	Test Year Adjusted 12/31/2004	Projected Year Present Rates 12/31/2005	Projected Year Proposed Rates 12/31/2005
1	Gross Revenues	$ 1,136,926	$ 1,144,038	$ 1,190,412	$ 1,207,740	$ 1,207,740	$ 1,371,019
2							
3	Revenue Deductions and	857,715	928,518	930,102	1,221,973	1,221,973	1,273,399
4	Operating Expenses						
5							
6	Operating Income	$ 279,211	$ 215,520	$ 260,310	$ (14,233)	$ (14,233)	$ 97,619
7							
8	Other Income and	2,770	24,000	24,000	-	-	-
9	Deductions						
10							
11	Interest Expense	(127,786)	(122,360)	(116,401)	-	-	-
12							
13	Net Income	$ 154,195	$ 117,160	$ 167,909	$ (14,233)	$ (14,233)	$ 97,619
14							
15	Earned Per Average						
16	Common Share	0.33	0.25	0.36	(0.03)	(0.03)	0.21
17							
18	Dividends Per						
19	Common Share	0.22	-	-	-	-	-
20							
21	Payout Ratio	0.67	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	0.58%	2.11%	2.75%	-0.24%	-0.25%	1.70%
25							
26	Return on Year End						
27	Capital	2.85%	2.05%	2.58%	-0.24%	-0.24%	1.68%
28							
29	Return on Average						
30	Common Equity	19.46%	11.15%	12.53%	-1.14%	-1.00%	6.63%
31							
32	Return on Year End						
33	Common Equity	18.26%	9.32%	11.79%	-1.15%	-1.01%	6.42%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	3.01	2.66	2.24	(0.18)	(0.18)	1.25
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	2.21	1.96	2.44	2.51	2.51	0.86
41							
42							
43	SUPPORTING SCHEDULES						
44	C-1						
45	E-2						
46	F-1						

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Summary of Capital Structure

Exhibit
Schedule A-3
Page 1
Witness: Bourassa

Line No.	Description:	Prior Years Ended 12/31/2002	Prior Years Ended 12/31/2003	Test Year 12/31/2004	Projected Year 12/31/2005
1					
2					
3	Long-Term Debt	1,329,161	1,258,423	1,184,733	1,132,046
4					
5	Total Debt	$ 1,329,161	$ 1,258,423	$ 1,184,733	$ 1,132,046
6					
7					
8	Preferred Stock	-	-	-	-
9					
10	Common Equity **(1)(2)**	844,290	1,256,627	1,423,568	1,521,187
11					
12					
13	Total Capital & Debt	$ 2,173,451	$ 2,515,050	$ 2,608,301	$ 2,653,233
14					
15					
16	Capitalization Ratios:				
17					
18	Long-Term Debt	61.15%	50.04%	45.42%	42.67%
19					
20	Total Debt	61.15%	50.04%	45.42%	42.67%
21					
22					
23	Preferred Stock	-	-	-	-
24					
25	Common Equity	38.85%	49.96%	54.58%	57.33%
26					
27					
28	Total Capital	100.00%	100.00%	100.00%	100.00%
29					
30					
31	Weighted Cost of				
32	Senior Capital	9.40%	9.40%	9.40%	9.40%
33					
34					
35					
36					
37					
38					
39	SUPPORTING SCHEDULES:				
40	E-1				
41	D-1				

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		Construction Expenditures	Net Plant Placed in Service	Gross Utility Plant in Service
1				
2	Prior Year Ended 12/31/2002	680,816	680,814	6,570,206
3				
4	Prior Year Ended 12/31/2003	857,924	857,924	7,428,130
5				
6	Test Year Ended 12/31/2004	1,046,123	942,318	8,370,448
7				
8	Projected Year Ended 12/31/2005	170,000	170,000	8,540,448
9				
10				
11				
12				
13	SUPPORTING SCHEDULES:			
14	B-2			
15	E-5			
16	F-3			
17				
18				

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Summary Statements of Cash Flows

Exhibit
Schedule A-5
Page 1
Witness: Bourassa

Line No.		Prior Year Ended 12/31/2002	Prior Year Ended 12/31/2003	Test Year Ended 12/31/2004	Projected Year Present Rates 12/31/2005	Projected Year Proposed Rates 12/31/2005
5	Cash Flows from Operating Activities					
6	Net Income	$ 206,760	$ 114,989	$ 168,841	$ (14,233)	$ 97,619
7	Adjustments to reconcile net income to net cash					
8	provided by operating activities:					
9	Depreciation and Amortization	47,752	32,280	67,485	126,749	126,749
10	Deferred Income Taxes	-	-	-		
11	Other	-	-	-		
12	Changes in Certain Assets and Liabilities:	-	-	-		
13	Accounts Receivable	(2,172)	(2,377)	12,049		
14	Unbilled Revenues	-	-	-		
15	Materials and Supplies Inventory	-	-	-		
16	Prepaid Expenses	7,758	(9,468)	1,123		
17	Deferred Charges	-	-	-		
18	Accounts Payable	(3,682)	27,135	(90,311)		
19	Intercompany payable	(59,008)	(31,140)	(67,243)		
20	Customer Deposits	5,000	(8,600)	(694)		
21	Intercompany taxes receivable and taxes payable	88,584	1,584	(5,770)		
22	Other assets and liabilities	17,666	52,039	(5,056)		
23						
24	Net Cash Flow provided by Operating Activities	$ 308,658	$ 176,442	$ 80,424	$ 112,517	$ 224,369
25	Cash Flow From Investing Activities:					
26	Capital Expenditures	(680,816)	(857,924)	(1,046,123)	(170,000)	(170,000)
27	Plant Held for Future Use	-	-	-		
28	Changes in debt reserve fund	-	-	-		
29	Net Cash Flows from Investing Activities	$ (680,816)	$ (857,924)	$ (1,046,123)	$ (170,000)	$ (170,000)
30	Cash Flow From Financing Activities					
31	Change in Restricted Cash	-	-	-		
32	Change in net amounts due to parent and affiliates	-	-	-		
33	Receipt of advances for and contributions in aid of construction	92,140	195,761	1,069,716	-	-
34	Refunds for advances for construction	-	(24,304)	-	-	-
35	Repayments of Long-Term Debt	-	-	-	(52,687)	(52,687)
36	Dividends Paid	(103,099)	-	(1,900)	-	-
37	Deferred Financing Costs	-	-	-		
38	Paid in Capital	-	297,348	-		
39	Net Cash Flows Provided by Financing Activities	$ (10,959)	$ 468,805	$ 1,067,816	$ (52,687)	$ (52,687)
40	Increase(decrease) in Cash and Cash Equivalents	(383,117)	(212,677)	102,117	(110,170)	1,682
41	Cash and Cash Equivalents at Beginning of Year	1,018,656	635,539	422,862	524,979	524,979
42	Cash and Cash Equivalents at End of Year	$ 635,539	$ 422,862	$ 524,979	$ 414,809	$ 526,661
43	SUPPORTING SCHEDULES:					
44	E-3					
45	F-2					
46						

B
SCHEDULES

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Summary of Rate Base

Exhibit
Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 8,464,745	$ 8,464,745
3	Less: Accumulated Depreciation	4,366,379	4,366,379
4			
5	Net Utility Plant in Service	$ 4,098,366	$ 4,098,366
6			
7	Less:		
8	Advances in Aid of		
9	Construction	1,315,900	1,315,900
10	Contributions in Aid of		
11	Construction	5,346,615	5,346,615
12	Accumulated Amortization of CIAC	(3,308,578)	(3,308,578)
13			
14	Customer Meter Deposits	(3,000)	(3,000)
15	Deferred Income Taxes & Credits	-	-
16	Deferred Assets	-	-
17			
18			
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Prepaids	9,512	9,512
23	Deferred Assets	-	-
24	Allowance for Working Capital	130,508	130,508
25			
26			
27	Total Rate Base	$ 887,449	$ 887,449
28			
29			
30			
31	SUPPORTING SCHEDULES:		
32	B-2		
33	B-3		
34	B-5		
35	E-1		
36			

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments Label	Proforma Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	$ 8,370,448	1	94,297	$ 8,464,745
3					
4	**Less:**				
5	Accumulated				
6	Depreciation	4,441,760	2	(75,381)	4,366,379
7					
8					
9	Net Utility Plant				
10	in Service	$ 3,928,688			$ 4,098,366
11					
12	**Less:**				
13	Advances in Aid of				
14	Construction	1,315,900			1,315,900
15					
16	Contributions in Aid of				
17	Construction (CIAC)	5,800,321	3a	(453,706)	5,346,615
18					
19					
20	Accumulated Amortization of CIAC	(3,486,218)	3b	177,640	(3,308,578)
21					
22					
23	Customer Meter Deposits	(3,000)			(3,000)
24	Deferred Income Taxes	-			-
25	Investment Tax Credits	-			-
26		-			-
27					
28	**Plus:**				
29	Unamortized Finance				
30	Charges	-			-
31	Prepaids	9,512			9,512
32	Deferred Assets	-			-
33	Allowance for Working Capital			130,508	130,508
34					
35	Total	$ 311,197			$ 887,449
36					
37					
38					
39	SUPPORTING SCHEDULES:				RECAP SCHEDULES:
40	B-2, pages 1-7				B-1
41	E-1				
42					
43					
44					
45					
46					
47					
48					

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Original Cost Rate Base Proforma Adjustments
Adjustment 1

Exhibit
Schedule B-2
Page 2
Witness: Bourassa

Line No.			
1	Post Test Year Plant		
2			
3	360 Collection Sewers Gravity	$	24,706
4	389 Other Plant and Misc Equipment		69,590
5			
6			
7	Total	$	94,297
8			
9	Increase (Decrease) to Plant-in-service	$	94,297
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Original Cost Rate Base Proforma Adjustments
Adjustment 2

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Line No.		
1	Accumulated Depreciation Adjustment	
2		
3	Computed Balance	$ 4,366,379
4	Balance per Company Schedule E-1	4,441,760
5	Difference	$ (75,381)
6		
7		
8		
9		
10		
11	Increase (Decrease) to Accumulated Depreciation	$ (75,381)
12		
13		
14		
15	SUPPORTING SCHEDULES	
16	B-2, pages 3a-3q	
17		
18		
19		
20		

Black Mountain Sewer Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3a
Witness: Bourassa

Account No.	Description	Deprec. Rate Thru Jun-94	Deprec. Rate After Jun-94	Staff Plant At 6/30/1994	Allocated Staff Jun-94 Accum. Depr. (a)	1994 Plant Additions	1994 Plant Adjustments	1994 Adjusted Plant Additions	1994 Plant Retirements	1994 Plant Balance	Jun-Dec 1994 Depr.
351	Organization	0.00%	0.00%	-	-			-		-	-
352	Franchises	0.00%	0.00%	-	-			-		-	-
353	Land and Land Rights	0.00%	0.00%	7,854	-			-		7,854	-
354	Structures and Improvements	5.00%	5.00%	979,430	350,623			-		979,430	24,486
355	Power Generation Equipment	5.00%	5.00%	-	-			-		-	-
360	Collection Sewers - Force	5.00%	5.00%	262,728	94,053			-		262,728	6,568
361	Collection Sewers - Gravity	5.00%	5.00%	2,781,223	995,640			-		2,781,223	69,531
362	Special Collecting Structures	5.00%	5.00%	-	-			-		-	-
363	Services to Customers	5.00%	5.00%	143,379	51,328			-		143,379	3,584
364	Flow Measuring Devices	5.00%	5.00%	23,168	8,294			-		23,168	579
365	Flow Measuring Installations	5.00%	5.00%	-	-			-		-	-
370	Receiving Wells	5.00%	5.00%	-	-			-		-	-
371	Eff;uent Pumping Equipment	5.00%	5.00%	259,564	92,920			-		259,564	6,489
380	Treatment and Disposal Equipment	5.00%	5.00%	-	-			-		-	-
381	Plant Sewers	5.00%	5.00%	81,297	29,103			-		81,297	2,032
382	Outfall Sewer Lines	5.00%	5.00%	-	-			-		-	-
389	Other Plant and Misc. Equipment	5.00%	5.00%	26,283	9,409			-		26,283	657
390	Office Furniture and Equipment	5.00%	5.00%	-	-			-		-	-
391	Transportation Equipment	5.00%	5.00%	-	-			-		-	-
393	Tools, Shop and Garage Equipment.	5.00%	5.00%	-	-			-		-	-
394	Laboratory Equipment	5.00%	5.00%	2,066	740			-		2,066	52
395	Power Operated Equipment	5.00%	5.00%	-	-			-		-	-
398	Other TangiblePlant	5.00%	5.00%	-	-			-		-	-
											-
											-
				-	-	-		-		-	-
	Plant Held for Future Use			-	-	-		-		-	-
	TOTAL WATER PLANT			4,566,992	1,632,110	-	-	-	-	4,566,992	113,978

Black Mountain Sewer Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3b
Witness: Bourassa

Account No.	Description	1995 Plant Additions	1995 Plant Adjustments	1995 Adjusted Plant Additions	1995 Plant Retirements	1995 Plant Balance	1995 Deprec.
351	Organization			-		-	-
352	Franchises			-		-	-
353	Land and Land Rights			-		7,854	-
354	Structures and Improvements			-		979,430	48,972
355	Power Generation Equipment			-		-	-
360	Collection Sewers - Force			-		262,728	13,136
361	Collection Sewers - Gravity			-		2,781,223	139,061
362	Special Collecting Structures			-		-	-
363	Services to Customers			-		143,379	7,169
364	Flow Measuring Devices			-		23,168	1,158
365	Flow Measuring Installations			-		-	-
370	Receiving Wells			-		-	-
371	Eff;uent Pumping Equipment			-		259,564	12,978
380	Treatment and Disposal Equipment			-		-	-
381	Plant Sewers			-		81,297	4,065
382	Outfall Sewer Lines			-		-	-
389	Other Plant and Misc. Equipment			-		26,283	1,314
390	Office Furniture and Equipment			-		-	-
391	Transportation Equipment			-		-	-
393	Tools, Shop and Garage Equipment.			-		-	-
394	Laboratory Equipment			-		2,066	103
395	Power Operated Equipment			-		-	-
398	Other TangiblePlant			-		-	-
		-		-		-	-
	Plant Held for Future Use	-		-		-	-
	TOTAL WATER PLANT	-	-	-	-	4,566,992	227,957

Black Mountain Sewer Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3c
Witness: Bourassa

Account No.	Description	1996 Plant Additions	1996 Plant Adjustments	1996 Adjusted Plant Additions	1996 Plant Retirements	1996 Plant Balance	1996 Deprec.
351	Organization			-		-	-
352	Franchises			-		-	-
353	Land and Land Rights			-		7,854	-
354	Structures and Improvements			-		979,430	48,972
355	Power Generation Equipment			-		-	-
360	Collection Sewers - Force			-		262,728	13,136
361	Collection Sewers - Gravity			-		2,781,223	139,061
362	Special Collecting Structures			-		-	-
363	Services to Customers			-		143,379	7,169
364	Flow Measuring Devices			-		23,168	1,158
365	Flow Measuring Installations			-		-	-
370	Receiving Wells			-		-	-
371	Eff;uent Pumping Equipment			-		259,564	12,978
380	Treatment and Disposal Equipment			-		-	-
381	Plant Sewers			-		81,297	4,065
382	Outfall Sewer Lines			-		-	-
389	Other Plant and Misc. Equipment			-		26,283	1,314
390	Office Furniture and Equipment			-		-	-
391	Transportation Equipment			-		-	-
393	Tools, Shop and Garage Equipment.			-		-	-
394	Laboratory Equipment			-		2,066	103
395	Power Operated Equipment			-		-	-
398	Other TangiblePlant			-		-	-
	Plant Held for Future Use	-		-		-	-
	TOTAL WATER PLANT	-	-	-	-	4,566,992	227,957

Black Mountain Sewer Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3d
Witness: Bourassa

Account No.	Description	1997 Plant Additions	1997 Plant Adjustments	1997 Adjusted Plant Additions	1997 Plant Retirements	1997 Plant Balance	1997 Deprec.
351	Organization			-		-	-
352	Franchises			-		-	-
353	Land and Land Rights			-		7,854	-
354	Structures and Improvements	23,420		23,420		1,002,850	49,557
355	Power Generation Equipment			-		-	-
360	Collection Sewers - Force	650		650		263,378	13,153
361	Collection Sewers - Gravity	24,753	(942)	23,811		2,805,034	139,656
362	Special Collecting Structures			-		-	-
363	Services to Customers			-		143,379	7,169
364	Flow Measuring Devices			-		23,168	1,158
365	Flow Measuring Installations			-		-	-
370	Receiving Wells	201,187		201,187		201,187	5,030
371	Eff;uent Pumping Equipment			-		259,564	12,978
380	Treatment and Disposal Equipment			-		-	-
381	Plant Sewers			-		81,297	4,065
382	Outfall Sewer Lines			-		-	-
389	Other Plant and Misc. Equipment	3,240		3,240		29,523	1,395
390	Office Furniture and Equipment			-		-	-
391	Transportation Equipment			-		-	-
393	Tools, Shop and Garage Equipment.			-		-	-
394	Laboratory Equipment			-		2,066	103
395	Power Operated Equipment			-		-	-
398	Other TangiblePlant			-		-	-
		-		-		-	-
	Plant Held for Future Use	-		-		-	-
	TOTAL WATER PLANT	253,250	(942)	252,308	-	4,819,300	234,265

Black Mountain Sewer Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3e
Witness: Bourassa

Account No.	Description	1998 Plant Additions	1998 Plant Adjustments	1998 Adjusted Plant Additions	1998 Plant Retirements	1998 Plant Balance	1998 Deprec.
351	Organization			-		-	-
352	Franchises			-		-	-
353	Land and Land Rights			-		7,854	-
354	Structures and Improvements	5,512		5,512		1,008,362	50,280
355	Power Generation Equipment			-		-	-
360	Collection Sewers - Force			-		263,378	13,169
361	Collection Sewers - Gravity			-		2,805,034	140,252
362	Special Collecting Structures			-		-	-
363	Services to Customers			-		143,379	7,169
364	Flow Measuring Devices			-		23,168	1,158
365	Flow Measuring Installations			-		-	-
370	Receiving Wells	128,296		128,296		329,483	13,267
371	Eff;uent Pumping Equipment	2,133		2,133		261,697	13,032
380	Treatment and Disposal Equipment			-		-	-
381	Plant Sewers			-		81,297	4,065
382	Outfall Sewer Lines			-		-	-
389	Other Plant and Misc. Equipment			-		29,523	1,476
390	Office Furniture and Equipment			-		-	-
391	Transportation Equipment			-		-	-
393	Tools, Shop and Garage Equipment.			-		-	-
394	Laboratory Equipment			-		2,066	103
395	Power Operated Equipment			-		-	-
398	Other TangiblePlant			-		-	-
		-		-		-	-
	Plant Held for Future Use	-		-		-	-
	TOTAL WATER PLANT	135,941	-	135,941	-	4,955,241	243,971

Black Mountain Sewer Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3f
Witness: Bourassa

Account No.	Description	1999 Plant Additions	1999 Plant Adjustments	1999 Adjusted Plant Additions	1999 Plant Retirements	1999 Plant Balance	1999 Deprec.
351	Organization			-		-	-
352	Franchises			-		-	-
353	Land and Land Rights			-		7,854	-
354	Structures and Improvements			-		1,008,362	50,418
355	Power Generation Equipment			-		-	-
360	Collection Sewers - Force	23,182		23,182		286,560	13,748
361	Collection Sewers - Gravity	5,081		5,081		2,810,115	140,379
362	Special Collecting Structures			-		-	-
363	Services to Customers			-		143,379	7,169
364	Flow Measuring Devices	4,737		4,737		27,905	1,277
365	Flow Measuring Installations			-		-	-
370	Receiving Wells	121,889		121,889		451,372	19,521
371	Eff;uent Pumping Equipment	1,268		1,268		262,965	13,117
380	Treatment and Disposal Equipment			-		-	-
381	Plant Sewers			-		81,297	4,065
382	Outfall Sewer Lines			-		-	-
389	Other Plant and Misc. Equipment			-		29,523	1,476
390	Office Furniture and Equipment			-		-	-
391	Transportation Equipment			-		-	-
393	Tools, Shop and Garage Equipment.			-		-	-
394	Laboratory Equipment	2,200		2,200		4,266	158
395	Power Operated Equipment			-		-	-
398	Other TangiblePlant			-		-	-
		-		-		-	-
	Plant Held for Future Use	-		-		-	-
	TOTAL WATER PLANT	158,357	-	158,357	-	5,113,598	251,328

Black Mountain Sewer Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3g
Witness: Bourassa

Account No.	Description	2000 Plant Additions	2000 Plant Adjustments	2000 Adjusted Plant Additions	2000 Plant Retirements	2000 Plant Balance	2000 Deprec.
351	Organization			-		-	-
352	Franchises			-		-	-
353	Land and Land Rights	-		-		7,854	-
354	Structures and Improvements			-	(5,511)	1,002,851	50,280
355	Power Generation Equipment	-		-		-	-
360	Collection Sewers - Force			-	(69,985)	216,575	12,578
361	Collection Sewers - Gravity	1,200		1,200		2,811,315	140,536
362	Special Collecting Structures	-		-		-	-
363	Services to Customers			-		143,379	7,169
364	Flow Measuring Devices	2,804		2,804		30,709	1,465
365	Flow Measuring Installations	-		-		-	-
370	Receiving Wells	186,570		186,570		637,942	27,233
371	Eff;uent Pumping Equipment	6,816		6,816		269,781	13,319
380	Treatment and Disposal Equipment	-		-		-	-
381	Plant Sewers	-		-		81,297	4,065
382	Outfall Sewer Lines	-		-		-	-
389	Other Plant and Misc. Equipment	10,034		10,034		39,557	1,727
390	Office Furniture and Equipment	1		1		1	0
391	Transportation Equipment	-		-		-	-
393	Tools, Shop and Garage Equipment.	-		-		-	-
394	Laboratory Equipment			-	(2,066)	2,200	162
395	Power Operated Equipment	-		-		-	-
398	Other TangiblePlant			-		-	-
		-		-		-	-
	Plant Held for Future Use	-		-		-	-
	TOTAL WATER PLANT	207,425	-	207,425	(77,562)	5,243,461	258,534

Black Mountain Sewer Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3h
Witness: Bourassa

Account No.	Description	2001 Plant Additions	2001 Plant Adjustments	2001 Adjusted Plant Additions	2001 Plant Retirements	2001 Plant Balance	2001 Deprec.
351	Organization	-		-		-	-
352	Franchises	-		-		-	-
353	Land and Land Rights	452,467		452,467		460,321	-
354	Structures and Improvements	44,888		44,888		1,047,739	51,265
355	Power Generation Equipment	-		-		-	-
360	Collection Sewers - Force	6,332		6,332		222,907	10,987
361	Collection Sewers - Gravity	3,054		3,054		2,814,369	140,642
362	Special Collecting Structures	-		-		-	-
363	Services to Customers	2,120		2,120		145,499	7,222
364	Flow Measuring Devices	96		96		30,805	1,538
365	Flow Measuring Installations	-		-		-	-
370	Receiving Wells	18,734		18,734		656,676	32,365
371	Eff;uent Pumping Equipment	9,361		9,361		279,142	13,723
380	Treatment and Disposal Equipment	-		-		-	-
381	Plant Sewers	-		-		81,297	4,065
382	Outfall Sewer Lines	-		-		-	-
389	Other Plant and Misc. Equipment	9,437		9,437		48,994	2,214
390	Office Furniture and Equipment	99,442		99,442		99,443	2,486
391	Transportation Equipment	-		-		-	-
393	Tools, Shop and Garage Equipment.	-		-		-	-
394	Laboratory Equipment	-		-		2,200	110
395	Power Operated Equipment	-		-		-	-
398	Other TangiblePlant	-		-		-	-
		-		-		-	-
	Plant Held for Future Use	-		-			-
	TOTAL WATER PLANT	645,931	-	645,931	-	5,889,392	266,617

Black Mountain Sewer Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3i
Witness: Bourassa

Account No.	Description	2002 Plant Additions	2002 Plant Adjustments	2002 Adjusted Plant Additions	2002 Plant Retirements	2002 Plant Balance	2002 Deprec.
351	Organization	-		-		-	-
352	Franchises	-		-		-	-
353	Land and Land Rights	1,125		1,125		461,446	-
354	Structures and Improvements	26,475		26,475		1,074,214	53,049
355	Power Generation Equipment	6,510		6,510		6,510	163
360	Collection Sewers - Force	1,969		1,969		224,876	11,195
361	Collection Sewers - Gravity	17,824		17,824		2,832,193	141,164
362	Special Collecting Structures	-		-		-	-
363	Services to Customers	12,837		12,837		158,336	7,596
364	Flow Measuring Devices	3,695		3,695		34,500	1,633
365	Flow Measuring Installations	-		-		-	-
370	Receiving Wells	2,925		2,925		659,601	32,907
371	Eff;uent Pumping Equipment	425		425		279,567	13,968
380	Treatment and Disposal Equipment	-		-		-	-
381	Plant Sewers	29,063		29,063		110,360	4,791
382	Outfall Sewer Lines	-		-		-	-
389	Other Plant and Misc. Equipment	439,771		439,771		488,765	13,444
390	Office Furniture and Equipment	115,628		115,628		215,071	7,863
391	Transportation Equipment	21,120		21,120		21,120	528
393	Tools, Shop and Garage Equipment.	-		-		-	-
394	Laboratory Equipment	1,447		1,447		3,647	146
395	Power Operated Equipment	-		-		-	-
398	Other TangiblePlant	-		-		-	-
		-		-		-	-
	Plant Held for Future Use	-		-		-	-
	TOTAL WATER PLANT	680,814	-	680,814	-	6,570,206	288,446

Black Mountain Sewer Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3j
Witness: Bourassa

Account No.	Description	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Plant Additions	2003 Plant Retirements	2003 Plant Balance	2003 Deprec.
351	Organization	-		-		-	-
352	Franchises	-		-		-	-
353	Land and Land Rights	-		-		461,446	-
354	Structures and Improvements	78,531		78,531		1,152,745	55,674
355	Power Generation Equipment	1,100		1,100		7,610	353
360	Collection Sewers - Force	3,166		3,166		228,042	11,323
361	Collection Sewers - Gravity	3,759		3,759		2,835,952	141,704
362	Special Collecting Structures	-		-		-	-
363	Services to Customers	14,204	(13,738)	466		158,802	7,928
364	Flow Measuring Devices	-		-		34,500	1,725
365	Flow Measuring Installations	-		-		-	-
370	Receiving Wells	36,905		36,905		696,506	33,903
371	Eff;uent Pumping Equipment	138,888		138,888		418,455	17,451
380	Treatment and Disposal Equipment	-		-		-	-
381	Plant Sewers	166,349		166,349		276,709	9,677
382	Outfall Sewer Lines	-		-		-	-
389	Other Plant and Misc. Equipment	213,268		213,268		702,033	29,770
390	Office Furniture and Equipment	145,169		145,169		360,240	14,383
391	Transportation Equipment	66,691		66,691		87,811	2,723
393	Tools, Shop and Garage Equipment.	-		-		-	-
394	Laboratory Equipment	3,632		3,632		7,279	273
395	Power Operated Equipment	-		-		-	-
398	Other TangiblePlant	-		-		-	-
		-		-		-	-
	Plant Held for Future Use	-		-		-	-
	TOTAL WATER PLANT	871,662	(13,738)	857,924	-	7,428,130	326,886

Black Mountain Sewer Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3k
Witness: Bourassa

Account No.	Description	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Balance	2004 Deprec.
351	Organization	-		-		-	-
352	Franchises	-		-		-	-
353	Land and Land Rights	-		-		461,446	-
354	Structures and Improvements	92,547		92,547		1,245,292	59,951
355	Power Generation Equipment	-	(7,610)	(7,610)		-	190
360	Collection Sewers - Force	743		743		228,785	11,421
361	Collection Sewers - Gravity	772,667		772,667		3,608,619	161,114
362	Special Collecting Structures	-		-		-	-
363	Services to Customers	-		-		158,802	7,940
364	Flow Measuring Devices	5,378		5,378		39,878	1,859
365	Flow Measuring Installations	-	158,358	158,358		158,358	3,959
370	Receiving Wells	-		-		696,506	34,825
371	Eff;uent Pumping Equipment	33,250		33,250		451,705	21,754
380	Treatment and Disposal Equipment	-		-		-	-
381	Plant Sewers	3,300	(158,358)	(155,058)		121,651	9,959
382	Outfall Sewer Lines	-		-		-	-
389	Other Plant and Misc. Equipment	29,161	7,610	36,771		738,804	36,021
390	Office Furniture and Equipment	5,272		5,272		365,512	18,144
391	Transportation Equipment	-		-		87,811	4,391
393	Tools, Shop and Garage Equipment.	-		-		-	-
394	Laboratory Equipment	-		-		7,279	364
395	Power Operated Equipment	-		-		-	-
398	Other TangiblePlant	-		-		-	-
				-		-	-
	Plant Held for Future Use			-		-	-
	TOTAL WATER PLANT	942,318	-	942,318	-	8,370,448	371,892

Black Mountain Sewer Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3p
Witness: Bourassa

Account No.	Description	Year End Accumulated Depreciation by Account Jun-94 1994	Dec-94 1994	Dec-95 1995	Dec-96 1996	Dec-97 1997	Dec-98 1998	Dec-99 1999
351	Organization	-	-	-	-	-	-	-
352	Franchises	-	-	-	-	-	-	-
353	Land and Land Rights	-	-	-	-	-	-	-
354	Structures and Improvements	350,623	375,108	424,080	473,051	522,609	572,889	623,307
355	Power Generation Equipment	-	-	-	-	-	-	-
360	Collection Sewers - Force	94,053	100,621	113,758	126,894	140,047	153,216	166,964
361	Collection Sewers - Gravity	995,640	1,065,171	1,204,232	1,343,293	1,482,950	1,623,201	1,763,580
362	Special Collecting Structures	-	-	-	-	-	-	-
363	Services to Customers	51,328	54,912	62,081	69,250	76,419	83,588	90,757
364	Flow Measuring Devices	8,294	8,873	10,031	11,190	12,348	13,507	14,783
365	Flow Measuring Installations	-	-	-	-	-	-	-
370	Receiving Wells	-	-	-	-	5,030	18,296	37,818
371	Eff;uent Pumping Equipment	92,920	99,410	112,388	125,366	138,344	151,376	164,492
380	Treatment and Disposal Equipment	-	-	-	-	-	-	-
381	Plant Sewers	29,103	31,136	35,201	39,265	43,330	47,395	51,460
382	Outfall Sewer Lines	-	-	-	-	-	-	-
389	Other Plant and Misc. Equipment	9,409	10,066	11,380	12,694	14,089	15,566	17,042
390	Office Furniture and Equipment	-	-	-	-	-	-	-
391	Transportation Equipment	-	-	-	-	-	-	-
393	Tools, Shop and Garage Equipment.	-	-	-	-	-	-	-
394	Laboratory Equipment	740	791	895	998	1,101	1,204	1,363
395	Power Operated Equipment	-	-	-	-	-	-	-
398	Other TangiblePlant	-	-	-	-	-	-	-
		-	-	-	-	-	-	-
	Plant Held for Future Use	-	-	-	-	-	-	-
	TOTAL WATER PLANT	1,632,110	1,746,088	1,974,045	2,202,002	2,436,267	2,680,238	2,931,566

Black Mountain Sewer Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 3q
Witness: Bourassa

Account No.	Description	Dec-00 2000	Dec-01 2001	Dec-02 2002	Dec-03 2003	Dec-04 2004
351	Organization	-	-	-	-	-
352	Franchises	-	-	-	-	-
353	Land and Land Rights	-	-	-	-	-
354	Structures and Improvements	668,076	719,341	772,390	828,064	888,015
355	Power Generation Equipment	-	-	163	516	706
360	Collection Sewers - Force	109,557	120,545	131,739	143,062	154,483
361	Collection Sewers - Gravity	1,904,116	2,044,758	2,185,922	2,327,626	2,488,740
362	Special Collecting Structures	-	-	-	-	-
363	Services to Customers	97,926	105,148	112,744	120,672	128,612
364	Flow Measuring Devices	16,249	17,787	19,419	21,144	23,004
365	Flow Measuring Installations	-	-	-	-	3,959
370	Receiving Wells	65,051	97,416	130,323	164,226	199,051
371	Eff;uent Pumping Equipment	177,811	191,534	205,502	222,952	244,706
380	Treatment and Disposal Equipment	-	-	-	-	-
381	Plant Sewers	55,525	59,590	64,381	74,058	84,017
382	Outfall Sewer Lines	-	-	-	-	-
389	Other Plant and Misc. Equipment	18,769	20,983	34,427	64,196	100,217
390	Office Furniture and Equipment	0	2,486	10,349	24,732	42,876
391	Transportation Equipment	-	-	528	3,251	7,642
393	Tools, Shop and Garage Equipment.	-	-	-	-	-
394	Laboratory Equipment	(542)	(432)	(285)	(12)	352
395	Power Operated Equipment	-	-	-	-	-
398	Other TangiblePlant	-	-	-	-	-
		-	-	-	-	-
	Plant Held for Future Use	-	-	-	-	-
	TOTAL WATER PLANT	3,112,538	3,379,155	3,667,600	3,994,487	4,366,379

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Schedule B-2
Page 4
Witness: Bourassa

Line No.						
1	Computation of CIAC Balances for Scottsdale Treatment Capacity (to be removed from rate base)					
2						
3	Balance at 12/31/1996 per Decision 59944				$	300,000
4	Additions 1997 per Decision 60240					153,706
5	Balance at 12/31/1997				$	453,706
6	Additions 1998					-
7	Balance at 12/31/1998				$	453,706
8	Additions 1999					-
9	Balance at 12/31/1999				$	453,706
10	Additions 2000					-
11	Balance at 12/31/2000				$	453,706
12	Additions 2001					-
13	Balance at 12/31/2001				$	453,706
14	Additions 2002					-
15	Balance at 12/31/2002				$	453,706
16	Additions 2003					
17	Balance at 12/31/2003				$	453,706
18	Additions 2004					
19	Balance at 12/31/2004				$	453,706
20						
21						
22	Computation of Accumulated Amortization CIAC Balances (Half-year Convention)					
23						
24	Balance at 12/31/1996 per Decision 59944				$	-
25	Amortization at composite rate	5.00%	1997			18,843
26	Balance at 12/31/1997				$	18,843
27	Amortization at composite rate	5.00%	1998			22,685
28	Balance at 12/31/1998				$	41,528
29	Amortization at composite rate	5.00%	1999			22,685
30	Balance at 12/31/1999				$	64,213
31	Amortization at composite rate	5.00%	2000			22,685
32	Balance at 12/31/1997				$	86,899
33	Amortization at composite rate	5.00%	2001			22,685
34	Balance at 12/31/1997				$	109,584
35	Amortization at composite rate	5.00%	2002			22,685
36	Balance at 12/31/2001				$	132,269
37	Amortization at composite rate	5.00%	2003			22,685
38	Balance at 12/31/2002				$	154,954
39	Amortization at composite rate	5.00%	2004			22,685
40	Balance at 12/31/2003				$	177,640
41						
42	Scottsdale Treatment Capacity CIAC at end of T.Y.				$	453,706
43	Accumulated Amortization of CIAC at end of T.Y.					177,640
44	Scottsdale Treatment Capacity CIAC, Net				$	276,066
45				Label		
46	Increase (decrease) in Scottsdale Treatment Capacity CIAC at end of T.Y.			3a		(453,706)
47	Decrease (Increase) in Accumulated Amortization of CIAC at end of T.Y.			3b		177,640
48						
49						

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Computation of Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	123,714
3	Pumping Power (1/24 of Pumping Power)		41
4	Purchased Water (1/24 of Purchased Water)		6,753
5			
6			
7			
8			
9	Total Working Capital Allowance	$	130,508
10			
11			
12	Working Capital Requested	$	130,508
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	E-1	B-1	
17			

C
SCHEDULES

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Income Statement

Exhibit
Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**						
2	Flat Rate Revenues	$ 1,173,940	5	$ 17,328	$ 1,191,268	$ 163,279	$ 1,354,547
3	Measured Revenues	-			-		-
4	Other Wastewater Revenues	16,472			16,472		16,472
5		$ 1,190,412		$ 17,328	$ 1,207,740	$ 163,279	$ 1,371,019
6	**Operating Expenses**						
7	Salaries and Wages	$ -			$ -		$ -
8	Purchased Wastewater Treatment	160,789	7	1,293	162,082		162,082
9	Sludge Removal Expense	981			981		981
10	Purchased Power	45,594	9/10	2,133	47,727		47,727
11	Fuel for Power Production	-			-		-
12	Chemicals	73,928	8	2,684	76,612		76,612
13	Materials and Supplies	30,420			30,420		30,420
14	Contractual Services - Professional	171,683			171,683		171,683
15	Contractual Services - Testing	11,000			11,000		11,000
16	Contractual Services - Other	226,595			226,595		226,595
17	Rents	10,825			10,825		10,825
18	Transportation Expenses	4,870			4,870		4,870
19	Insurance - General Liability	16,204			16,204		16,204
20	Regulatory Commission Expense	-	4	30,000	30,000		30,000
21	Miscellaneous Expense	77,401			77,401		77,401
22	Scottsdale Capacity (Operating Lease)	-	3	189,622	189,622		189,622
23	Depreciation	67,484	1	59,265	126,749		126,749
24	Taxes Other Than Income	-			-		-
25	Property Taxes	32,328	2	13,417	45,745		45,745
26	Income Tax	-	11	(6,544)	(6,544)	51,427	44,883
27					-		-
28	**Total Operating Expenses**	$ 930,102		$ 291,871	$ 1,221,973	$ 51,427	$ 1,273,399
29	**Operating Income**	$ 260,310		$ (274,543)	$ (14,233)	$ 111,852	$ 97,619
30	**Other Income (Expense)**						
31	Interest Income	932	6a	(932)	-		-
32	Other income	24,000	6b	(24,000)	-		-
33	Interest Expense	(116,401)	6c	116,401	-		-
34	Other Expense	-			-		-
35		-			-		-
36	**Total Other Income (Expense)**	$ (91,469)		$ 91,469	$ -	$ -	$ -
37	**Net Profit (Loss)**	$ 168,841		$ (183,074)	$ (14,233)	$ 111,852	$ 97,619
38							
39	SUPPORTING SCHEDULES:					RECAP SCHEDULES:	
40	C-2					A-1	
41	E-2						
42							

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustments to Revenues and Expenses

Exhibit
Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
		Depreciation Expense	Property Taxes	Scottsdale Treatment Capacity	Rate Case Expense	Revenue Annualization	Remove Other Exp./Income	
3	Revenues					17,328		17,328
5	Expenses	59,265	13,417	189,622	30,000			292,304
8	Operating Income	(59,265)	(13,417)	(189,622)	(30,000)	17,328	-	(274,976)
10	Interest							-
11	Expense						116,401	116,401
12	Other							
13	Income /						(24,932)	(24,932)
14	Expense							
16	Net Income	(59,265)	(13,417)	(189,622)	(30,000)	17,328	91,469	(183,507)

		Adjustments to Revenues and Expenses						
		7	8	9	10	11	12	Subtotal
		Annualization Purchased WW Treatmen	Annualization Chemicals	Annualization Purchased Power	Purchased Power Increase	Income Taxes		
23	Revenues							17,328
25	Expenses	1,293	2,684	205	1,928	(6,544)		291,871
28	Operating Income	(1,293)	(2,684)	(205)	(1,928)	6,544	-	(274,543)
30	Interest							
31	Expense							116,401
32	Other							
33	Income /							(24,932)
34	Expense							
36	Net Income	(1,293)	(2,684)	(205)	(1,928)	6,544	-	(183,074)

		Adjustments to Revenues and Expenses						
		13	14	15	16	17	18	Total
43	Revenues							17,328
45	Expenses							291,871
48	Operating Income	-	-	-	-	-	-	(274,543)
50	Interest							
51	Expense							116,401
52	Other							
53	Income /							(24,932)
54	Expense							
56	Net Income	-	-	-	-	-	-	(183,074)

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Schedule C-2
Page 2
Witness: Bourassa

Line No.						
1	Depreciation Expense					
2						
3	Account				Proposed	Depreciation
4	No.	Description		Original Cost	Rates	Expense
5	351	Organization		-	0.00%	-
6	352	Franchises		-	0.00%	-
7	353	Land and Land Rights		461,446	0.00%	-
8	354	Structures and Improvements		1,245,292	3.33%	41,468
9	355	Power Generation Equipment		-	5.00%	-
10	360	Collection Sewers - Force		228,785	2.00%	4,576
11	361	Collection Sewers - Gravity		3,608,619	2.00%	72,172
12	362	Special Collecting Structures		-	2.00%	-
13	363	Services to Customers		158,802	2.00%	3,176
14	364	Flow Measuring Devices		39,878	10.00%	3,988
15	365	Flow Measuring Installations		158,358	10.00%	15,836
16	370	Receiving Wells		696,506	3.33%	23,194
17	371	Eff;uent Pumping Equipment		451,705	12.50%	56,463
18	380	Treatment and Disposal Equipment		-	5.00%	-
19	381	Plant Sewers		121,651	5.00%	6,083
20	382	Outfall Sewer Lines		-	3.33%	-
21	389	Other Plant and Misc. Equipment		738,804	6.67%	49,278
22	390	Office Furniture and Equipment		365,512	6.67%	24,380
23	391	Transportation Equipment		87,811	20.00%	17,562
24	393	Tools, Shop and Garage Equipment.		-	5.00%	-
25	394	Laboratory Equipment		7,279	10.00%	728
26	395	Power Operated Equipment		-	5.00%	-
27	398	Other TangiblePlant		-	10.00%	-
28						
29						
30		TOTALS	$	8,370,448		$ 318,903
31						
32	**Post Test Year Plant per B-2**					
33	361	Collection Sewers - Gravity	$	24,706	2.00%	494
34	389	Other Plant and Misc. Equipment		69,590	6.67%	4,642
35						-
36	Total PTY Plant		$	94,297		$ 5,136
37						
38	Less: Amortization of Contributions - Balance End of TY (net of		$	4,892,909	4.0322%	$ (197,290)
39	CIAC amounts used for Scottsdale Capacity)					
40	Total Depreciation Expense					$ 126,749
41						
42	Test Year Depreciation Expense					67,484
43						
44	Increase (decrease) in Depreciation Expense					59,265
45						
46	Adjustment to Revenues and/or Expenses					$ 59,265
47						

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended 12/31/04	$	1,207,740
4	Adjusted Revenues in year ended 12/31/04		1,207,740
5	Proposed Revenues		1,371,019
6	Average of three year's of revenue	$	1,262,166
7	Average of three year's of revenue, times 2	$	2,524,333
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		7,279
12			
13	Full Cash Value	$	2,517,054
14	Assessment Ratio		24%
15	Assessed Value		604,093
16	Property Tax Rate		7.5725%
17			
18	Property Tax		45,745
19	Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	$	45,745
22	Property Taxes in the test year		32,328
23	Change in Property Taxes	$	13,417
24			
25			
26	Adjustment to Revenues and/or Expenses	$	13,417
27			
28			

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line No.					
1	Calculation of Lease Costs on Scottsdale Treatment Capacity				
2					
3	Treatment Capacity Costs per Decision 59944	$	1,260,000		
4	Less Amount Funded by CIAC		(300,000)		
5	Net Amount Funded by Debt	$	960,000		
6					
7	Annual debt service (principle and interest) [20 yrs at interest rate of		9.40%		
8	2006 Principle	$	38,448		
9	Income Tax Factor		1.4805		
10	2006 Principle Plus Taxes	$	56,922		
11	2006 Interest	$	67,952		
12	Annual 'Lease Expense'			$	124,873
13					
14					
15	Additional Scottsdale Capacity per Decision 60240	$	653,706		
16	Less Amount Funded by CIAC		(153,706)		
17	Net Amount Funded by Debt	$	500,000		
18					
18	Annual debt service (principle and interest) [20 yrs at interest rate of		9.40%		
19	2006 Principle	$	19,411		
19	Income Tax Factor		1.4805		
20	2006 Principle Plus Taxes	$	28,738		
20	2006 Interest	$	36,010		
21	Annual 'Lease Expense'			$	64,748
22					
23	Total Annual 'Lease Expense'			$	189,622
24					
25					
26					
27					
28	Adjustment to Revenues and/or Expense			$	189,622
29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					

Black Mountain Sewer Company
Test Year Ended December 31, 2004
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Line No.		
1	Rate Case Expense	
2		
3	Estimated Rate Case Expense	$ 120,000
4		
5	Estimated Amortization Period in Years	4
6		
7	Annual Rate Case Expense	$ 30,000
8		
9	Test Year Rate Case Expense	$ -
10		
11	Increase(decrease) Rate Case Expense	$ 30,000
12		
13	Adjustment to Revenue and/or Expense	$ 30,000
14		
15		
16		
17		
18		
19		
20		

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Line No.			
1	Revenue Annualization		
2			
3			
4	Revenue Annualization	$	17,328
5			
6			
7			
8	Total Revenue from Annualization	$	17,328
9			
10			
11	Adjustment to Revenue and/or Expense	$	17,328
12			
13	SUPPORTING SCHEDULES		
14	C-2 pages X to X		
15	H-1		
16			
17			
18			
19			
20			

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Line No.			Adjustment Label
1	Remove Other Income and Expenses to Eliminate Effects on Income Taxes		
2			
3			
4	Interest Income	$ (932)	6a
5	Other income	(24,000)	6b
6	Interest Expense	116,401	6c
7			
8	Total	$ 91,469	
9			
10			
11	Adjustment to Revenue and/or Expense	$ 91,469	
12			
13			
14			
15			
16			
17			
18			
19			
20			

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Line No.			
1	Annualize Purchased Wastewater Treatment		
2			
3	Test Year Purchased Wastewater Treatment	$	160,789
4	Gallons Treated By Scottsdale (in 1000's)		80,049
5	Cost per 1,000 gallons	$	2.01
6			
7	Additonal Wasterwater gallons (in 1,000's) from revenue annualization		1,368
	Percent diverted to Scottsdale		47.07%
8	Additonal cost based on revenue annualization		644
9			
10	Increase (decrease) in Purchased Wastewater Treatment	$	1,293
11			
12			
13			
14			
15	Adjustment to Revenue and/or Expense	$	1,293
16			
17			
18			
19			
20			
21			
22			
23			
24			

Black Mountain Sewer Company
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Bourassa

Line No.			
1			
2	Annualize Chemicals Expense		
3			
4	Test Year Chemicals	$	73,928
5	Gallons Treated By BMSC (in 1000's)		37,678
6	Cost per 1,000 gallons	$	1.96
7			
8	Additonal Wasterwater gallons (in 1,000's) from revenue annualization		1,368
9			
10	Additonal cost based on revenue annualization		2,684
11			
12	Increase (decrease) in Chemicals Expense	$	2,684
13			
14			
15			
16			
17	Adjustment to Revenue and/or Expense	$	2,684
18			
19			
20			

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Schedule C-2
Page 10
Witness: Bourassa

Line No.		
1		
2	Annualize Purchased Power	
3		
4	Test Year Purchased Power	$ 45,594
5	Total Flow Gallons (in 1000's)	117,727
6	Cost per 1,000 gallons	$ 0.39
7		
8	Additonal Wasterwater gallons (in 1,000's) from revenue annualization	1,368
9		
10	Additonal cost based on revenue annualization	530
11		
12	Increase (decrease) in Purchased Power	$ 205
13		
14		
15		
16		
17	Adjustment to Revenue and/or Expense	$ 205
18		
19		
20		

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Schedule C-2
Page 11
Witness: Bourassa

Line No.		
1		
2	Purchased Power Increase APS	
3		
4	Test Year Purchased Power	$ 45,594
5	Plus IOncrease from Annualization	205
6	Total Test Year Adjusted Purchased Power	$ 45,799
7		
8	APS Increase as percent	4.21%
9		
10		
11	Increase (decrease) in Purchased Power	$ 1,928
12		
13		
14		
15		
16	Adjustment to Revenue and/or Expense	$ 1,928
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	24.53%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	31.50%
9		
10	Operating Income % = 100% - Tax Percentage	68.50%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.4598
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		A-1
20		

D
SCHEDULES

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Summary of Cost of Capital

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	End of Projected Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost
1	Long-Term Debt **(1)**	-	0.00%		0.00%	1,132,046	41.49%	0.00%	0.00%
2									
3	Stockholder's Equity **(2)**	1,498,949	100.00%	11.00%	11.00%	1,596,569	58.51%	11.00%	6.44%
4									
5	Totals	1,498,949	100.00%		11.00%	2,728,615	100.00%		6.44%
6									
7	**(1) Excluded long-term debt for Scottsdale Treatment Capacity**	**$**	**1,184,732**	**.**					
8	**(2) Adjusted for correction to accummulated depreciation of**	**$**	**75,381**	**. See B-2 Page 3**					
9									
10									
11	SUPPORTING SCHEDULES:								
12	D-1								
13	D-3								
14	D-4								
15	E-1								
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

RECAP SCHEDULES:
A-3

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Cost of Long Term Debt

Exhibit
Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	End of Test Year Annual Interest	End of Test Year Interest Rate	End of Test Year Weighted Cost	End of Projected Year Amount Outstanding	End of Projected Year Annual Interest	End of Projected Year Interest Rate	End of Projected Year Weighted Cost
1	Loan for Scottsdale Treatment Capacity	775,226	74,518	9.40%	6.15%	740,215	71,388	9.40%	6.15%
2	Loan for Scottsdale Treatment Capacity	409,507	39,325	9.40%	3.25%	391,831	36,010	9.40%	3.25%
3			-		0.00%	-	-	0.00%	0.00%
4			-		0.00%	-	-	0.00%	0.00%
5									
6									
7									
8									
9									
10									
11									
12									
13	Totals	$ 1,184,733	$ 113,843		9.40%	$ 1,132,046	$ 107,398		9.40%
14									
15	Supporting Schdules:								
16	E-2								
17									
18									
19									
20									
21									

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	End of Test Year Shares Outstanding	Amount	Dividend Requirement	End of Projected Year Shares Outstanding	Amount	Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:			RECAP SCHEDULES:			
18	(a) E-1			(a) D-1			
19							
20							

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bouras

Line No.	
1	
2	The Company is proposing a cost of common equity of 11.00%.
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	SUPPORTING SCHEDULES:
18	(a) E-1
19	
20	

RECAP SCHEDULES:
(a) D-1

Black Mountain Sewer Company
Selected Characteristics of Water Utilities

Schedule D-4.1
Witness: Bourassa

No.		% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1						
2						
3						
4	1. American States	88%	$ 228.4	$ 591.1	A-	A2
5	2. Aqua America	87%	$ 442.0	$ 1,792.0	AA-	NR
6	3. California Water	96%	$ 315.6	$ 705.4	NR	A2
7	4. Connecticut Water	91%	$ 53.3	$ 195.7	AA-	NR
8	5. Middlesex	86%	$ 71.0	$ 235.2	A+	NR
9	6. SJW Corp.	97%	$ 166.9	$ 286.5	NR	NR
10						
11	Average	91%	$ 212.9	$ 634.3		
12						
13						
14	Source: AUS Utility Reports (August 2005)					

Black Mountain Sewer Company
Capital Structures of Water Utilities December 2004

Schedule D-4.2
Witness: Bourassa

No.		Book Value		Market Value	
1		Long-Term	Common	Long-Term	Common
2		Debt	Equity	Debt	Equity
3					
4	1. American States	47.7%	52.3%	30.5%	69.5%
5	2. Aqua America	51.2%	48.8%	21.5%	78.5%
6	3. California Water	48.6%	51.4%	27.3%	72.7%
7	4. Connecticut Water	42.8%	57.2%	23.6%	76.4%
8	5. Middlesex	53.8%	46.2%	31.7%	68.3%
9	6. SJW Corp.	43.8%	56.2%	22.7%	77.3%
10					
11	Average	48.0%	52.0%	26.2%	73.8%
12					
13	Black Mountian Sewer Company	45.4%	54.6%	N/A	N/A
14					
15					
16	Sources:				
17	Zacks Investment Research				
18					
19					
20					

Black Mountain Sewer Company
Comparisons of Past and Future Estimates of Growth

Schedule D-4.3
Witness: Bourassa

Line No.		Company	Five-year historical average annual changes Price	Book Value	DPS	EPS	Average Future Growth
1	1.	American States	4.95%	4.55%	0.93%	1.02%	7.67%
2	2.	Aqua America	16.94%	10.13%	6.36%	8.73%	10.33%
3	3.	California Water	8.80%	2.89%	0.73%	1.56%	7.83%
4	4.	Connecticut Water	6.22%	4.66%	1.24%	2.43%	
5	5.	Middlesex	6.56%	3.62%	1.93%	2.07%	6.00%
6	6.	SJW Corp.	0.17%	4.81%	4.99%	2.55%	
7							
8		GROUP AVERAGE	7.27%	5.11%	2.69%	3.06%	7.96%
9		GROUP MEDIAN	6.39%	4.61%	1.58%	2.25%	7.75%
10							
11	Sources:						
12		Value Line data reported July 29, 2005					
13		Yahoo Finance					

Black Mountain Sewer Company

Schedule D-4.4
Witness: Bourassa

Comparisons of Past and Future Estimates of Growth

Line No.		Company	Ten-year historical average annual changes Price	Book Value	DPS	EPS	Average Future Growth
7	1.	American States	11.41%	3.84%	1.07%	1.57%	7.67%
8	2.	Aqua America	17.94%	8.45%	5.76%	9.35%	10.33%
9	3.	California Water	11.46%	2.91%	1.49%	4.82%	7.83%
10	4.	Connecticut Water	12.01%	14.47%	1.26%	2.28%	
11	5.	Middlesex	11.34%	14.95%	2.31%	4.38%	6.00%
12	6.	SJW Corp.	12.45%	16.09%	4.11%	0.63%	
15		GROUP AVERAGE	12.77%	10.12%	2.67%	3.84%	7.96%
16		GROUP MEDIAN	11.73%	11.46%	1.90%	3.33%	7.75%

Sources:
Value Line data reported July 29, 2005
Yahoo Finance

Black Mountain Sewer Company
Stock Price Comparision

Schedule D-4.5
Witness: Bourassa

Line No.		Company	MONTHLY AVG HIGH/LOW APR 05	MAY-05	JUN 05	3-MONTH AVERAGE	Spot Price At 07/22/2005	Difference Spot Price to 3 MOTNH AVG.	Percent Increase
1	1.	American States (AWR)	$ 25.05	$ 26.94	$ 29.12	$ 27.04	$ 31.07	$ 4.03	14.92%
2	2.	Aqua America (WTR)	26.23	27.10	29.23	27.52	30.78	3.26	11.85%
3	3.	California Water (CWT)	33.69	35.16	37.24	35.36	40.00	4.64	13.12%
4	4.	Connecticut Water (CTWS)	22.84	24.34	24.90	24.03	26.92	2.89	12.05%
5	5.	Middlesex (MSEX)	17.53	18.88	19.43	18.61	21.77	3.16	16.97%
6	6.	SJW Corp. (SJW)	36.46	39.96	46.72	41.05	53.75	12.70	30.94%
7									
8								$ 5.11	16.64%
9									
10	Sources:								
11		Yahoo Finance web site							
12		Zacks Investment Research							
13									
14									
15									

Black Mountain Sewer Company
Analysts Forecasts of Earnings Per Share Growth

Schedule D-4.6
Witness: Bourassa

Line No.		Company	(1) Zacks	(2) S&P	(3) Value Line	(4) Average Growth (G) (Cols 1-3)
			EPS GROWTH			
1	1.	American States	6.00%	5.00%	12.00%	7.67%
2	2.	Aqua America	9.00%	10.00%	12.00%	10.33%
3	3.	California Water	8.00%	7.00%	8.50%	7.83%
4	4.	Connecticut Water				7.96%
5	5.	Middlesex	6.00%	6.00%		6.00%
6	6.	SJW Corp.				7.96%
7						
8		GROUP AVERAGE	7.25%	7.00%	10.83%	7.96%
9		GROUP MEDIAN				7.90%

Sources:
Value Line Investment Survey Dated July 29, 2005
Zacks Investment Research Site Dated Jul 22, 2005
S&P Earnings Guide August 2005

Black Mountain Sewer Company
Estimates of Sustainable Growth

Schedule D-4.7
Witness: Bourassa

Line No.		Company	(1) Retention Ratio	(2) Rate of Return	(3) br Growth	(4) sv Growth	(5) Average Sustainable Growth (Cols 3+4)
7	1.	American States	0.54	12.00%	6.51%	2.04%	8.55%
8	2.	Aqua America	0.59	12.50%	7.34%	0.77%	8.11%
9	3.	California Water	0.42	11.00%	4.66%	4.16%	8.82%
10	4.	Connecticut Water					
11	5.	Middlesex					
12	6.	SJW Corp.					
15		GROUP AVERAGE	0.52	11.83%	6.17%	2.32%	8.49%
16		GROUP MEDIAN	0.54	12.00%	6.51%	2.04%	8.55%

Sources:
Value Line data reported July 29, 2005

Black Mountain Sewer Company
Estimates of sv Growth

Schedule D-4.8
Witness: Bourassa

Line No.		Company	(1) Stock Financing Rate	(2) Current Market to Book Ratio	(3) v	(4) sv Growth
7	1.	American States	4.67%	2.05	0.51	2.39%
8	2.	Aqua America	3.60%	3.82	0.74	2.66%
9	3.	California Water	7.46%	2.57	0.61	4.56%
10	4.	Connecticut Water				na
11	5.	Middlesex				na
12	6.	SJW Corp.				na
15		GROUP AVERAGE	5.25%	2.81	0.62	3.20%
16		GROUP MEDIAN	4.67%	2.57	0.61	2.66%

Sources:
Value Line data reported July 29, 2005

Black Mountain Sewer Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Projected EPS Growth

Schedule D-4.9
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) (a) EPS Growth (g)	(5) Indicated Cost of Equity k=Div Yld + g (Cols 3+4)
7	1.	American States	31.07	0.90	2.90%	7.67%	10.6%
8	2.	Aqua America	30.78	0.52	1.69%	10.33%	12.0%
9	3.	California Water	40.00	1.14	2.85%	7.83%	10.7%
10	4.	Connecticut Water	26.92	0.85	3.16%	7.96%	11.1%
11	5.	Middlesex	21.77	0.67	3.08%	6.00%	9.1%
12	6.	SJW Corp.	53.75	1.07	1.99%	7.96%	10.0%
13							
14							
15		GROUP AVERAGE					10.6%
16		GROUP MEDIAN					10.6%
17							
18	(a)	See Schedules D-4.5					
19							
20	Sources:						
21		Zacks Investment Research					
22		Value Line dated July 29, 2005					
23							

Black Mountain Sewer Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Sustainable Growth

Schedule D-4.10
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Sustainable Growth(a) br	(5) vs	(6) br+sv Growth (g)	(7) Indicated Cost of Equity k=Div Yld + g (Cols 3+6)
7	1.	American States	31.07	0.91	2.93%	6.51%	2.04%	8.55%	11.5%
8	2.	Aqua America	30.78	0.55	1.79%	7.34%	0.77%	8.11%	9.9%
9	3.	California Water	40.00	1.15	2.88%	4.66%	4.16%	8.82%	11.7%
10	4.	Connecticut Water	26.92	0.86	3.19%			8.49%	11.7%
11	5.	Middlesex	21.77	0.68	3.12%			8.49%	11.6%
12	6.	SJW Corp.	53.75	1.12	2.08%			8.49%	10.6%
13									
14									
15		GROUP AVERAGE							11.2%
16		GROUP MEDIAN							11.5%
17									
18	(a) See Schedule D-4.6 and D-4.7								
19									
20	Sources:								
21		Value Line Investment Survey Dated July 29, 2005							
22									
23									
24									

Black Mountain Sewer Company
Discounted Cash Flow Analysis (Water)
Two-Stage Growth - Projected

Schedule D-4.11
Witness: Bourassa

Line No.		Company	(1) Spot Price(P_0)	(2) Next Year's Div (D_1)	(3) Yield (D_1/P_0)	(4) Projected Growth Rates Near Term (a)	(5) Projected Growth Rates Long Term (GDP)	(6) Projected Growth Rates Average (b)	(7) Indicated Cost of Equity
1									
2									
3									
4									
5									
6									
7	1.	American States	31.07	0.90	2.90%	7.67%	6.80%	7.38%	10.3%
8	2.	Aqua America	30.78	0.52	1.69%	10.33%	6.80%	9.17%	10.9%
9	3.	California Water	40.00	1.14	2.85%	7.83%	6.80%	7.49%	10.3%
10	4.	Connecticut Water	26.92	0.85	3.16%	7.96%	6.80%	7.58%	10.7%
11	5.	Middlesex	21.77	0.67	3.08%	6.00%	6.80%	6.26%	9.3%
12	6.	SJW Corp.	53.75	1.07	1.99%	7.96%	6.80%	7.58%	9.6%
13									
14									
15		GROUP AVERAGE							10.2%
16		GROUP MEDIAN							10.3%
17									
18									
19		(a) See Schedule D-4.5							
20		(b) Near term growth given weighting of .67							
21									

Black Mountain Sewer Company
Risk Premium Equity Cost Analysis
Average Equity Returns of Sample Water Companies

Schedule D-4.12
Witness: Bourassa

Line No.		Actual Returns on Equity (a)	Annual Average 10 Year Treasury (b)	Risk Premium 10 Year Treasury
1	2004	8.95%	4.27%	4.68%
2	2003	8.75%	4.01%	4.74%
3	2002	10.25%	4.61%	5.64%
4	2001	10.05%	5.02%	5.03%
5	2000	9.62%	6.03%	3.59%
6	1999	11.20%	5.65%	5.55%
7	1998	10.62%	5.26%	5.36%
8	1997	11.52%	6.35%	5.17%
9	1996	11.67%	6.44%	5.23%
10	1995	10.93%	6.57%	4.36%
11				
12				
13	10 Year Average Premium			4.93%
14	5 Year Average Premium			4.74%
15				
16				
17	Forecasted Interest Rates for 2007-2008(c)			5.45%
18				
19	Projected Returns on Equity			
20	10 Year Average			10.4%
21	5 Year Average			10.2%
22				
23				
24	Sources:			
25	(a) Value Line data reported July 29, 2005			
26	(b) Ibbotson Associates SBBI Valuation Edition 2005 Yearbook			
27	(c) Blue Chip Forecast Interest Rates - 10 year Treas. June, 2005			
28				

Black Mountain Sewer Company
Risk Premium Equity Cost Analysis
Authorized Equity Returns of Sample Water Companies

Schedule D-4.13
Witness: Bourassa

Line No.		Authorized Returns on Equity (a)	Average Annual 10 Year Treasury (b)	Risk Premium 10 Year Treasury
1	2004	10.40%	4.27%	6.13%
2	2003	10.48%	4.01%	6.47%
3	2002	10.62%	4.61%	6.01%
4	2001	10.86%	5.02%	5.84%
5	2000	11.12%	6.03%	5.09%
6	1999	11.12%	5.65%	5.47%
7	1998	11.06%	5.26%	5.80%
8	1997	11.18%	6.35%	4.83%
9	1996	11.58%	6.44%	5.14%
10	1995	11.51%	6.57%	4.94%
11				
12				
13	10 Year Average Premium			5.57%
14	5 Year Average Premium			5.91%
15				
16				
17	Forecasted Interest Rates for 2007-2008(c)			5.45%
18				
19	Projected Returns on Equity			
20	10 Year Average			11.0%
21	5 Year Average			11.4%
22				
23				
24	Sources:			
25	(a) AUS Utility Reports, issues for December various years			
26	(b) Ibbotson Associates SBBI Valuation Edition 2005 Yearbook			
27	(c) Blue Chip Forecast Interest Rates - 10 year Treas. June, 2005			
28				

Exhibit
Schedule D-4.14
Page 1
Witness: Bourassa

Test Year Ended December 31, 2004
Returns on Equity of Nationally Traded Water
Utilities as Reported in AUS Utility Reports
August 2005

Line No.		Authorized Rate of Return	Current Rate of Return
1	American States Water Co.	10.0%	9.1%
2	Aqua America	10.1%	11.7%
3	California Water	9.7%	9.6%
4	Connecticut Water Service	12.7%	10.9%
5	Middlesex Water Co.	10.0%	9.8%
6	SJW Corp.	9.9%	11.8%
7			
8			
9	Averages	10.4%	10.5%
10			
11			
12			
13			
14			
15			

E
SCHEDULES

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Comparative Balance Sheets

Exhibit
Schedule E-1
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2004	Year Ended 12/31/2003	Year Ended 12/31/2002
1	**ASSETS**			
2	Plant In Service	$ 8,370,448	$ 7,428,129	$ 6,570,205
3				
4	Non-Utility Plant	-	-	-
5	Construction Work in Progress	103,804	-	-
6	Less: Accumulated Depreciation	(4,441,760)	(4,083,429)	(3,761,037)
7	Net Plant	$ 4,032,492	$ 3,344,700	$ 2,809,168
8				
9	Debt Reserve Fund	$ -	$ -	$ -
10				
11				
12	CURRENT ASSETS			
13	Cash and Equivalents	$ 524,979	$ 422,862	$ 635,539
14	Restricted Cash	-	-	-
15	Accounts Receivable, Net	17,009	29,058	26,681
16	Unbilled Revenues	-	-	-
17	Materials and Supplies	-	-	-
18	Prepayments	9,512	10,635	1,167
19	Other Current Assets	1,918,706	1,917,160	1,929,506
20	Total Current Assets	$ 2,470,206	$ 2,379,715	$ 2,592,893
21				
22	Deferred Debits	$ -	$ -	$ -
23				
24	Other Investments & Special Funds	$ -	$ -	$ -
25				
26	TOTAL ASSETS	$ 6,502,698	$ 5,724,415	$ 5,402,061
27				
28				
29	**LIABILITIES AND STOCKHOLDERS' EQUITY**			
30				
31	Common Equity	$ 1,423,568	$ 1,256,627	$ 844,290
32				
33	Long-Term Debt	$ -	$ -	$ -
34				
35	CURRENT LIABILITIES			
36	Accounts Payable	$ (2,126)	$ 88,185	$ 61,050
37	Current Portion of Long-Term Debt	-	-	-
38	Payables to Associated Companies	1,257,904	1,325,147	1,356,287
39	Customer Meter Deposits, Current	(3,000)	(2,306)	6,294
40	Accrued Taxes	134,175	139,945	138,361
41	Accrued Interest	-	-	-
42	Other Current Liabilities	62,174	65,684	25,991
43	Total Current Liabilities	$ 1,449,127	$ 1,616,655	$ 1,587,983
44	DEFERRED CREDITS			
45	Customer Meter Deposits, less current	$ -	$ -	$ -
46	Advances in Aid of Construction	1,315,900	244,258	268,562
47	Accumulated Deferred Income Taxes	-	-	-
48	Contributions In Aid of Construction, Net	5,800,321	5,802,247	5,606,185
49	Accumulated Amortization of CIAC	(3,486,218)	(3,195,372)	(2,904,959)
50	Asset Retirement Obligations	-	-	-
51	Total Deferred Credits	$ 3,630,003	$ 2,851,133	$ 2,969,788
52				
53	Total Liabilities & Common Equity	$ 6,502,698	$ 5,724,415	$ 5,402,061
54				
55	SUPPORTING SCHEDULES:			
56	E-5			
57				

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Comparative Income Statements

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2004	Prior Year Ended 12/31/2003	Prior Year Ended 12/31/2002
1	**Revenues**			
2	Flat Rate Revenues	$ 1,173,940	$ 1,138,255	$ 1,117,583
3	Measured Revenues	-	-	-
4	Other Wastewater Revenues	16,472	5,783	19,343
5	**Total Revenues**	$ 1,190,412	$ 1,144,038	$ 1,136,926
6	**Operating Expenses**			
7	Salaries and Wages	$ -	$ -	$ -
8	Purchased Wastewater Treatment	160,789	175,796	167,528
9	Sludge Removal Expense	981	85	-
10	Purchased Power	45,594	44,839	49,486
11	Fuel for Power Production	-	-	-
12	Chemicals	73,928	25,468	11,443
13	Materials and Supplies	30,420	98,756	91,215
14	Contractual Services - Professional	171,683	219,187	164,642
15	Contractual Services - Testing	11,000	18,594	21,266
16	Contractual Services - Other	226,595	100,609	108,608
17	Rents	10,825	7,696	9,228
18	Transportation Expenses	4,870	2,525	-
19	Insurance - General Liability	16,204	(50)	-
20	Regulatory Commission Expense	-	21,272	14,725
21	Miscellaneous Expense	77,401	-	5,593
22	Depreciation	67,484	21,247	20,165
23	Taxes Other Than Income	-	32,280	47,752
24	Property Taxes	32,328	50,183	40,889
25	Income Tax	-	110,031	105,175
26				
27	**Total Operating Expenses**	$ 930,102	$ 928,518	$ 857,715
28	**Operating Income**	$ 260,310	$ 215,520	$ 279,211
29	**Other Income (Expense)**			
30	Interest Income	$ 932	$ (2,171)	$ 52,565
31	Other income	24,000	24,000	2,770
32	Interest Expense	(116,401)	(122,360)	(127,786)
33	Other Expense	-	-	-
34				-
35	**Total Other Income (Expense)**	$ (91,469)	$ (100,531)	$ (72,451)
36	**Net Profit (Loss)**	$ 168,841	$ 114,989	$ 206,760
37				
38				

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Comparative Statements of Cash Flows

Exhibit
Schedule E-3
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2004	Prior Year Ended 12/31/2003	Prior Year Ended 12/31/2002
1				
2				
3	Cash Flows from Operating Activities			
4	Net Income	$ 168,841	$ 114,989	$ 206,760
5	Adjustments to reconcile net income to net cash			
6	provided by operating activities:			
7	Depreciation and Amortization	67,485	32,280	47,752
8	Deferred Income Taxes	-	-	-
9	Other	-	-	-
10	Changes in Certain Assets and Liabilities:			
11	Accounts Receivable	12,049	(2,377)	(2,172)
12	Unbilled Revenues	-	-	-
13	Materials and Supplies Inventory	-	-	-
14	Prepaid Expenses	1,123	(9,468)	7,758
15	Deferred Charges	-	-	-
16	Accounts Payable	(90,311)	27,135	(3,682)
17	Intercompany payable	(67,243)	(31,140)	(59,008)
18	Customer Deposits	(694)	(8,600)	5,000
19	Intercompany taxes receivable and taxes payable	(5,770)	1,584	88,584
20	Other assets and liabilities	(5,056)	52,039	17,666
21				
22	Net Cash Flow provided by Operating Activities	$ 80,424	$ 176,442	$ 308,658
23	Cash Flow From Investing Activities:			
24	Capital Expenditures	(1,046,123)	(857,924)	(680,816)
25	Plant Held for Future Use	-	-	-
26	Changes in debt reserve fund	-	-	-
27	Net Cash Flows from Investing Activities	$ (1,046,123)	$ (857,924)	$ (680,816)
28	Cash Flow From Financing Activities			
29	Change in Restricted Cash	-	-	-
30	Change in net amounts due to parent and affiliates	-	-	-
31	Receipt of advances for and contributions in aid of construction	1,069,716	195,761	92,140
32	Refunds for advances for construction	-	(24,304)	-
33	Repayments of Long-Term Debt	-	-	-
34	Dividends Paid	(1,900)	-	(103,099)
35	Deferred Financing Costs	-	-	-
36	Paid in Capital	-	297,348	-
37	Net Cash Flows Provided by Financing Activities	$ 1,067,816	$ 468,805	$ (10,959)
38	Increase(decrease) in Cash and Cash Equivalents	102,117	(212,677)	(383,117)
39	Cash and Cash Equivalents at Beginning of Year	422,862	635,539	1,018,656
40	Cash and Cash Equivalents at End of Year	$ 524,979	$ 422,862	$ 635,539
41				
42				

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Statement of Changes in Stockholder's Equity

Exhibit
Schedule E-4
Page 1
Witness: Bourassa

Line No.		Common Stock	Additional Paid-In-Capital	Retained Earnings	Total
1					
2					
3					
4	Balance, December 31, 2001	$ 1,000	$ 1,301,007	$ (561,378)	$ 740,629
5	Addnl Paid In Capital		-	-	-
6	Dividends			(103,099)	(103,099)
7	Net Income			206,760	206,760
8					
9	Balance, December 31, 2002	$ 1,000	$ 1,301,007	$ (457,717)	$ 844,290
10	Addnl Paid In Capital			297,348	297,348
11	Dividends				-
12	Net Income			114,989	114,989
13					
14	Balance, December 31, 2003	$ 1,000	$ 1,301,007	$ (45,380)	$ 1,256,627
15	Addnl Paid In Capital				-
16	Dividends			(1,900)	(1,900)
17	Net Income			168,841	168,841
18					
19	Balance, December 3, 2004	$ 1,000	$ 1,301,007	$ 121,561	$ 1,423,568
20					
21					
22					
23					
24					
25					
26	SUPPORTING SCHEDULES:			RECAP SCHEDULES:	

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Detail of Plant in Service

Exhibit
Schedule E-5
Page 1
Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2003	Plant Additions, Reclass-ications or or Retirements	Plant Balance at 12/31/2004
1					
2	351	Organization	$ -	$ -	$ -
3	352	Franchises	-	-	-
4	353	Land and Land Rights	461,446	-	461,446
5	354	Structures and Improvements	1,152,745	92,547	1,245,292
6	355	Power Generation Equipment	7,610	(7,610)	-
7	360	Collection Sewers - Force	228,042	743	228,785
8	361	Collection Sewers - Gravity	2,835,952	772,667	3,608,619
9	362	Special Collecting Structures	-	-	-
10	363	Services to Customers	158,802	-	158,802
11	364	Flow Measuring Devices	34,500	5,378	39,878
12	365	Flow Measuring Installations	-	158,358	158,358
13	370	Receiving Wells	696,506	-	696,506
14	371	Effluent Pumping Equipment	418,455	33,250	451,705
15	380	Treatment and Disposal Equipment	-	-	-
16	381	Plant Sewers	276,709	(155,058)	121,651
17	382	Outfall Sewer Lines	-	-	-
18	389	Other Plant and Misc. Equipment	702,033	36,771	738,804
19	390	Office Furniture and Equipment	360,240	5,272	365,512
20	391	Transportation Equipment	87,811	-	87,811
21	393	Tools, Shop and Garage Equipment.	-	-	-
22	394	Laboratory Equipment	7,279	-	7,279
23	395	Power Operated Equipment	-	-	-
24	398	Other TangiblePlant	-	-	-
25	344	Laboratory Equipment	-	-	-
26	345	Power Operated Equipment	-	-	-
27	346	Communications Equipment	-	-	-
28	347	Miscellaneous Equipment	-	-	-
29	348	Other Tangible Plant	-	-	-
30		Plant Held for Future Use	-	-	-
31					
32		TOTAL WATER PLANT	$ 7,428,130	$ 942,318	$ 8,370,448
33					
34	SUPPORTING SCHEDULES			RECAP SCHEDULES:	
35				A-4	
36				E-1	
37					

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Operating Statistics

Exhibit
Schedule E-7
Page 1
Witness: Bouras

Line No.		Test Year Ended 12/31/2004	Prior Year Ended 12/31/2003	Prior Year Ended 12/31/2002
1	WASTEWATER STATISTICS:			
2				
3				
4				
5	Sewer Revenues from Customer:	$ 1,190,412	$ 1,144,038	$ 1,136,926
6				
7				
8				
9				
10	Year End Number of Customers	1,923	1,794	1,429
11				
12				
13				
14	Annual Revenue per Year End Customer	$ 619.04	$ 637.70	$ 795.61
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2004	Prior Year Ended 12/31/2003	Prior Year Ended 12/31/2002
1				
2				
3	Federal Income Taxes*	$ 44,506	$ 94,347	$ 83,433
4	State Income Taxes*	11,768	15,684	21,742
5	Payroll Taxes	-	-	-
6	Property Taxes	32,328	50,183	40,889
7				
8	Totals	$ 88,603	$ 160,214	$ 146,064
9				
10				
11	*Computed			
12				
13				
14				

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

The Company does not have outside auditors

F
SCHEDULES

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Projected Income Statements - Present & Proposed Rates

Exhibit
Schedule F-1
Page 1
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2005	At Proposed Rates Year Ended 12/31/2005
1	**Revenues**			
2	Flat Rate Revenues	$ 1,173,940	$ 1,191,268	$ 1,354,547
3	Measured Revenues	-	-	-
4	Other Wastewater Revenues	16,472	16,472	16,472
5		$ 1,190,412	$ 1,207,740	$ 1,371,019
6	**Operating Expenses**			
7	Salaries and Wages	$ -	$ -	$ -
8	Purchased Wastewater Treatment	160,789	162,082	162,082
9	Sludge Removal Expense	981	981	981
10	Purchased Power	45,594	47,727	47,727
11	Fuel for Power Production	-	-	-
12	Chemicals	73,928	76,612	76,612
13	Materials and Supplies	30,420	30,420	30,420
14	Contractual Services - Professional	171,683	171,683	171,683
15	Contractual Services - Testing	11,000	11,000	11,000
16	Contractual Services - Other	226,595	226,595	226,595
17	Rents	10,825	10,825	10,825
18	Transportation Expenses	4,870	4,870	4,870
19	Insurance - General Liability	16,204	16,204	16,204
20	Regulatory Commission Expense	-	30,000	30,000
21	Miscellaneous Expense	77,401	77,401	77,401
		-	189,622	189,622
22	Depreciation	67,484	126,749	126,749
23	Taxes Other Than Income	-	-	-
24	Property Taxes	32,328	45,745	45,745
25	Income Tax	-	(6,544)	44,883
26				
27	**Total Operating Expenses**	$ 930,102	$ 1,221,973	$ 1,273,399
28	**Operating Income**	$ 260,310	$ (14,233)	$ 97,619
29	**Other Income (Expense)**			
30	Interest Income	932	-	-
31	Other income	24,000	-	-
32	Interest Expense	(116,401)	-	-
33	Other Expense	-	-	-
34	Gain/Loss Sale of Fixed Assets	-	-	-
35	**Total Other Income (Expense)**	$ (91,469)	$ -	$ -
36	**Net Profit (Loss)**	$ 168,841	$ (14,233)	$ 97,619
37				

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Projected Statements of Changes in Financial Position
Present and Proposed Rates

Exhibit
Schedule F-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2004	At Present Rates Year Ended 12/31/2005	At Proposed Rates Year Ended 12/31/2005
1				
2				
3				
4				
5	Cash Flows from Operating Activities			
6	Net Income	$ 168,841	$ (14,233)	$ 97,619
7	Adjustments to reconcile net income to net cash			
8	provided by operating activities:			
9	Depreciation and Amortization	67,485	30,000	30,000
10	Deferred Income Taxes	-		
11	Other	-		
12	Changes in Certain Assets and Liabilities:	-		
13	Accounts Receivable	12,049		
14	Unbilled Revenues	-		
15	Materials and Supplies Inventory	-		
16	Prepaid Expenses	1,123		
17	Deferred Charges	-		
18	Accounts Payable	(90,311)		
19	Intercompany payable	(67,243)		
20	Customer Deposits	(694)		
21	Intercompany taxes receivable and taxes payable	(5,770)		
22	Other assets and liabilities	(5,056)		
23				
24	Net Cash Flow provided by Operating Activities	$ 80,424	$ 15,767	$ 127,619
25	Cash Flow From Investing Activities:			
26	Capital Expenditures	(1,046,123)	(170,000)	(170,000)
27	Plant Held for Future Use	-		
28	Changes in debt reserve fund	-		
29	Net Cash Flows from Investing Activities	$ (1,046,123)	$ (170,000)	$ (170,000)
30	Cash Flow From Financing Activities			
31	Change in Restricted Cash	-	-	-
32	Change in net amounts due to parent and affiliates	-	-	-
33	Receipt of advances for and contributions in aid of construction	1,069,716	-	-
34	Refunds for advances for construction	-	-	-
35	Repayments of Long-Term Debt	-	-	-
36	Dividends Paid	(1,900)	-	-
37	Deferred Financing Costs	-	-	-
38	Paid in Capital	-	-	-
39	Net Cash Flows Provided by Financing Activities	$ 1,067,816	$ -	$ -
40	Increase(decrease) in Cash and Cash Equivalents	102,117	(154,233)	(42,381)
41	Cash and Cash Equivalents at Beginning of Year	422,862	524,979	524,979
42	Cash and Cash Equivalents at End of Year	$ 524,979	$ 370,746	$ 482,598
43	F-3			
44				
45				

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Projected Construction Requirements

Exhibit
Schedule F-3
Page 1
Witness: Bourassa

Line No.	Account Number	Plant Asset:	2005	2006	2007
4	352	Franchises	$ -	$ -	$ -
5	353	Land and Land Rights			
6	354	Structures and Improvements			
7	355	Power Generation Equipment			
8	360	Collection Sewers - Force			
9	361	Collection Sewers - Gravity	100,000	600,000	
10	362	Special Collecting Structures		60,000	60,000
11	363	Services to Customers			
12	364	Flow Measuring Devices			
13	365	Flow Measuring Installations		30,000	
14	370	Receiving Wells			
15	371	Effluent Pumping Equipment		-	
16	380	Treatment and Disposal Equipment		485,000	400,000
17	381	Plant Sewers		-	
18	382	Outfall Sewer Lines		-	
19	389	Other Plant and Misc. Equipment		-	
20	390	Office Furniture and Equipment	60,000	-	
21	391	Transportation Equipment		45,000	
22	393	Tools, Shop and Garage Equipment.		70,000	
23	394	Laboratory Equipment	10,000	-	
24	395	Power Operated Equipment		-	
25	398	Other TangiblePlant		60,000	250,000
26					
27					
28					
29					
30					
31					
32					
33					
34					
35	Total		$ 170,000	$ 1,350,000	$ 710,000
36					
37					
38					

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line No.	
1	Property Taxes were computed using the method used by the Arizona Department
2	of Revenue
3	
4	Projected construction expenditures are shown on Schedule A-4.
5	
6	Expense adjustments are shown on Schedule C2, and are explained in the testimony.
7	
8	Accumulated depreciation was computed using depreciation rates authorized
9	in prior Commission decision.
10	
11	Income taxes were computed using statutory state and federal income tax rates.
12	
13	
14	
15	

H
SCHEDULES

Black Mountain Sewer Company
Revenue Summary
With Annualized Revenues to Year End Number of Customers
And Estimated Customer Growth
Test Year Ended December 31, 2004

Exhibit
Schedule H1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	768,816	873,820	105,004	13.66%	64.32%	64.32%
2	**Residential customer revenue**						
3	**annualized to end of year, based on**	17,328	19,695	2,367	13.66%	1.45%	1.45%
4	**year end number of customers**						
5							
6	Commercial (Standard Rate)	312,725	355,418	42,693	13.65%	26.16%	26.16%
7	Commercial (Special Rate)	81,967	93,155	11,188	13.65%	6.86%	6.86%
8	Effluent Sales	14,498	16,477	1,979	13.65%	1.21%	1.21%
9	Subtotals	1,195,334	1,358,565	163,231	13.66%	100.00%	100.00%
10	Misc Revenues	16,472	16,472				
11	Totals	1,211,806	1,375,037	163,231	13.47%	100.00%	100.00%

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Analysis of Revenue by Detailed Class

Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 3/31/2000	Average Effluent	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	Residential	1,724	N/A	$ 38.00	$ 43.19	$ 5.19	13.658%
2	Commercial (Standard Rate)	130	N/A	0.15236	0.17316	0.02080	13.652%
3	Commercial (Special Rate)						
4	B-H Enterprises (West)	-	N/A	$ 0.11685	$ 0.13280	$ 0.01595	13.650%
5	B-H Enterprises (East)	1	N/A	0.11685	0.13280	0.01595	13.650%
6	Barb's Per Grooming	-	N/A	0.11685	0.13280	0.01595	13.650%
7	Boulders Resort	1	N/A	0.11843	0.13459	0.01616	13.648%
8	Carefree Dental	-	N/A	0.11685	0.13280	0.01595	13.650%
9	Ridgecrest Realty	1	N/A	0.11818	0.13431	0.01613	13.649%
10	Desert Forest	1	N/A	0.13609	0.15467	0.01858	13.653%
11	Desert Hills Pharmacy	1	N/A	0.14206	0.16145	0.01939	13.649%
12	El Pedregal	1	N/A	0.11685	0.13280	0.01595	13.650%
13	Lemon Tree	1	N/A	0.11400	0.12956	0.01556	13.649%
14	Body Shop	1	N/A	0.14544	0.16529	0.01985	13.648%
15	Spanish Village	-	N/A	0.11685	0.13280	0.01595	13.650%
16	Boulders Club	-	N/A	0.11685	0.13280	0.01595	13.650%
17	Anthony Vuitaggio	1	N/A	0.12987	0.14760	0.01773	13.652%
18							
19	Effluent	1	3,226,904	$ 0.37440	$ 0.42551	$ 0.05111	13.650%
20							
21	Total	1,864					
22							
23							
24							
25							

Black Mountain Sewer Company
Present and Proposed Rates
Test Year Ended December 31, 2004

Exhibit
Schedule H3
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size	Present Rates	Present Rates	Proposed Rates	Proposed Rates	Percent Change
1						
2						
3						
4						
5	**Monthly Charge for:**					
6	Residential		$ 38.00		$ 43.19	13.6579%
7	Commercial (Standard Rate), per gallon per day[1]		0.15236		0.17316	13.6519%
8	Effluent Sales (per 1,000 gallons)	$122 per a.f.	0.37440	$138.65 per a.f.	0.42551	13.6499%
9						
10	Commercial (Special Rate), per gallon per day[1]					
11		Gallons	Monthly	Rate per	Monthly	Rate per	Percent
12	Customer	Per Day[1]	Billing	Gallon	Billing	Gallon	Change
13	B-H Enterprises	2,525	$ 295.05	0.11685	$ 335.32	$ 0.13280	13.6500%
14	B-H Enterprises	1,400	$ 163.59	0.11685	$ 185.92	0.13280	13.6500%
15	Barb's Per Grooming	250	$ 29.21	0.11685	$ 33.20	0.13280	13.6500%
16	Boulders Resort	29,345	$ 3,475.23	0.11843	$ 3,949.60	0.13459	13.6481%
17	Carefree Dental	1,625	$ 189.98	0.11685	$ 215.91	0.13280	13.6500%
18	Ridgecrest Realty	450	$ 53.18	0.11818	$ 60.44	0.13431	13.6487%
19	Desert Forest	7,000	$ 952.63	0.13609	$ 1,082.66	0.15467	13.6527%
20	Desert Hills Pharmacy	800	$ 113.65	0.14206	$ 129.16	0.16145	13.6492%
21	El Pedregal	15,787	$ 1,844.69	0.11685	$ 2,096.49	0.13280	13.6500%
22	Lemon Tree	300	$ 43.20	0.11400	$ 49.10	0.12956	13.6491%
23	Body Shop	1,000	$ 145.44	0.14544	$ 165.29	0.16529	13.6482%
24	Spanish Village	4,985	$ 582.50	0.11685	$ 662.01	0.13280	13.6500%
25	Boulders Club	1,200	$ 140.22	0.11685	$ 159.36	0.13280	13.6500%
26	Anthony Vuitaggio	300	$ 38.96	0.12987	$ 44.28	0.14760	13.6521%
27							
28							
29							
30							
31	[1] Commercial wastewater flows are based on the average daily flows set forth in Engineering Bulletin 12, Table 1						
32	published by the Arizona Department of Environmental Quality (June 1989)						

Black Mountain Sewer Company
Present and Proposed Rates
Test Year Ended December 31, 2004

Exhibit
Schedule H3
Page 2
Witness: Bourassa

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	$ 25.00	$ 25.00
2	Re-Establishment	$ 25.00	$ 25.00
3	Reconnection	no charge	no charge
4	After hours service	$ 25.00	$ 25.00
5	Min Deposit Requirement (Residential)	(a)	(a)
6	Min Deposit Requirement (Non-Residential)	(a)	(a)
7	NSF Check	10.00	10.00
8	Deferred Payment finance charge, Per Month	1.50%	1.50%
9	Late Payment Charge, Per Month	1.50%	1.50%
10			
11	Main Extension Tariff, per Rule R14-2-406B	Cost	Cost
12			
13	Hook-Up Fee for New Service (per Gallon per Day)[2]	$ 6.47	$ 6.47
14			

(a) Residential - two times the average bill. Non-residential - two and one-half times the average bill.
(b) Minimum charge times number of full months disconnected.
(c) Actual cost of physical disconnection and reconnection *(if same customer) and there shall be no* charge if there is no physical work performed.

[2] Wastewater flows are based on Engineering Bulletin No. 12, Table 1.

IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE TAX. PER COMMISSION RULE (14-2-409.D 5).
ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES.
COST TO INCLUDE LABOR, MATERIALS AND PARTS, OVERHEADS AND ALL APPLICABLE TAXES.

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Residential

Exhibit
Schedule H4
Page 1
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 38.00	$ 43.19	$ 5.19	13.66%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - B-H Enterprises

Exhibit
Schedule H4
Page 2
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 295.05	$ 335.32	$ 40.27	13.65%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - B-H Enterprises

Exhibit
Schedule H4
Page 3
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 163.59	$ 185.92	$ 22.33	13.65%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - Barb's Pet Grooming

Exhibit
Schedule H4
Page 4
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 29.21	$ 33.20	$ 3.99	13.66%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - Boulders Resort

Exhibit
Schedule H4
Page 5
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 3,475.23	$ 3,949.60	$ 474.37	13.65%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - Carefree Dental

Exhibit
Schedule H4
Page 6
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 189.98	$ 215.91	$ 25.93	13.65%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - Ridgecrest Realty

Exhibit
Schedule H4
Page 7
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 53.18	$ 60.44	$ 7.26	13.65%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - Desert Forest

Exhibit
Schedule H4
Page 8
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 952.63	$ 1,082.66	$ 130.03	13.65%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - Desert Hills Pharmacy

Exhibit
Schedule H4
Page 9
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 113.65	$ 129.16	$ 15.51	13.65%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - El Pedregal

Exhibit
Schedule H4
Page 10
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 1,844.69	$ 2,096.49	$ 251.80	13.65%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - Lemon Tree

Exhibit
Schedule H4
Page 11
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 43.20	$ 49.10	$ 5.90	13.66%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - Body Shop

Exhibit
Schedule H4
Page 12
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 145.44	$ 165.29	$ 19.85	13.65%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - Spanish Village

Exhibit
Schedule H4
Page 13
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 582.50	$ 662.01	$ 79.51	13.65%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - Boulders Club

Exhibit
Schedule H4
Page 14
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 140.22	$ 159.36	$ 19.14	13.65%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Special Tariff - Anthony Vuitaggio

Exhibit
Schedule H4
Page 15
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 38.96	$ 44.28	$ 5.32	13.66%

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Commercial

Exhibit
Schedule H4
Page 16
Witness: Bourassa

	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	0.00%
10,000	1,523.60	1,731.60	208.00	13.65%
20,000	3,047.20	3,463.20	416.00	13.65%
30,000	4,570.80	5,194.80	624.00	13.65%
40,000	6,094.40	6,926.40	832.00	13.65%
50,000	7,618.00	8,658.00	1,040.00	13.65%
60,000	9,141.60	10,389.60	1,248.00	13.65%
70,000	10,665.20	12,121.20	1,456.00	13.65%
80,000	12,188.80	13,852.80	1,664.00	13.65%
90,000	13,712.40	15,584.40	1,872.00	13.65%
100,000	15,236.00	17,316.00	2,080.00	13.65%
110,000	16,759.60	19,047.60	2,288.00	13.65%
120,000	18,283.20	20,779.20	2,496.00	13.65%
130,000	19,806.80	22,510.80	2,704.00	13.65%

Present Rates:
Charge Per Gallon [redacted]

Proposed Rates:
Charge Per Gallon [redacted]

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Effluent Sales

Exhibit
Schedule H4
Page 17
Witness: Bourassa

MidPoint Usage		Present Bill		Proposed Bill		Dollar Increase	Percent Increase
3,226,904.0		1,208.17		1,373.08		165	13.65%
Average Usage							
3,226,904	$	1,208.17	$	1,373.08	$	164.91	13.65%

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Residential

Exhibit
Schedule H5
Page 1
Witness: Bourassa

Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
1,625	1,650	1,652	1,675	1,667	1,693	1,677	1,702	1,719	1,714	1,734	1,724	20,232
												-
1,625	1,650	1,652	1,675	1,667	1,693	1,677	1,702	1,719	1,714	1,734	1,724	20,232

Average Usage	N/A
Median Usage	N/A
Average # Customers	1,686

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - B-H Enterprises

Exhibit
Schedule H5
Page 2
Witness: Bourassa

Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
												-
-	-	-	-	-	-	-	-	-	-	-	-	-
									Average Usage			N/A
									Median Usage			N/A
									Average # Customers			-

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - B-H Enterprises

Exhibit
Schedule H5
Page 3
Witness: Bourassa

Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
1	1	1	1	1	1	1	1	1	1	1	1	12
1	1	1	1	1	1	1	1	1	1	1	1	12
									Average Usage			N/A
									Median Usage			N/A
									Average # Customers			1

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - Barb's Pet Grooming

Exhibit
Schedule H5
Page 4
Witness: Bourassa

Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
												-
-	-	-	-	-	-	-	-	-	-	-	-	-
									Average Usage			N/A
									Median Usage			N/A
									Average # Customers			-

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - Boulders Resort

Exhibit
Schedule H5
Page 5
Witness: Bourassa

Month	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
	1	1	1	1	1	1	1	1	1	1	1	1	12
													-
	1	1	1	1	1	1	1	1	1	1	1	1	12

Average Usage	N/A
Median Usage	N/A
Average # Customers	1

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - Carefree Dental

Exhibit
Schedule H5
Page 6
Witness: Bourassa

Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
												-
-	-	-	-	-	-	-	-	-	-	-	-	-
									Average Usage			N/A
									Median Usage			N/A
									Average # Customers			-

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - Ridgecrest Realty

Exhibit
Schedule H5
Page 7
Witness: Bourassa

Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
1	1	1	1	1	1	1	1	1	1	1	1	12
1	1	1	1	1	1	1	1	1	1	1	1	12

Average Usage	N/A
Median Usage	N/A
Average # Customers	1

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - Desert Forest

Exhibit
Schedule H5
Page 8
Witness: Bourassa

Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
1	1	1	1	1	1	1	1	1	1	1	1	12
1	1	1	1	1	1	1	1	1	1	1	1	12
									Average Usage			N/A
									Median Usage			N/A
									Average # Customers			1

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - Desert Hills Pharmacy

Exhibit
Schedule H5
Page 9
Witness: Bourassa

Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
1	1	1	1	1	1	1	1	1	1	1	1	12
1	1	1	1	1	1	1	1	1	1	1	1	12

Average Usage	N/A
Median Usage	N/A
Average # Customers	1

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - El Pedregal

Exhibit
Schedule H5
Page 10
Witness: Bourassa

Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
1	1	1	1	1	1	1	1	1	1	1	1	12
1	1	1	1	1	1	1	1	1	1	1	1	12

Average Usage	N/A
Median Usage	N/A
Average # Customers	1

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - Lemon Tree

Exhibit
Schedule H5
Page 11
Witness: Bourassa

Month												Total
Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Year
1	1	1	1	1	1	1	1	1	1	1	1	12
1	1	1	1	1	1	1	1	1	1	1	1	12
									Average Usage			N/A
									Median Usage			N/A
									Average # Customers			1

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - Body Shop

Exhibit
Schedule H5
Page 12
Witness: Bourassa

Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
1	1	1	1	1	1	1	1	1	1	1	1	12
1	1	1	1	1	1	1	1	1	1	1	1	12

Average Usage	N/A
Median Usage	N/A
Average # Customers	1

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - Spanish Village

Exhibit
Schedule H5
Page 13
Witness: Bourassa

Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
												-
-	-	-	-	-	-	-	-	-	-	-	-	-

Average Usage	N/A
Median Usage	N/A
Average # Customers	-

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - Boulders Club

Exhibit
Schedule H5
Page 14
Witness: Bourassa

Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
												-
-	-	-	-	-	-	-	-	-	-	-	-	-
									Average Usage			N/A
									Median Usage			N/A
									Average # Customers			-

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Special Tariff - Anthony Vuitaggio

Exhibit
Schedule H5
Page 15
Witness: Bourassa

Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
1	1	1	1	1	1	1	1	1	1	1	1	12
1	1	1	1	1	1	1	1	1	1	1	1	12

Average Usage	N/A
Median Usage	N/A
Average # Customers	1

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Commercial

Exhibit
Schedule H5
Page 16
Witness: Bourassa

Usage From:	Usage To:	Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50	50	12	12	12	12	12	16	12	12	12	12	12	10	146
52	52	-	-	-	-	-	-	-	-	-	-	-	1	1
55	55	1	1	1	1	1	1	1	1	1	1	1	1	12
61	61	1	1	1	1	1	1	1	1	1	1	1	1	12
75	75	1	1	1	1	1	1	1	1	1	1	1	1	12
77	77	1	1	1	1	1	1	1	1	1	1	1	1	12
98	98	1	1	1	1	1	1	1	1	1	1	1	1	12
100	100	2	2	2	2	2	2	2	2	2	2	2	2	24
105	105	5	5	5	5	5	5	5	5	5	5	5	5	60
125	125	2	2	2	2	2	2	2	2	2	2	2	2	24
132	132	1	1	1	1	1	1	1	1	1	1	1	1	12
135	135	-	-	1	-	-	-	-	-	-	-	-	-	1
140	140	1	1	1	1	1	1	1	1	1	1	1	1	12
141	141	1	1	1	1	1	1	1	1	1	1	1	1	12
150	150	5	5	5	5	5	5	5	5	6	6	6	6	64
158	158	1	1	1	1	1	1	1	1	1	1	1	1	12
166	166	1	1	1	1	1	1	1	1	1	1	1	1	12
200	200	8	8	8	8	8	8	8	8	8	8	8	8	96
203	203	1	1	-	-	-	-	-	-	-	-	-	-	2
233	233	-	-	1	-	-	1	-	-	-	-	-	-	2
241	241	20	20	1	1	-	1	-	19	21	-	5	-	88
250	250	3	3	3	3	3	3	3	3	3	3	4	4	38
256	256	-	-	-	-	-	-	-	1	1	1	1	1	5
258	258	-	-	18	-	19	-	28	-	-	27	-	20	112
279	279	-	-	-	1	-	-	-	-	-	-	-	-	1
289	289	-	-	-	-	1	-	2	1	-	-	-	-	4
307	307	3	3	3	3	3	3	3	3	3	3	3	3	36
369	369	1	1	1	-	-	-	-	-	-	-	-	-	3
400	400	2	2	2	2	2	2	2	2	2	2	2	2	24
450	450	2	2	2	2	1	1	1	1	1	1	1	1	16
479	479	3	3	3	3	3	3	3	3	3	3	3	3	36
500	500	3	3	3	3	3	3	3	3	3	3	5	5	40
506	506	1	1	1	1	1	1	1	1	1	1	1	1	12
600	600	2	2	2	3	3	3	3	3	3	3	3	3	33
675	675	-	-	-	-	-	-	-	-	-	-	-	1	1
700	700	1	1	1	1	1	1	1	1	1	1	1	1	12
750	750	1	1	1	1	1	1	1	1	1	1	1	1	12
800	800	2	2	2	2	2	2	2	2	2	2	2	2	24

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Commercial

Exhibit
Schedule H5
Page 16
Witness: Bourassa

842	842	1	1	1	1	1	1	1	1	1	1	1	1	12
900	900	1	1	1	1	1	2	2	2	2	2	2	2	19
1,000	1,000	1	1	1	1	1	1	1	1	1	1	1	1	12
1,140	1,140	1	1	1	1	1	2	2	2	2	2	2	2	19
1,150	1,150	1	1	1	1	1	1	1	1	1	1	1	1	12
1,178	1,178	-	-	1	-	2	-	2	1	-	-	-	-	6
1,347	1,347	1	1	1	1	1	1	1	1	1	1	1	1	12
1,422	1,422	1	1	1	1	1	1	1	1	1	1	1	1	12
1,425	1,425	1	1	1	1	1	1	1	1	1	1	1	1	12
1,500	1,500	2	2	2	2	2	2	2	2	2	2	2	2	24
1,527	1,527	3	3	3	3	3	3	3	3	3	3	3	3	36
1,560	1,560	1	1	1	1	2	2	2	2	2	2	2	2	20
1,620	1,620	1	1	1	1	1	1	1	1	1	1	1	1	12
1,750	1,750	1	1	1	1	1	1	1	1	1	1	1	1	12
1,800	1,800	1	1	1	1	1	1	1	1	1	1	1	1	12
1,850	1,850	1	1	1	1	1	1	1	1	1	1	1	1	12
2,000	2,000	3	3	3	3	3	3	3	3	3	3	3	3	36
2,025	2,025	1	1	1	1	1	1	1	1	1	1	1	1	12
2,288	2,288	1	1	1	1	1	1	1	1	1	1	1	1	12
2,590	2,590	1	1	1	-	-	-	-	-	-	-	-	-	3
2,600	2,600	1	1	1	1	1	1	1	1	1	1	1	1	12
2,744	2,744	1	1	1	1	1	1	1	1	1	1	1	1	12
2,993	2,993	1	1	1	1	1	1	1	1	1	1	1	1	12
3,000	3,000	1	1	1	1	1	1	1	1	1	1	1	1	12
3,700	3,700	1	1	1	1	1	1	1	1	1	1	1	1	12
4,500	4,500	1	1	1	1	1	1	1	1	1	1	1	1	12
6,950	6,950	1	1	1	1	1	1	1	1	1	1	1	1	12
7,530	7,530	-	-	-	1	1	1	1	1	1	1	1	1	9
8,231	8,231	1	1	1	1	1	1	1	1	1	1	1	1	12
8,851	8,851	1	1	1	1	1	1	1	1	1	1	1	1	12
17,025	17,025	1	1	1	1	1	1	1	1	1	1	1	1	12
44,490	44,490	1	1	1	1	1	1	1	1	1	1	1	1	12
														-
Totals		124	124	125	105	125	111	137	127	128	134	115	130	1,485

Average Usage	570
Median Usage	105
Average # Customers	124

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Customer Classification
Effluent Sales

Exhibit
Schedule H5
Page 17
Witness: Bourassa

Usage From:	Usage To:	Month Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total Year
Over 50,000 gallons														
3,226,904	3,226,904	1	1	1	1	1	1	1	1	1	1	1	1	12
Totals		1	1	1	1	1	1	1	1	1	1	1	1	12
													Average Usage	3,226,904
													Median Usage	-
													Average # Customers	1