BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONER

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES FOR CUSTOMERS WITHIN MARICOPA COUNTY, ARIZONA.	Docket Nos. W-01427A-01-0487 SW-01428A-01-0487

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Direct Testimony of Marylee Diaz Cortez and Timothy J. Coley, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 5th day of February, 2002.

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DOCKET NO. W-01427A-01-0487
DOCKET NO. SW-01428A-01-0487

DIRECT TESTIMONY

OF

MARYLEE DIAZ CORTEZ

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 5, 2002

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INTRODUCTION

Q. Please state your name for the record.

A. My name is Marylee Diaz Cortez. I am a Certified Public Accountant. I am the Audit Manager for the Residential Utility Consumer Office (RUCO) located at 2828 N. Central Avenue, Suite 1200, Phoenix Arizona 85004.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Appendix I, which is attached to this testimony, describes my educational background and includes a list of the rate case and regulatory matters in which I have participated.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present recommendations resulting from my review and analysis of Litchfield Park Service Company's (Company or LPSCO) water division application for an increase in rates.

Q. Please describe your work effort on this project.

A. I obtained and reviewed data and performed analytical procedures necessary to understand the Company's application. My recommendations are based on these analyses. Procedures performed include the formulation and analysis of five sets of data requests, the review and analysis of Staff requested data, as well as a review of annual reports and prior Commission decisions.

Q. What areas will you address in your testimony?

A. I will address rate base, net operating income, cost of capital, and rate design as well as sponsor RUCO's recommended revenue requirement for the water division. RUCO witness Timothy Coley will address these same issues for the sewer division.

Q. Please identify the exhibits you are sponsoring.

A. I am sponsoring Schedules MDC-1 through MDC-18 pertaining to LPSCO's water division.

Q. Please summarize the recommendations and adjustments you address in your testimony.

A. I address the following issues in my testimony:

Reconciliation of Plant, Accumulated Depreciation, Contributions in Aid of Construction, and Accumulated Amortization of CIAC – This adjustment decreases rate base by a net amount of $94,670 and is necessary to reconcile the 2000 test year rate base balances with the 1996 rate base balances authorized in the Company's prior rate case.

Construction Work in Progress – Test Year Balance – In accordance with the used and useful principle of ratemaking and Arizona ratemaking precedent, this adjustment removes the test year CWIP balance of $54,411 from rate base.

Construction Work in Progress – Proforma Balance – This adjustment removes the proforma CWIP balance of $443,064 requested by the

Company from rate base in accordance with the used and useful principle and Arizona ratemaking precedent. It also decreases the test year AIAC balance by $200,000 to remove the AIAC associated with the proforma CWIP.

Working Capital – This adjustment decreases the Company's working capital allowance based on RUCO's recommended operating expenses.

Miscellaneous Revenue – This adjustment decreases Miscellaneous Revenue by $24,419, and is necessary to attribute 50% of the miscellaneous service charges to the sewer division.

Revenue – Bill Count – This adjustment increases water revenues by $17,857 to reflect the actual revenue recorded during the test year from water sales.

Customer Accounting – Non-Variable Costs – This adjustment decreases proforma expenses by $5,651 to exclude the annualization of certain expenses that do not bear a one-to-one relationship with customers/sales.

Office Rent Expense – This adjustment decreases test year expenses by $1,737 to remove the expired amortization of leasehold improvements.

Extraordinary Expense – This adjustment decreases test year expense by $24,353 to reflect a three year amortization of an extraordinary expenses that were incurred during the test year.

Legal Expense – This adjustment decreases test year expenses by $10,934 to remove legal expenses that are non-recurring and that provide no benefit to customers.

Expense Allocations – This adjustment decreases expenses by $135,001 and is necessary to reallocate certain expenses that are non-payroll driven.

Donations – This adjustment decreases expenses by $803 to remove certain test year expenditures that provide no benefit to ratepayers.

Depreciation Expense – This adjustment increases expenses by $46,154 to reflect the appropriate level of depreciation based on the test year end plant balances.

Property Tax Expense – This adjustment decreases property tax expense by $69,096 as a result of using the new property tax formula adopted by the Arizona Department of Revenue (ADOR) for water and sewer companies.

Income Tax Expense – This adjustment recalculates test year income tax expense based on RUCO's recommended operating income.

Cost of Debt - This adjustment decreases the effective cost of debt to reflect interest earnings on bond reserve funds.

Cost of Equity – This adjustment decreases the Company's requested return on equity to reflect current financial conditions.

REVENUE REQUIREMENTS

Q. Please summarize the results of your analysis of Litchfield Park Service Company – Water Division and your recommended revenue requirement.

A. The LPSCO's water division revenue should be increased by no more than $413,052. This recommendation is summarized on Schedule MDC-

1. My recommended original cost rate base of $5,887,368 is shown on Schedule MDC-2, and the detail supporting the original cost rate base is presented on Schedule MDC-3. The Company has agreed that its original cost rate base is its fair value rate base and therefore fair value calculations are not presented. My recommended adjusted operating income is $196,416 for the water division and is shown on Schedule MDC-6. The detail supporting my recommended operating income is presented on Schedule MDC-7.

RATE BASE

Rate Base Adjustment #1 - Reconciliation of Plant, Accumulated Depreciation, Contributions in Aid of Construction (CIAC), and Accumulated Amortization of CIAC

Q. Have you performed a reconciliation of the test year balances of Plant, Accumulated Depreciation, CIAC, and Accumulated Amortization of CIAC to the balances authorized in these accounts in the Company's last rate case?

A. Yes.

Q. Are the rate base balances included in the Company's application substantiated by your reconciliation to the balances authorized in the prior rate case?

A. No. The Company has changed the methodology it uses to account for these rate base items and as a result the balances reflected in the current application are not comparable to the balances authorized in the Company's prior rate case.

Q. Please explain.

A. The balances authorized in the Company's last rate case were based on the NARUC Uniform System of Accounts rules. Under these rules all plant additions, regardless of whether contributed or not, are booked to the appropriate plant account. Contributions that are received for plant additions are reflected in a liability account called Contributions in Aid of Construction (CIAC). The contributed plant balances are depreciated over their useful life as an expense and the CIAC is amortized to income over the plant's useful life. The net effect of the depreciation and amortization of the contributed plant is zero, which reflects the fact that the Company has no investment in contributed plant. Contrastingly, in the current case the Company has omitted the contributed plant from rate base and omitted reflection of the CIAC and the Accumulated Amortization of CIAC accounts from rate base.

Q. Why is this problematic?

A. First, as just discussed, it is not possible to reconcile the rate base elements authorized in the last case with those requested in the current case because they are stated based on two different accounting methodologies. Second, the accounting methodology utilized in the current case does not comply with the USOA. Third, the methodology the

Company has used in the current case of netting out contributed plant from the plant accounts and omitting the CIAC liabilities from rate base is misleading and will not facilitate an accurate tracking of contributed plant with the CIAC liabilities that support it.

Q. What adjustment have you made?

A. First, in order to reconcile the rate base authorized in the last rate case with the rate base requested in the current case, I have restated the net plant balances utilized in this application to their gross value (including contributed items). I have also calculated the test year CIAC liability balance and Accumulated Amortization of CIAC balance and reflected these balances in rate base. With this adjustment, the balances authorized in the last rate case are now reconcilable with the currently requested balances.

Q. What adjustments are necessary as a result of your rate base reconciliation?

A. As shown on Schedule MDC-4 the following adjustments are necessary to reconcile the plant, accumulated depreciation, CIAC, and accumulated amortization of CIAC from the prior case to the current:

1) Increase the plant balance by $1,058,336 to include the contributed plant in rate base;
2) Increase accumulated depreciation by $561,864 to include the accumulated depreciation balance on contributed plant;

3) Decrease rate base by $1,058,335 to include the test year CIAC balance; and

4) Increase rate base by $467,193 to include the accumulated amortization of CIAC.

These adjustments result in a rate base that is in compliance with USOA accounting rules.

Rate Base Adjustment #2 – Construction Work in Progress

Q. Has LPSCO included its test year end Construction Work in Progress (CWIP) balance in rate base?

A. Yes.

Q. Is this a generally accepted ratemaking practice in Arizona?

A. No. The ACC has historically excluded CWIP from rate base. The CWIP balance represents expenditures for plant that were not used and useful to the test year customer base. Accordingly, I have removed the Company's test year CWIP balance from rate base.

Q. Are there any other reasons why the CWIP balance should be excluded from rate base?

A. Yes. Rate base inclusion of CWIP will result in matching problems. These projects were not in service as of the test year end and accordingly were not necessary for the provision of service to test year customers.

Inclusion of these projects without regocognition of customer growth would result in the mismatch of ratemaking elements.

Q. What adjustment have you made?

A. I have reduced test year rate base by $54,411 to remove the test year CWIP balance.

Rate Base Adjustment #3 – Proforma CWIP – New Well

Q. Has the Company requested rate base treatment of any proforma CWIP projects?

A. Yes. The Company has requested rate base inclusion of $443,064, which is the estimated proforma cost of a new well.

Q. Did this well provide service to test year customers?

A. No. As of the test year end this well was in the early stages of construction. At December 31, 2000, the Company had expended only $8,456 of the total estimated cost of $443,064. According to RUCO data response number 1.8, the well entered service in July 2001, over six months past the end of the test year. Inclusion of this project in rate base at this time will violate the used and useful, as well as the matching principles of rate base.

Q. What adjustment have you made?

A. As shown on Schedule MDC-3, I have decreased rate base by $443,064 to remove the estimated proforma cost of the post-test year well project. I have also decreased the test year AIAC balance to remove the $200,000 Advance associated with the well project. The net impact of this adjustment is a $243,064 decrease to rate base.

Rate Base Adjustment #6 – Working Capital

Q. How has the Company computed its working capital requirement?

A. The Company has computed its working capital requirement using the formula method.

Q. Please explain the concept of working capital.

A. A utility's working capital requirement is the amount of cash the utility must have available to cover any timing differences between when revenues are received and expenses must be paid. The most accurate method of measuring a utility's working capital requirement is performing a lead/lag study, which measures the actual lead and lag days attributable to individual revenues and expenses. However, a lead/lag study is resource intensive and as a result is costly. Hence, smaller utilities often utilize the formula method to determine its working capital requirements. The primary difference between the two methods is that the lead/lag study measures actual leads and lags in revenue receipts and expense payments and the formula method assumes 45 net lag days.

Q. Are you proposing an adjustment to the Company-requested working capital requirement?

A. Yes. I have also utilized the formula method of computing the Company's working capital requirements. My proposed adjustment results because of the difference between RUCO's recommended operating and maintenance expenses verses the Company proposed operating and maintenance expenses. As shown on Schedule MDC-5, I am recommending a $24,185 decrease in the Company's working capital requirements.

OPERATING INCOME

Operating Adjustment #1 – Miscellaneous Revenue

Q. What is Miscellaneous Revenue?

A. Miscellaneous Revenue is revenue that is generated from various service tariffs (e.g. Establishment Charges, Reconnect Charges, Late Payment fees, etc).

Q. What amount of Miscellaneous Revenue did LPSCO's water division record during the test year?

A. The water division recorded $48,837 in Miscellaneous Revenue during the test year.

Q. Do you agree with this figure?

A. No. It appears that the Company charges customers one Establishment fee, one Reconnect fee, one Late fee, etc. for both water and sewer service. However, it books all the revenue collected for these fees to the water division.

Q. Do you agree with this method of accounting for Miscellaneous Revenues?

A. No. This methodology fails to appropriately allocate these revenues between the water and sewer division. Attributing all this revenue to the water division has the effect of understating water rates and overstating sewer rates (assuming all other ratemaking elements remain constant).

Q. What adjustment have you recommended?

A. As shown on Schedule MDC-8, I have allocated 50% of Miscellaneous Revenue to the water division and 50% to the sewer division to reflect the fact that these revenues are generated equally from the two divisions. This adjustment decreases water test year water revenues by $24,419.

Operating Adjustment #2 - Revenue – Bill Count

Q. Did the Company perform a test year bill count analysis at present rates?

A. Yes. The Company prepared an analysis that calculated test year revenues by multiplying the test year rates by the test year bill counts and compared the product of this calculation to the actual test year revenues that it booked to its general ledger. Theoretically, the general ledger revenues should reconcile to the product of the bill counts and test year rates. In practice, however, the two amounts rarely reconcile exactly.

Q. Why is it the two rarely reconcile in practice?

A. There are a number of reasons for discrepancies in the two revenue amounts. Listed below are some of the potential problems:

1) Revised bills and billing credits to booked revenue;
2) Other revenues misclassified as water revenues or vice versa;
3) Errors in bill count data;
4) Undetected billing errors;
5) Corrected meter readings and refunds; etc.

Q. Did the Company's bill count/rate analysis reconcile to its recorded revenues?

A. No. The bill count/rate analysis produced water revenue of $1,500,867. Water revenues recorded on LPSCO's test year books totaled $1,518,724.

Q. Was the Company able to reconcile these discrepancies?

A. No. The Company has offered no explanation for the $17,857 difference. LPSCO simply decreased recorded revenues by $17,857 to match the revenues produced by its bill count/rate analysis.

Q. Do you agree with this adjustment?

A. No. This adjustment inherently assumes that the reason the bill count/rate calculation does not reconcile to the booked revenue is because there is an error in the booked revenue, and therefore the bill count/rate calculation yields the correct level of revenue.

Q. Has the Company presented any evidence that there is an error in its recorded revenue?

A. No. Accordingly, the assumption that the discrepancy is due to an error in booked revenue is unsubstantiated. Absent any evidence indicating a particular error in data, a presumption that the error is in the bill count/rate calculation is more reasonable.

Q. Why?

A. The structure of the accounting system, i.e. double entry accounting, contains safeguards against errors in a company's books and records. For every revenue credit entry on a company's books and records there must be a corresponding debit entry, generally to cash or accounts receivable. If a corresponding debit entry is not made, the books and records will not balance. Thus, the accounting system inherently contains checks and balances against errors in the recognition of revenues. This is not true with the bill count/rate analysis. There are no inherent checks in this analysis against misstatement of the bill counts. As a result, in the event of a discrepancy between the books and the bill count/rate analysis, the books contain the more reliable figures.

Q. What adjustment are you recommending?

A. I have readjusted the Company's proforma revenues to reflect the level of revenue actually recorded during the test year. This adjustment increases test year revenues by $17,857.

Operating Adjustment #3 - Customer Accounting – Non-Variable Expenses

Q. Did the Company annualize its test year number of customers?

A. Yes. The Company has increased it historical test year revenues as if the year-end level of customers had received service for the entire year. This is an accepted ratemaking procedure, which serves to match the year-end level of plant with the year-end level of revenue.

Q. Are you proposing any adjustment to the Company's proposed revenue annualization?

A. No. As just discussed, this is an appropriate ratemaking adjustment.

Q. Has the Company annualized certain test year expenses along with its test year revenues?

A. Yes. The Company has proposed an adjustment to annualize what it calls variable expenses in order to match the increase in customers with an increase in costs.

Q. What expenses has the Company defined as "variable"?

A. The Company has defined the following expenses as variable: Purchased Power; Chemicals; Water Testing; Supply & Maintenance; Ground Water Fee; Payroll; Merit Pay; Benefits; Meter Reading; and Billing Materials & Postage.

Q. Has the Company increased all of these expenses?

A. Yes. It appears the Company believes that each of these expenses is directly impacted by an increase in the number of customers/gallons sold. The adjustment assumes that a one-to-one relationship exists between expenses and the number of customers.

Q. Do you agree with the Company's "variable" cost adjustment?

A. No, not in its entirety. While it is true that certain expenses are directly impacted by an increase in sales, not all expense categories that the Company adjusted are in fact a direct function of sales.

Q. Please explain.

A. Some of the expenses adjusted by the Company are directly impacted by an increase in customers/gallons sold. For example, purchased power is directly impacted by the number of gallons pumped. For each additional 1,000 gallons pumped there is a corresponding increase in the number of KWH used. Another example of an expense that bears a one-to-one relationship with customers/gallons sold is postage expense. Each additional customer requires an additional bill and likewise additional postage.

Q. Which expenses included in the Company's annualization do not bear a one-to-one relationship with number of customers/gallons sold?

A. The following expenses included in the Company's annualization do not bear a one-to-one relationship with number of customers/gallons sold: Payroll; Merit Pay; Benefits; and Meter Reading.

Q. Please explain.

A. There is not a one-to-one relationship between the addition of one customer and one employee. Thus, while payroll expense may vary if there is a large change in the number of customers, it does not vary on a one-to-one basis as the Company's adjustment assumes. Additionally, the Company has already included a payroll adjustment that increases this expense to reflect the 2001 level of payroll expense. Any further increase through the expense annualization adjustment would result in a double count. The same explanation holds true for the Merit Pay and Payroll Benefits as they are a direct function of Payroll expense and likewise have already been adjusted elsewhere in the Company's application. LPSCO's meter reading function is performed under contract at a set fee per month. Thus, each additional customer does not translate into an additional meter reading charge.

Q. What adjustment have you made?

A. As shown on Schedule MDC-9, I have removed those expenses that do not have a one-to-relationship with customers/gallons sold from the expense annualization. My adjustment decreases the Company's proforma expense annualization by $5,651.

Operating Adjustment #4 - Office Rent Expense

Q. Have you reviewed the Company's test year office rent expense?

A. Yes. LPSCO rents office space from its affiliate, Suncor Development Company (Suncor). During the test year the Company's office rent expense was comprised of the base monthly rent of $1,525 and $246 a month for the three year amortization of $8,880 in leasehold improvements.

Q. Is the test year office rent expense reflective of an on-going level of cost?

A. No. The leasehold improvements were fully amortized as of the end of the test year. Thus, the improvements are fully paid for and the $246 monthly amortization expense no longer necessary.

Q. What adjustment have you made?

A. As shown on Schedule MDC-10, I have decreased test year office rent expense by $1,737, which is the portion allocable to the water division.

Operating Adjustment #5 - Extraordinary Expense

Q. Did you perform a review of the Company's test year recorded expenses?

A. Yes. As part of my review and analysis in this rate case I performed a detailed examination of the Company's test year expenditures. My review was done on a sampling basis, which included those expenditures over $1,000 in the major expense accounts. The expenses were examined to determine, among other things, that they were recurring in nature, prudent, necessary in the provision of water service, provided a benefit to water customers, and properly allocated.

Q. Did you review any test year expenses that did not meet the above discussed audit criteria?

A. Yes. During the test year the Company incurred expenses totaling $36,529 to the firm of Arcadis Geraghty and Miller, who were retained to assist LPSCO in the identification of a water quality problem that was producing black specks in the water in the Pebblecreek area of its CC&N. Arcadis Geraghty and Miller identified the problem as a petroleum grease (non-tonic) that was present in a 24" pipeline and a supply well north of PebbleCreek. The pipeline was cleaned and the well isolated and the black speck problem has not recurred.

Q. Is this an expense that is recurring in nature?

A. No. The black speck problem was a unique and non-recurring event. The cost of identifying and solving this problem is not a routine or normal expense item.

Q. Is $36,529 a significant test year expenditure?

A. Yes. The expenditure comprised over 2% of test year expenses, net of income taxes.

Q. Was the expenditure prudent and necessary to the provision of water service?

A. It appears to have been. While the water quality problem ultimately proved to be harmless, this needed to be determined and the appearance of the water solved. This however, is not a routine, or annually recurring event that should be embedded in future rates.

Q. What adjustment are you proposing?

A. As shown on Schedule MDC-11, I am proposing a three year amortization of these expenditures. My recommendation recognizes the necessity of this cost as well as the unique nature of the expenditures.

Operating Adjustment #6 - Legal Expense

Q. As part of your expense review did you examine the Company's test year legal expense?

A. Yes.

Q. Did your review reveal legal expenditures that did not meet your audit criteria?

A. Yes. I identified two sets of legal expenditures that did not meet the recurring or provided a benefit to water customers criteria. One set of test year expenditures were for fees associated with a rate increase application that the Company ultimately never filed. The other set of test year expenditures were for legal expenses associated an application to transfer the Company's CAP allocation, which the Company ultimately withdrew.

Q. Please explain why these expenditures did not meet the audit criteria.

A. The rate case that was never filed provided no benefit to ratepayers and is unlikely to be a recurring event. The legal fees associated with the withdrawn transfer of the CAP allocation provided no benefit to water customers and again, is unlikely to recur. In addition, there is some question of the prudency of having made these expenditures, since both projects were ultimately abandoned.

Q. What adjustment do you recommend?

A. Both the CAP fees and the rate case fees are non-recurring and provided no benefit to ratepayers and therefore should not be included in rates. The Company has already recognized that the abandoned rate case does not meet the criteria for rate inclusion and has removed these expenses through a proforma adjustment. However, LPSCO has failed to remove the expenses associated with the abandoned CAP transfer. I therefore have removed the test year recorded legal fees pertaining to the CAP transfer of $10,934. This adjustment is shown on Schedule MDC-7.

Operating Adjustment #7 - Expense Allocations

Q. Does LPSCO allocate certain expenses between its water and sewer divisions?

A. Yes.

Q. What method(s) of allocation does the Company use?

A. The Company allocates its expenses based on the labor or payroll ratio between its water and sewer operations. During the test year, this ratio was 80% for water and 20% for sewer. All Company-allocable expenses are apportioned based on these payroll ratios.

Q. Is this a reasonable allocation methodology?

A. Yes and no. For the majority of the expenses that LPSCO allocates the payroll ratio is a reasonable method of allocation. For example, such expense accounts as Operation & Maintenance of Trucks, Payroll Taxes, Health Benefits, are clearly driven by the labor hours devoted to water verses sewer division. However, many of the expenses that LPSCO allocates based on labor hours are not driven by labor hours. For example, expenses such as Postage, Rate Case Expense, Bad Debt Expense, and Customer Accounting are not driven by payroll hours. The majority of customers receive both a water and sewer bill, thus Postage expense is clearly a mutually shared expenditure that should be allocated 50/50 between the water and sewer division. Similarly, rate case expense is incurred equally between water and sewer. Schedules A through H, testimony, and response to data requests, etc. must be prepared in equal amounts for both water and sewer. Thus, while the 80/20 payroll allocation is appropriate (i.e. assigns the cost to the cost causer) for many of LPSCO's expenses it is inappropriate for certain expenses.

Q. Have you identified those costs that should be shared equally between the water and sewer division?

A. Yes. LPSCO costs that are equally attributable to the water and sewer divisions are identified on Schedule MDC-12 and include such expenses as Postage, Office Cleaning, Bank Service Charges, and Office Supplies.

Q. Have you reallocated these costs to reflect a 50/50 allocation?

A. Yes. This calculation is shown on Schedule MDC-12, and results in a decrease in expenses allocated to the water division of $135,001. This reallocation results in an increase in expenses allocated to the sewer division of the same amount, which is discussed more fully in the testimony of Timothy Coley. On a total Company basis my recommended adjustment is revenue neutral.

Q. Why, then, is the adjustment necessary?

A. Ratemaking principles require that utility rates be based on the cost to serve. If there is a misallocation of costs between the water and sewer divisions it will result in one set of customers subsidizing another.

Operating Adjustment #8 - Donations and Public Relations

Q. Does LPSCO's test year recorded expenses include any expenditure for charitable contributions and public relations?

A. Yes. During the test year LPSCO recorded expenditures of $813.50 for donations and $472 for public relations.

Q. Are these expenditures necessary for the provision of water service?

A. No. Such expenditures serve only to promote the image of the water company and provide no benefit to ratepayers. Further, inclusion of water company donations in rates requires ratepayers to contribute to causes of the utility's choice. As a monopoly service, the water company should not have the ability to compel its customers to contribute to organizations of its own choice.

Q. What adjustment have you made?

A. As shown on Schedule MDC-13, I have removed the test year donation and public service expenditures allocated to the water division. This adjustment decreases test year recoverable expenses by $1,266.

Q. Is any further adjustment necessary?

A. Yes. In my operating adjustment #7, I have changed the allocation of certain expenses between the water and sewer division from 80/20 to 50/50. Thus, it is necessary reflect this reallocation in my proposed contribution adjustment. This adjustment is shown on line 5 of Schedule MDC-13, and results in a contribution disallowance of $803, which represents a 50/50 allocation.

Operating Adjustment #9 - Depreciation Expense

Q. Are you proposing an adjustment to test year depreciation expense?

A. Yes. It is customary and appropriate to annualize the test year recorded depreciation expense to reflect the expense associated with the year-end level of plant. The Company failed to make this adjustment and instead has reflected the actual test year recorded depreciation expense. This results in a mismatch between the year-end rate base and the average test year depreciation expense.

Q. Have you calculated the appropriate level of depreciation given the year-end level of plant?

A. Yes. As shown on Schedule MDC-14, I have calculated the annualized level of depreciation expense by multiplying the year-end plant balances by LPSCO's authorized water depreciation rate of 2.62%. I have also recalculated LPSCO's amortization income based on the test year end level of contributed plant. This calculation results in a proforma increase in depreciation expense of $46,154.

Operating Adjustment #10 - Property Tax Expense

Q. Has the Company made a proforma calculation of its property tax expense?

A. Yes. The Company has recalculated its test year property tax expense based on a new formula from the Arizona Department of Revenue. The new tax calculation methodology is based on the historical level of revenues generated by the utility. Specifically, the ADOR looks at the average level of revenue over the past year as well as two prior years.

Q. Do you agree with the Company's calculation of test year property taxes?

A. No. It appears that the Company has attempted to use the correct methodology, however, the resultant property tax expense is misstated as a result of several errors in its calculation.

Q. Please discuss these errors.

A. The new ADOR formula utilizes the level of revenue actually generated by the Company in the three most recent years to determine full cash value. LPSCO's calculation is incorrect in that it utilizes its *proposed* revenue for the year 2000 in determining full cash value. Under the ADOR formula, these three years in revenue are averaged and then doubled to determine full cash value. The company's calculation is erroneous in that while it averages the three years of revenue it fails to double the average, thus, full cash value is understated. Lastly, the ADOR formula requires that full cash value be multiplied by an assessment ratio of 25% to determine the assessed value of the property to which the property tax rate is applied. The Company's calculation fails to apply the assessment ratio, and as a result the assessed value is over stated.

Q. What adjustment have you made?

A. As shown on Schedule MDC-15, I have recalculated the water division property taxes utilizing the correct ADOR formula coupled with the actual water division revenues for 1998, 1999, and 2000. This adjustment decreases test year property tax expense by $69,096.

Operating Adjustment #11 - Income Tax Expense

Q. Please discuss your income tax expense adjustment.

A. As shown on Schedule MDC-16, I calculated LPSCO water division income tax expense based on RUCO's recommended level of operating income at present water rates. I have utilized the stautory state and federal income tax rates of 6.968% and 34%, respectively.

Q. Have you computed income tax expense based on RUCO's proposed rates?

A. Yes. I calculated the additional income tax attributable to RUCO's proposed rate increase by utilizing the gross revenue conversion factor. This calculation is shown on Schedule MDC-16, page 2.

COST OF CAPITAL

Cost of Debt

Q. Please discuss the Company's proposed cost of debt.

A. The Company is requesting a cost of debt of 5.77%. This represents the gross amount of interest the Company pays on its Industrial Development Authority (IDA) bonds.

Q. Do you agree with the 5.77% cost of debt proposed by the Company?

A. No. The cost of debt proposed by the Company represent the *gross* interest expense, which fails to recognize the interest that is earned by the Company pursuant to the terms of the bond issuance.

Q. Please explain.

A. Under the terms of the IDA bond issuance the Company is required to maintain certain cash reserve funds. During the test year the Company had over $2 million in debt reserve funds, which earned interest of at rates over 4%. Interest earnings on these bond reserve funds totaled over $200,000 in the test year.

Q. How have these interest earnings been treated in the Company's application?

A. The Company has reflected the interest earnings on the bond funds as below the line income, and accordingly this income has not been factored into rates.

Q. Do you agree with this treatment?

A. No. The Company's proposed treatment assigns the full benefit of the earnings from the bond funds to shareholders, while at the same time assigning the full cost of the bonds to ratepayers.

Q. What is the correct treatment for the earnings on the bond funds?

A. The interest earnings on the bond funds should be deducted from the interest expense of the bonds in order to reflect the true cost of debt.

Q. What adjustment have you made?

A. As shown on Schedule MDC-17, I have recalculated the Company's cost of long-term debt. I have used the same cost 5.77% cost rate as did the Company. The only difference in my calculation is that I have offset the interest expense with the interest earnings. This calculation results in an effective rate of interest on the IDA bonds of 1.57%.

Cost of Equity

Q. What cost of equity is the Company requesting?

A. The Company is requesting an 11% return on equity.

Q. What is the basis of the Company's 11% request?

A. The Company did not perform a detailed cost of equity analysis to determine the 11%. Instead the Company simply states that it believes 11% is reasonable at this time and that is within the range of recent Commission cost of equity findings for water and sewer companies.

Q. Do you agree with the Company's conclusions regarding cost of equity?

A. No. First, the Company states that it believes 11% is "reasonable at this time". It must be remembered that "at this time" refers to when the Company filed its application, which was July 2001. Since this time there has been a significant downturn in financial indicators. The Federal Reserve (Fed) has cut interest rates five times since July 2001[1]. These Fed actions have had a significant impact on interest rates, pushing them to an almost forty year low. The prime rate has declined from 9.5% in December 2000 to a current rate of 4.75% as of December 20, 2001. In the past year other benchmark rates have fallen as follows:

[1] The Fed has cut its federal fund rate eleven times during 2001. Most recently, on December 11, 2001, the federal funds rate was cut by twenty-five basis points.

	Dec. 2000	Dec. 2001
Federal Funds Rate	6.5%	1.75%
Discount Rate	6.0%	1.25%
90 day T-Bill	5.46%	1.68%

Second, the Company states that its 11% requested cost of equity is comparable to cost of equities authorized in recent water and sewer cases.

Q. Do you agree?

A. No. The Commission, in its most recent water rate case decision, authorized a return on equity of 10.25% for Arizona Water Company. This is significantly below the 11% requested by LPSCO.

Q. Given current circumstances, is a cost of equity lower than the 11% requested by the Company indicated?

A. Yes.

Q. What is your recommended cost of equity?

A. As shown on Schedule MDC-17, I am recommending a cost of equity of 9.75%.

Weighted Cost of Capital

Q. What is your overall weighted cost of capital recommendation?

A. As shown on Schedule MDC-17, I am recommending a weighted cost of capital of 7.64%, which is comprised of the capital structure requested by the Company, and RUCO's recommended cost of debt and equity.

RATE DESIGN

Q. Please discuss your proposed rate design for the water division.

A. I am not recommending any significant change in the current rate design, other to adjust the monthly service charge and commodity rates to generate RUCO's recommended revenue requirement. I have retained the current two-tier rate structure. My recommended water rates are shown on Schedule MDC-18, page 1.

Q. Is the Company requesting any changes in its Miscellaneous Service charges?

A. Yes. The Company has requested increases in its Miscellaneous Service charges as follows:

Establishment of Service	$5.00
Reconnection of Service	20.00
Returned Check	5.00

Q. Do you agree with the changes proposed by the Company for its Miscellaneous Service charges?

A. Yes. As shown on Schedule MDC-18, page 2, I have computed the additional revenue these increased charges will generate, and allocated 50% of the additional revenue to the water division. RUCO's other witness, Tim Coley has reflected the other 50% in his proposed sewer revenues.

Q. Does this conclude your direct testimony?

A. Yes.

APPENDIX I

Qualifications of Marylee Diaz Cortez

EDUCATION: University of Michigan, Dearborn
B.S.A., Accounting 1989

CERTIFICATION: Certified Public Accountant - Michigan
Certified Public Accountant - Arizona

EXPERIENCE: Audit Manager
Residential Utility Consumer Office
Phoenix, Arizona 85004
July 1994 - Present

Responsibilities include the audit, review and analysis of public utility companies. Prepare written testimony, schedules, financial statements and spreadsheet models and analyses. Testify and stand cross-examination before Arizona Corporation Commission. Advise and work with outside consultants. Work with attorneys to achieve a coordination between technical issues and policy and legal concerns. Supervise, teach, provide guidance and review the work of subordinate accounting staff.

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona 85004
October 1992 - June 1994

Responsibilities included the audit, review and analysis of public utility companies. Prepare written testimony and exhibits. Testify and stand cross-examination before Arizona Corporation Commission. Extensive use of Lotus 123, spreadsheet modeling and financial statement analysis.

Auditor/Regulatory Analyst
Larkin & Associates - Certified Public Accountants
Livonia, Michigan
August 1989 - October 1992

Performed on-site audits and regulatory reviews of public utility companies including gas, electric, telephone, water and sewer throughout the continental United States. Prepared integrated proforma financial statements and rate models for some of the largest public utilities in the United States. Rate models consisted of anywhere from twenty to one hundred fully integrated schedules. Analyzed financial statements, accounting detail, and identified and developed rate case issues based on this analysis. Prepared written testimony, reports, and briefs. Worked closely with outside legal counsel to achieve coordination of technical accounting issues with policy, procedural and legal concerns. Provided technical assistance to legal counsel at hearings and depositions. Served in a teaching and supervisory capacity to junior members of the firm.

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

Utility Company	Docket No.	Client
Potomac Electric Power Co.	Formal Case No. 889	Peoples Counsel of District of Columbia
Puget Sound Power & Light Co.	Cause No. U-89-2688-T	U.S. Department of Defense - Navy
Northwestern Bell-Minnesota	P-421/EI-89-860	Minnesota Department of Public Service
Florida Power & Light Co.	890319-EI	Florida Office of Public Counsel
Gulf Power Company	890324-EI	Florida Office of Public Counsel
Consumers Power Company	Case No. U-9372	Michigan Coalition Against Unfair Utility Practices
Equitable Gas Company	R-911966	Pennsylvania Public Utilities Commission
Gulf Power Company	891345-EI	Florida Office of Public Counsel
Jersey Central Power & Light	ER881109RJ	New Jersey Department of Public Advocate Division of Rate Counsel
Green Mountain Power Corp.	5428	Vermont Department of Public Service

Systems Energy Resources	ER89-678-000 & EL90-16-000	Mississippi Public Service Commission
El Paso Electric Company	9165	City of El Paso
Long Island Lighting Co.	90-E-1185	New York Consumer Protection Board
Pennsylvania Gas & Water Co.	R-911966	Pennsylvania Office of Consumer Advocate
Southern States Utilities	900329-WS	Florida Office of Public Counsel
Central Vermont Public Service Co.	5491	Vermont Department of Public Service
Detroit Edison Company Case No.	U-9499	City of Novi
Systems Energy Resources	FA-89-28-000	Mississippi Public Service Commission
Green Mountain Power Corp.	5532	Vermont Department of Public Service
United Cities Gas Company	176-717-U	Kansas Corporation Commission
General Development Utilities	911030-WS & 911067-WS	Florida Office of Public Counsel
Hawaiian Electric Company	6998	U.S. Department of Defense - Navy
Indiana Gas Company	Cause No. 39353	Indiana Office of Consumer Counselor
Pennsylvania American Water Co.	R-00922428	Pennsylvania Office of Consumer Advocate
Wheeling Power Co.	Case No. 90-243-E-42T	West Virginia Public Service Commission Consumer Advocate Division

Jersey Central Power & Light Co.	EM89110888	New Jersey Department of Public Advocate Division of Rate Counsel
Golden Shores Water Co.	U-1815-92-200	Residential Utility Consumer Office
Consolidated Water Utilities	E-1009-92-135	Residential Utility Consumer Office
Sulphur Springs Valley Electric Cooperative	U-1575-92-220	Residential Utility Consumer Office
North Mohave Valley Corporation	U-2259-92-318	Residential Utility Consumer Office
Graham County Electric Cooperative	U-1749-92-298	Residential Utility Consumer Office
Graham County Utilities	U-2527-92-303	Residential Utility Consumer Office
Consolidated Water Utilities	E-1009-93-110	Residential Utility Consumer Office
Litchfield Park Service Co.	U-1427-93-156 & U-1428-93-156	Residential Utility Consumer Office
Pima Utility Company	U-2199-93-221 & U-2199-93-222	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-94-306	Residential Utility Consumer Office
Paradise Valley Water	U-1303-94-182	Residential Utility Consumer Office
Paradise Valley Water	U-1303-94-310 & U-1303-94-401	Residential Utility Consumer Office
Pima Utility Company	U-2199-94-439	Residential Utility Consumer Office
SaddleBrooke Development Co.	U-2492-94-448	Residential Utility Consumer Office

Boulders Carefree Sewer Corp.	U-2361-95-007	Residential Utility Consumer Office
Rio Rico Utilities	U-2676-95-262	Residential Utility Consumer Office
Rancho Vistoso Water	U-2342-95-334	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-95-491	Residential Utility Consumer Office
Citizens Utilities Co.	E-1032-95-473	Residential Utility Consumer Office
Citizens Utilities Co.	E-1032-95-417 et al.	Residential Utility Consumer Office
Paradise Valley Water	U-1303-96-283 & U-1303-95-493	Residential Utility Consumer Office
Far West Water	U-2073-96-531	Residential Utility Consumer Office
Southwest Gas Corporation	U-1551-96-596	Residential Utility Consumer Office
Arizona Telephone Company	T-2063A-97-329	Residential Utility Consumer Office
Far West Water Rehearing	W-0273A-96-0531	Residential Utility Consumer Office
SaddleBrooke Utility Company	W-02849A-97-0383	Residential Utility Consumer Office
Vail Water Company	W-01651A-97-0539 & W-01651B-97-0676	Residential Utility Consumer Office
Black Mountain Gas Company Northern States Power Company	G-01970A-98-0017 G-03493A-98-0017	Residential Utility Consumer Office
Paradise Valley Water Company Mummy Mountain Water Company	W-01303A-98-0678 W-01342A-98-0678	Residential Utility Consumer Office

Bermuda Water Company	W-01812A-98-0390	Residential Utility Consumer Office
Bella Vista Water Company Nicksville Water Company	W-02465A-98-0458 W-01602A-98-0458	Residential Utility Consumer Office
Paradise Valley Water Company	W-01303A-98-0507	Residential Utility Consumer Office
Pima Utility Company	SW-02199A-98-0578	Residential Utility Consumer Office
Far West Water & Sewer Company	WS-03478A-99-0144 Interim Rates	Residential Utility Consumer Office
Vail Water Company	W-01651B-99-0355 Interim Rates	Residential Utility Consumer Office
Far West Water & Sewer Company	WS-03478A-99-0144	Residential Utility Consumer Office
Sun City Water and Sun City West	W-01656A-98-0577 & SW-02334A-98-0577	Residential Utility Consumer Office
Southwest Gas Corporation ONEOK, Inc.	G-01551A-99-0112 G-03713A-99-0112	Residential Utility Consumer Office
Table Top Telephone	T-02724A-99-0595	Residential Utility Consumer Office
U S West Communications Citizens Utilities Company	T-01051B-99-0737 T-01954B-99-0737	Residential Utility Consumer Office
Citizens Utilities Company	E-01032C-98-0474	Residential Utility Consumer Office
Southwest Gas Corporation	G-01551A-00-0309 & G-01551A-00-0127	Residential Utility Consumer Office
Southwestern Telephone Company	T-01072B-00-0379	Residential Utility Consumer Office
Arizona Water Company	W-01445A-00-0962	Residential Utility Consumer Office

LITCHFIELD PARK SERVICE COMPANY
DOCKET NOS. W-01428A-01-0487 & SW-01428A-01-0487
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LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
REVENUE REQUIREMENTS

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-1

LINE NO.	DESCRIPTION	(A) COMPANY PROFORMA	(B) RUCO ADJUSTED
1	ADJUSTED RATE BASE	$6,303,698	5,887,368
2	ADJUSTED OPERATING INCOME	70,753	196,416
3	CURRENT RATE OF RETURN	1.12%	3.34%
4	REQUIRED RATE OF RETURN	9.65%	7.64%
5	OPERATING INCOME REQUIREMENT	608,534	450,040
6	OPERATING INCOME DEFIECIENCY	537,781	253,624
7	REVENUE CONVERSION FACTOR	1.6286	1.6286
8	INCREASE IN REVENUE REQUIREMENTS	$875,837	$413,052
9	TEST YEAR REVENUE	1,683,603	1,677,042
10	PROPOSED REVENUE	2,559,440	2,090,094
11	PERCENTAGE INCREASE	52.02%	24.63%
12	RETURN ON EQUITY	11.00%	9.75%

REFERENCES
COLUMN (A): CO. SCH. A-1
COLUMN (B): SCHEDULES MDC-1, MDC-2,MDC-6, AND MDC-17

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUE	1.0000	
2	LESS: TAX RATE	0.3860	NOTE (A)
3	SUBTOTAL	0.6140	LINE 1 - LINE 2
4	REVENUE CONVERSION FACTOR	1.6286	LINE 1/LINE 3

NOTE (A)
CALCULATION OF EFFECTIVE TAX RATE=

OPERATING INCOME BEFORE TAXES		100.00%
ARIZONA STATE TAX	-	6.97%
FEDERAL TAXABLE INCOME		93.03%
FEDERAL INCOME TAX RATE	x	34.00%
FEDERAL INCOME TAX		31.63%
EFFECTIVE TAX RATE		38.60%

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
RATE BASE

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-2

LINE NO.	DESCRIPTION	(A) COMPANY PROFORMA	(B) ADJUSTMENTS	(C) RUCO ADJUSTED
1	PLANT IN SERVICE	$9,464,287	1,058,336	10,522,623
2	ACCUMULATED DEPRECIATION	1,453,012	561,864	2,014,876
3	NET PLANT	8,011,275	496,472	8,507,747
	PLUS:			
4	CWIP	497,475	(497,475)	0
5	WORKING CAPITAL	138,358	(24,185)	114,173
	LESS:			
6	CIAC	0	1,058,335	1,058,335
7	ACCUM. AMORT. OF CIAC	0	467,193	467,193
8	NET CIAC	0	591,142	591,142
9	AIAC	1,169,014	(200,000)	969,014
10	DEFERRED INCOME TAXES	278,052	0	278,052
11	METER DEPOSITS	896,344	0	896,344
12	TOTAL RATE BASE	$6,303,698	($416,330)	$5,887,368

REFERENCES
COLUMN (A): CO. SCHEDULE B-1
COLUMN (B): SCH. MDC-3
COLUMN (C): COLUMN (A) + COLUMN (B)

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
SUMMARY OF RATE BASE ADJUSTMENTS

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-3

LINE NO.	DESCRIPTION	COMPANY PROFORMA	ADJ #1	ADJ #2	ADJ #3	ADJ #4	ADJ #5	ADJ #6	RUCO ADJUSTED
1	PLANT IN SERVICE	$9,464,287	1,058,336						10,522,623
2	ACCUMULATED DEPRECIATION	1,453,012	561,864						2,014,876
3	NET PLANT	8,011,275	496,472	0	0	0	0	0	8,507,747
	PLUS:								
4	CWIP	497,475		(54,411)	(443,064)				0
5	WORKING CAPITAL	138,358						(24,185)	114,173
	LESS:								
6	CIAC	0	1,058,335						1,058,335
7	ACCUM. AMORT. OF CIAC	0	467,193						467,193
8	NET CIAC	0	591,142	0	0	0	0	0	591,142
9	AIAC	1,169,014			(200,000)				969,014
10	DEFERRED INCOME TAXES	278,052							278,052
11	METER DEPOSITS	896,344							896,344
12	TOTAL RATE BASE	$6,303,698	($94,670)	($54,411)	($243,064)	$0	$0	($24,185)	$5,887,368

ADJ #		REFERENCE
1	RECONCILIATION OF RATE BASE BALANCES	SCH. MDC-4
2	CWIP	TEST MDC
3	PROFORMA CWIP - WELL	TEST MDC
4	NOT USED	
5	NOT USED	
6	WORKING CAPITAL	SCH. MDC-5

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
RATE BASE ADJ# 1 - PLANT , ACCUMULATED
DEPRECIATION, CIAC & ACCUMULATED
AMORTIZATION OF CIAC

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-4

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	GROSS PLANT BALANCE PER RUCO	$10,522,623	SCH. MDC-4, PG. 2
2	GROSS PLANT BALANCE PER COMPANY	9,464,287	CO. SCH. B-1
3	INCREASE IN PLANT BALANCE	$1,058,336	LINE 1 - LINE 2
4	ACCUMULATED DEPRECIATION PER RUCO	(2,014,876)	SCH. MDC-4, PG. 3
5	ACCUMULATED DEPRECIATION PER COMPANY	(1,453,012)	CO. SCH. B-1
6	INCREASE IN ACCUMULATED DEPRECIATION	($561,864)	LINE 4 - LINE 5
7	GROSS CIAC BALANCE PER RUCO	(1,058,335)	SCH. MDC-4, PG. 4
8	GROSS CIAC BALANCE PER COMPANY	0	CO. SCH. B-1
9	INCREASE IN GROSS CIAC	($1,058,335)	LINE 7 - LINE 8
10	ACCUMULATED AMORT. OF CIAC PER RUCO	467,193	SCH. MDC-4 ,PG. 5
11	ACCUMULATED AMORT. OF CIAC PER COMPANY	0	CO. SCH. B-1
12	INCREASE IN ACCUMULATED AMOR. OF CIAC	$467,193	LINE 10 - LINE 11

LITCHFIELD PARK SERVICE COMPANY - WATER DIVISION
RATE BASE ADJ #1 - RECONCILIATION OF PLANT BALANCES, ACCUM. DEPREC., CIAC, & ACCUM. AMORT. OF CIAC
12-31-96 TO 12-31-00

GROSS PLANT BALANCE

LINE NO.	ACCT #	DESCRIPTION	BALANCE 12-31-96	ADDITIONS & RETIREMENTS	BALANCE 12-31-97	ADDITIONS & RETIREMENTS	BALANCE 12-31-98	ADDITIONS & RETIREMENTS	BALANCE 12-31-99	ADDITIONS & RETIREMENTS	BALANCE 12-31-00
1	1010	LAND	$675		675		675		675	670,428	671,103
2	1011	STRUCTURES	109,843	216	110,059		110,059		110,059	3,950	114,009
3	1012	WELLS	375,454	2,648	378,102	5,438	383,540	215,581	599,121	5,673	604,794
4	1013	PUMPING EQUIP.	172,529	124,374	296,903		296,903	10,288	307,191	113,403	420,594
5	1014	WATER TREATMENT EQUIP.	29,176	964	30,140		30,140		30,140	52,170	82,310
6	1015	DISTRIBUTION RESERVIOR	252,148	19,558	271,706		271,706	6,970	278,676		278,676
7	1016	TRANSMISSION/DISTRIBUTION MAIN	2,137,470	(49,907)	2,087,563	845,800	2,933,363	838,150	3,771,513	925,179	4,696,692
8	1017	SERVICES	402,303	85,612	487,915	164,124	652,039	154,265	806,304	1,101,058	1,907,362
9	1018	METERS	611,219	113,551	724,770	92,968	817,738	254,882	1,072,620	166,202	1,238,822
10	1019	HYDRANTS	103,044	2,029	105,073	50,903	155,976		155,976	166,208	322,184
11	1020	TOOLS	4,364	757	5,121	(1)	5,120	940	6,060	697	6,757
12	1021	OFFICE EQUIP	29,879	1,445	31,324	4,552	35,876	40,268	76,144	24,698	100,842
13	1023	POWER GENERATION EQUIP			0	68,705	68,705	446	69,151		69,151
14	1022	TRANSPORTATION EQUIP			0		0	901	901		901
15	1025	BACKFLOW DEVICES			0		0		0	8,426	8,426
16		CAPACITY RESERVE		1,263,585	1,263,585	(705,004)	558,581	(336,289)	222,292	(222,292)	0
17		TOTAL PLANT	4,228,104	1,564,832	5,792,936	527,485	6,320,421	1,186,402	7,506,823	3,015,800	10,522,623

LITCHFIELD PARK SERVICE COMPANY - WATER DIVISION
RATE BASE ADJ #1 - RECONCILIATION OF PLANT BALANCES, ACCUM. CIAC, & ACCUM. AMORT. OF CIAC
12-31-96 TO 12-31-00

ACCUMULATED DEPRECIATION BALANCE

LINE NO.	ACCT #	DESCRIPTION	ACCUM. DEPREC 12-31-96	DEPREC. EXP. 1997	ACCUM. DEPREC 12-31-97	DEPREC. EXP. 1998	ACCUM. DEPREC 12-31-98	DEPREC. EXP. 1999	ACCUM. DEPREC 12-31-99	DEPREC. EXP. 2000	ACCUM. DEPREC 12-31-00
1	1010	LAND									
2	1011	STRUCTURES		3,299		3,023		2,884		2,935	
3	1012	WELLS		11,303	(760)	10,460		12,873		15,771	(1,000)
4	1013	PUMPING EQUIP.		7,041		8,155		7,914		9,534	
5	1014	WATER TREATMENT EQUIP.		890		828		790		1,473	(30,941)
6	1015	DISTRIBUTION RESERVIOR		7,858		7,463		7,210	(2,000)	7,301	
7	1016	TRANSMISSION/DISTRIBUTION MAIN		63,375		68,954		87,834		110,933	
8	1017	SERVICES		13,353		15,655		19,104	(2,000)	35,549	
9	1018	METERS	(3,000)	20,040	(1,135)	21,184	(693)	24,764	(693)	30,280	(2,018)
10	1019	HYDRANTS		3,122		3,585		4,087		6,264	(79,999)
11	1020	TOOLS		142		141	(404)	146		168	
12	1021	OFFICE EQUIP		918	(1,500)	923	(953)	1,467		2,319	(4,971)
13	1023	POWER GENERATION EQUIP		0		944		1,806	(50)	1,812	
14	1022	TRANSPORTATION EQUIP		0		0		12		24	
15	1025	BACKFLOW DEVICES		0		0		0		110	
16		CAPACITY RESERVE		18,954		25,024		10,229		2,912	
				150,295	(3,395)	166,338	(2,050)	181,119	(4,743)	227,385	(118,929)
17		TOTAL PLANT	1,299,926		1,446,826		1,611,115		1,787,491		2,014,876

LITCHFIELD PARK SERVICE COMPANY - WATER DIVISION
RATE BASE ADJ #1 - RECONCILIATION OF PLANT BALANCES, ACCUM. DEPREC., CIAC, & ACCUM. AMORT. OF CIAC
12-31-96 TO 12-31-00

GROSS CIAC BALANCE

LINE NO.	ACCT #	DESCRIPTION	BALANCE 12-31-96	ADDITIONS & RETIREMENTS	BALANCE 12-31-97	ADDITIONS & RETIREMENTS	BALANCE 12-31-98	ADDITIONS & RETIREMENTS	BALANCE 12-31-99	ADDITIONS & RETIREMENTS	BALANCE 12-31-00
1	1124	PUMPING EQUIP.	15,221		15,221		15,221		15,221		15,221
2	1125	TRANSMISSION/DISTRIBUTION MAIN	742,609		742,609		742,609		742,609	66,270	808,879
3	1126	SERVICES	154,402	(3,000)	151,402		151,402		151,402		151,402
4	1127	METERS	29,898		29,898		29,898		29,898		29,898
5	1128	HYDRANTS	68,326		68,326		68,326		68,326	(15,391)	52,935
6		TOTAL	1,010,456	(3,000)	1,007,456	0	1,007,456	0	1,007,456	50,879	1,058,335

LITCHFIELD PARK SERVICE COMPANY - WATER DIVISION
RATE BASE ADJ #1 - RECONCILIATION OF PLANT BALANCES, ACCUM.
CIAC, & ACCUM. AMORT. OF CIAC
12-31-96 TO 12-31-00

ACCUMULATED AMORTIZATION OF CIAC

LINE NO.	ACCT #	DESCRIPTION	ACCUM. AMORT. 12-31-96	AMORT. INC 1997	ACCUM. AMORT. 12-31-97	AMORT. INC 1998	ACCUM. AMORT. 12-31-98	AMORT. INC 1999	ACCUM. AMORT. 12-31-99	AMORT. INC 2000	ACCUM. AMORT. 12-31-00
1	1124	PUMPING EQUIP.		457		418		399		399	
2	1125	TRANSMISSION/DISTRIBUTION MAIN		22,278		20,397		19,456		20,324	
3	1126	SERVICES		4,587	(3,000)	4,159		3,967		3,967	
4	1127	METERS		897		821		783		783	
5	1128	HYDRANTS		2,050		1,877		1,790		1,589	(15,391)
					(3,000)		0		0		(15,391)
6		TOTAL	374,187	30,269	401,456	27,671	429,127	26,395	455,522	27,062	467,193

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
RATE BASE ADJ #6 - WORKING CAPITAL

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-5

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	PUMPING POWER PER COMPANY	$291,840	CO. SCH. B-5
2	PUMPING POWER PER RUCO	291,840	SCH. MDC-6
3	DIFFERENCE	0	LINE 2 - LINE 1
4	PUMPING POWER ADJUSTMENT	0	LINE 3 x 1/24
5	O&M PER COMPANY	1,009,583	CO. SCH. B-5
6	O&M PER RUCO	816,104	NOTE (A)
7	DIFFERENCE	(193,479)	LINE 6 - LINE 5
8	O&M ADJUSTMENT	(24,185)	LINE 7 x 1/8
9	TOTAL WORKING CAPITAL ADJ.	($24,185)	LINE 4 + LINE 8

NOTE (A)

TOTAL EXPENSES	$1,480,625
LESS:	
INCOME TAX EXPENSE	79,863
PROPERTY TAX EXPENSE	47,436
DEPREC. & AMORT.	230,381
PURCHASED POWER	291,840
RATE CASE EXPENSE	15,000
	$816,104

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING INCOME

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-6

LINE NO.	DESCRIPTION	(A) COMPANY PROFORMA	(B) ADJUSTMENTS	(C) RUCO ADJUSTED	(D) RUCO PROPOSED INCREASE	(E) RUCO PROFORMA
1	REVENUES:					
2	WATER SALES	$1,621,863	0	1,621,863	405,287	2,027,150
3	OTHER WATER REVENUES	61,740	(6,562)	55,179	7,765	62,944
4	TOTAL REVENUES	1,683,603	(6,562)	1,677,042	413,052	2,090,094
5	EXPENSES:					
6	SALARIES & WAGES	293,261	(5,651)	287,610		287,610
7	PENSIONS & BENEFITS	75,630	0	75,630		75,630
8	PURCHASED POWER	291,840	0	291,840		291,840
9	OUTSIDE SERVICES - LEGAL & ENG.	121,573	(35,287)	86,286		86,286
10	OUTSIDE SERVICES - OPER. & MAINT.	334,718	(135,001)	199,717		199,717
11	RENTAL EXPENSE	35,593	(1,737)	33,856		33,856
12	MATERIALS & SUPPLIES	48,373	0	48,373		48,373
13	GENERAL & ADMINISTRATIVE	100,435	(803)	99,632		99,632
14	DEPRECIATION & AMORTIZATION	184,227	46,154	230,381		230,381
15	PROPERTY TAXES	116,532	(69,096)	47,436		47,436
16	INCOME TAXES	10,668	69,195	79,863	159,428	239,291
17	TOTAL EXPENSES	1,612,850	(132,225)	1,480,625	159,428	1,640,053
18	NET OPERATING INCOME	$70,753	$125,663	$196,416	$253,624	$450,040

REFERENCES
COLUMN (A): CO. SCH. C-1
COLUMN (B): SCH. MDC-7
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): SCH. MDC-1
COLUMN (E): COLUMN (C) + COLUMN (D)

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
SUMMARY OF OPERATING ADJUSTMENTS

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-7

LINE NO.	DESCRIPTION	COMPANY PROFORMA	ADJ #1	ADJ #2	ADJ #3	ADJ #4	ADJ #5	ADJ #6	ADJ #7	ADJ #8	ADJ #9	ADJ #10	ADJ #11	RUCO ADJUSTED
1	REVENUES:													
2	WATER SALES	$1,621,863												1,621,863
3	OTHER WATER REVENUES	61,740	(24,419)	17,857										55,179
4	TOTAL REVENUES	1,683,603	(24,419)	17,857	0	0	0	0	0	0	0	0	0	1,677,042
5	EXPENSES:													
6	SALARIES & WAGES	293,261			(5,651)									287,610
7	PENSIONS & BENEFITS	75,630												75,630
8	PURCHASED POWER	291,840												291,840
9	OUTSIDE SERVICES - LEGAL & ENG.	121,573					(24,353)	(10,934)						86,286
10	OUTSIDE SERVICES - OPER. & MAINT.	334,718							(135,001)					199,717
11	RENTAL EXPENSE	35,593				(1,737)								33,856
12	MATERIALS & SUPPLIES	48,373												48,373
13	GENERAL & ADMINISTRATIVE	100,435								(803)				99,632
14	DEPRECIATION & AMORTIZATION	184,227									46,154			230,381
15	PROPERTY TAXES	116,532										(69,096)		47,436
16	INCOME TAXES	10,668											69,195	79,863
17	TOTAL EXPENSES	1,612,850	0	0	(5,651)	(1,737)	(24,353)	(10,934)	(135,001)	(803)	46,154	(69,096)	69,195	1,480,625
18	NET OPERATING INCOME	$70,753	($24,419)	$17,857	$5,651	$1,737	$24,353	$10,934	$135,001	$803	($46,154)	$69,096	($69,195)	$196,416

ADJ #		REFERENCE
1	MISCELLANEOUS REVENUES	SCH. MDC-8
2	BILL COUNT REVENUE	TEST MDC
3	NON-VARIABLE EXPENSES	SCH. MDC-9
4	OFFICE RENT EXPENSE	SCH. MDC-10
5	EXTRAORDINARY EXPENSE	SCH. MDC-11
6	LEGAL EXPENSE	TEST MDC

ADJ #		REFERENCE
7	ALLOCATION OF EXPENSES	SCH. MDC-12
8	DONATIONS & PR	SCH. MDC-13
9	DEPRECIATION EXPENSE	SCH. MDC-14
10	PROPERTY TAX EXPENSE	SCH.MDC-15
11	INCOME TAX EXPENSE	SCH. MDC-16

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ #1 - MISCELLANEOUS REVENUES

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-8

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	ESTABLISHMENT OF SERVICE	$36,455	CO. W/P 13, PG.1
2	RE-CONNECT CHARGES	4,635	CO. W/P 13, PG.1
3	RETURNED CHECKS	840	CO. W/P 13, PG.1
4	LATE PAYMENT FEES	6,907	CO. W/P 13, PG.1
5	TOTAL	48,837	CO. SCH. C-1
6	ALLOCATION TO SEWER	24,419	50%
7	ADJUSTMENT	($24,419)	LINE 6 - LINE 5

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ #3 - NON-VARIABLE EXPENSES -
CUSTOMER ACCOUNTING

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-9

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
	NON-VARIABLE COSTS:		
1	SALARIES & WAGES	$41,338	CO. W/P-9
2	MERIT PAY	1,854	CO. W/P-9
3	FRINGE BENEFITS	13,512	CO. W/P-9
4	METER READING	16,223	CO. W/P-9
5	TOTAL NON-VARIABLE COSTS	72,927	SUM LINES 1 - 4
6	VARIABLE COSTS PER COMPANY	90,284	CO. W/P-9
7	VARIABLE COSTS PER RUCO	17,357	LINE 6 - LINE 5
8	TEST YEAR BILLS	61,902	CO. W/P-9
9	VARIABLE COST PER BILL	0.2804	LINE 7/LINE 8
10	INCREASE IN BILLS	4,797	CO. W/P-9
11	INCREASE IN VARIABLE COSTS	1,345	LINE 9 x LINE 10
12	INCREASE IN VARIABLE COSTS PER CO.	6,996	CO. W/P-9
13	ADJUSTMENT	($5,651)	LINE 11 - LINE 12

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ #4 - OFFICE RENT EXPENSE

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-10

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	ANNUAL RENT	$18,295	RUCO DR #1.3
2	T/Y WATER ALLOCATION %	80%	STAFF DR #RN 1.3
3	ANNUAL WATER OFFICE RENT	14,636	LINE 1 x LINE 2
4	TEST YEAR RECORDED	17,415	W/P 6, PAGE 2
5	ADJUSTMENT @ 80%	($2,779)	LINE 3 - LINE 4
6	ADJUSTMENT @ 100%	($3,474)	LINE 5 /80%
7	ADJUSTMENT @ 50%	($1,737)	LINE 6 x 50%

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ #5 - EXTRAORDINARY EXPENSES

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-11

LINE NO.	DATE	DESCRIPTION	AMOUNT	REFERENCE
1	07/28/2000	ARCADIS GERAGHTY & MILLER	$10,000.00	G/L, PG. 0130
2	09/05/2000	ARCADIS GERAGHTY & MILLER	3,588.04	G/L, PG. 0130
3	09/21/2000	ARCADIS GERAGHTY & MILLER	16,708.53	G/L, PG. 0130
4	11/01/2000	ARCADIS GERAGHTY & MILLER	2,469.85	G/L, PG. 24
5	12/07/2000	ARCADIS GERAGHTY & MILLER	3,762.53	G/L, PG. 24
6		TOTAL	36,528.95	SUM LINES 1 - 5
7		AMORTIZATION PERIOD	3	# OF YEARS
8		ANNUAL EXPENSE	12,176.32	LINE 6/LINE 7
9		T/Y RECORDED	36,528.95	LINE 6
10		ADJUSTMENT	($24,352.63)	LINE 8 - LINE 9

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ #7 - ALLOCATION OF EXPENSES

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-12

LINE NO.	ACCT #	DESCRIPTION	(A) EXPENSE BOOKED TO WATER	(B) EXPENSE @ 100%	(C) COMPANY PROFORMA ADJ @ 100%	(D) RUCO REALLOCATION TO WATER
1	100-6208	CUSTOMER ACCOUNTS- POSTAGE	$10,712	13,390		6,695
2	100-6017	CUSTOMER ACCOUNTS	41,338	51,673		25,836
3	100-6018	ADMIN & GENERAL	140,807	176,008		88,004
4	100-6784	PUBLIC RELATIONS	472	590		295
5	100-6778	CHARITABLE CONTRIBUTIONS	814	1,017		508
6	100-6776	MISC. OFFICE EXPENSE	6,849	8,561		4,281
7	100-6771	POSTAGE	927	1,159		580
8	100-6770	OFFICE SUPPLIES	5,974	7,467		3,734
9	100-6700	BAD DEBT EXPENSE	62	77		38
10	100-6660	AMORT. OF RATE CASE EXPENSE	15,957	19,946	10,054	15,000
11	100-6520	ADMIN. & GENERAL	6,211	7,764		3,882
12	100-6410	RENTAL - OFFICE	17,416	21,770		10,885
13	100-6365	ANSWERING SERVICE	600	750		375
14	100-6363	CLEANING OFFICE	1,620	2,025		1,013
15	100-6362	ADMIN. & GENERAL	6,193	7,742		3,871
16	100-6361	BANK SERVICE CHARGE	3,190	3,988		1,994
17	100-6348	CONTRACTUAL SERVICE - MGMT.	105,894	132,368	13,000	72,684
18	100-6330	CONTRACTUAL SERVICE - ACCT.	25,705	32,131		16,065
19						
20		TOTALS	390,740			255,739
		DECREASE IN WATER EXPENSE ALLOCATIONS			($135,001)	

REFERENCES
COLUMN (A): COMPANY T/Y GENERAL LEDGER
COLUMN (B): COLUMN (A)/80%
COLUMN (C) SCH. C-2/80%
COLUMN (D): COLUMN (B) + COLUMN (C) x 50%
COLUMN (

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ #8 - DONATIONS &
PUBLIC RELATIONS

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-13

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	DONATIONS	$813.50	G/L, PG. 29
2	PUBLIC RELATIONS	472.00	G/L, PG. 29
3	TOTAL @ 80%	$1,286	LINE 1 + LINE 2
4	TOTAL @ 100%	$1,607	LINE 3/80%
5	TOTAL ADJUSTMENT @ 50%	$803	LINE 4 * 50%

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ #9 - DEPRECIATION EXPENSE

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-14

LINE NO.	DESCRIPTION	(A) PLANT 12-31-00	(B) ADJUSTMENTS	(C) ADJUSTED PLANT	(D))EPRECIATION RATE	(E) DEPRECIATION EXPENSE
1	LAND	$671,103		671,103	0.00%	0
2	STRUCTURES	114,009		114,009	2.62%	2,987
3	WELLS	604,794		604,794	2.62%	15,846
4	PUMPING EQUIP.	420,594		420,594	2.62%	11,020
5	WATER TREATMENT EQUIP.	82,310		82,310	2.62%	2,157
6	DISTRIBUTION RESERVIOR	278,676		278,676	2.62%	7,301
7	TRANSMISSION/DISTRIBUTION MAIN	4,696,692		4,696,692	2.62%	123,053
8	SERVICES	1,907,362		1,907,362	2.62%	49,973
9	METERS	1,238,822		1,238,822	2.62%	32,457
10	HYDRANTS	322,184		322,184	2.62%	8,441
11	TOOLS	6,757		6,757	2.62%	177
12	OFFICE EQUIP	100,842		100,842	2.62%	2,642
13	POWER GENERATION EQUIP.	69,151		69,151	2.62%	1,812
14	TRANSPORTATION EQUIP.	901		901	2.62%	24
15	BACKFLOW DEVICES	8,426		8,426	2.62%	221
16	TOTAL PLANT	10,522,623		10,522,623		258,110
17	CONTRIBUTED PLANT			1,058,335	2.62%	27,728
18	NET DEPRECIATION EXPENSE					230,381
19	DEPRECIATION EXPENSE PER COMPANY					184,227
20	DEPRECIATION ADJUSTMENT					$\boxed{\$46,154}$

REFERENCES
COLUMN (A): SCHEDULE MDC-4, PG.2
COLUMN (B): SCHEDULE MDC-4, PG 2
COLUMN (C): COLUMN (A) + COLUMN (B)

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ #10 - PROPERTY TAX EXPENSE

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-15

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUES - 1998	$1,120,370	CO. SCH. E-6, PG. 1
2	REVENUES - 1999	1,433,289	CO. SCH. E-6, PG. 1
3	REVENUES - 2000	1,630,605	CO. SCH. E-6, PG. 1
4	TOTAL	4,184,264	SUM LINES 1 - 3
5	3 YEAR AVERAGE	1,394,755	LINE 4/3 YEARS
6	TWO TIMES AVG. REVENUE	2,789,509	LINE 5 x 2
7	ADD: 10% CWIP	5,441	CO. SCH. B-2
8	LESS: LICENSED VEHICLES	4,573	G/L
9	FULL CASH VALUE	2,790,377	LINE 6 + LINE 7 - LINE 8
10	ASSESSMENT RATIO	0.25	ADOR
11	ASSESSED VALUE	697,594	LINE 9 x LINE 10
12	PROPERTY TAX RATE	6.80%	RUCO DR #1.16
13	PROFORMA PROPERTY TAXES	47,436	LINE 11 x LINE 12
14	PROPERTY TAXES PER COMPANY	116,532	CO. SCH. C-1
15	PROPERTY TAX ADJUSTMENT	($69,096)	LINE 13 - LINE 14

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ #11 - INCOME TAX EXPENSE

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-16

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
	FEDERAL INCOME TAXES		
1	OPERATING INCOME BEFORE TAXES	$276,279	SCHEDULE MDC-6
	LESS:		
2	ARIZONA STATE TAX	17,593	LINE 11
3	INTEREST EXPENSE	23,795	NOTE (A)
4	FEDERAL TAXABLE INCOME	234,891	LINE 1 - LINES 2 & 3
5	FEDERAL TAX RATE	34%	TAX RATE
6	FEDERAL INCOME TAX EXPENSE	$79,863	LINE 4 x LINE 5
	STATE INCOME TAXES		
7	OPERATING INCOME BEFORE TAXES	$276,279	LINE 1
	LESS:		
8	INTEREST EXPENSE	23,795	NOTE (A)
9	STATE TAXABLE INCOME	252,484	LINE 7 - LINE 8
10	STATE TAX RATE	6.968%	TAX RATE
11	STATE INCOME TAX EXPENSE	$17,593	LINE 9 x LINE 10
12	TOTAL INCOME TAX	$79,863	LINE 6 + LINE 11
13	TOTAL EXPENSE PER COMPANY	10,668	CO. SCHEDULE C-1
14	ADJUSTMENT	$69,195	LINE 12 - LINE 13

NOTES
(A) INTEREST SYNCHRONIZATION

ADJUSTED RATE BASE	$5,887,368	SCH. MDC-2
WGHTED COST OF DEBT	0.40%	SCH. MDC-17
INTEREST EXPENSE	23,795	

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
COST OF CAPITAL

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-17

		(A)	(B)	(C)	(D)	(E)	(F)
LINE NO.	DESCRIPTION	AMOUNT	ADJUSTMENT	ADJUSTED BALANCE	CAPITAL RATIO	COST	WGHTED COST
1	LONG TERM DEBT	$5,335,000		5,335,000	25.74%	1.57%	0.40%
2	COMMON EQUITY	15,388,544		15,388,544	74.26%	9.75%	7.24%
3	TOTAL CAPITAL	$20,723,544	$0	$20,723,544	100.00%		7.64%

REFERENCES
COLUMN (A): CO. SCHEDULE D-1
COLUMN (B): TESTIMONY MDC
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): COLUMN (C)/COLUMN (C), LINE 3
COLUMN (E): TESTIMONY MDC
COLUMN (F): COLUMN (D) x COLUMN (E)

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
RATE DESIGN

DOCKET NOS. W-01427A-01-0487
& SW-01428A-01-0487
SCHEDULE MDC-18

LINE NO.	METER SIZE	PRESENT RATE	RUCO PROPOSED RATE	RUCO PROPOSED REVENUE
1	5/8 INCH	$5.20	6.20	12,740
2	3/4 INCH	6.40	7.80	876,255
3	1 INCH	11.25	14.40	437,959
4	1 1/2 INCH	22.00	26.00	126,622
5	2 INCH	43.70	58.00	410,390
6	4 INCH	101.20	122.00	78,169
7	8 INCH	172.50	220.00	20,188
8	10 INCH	254.25	320.00	0
9	12 INCH	345.00	420.00	0
10	HYDRANT	0.00	90	64,900
11	SUBTOTAL			2,027,223
12	MISC. REVENUE			62,944
13	TOTAL REVENUE			$2,090,167
	COMMODITY:			
14	0-5000 GALS.	$0.63	0.90	
15	> 5000 GALS.	0.88	1.22	
16	HYDRANT	0.88	2.20	

LITCHFIELD PARK SERVICE COMPANY
WATER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
INCREMENTAL REVENUE FROM INCREASED
SERVICE CHARGES

LINE NO.	DESCRIPTION	T/Y BILL COUNT	INCREASE IN RATE	ADDITIONAL REVENUE
1	ESTABLISHMENT OF SERVICE	2,430	$5.00	12,150
2	RE-CONNECT CHARGE	155	$20.00	3,100
3	RETURNED CHECK CHARGE	56	$5.00	280
4	TOTAL ADDITIONAL REVENUE			15,530
5	ALLOCATION TO SEWER			7,765
6	ADDITIONAL WATER REVENUE			$7,765

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DOCKET NO. SW-01428A-01-0487

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TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 5, 2002

INTRODUCTION 1

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INTRODUCTION

Q. Please state your name and business address.

A. My name is Timothy J. Coley. My business address is 2828 North Central Avenue, Suite 1200, Phoenix, Arizona 85004.

Q. By whom are you employed and in what capacity?

A. I am employed by the Residential Utility Consumer Office (RUCO) as a Public Utilities Analyst V.

Q. Briefly summarize your educational and professional credentials related to your work in the field of utility regulation.

A. I have a Masters Degree in Public Administration and Bachelor of Science Degree in Business Management and Administration. I am currently working on my Post-Baccalaureate Certificate in the Accountancy Program at Arizona State University – West. My utility experience includes eight combined years in various utility auditing and rate analyst positions with RUCO and the Georgia Public Service Commission.

Q. Have you previously testified in rate proceedings before the Arizona Corporation Commission (ACC)?

A. Yes. I have previously presented testimony regarding revenue requirements in rate case proceedings before the ACC.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations concerning Litchfield Park Service Company's (Company or LPSCO) Sewer Division application for a permanent rate increase. My testimony addresses rate base, operating income, cost of capital, revenue requirements, and rate design issues pertaining to the application. In addition, my testimony will address LPSCO's accounting treatment related to Contributions In Aid Of Construction (CIAC) and the amortization of CIAC since the Company's last rate application filed for test-year 1996 in ACC Decision No. 60831.

Q. Please briefly describe RUCO's work effort that provides the basis for RUCO's recommendations.

A. RUCO performed the following procedures to determine whether sufficient, relevant, and reliable evidence exists to support the financial data and claims in the Company's application: reviewed and analyzed the Company's application and supporting workpapers; reviewed all other intervenors' data requests; prepared written data requests and evaluated the Company's responses; and reviewed past ACC decisions regarding LPSCO.

Q. What test-year did the Company use for the sewer rate application?

A. The Company used a historical test-year that included the calendar year twelve months ending on December 31, 2000. RUCO's recommendations reflect the use of the test-year ending December 31, 2000, that adheres to the historical test-year to achieve consistency. Thus, no matching problems are generated with test-year revenues and expenses, which has been an increasing and growing concern recently with other utility rate applications.

Q. Please identify the Exhibits you are presenting in your Direct Testimony.

A. I am presenting Schedules TJC-1 through TJC-19 for the Sewer Division.

Q. Please summarize the recommendations and adjustments addressed in your testimony on RUCO's behalf for the Sewer Division.

A. My testimony addresses the following issues pertaining to the Sewer Division.

<u>Plant in Service & Accumulated Depreciation</u> – The Plant in Service adjustment increases plant by $2,070,192 to properly recognize gross plant. Since the last ACC rate application decision, Decision No. 60831, the Company started using a new accounting method that recognizes plant in service net of contributed plant and omits the recognition of CIAC. I have reconstructed the test year plant-in-service balance starting from the amount allowed by ACC Decision No. 60831 for year ended December 31, 1996.

The Accumulated Depreciation adjustment increases the accumulated depreciation balance by $570,327 to rate base to recognize the depreciation rate authorized by the ACC on the adjusted depreciable plant balances for the years 1997 through the Company's historical test year ended on December 31, 2000.

Contributions in Aid of Construction (CIAC) – This adjustment decreases rate base by $2,070,191. This adjustment was derived through the same means and calculations that determined the appropriate plant in service balance. Ms. Diaz Cortez has adeptly explained in detail the Company's method of accounting for plant items. She also makes recommendations in her testimony that takes remedial action to solve the Company's obscure method of accounting for various plant accounts.

Accumulated Amortization of CIAC – This adjustment increases rate base by $479,377. Again, the result of this adjustment is determined by the analytical schematics designed by Ms. Diaz Cortez and presented in both of our testimonies as Schedule #4, pages 1 - 5. Her recommendations will disentangle the Company's change in accounting methods since its last rate application.

Amortization of Wastewater Treatment Plant Capacity – This adjustment increases (debited) rate base by $66,911. This adjustment is necessary to properly reflect the effect on rate base of my recommended adjustment to the Company's proposed amortization period for its City of Goodyear treatment plant capacity, which is explained later in detail.

Accumulated Deferred Income Taxes (ADIT) – This is an acknowledged correction by the Company that decreases rate base by $7,045. In the rate application, the Company documented two different amounts for ADIT in the sewer division. Pursuant to a RUCO data request, the Company realized the conflicting balances and acquiesced to the proper amount for Deferred Income Taxes. The cause of ADIT is simply a timing difference between financial and tax reporting accounting. The end effect is to present an accurate rate base from which the Company is entitled a fair return on investment.

Working Capital – This adjustment increases rate base by $12,566. The cause of this adjustment is my recommended level of operating expenses. Working capital is a direct derivative of certain operating expenses. I have used the formula method to determine the level of working capital needed.

Construction Work In Progress (CWIP) – This adjustment decreases rate base by $1,230,049. The adjustment is to remove from rate base plant that was not completed at the historical test-year end. Therefore, it provided no benefit or service to the test-year ratepayers.

Other Miscellaneous Sewer Revenues – This adjustment increases sewer revenues by $24,419. The Company's past practice was to book all Other Miscellaneous Revenues to the water division. This adjustment allocates 50% of all Other Miscellaneous Revenues to each the division (water & sewer), respectively. Ms. Diaz Cortez addresses this issue fully in her testimony.

Revenue – Bill Count – This adjustment decreases sewer revenues by $23,320 to reflect the actual revenues booked to the Company's general ledger during the test-year.

Customer Accounting – Non-Variable Costs – This adjustment decreases sewer expenses by $2,078. This adjustment reflects the increase in expenses attributable to revenue annualization and the incremental costs of providing service to additional year-end customers. The decrease was determined by recognizing that some of the Company's variable expenses used in its calculation are more fixed in nature rather than variable.

Office Rent Expense – This adjustment decreases test-year expenses by $1,738 to remove the expired amortization of leasehold improvements.

Extraordinary Expense – This adjustment decreases sewer expenses by $13,154. This adjustment reflects expenses related to a non-recurring incident that happened during the test-year. Thus, it is not an expense that is recurring in nature, which classifies it as a disallowed expense on a going forward basis for ratemaking purposes.

Donations & Public Relations – This adjustment decreases sewer expenses by $2,502. These expenses provide no benefit to the ratepayer. In addition, the ratepayer should be free to choose to donate to whatever charitable organization they wish. This is an expense that should be borne by the shareholders exclusively.

Expense Allocations – This adjustment increases sewer expenses by $135,001. This adjustment is attributable to a reallocation of several expense accounts that do not meet the labor driven 80/20% allocation factor that the Company utilizes. RUCO recommends that non-labor driven expenses be allocated equally at a 50/50 ratio to the water and sewer divisions.

Amortization Expense – This adjustment decreases sewer expenses by $66,911. This adjustment reflects an amortization expense related to the Goodyear treatment plant that the Company has a contractual capacity to use. The contract is for a 45-year period. The Company independently has requested an amortization period of 25 years (4% annually) rather than the contractual 45-year period. I am recommending a 40-year plant life (2.5% annually) to amortize the treatment capacity. My recommended annual amortization rate is approximately the equivalent of the depreciation rate authorized by the ACC for the Sewer Division (2.52%) in LPSCO's last rate application Decision No. 60831.

Sewer Plant Depreciation Expense – This adjustment decreases the depreciation expense associated with LPSCO's depreciable sewer plant by $154 to account for the proper year-end account balances.

Property Tax Expense – This adjustment decreases the sewer property tax expense by $79,762 as a result of using the new property tax formula adopted by the Arizona Department of Revenue (ADOR) for water and sewer companies.

Income Tax Expense – This adjustment recalculates the test-year income tax expense based on RUCO's recommended operating income.

REVENUE REQUIREMENTS

Q. Please summarize the results of your analysis on behalf of RUCO of LPSCO's Sewer Division's rate application and your recommended revenue requirement.

A. The LPSCO's Sewer Division revenues should be increased by no more than $235,128, which is a 12.78% increase over the adjusted test-year revenues. This recommendation is summarized on TJC-1. The principal elements (revenues, operating expenses, rate base, and rate of return) of the Company's filing and my recommendations are also shown on TJC-1. The same schedule labeled TJC-1 summarizes my recommended revenue requirement.

My recommended original cost rate base of $8,072,003 is shown on Schedule TJC-2, and the supporting detail of the original cost rate base is presented on Schedule TJC-3. In the Company's rate application, it has agreed that the original cost rate base is its fair value. Thus, fair value calculations are neither needed nor presented. My recommended adjusted operating income is $472,663 for the sewer division and is shown on TJC-7. Further detail supporting my recommended operating income is presented on Schedule TJC-8. My recommended capital structure and cost of capital are shown on Schedule TJC-18. Finally, the proposed rates I am recommending for sewer service are shown on Schedule TJC-19, Column 9.

RATE BASE

Rate Base Adjustment #1 – Reconciliation of Plant, Accumulated Depreciation, Contributions In Aid of Construction (CIAC), and Accumulated Amortization of CIAC

Q. Have you performed a reconciliation of the test-year balances of Plant, Accumulated Depreciation, CIAC, and Accumulated Amortization of CIAC to the balances authorized in these accounts by ACC Decision 60831, which was LPSCO's last rate case?

A. Yes.

Q. Are the rate base balances included in the Company's application substantiated by your reconciliation to the balances authorized in the last rate case Decision No. 60831?

A. No. As I mentioned earlier in my testimony, the Company has changed its method of accounting for Plant in Service. LPSCO now nets the plant balances in which it invests against the developer-contributed plant balances. This accounting method creates tracking problems in determining what plant the Company invests and what plant is contributed through CIAC by developers. This method of accounting for plant further compounds problems of identifying the proper Accumulated Depreciation of investor-owned plant against what was contributed by outside developers. This net accounting practice for plant in turn creates a dilemma in determining the proper Accumulated Amortization of CIAC. This net accounting method used by the Company does not comply with the Uniform System of Accounts (USOA) as mandated by NARUC. Ms.

Diaz Cortez fully addresses these issues and others regarding these incongruent and misleading accounting methodologies in her direct testimony.

Q. Were you able to reconcile the two contrasting accounting methodologies to properly reflect an accurate Rate Base for which the Company is entitled to earn a fair and reasonable return on its investment?

A. Yes. I utilized the model designed by Ms. Diaz Cortez labeled TJC-4, page 1 through 5 to separate the entanglements of the various rate base elements. She encountered the same problem in the Company's Water Division. For further explanation, please refer to her testimony and recommendations regarding this issue.

Q. What adjustments are necessary to reconcile the Rate Base authorized by ACC Decision No. 60831 and this rate application filed by the Company?

A. Schedule TJC-4, page 1 shows the four necessary adjustments required to reconcile the plant, accumulated depreciation, CIAC, and accumulated amortization of CIAC from ACC Decision No. 60831 to the current rate case.

1) Increase the plant balance by $2,070,192 to include the contributed plant in rate base;
2) Increase accumulated depreciation by $570,327 to include the accumulated depreciation balance on contributed plant;

3) Decrease rate base by $2,070,191 to include the test-year CIAC balance; and

4) Increase rate base by $479,377 to include the accumulated amortization of CIAC.

These adjustments result in a rate base that is in compliance with USOA accounting rules.

Rate Base Adjustment #2 – Amortization of Sewer Plant Capacity

Q. Please explain your rate base adjustment to the Company's sewer plant capacity.

A. As discussed later in my testimony, I am recommending a 40-year amortization of LPSCO's sewer treatment plant capacity with the City of Goodyear. The Company has requested a 25-year amortization period.

Q. Why are you recommending a 40-year amortization for the sewer plant capacity?

A. On page 7 of my direct testimony, I explained the business arrangement that LPSCO and the City of Goodyear (City) entered into for the provision of sewer service in the Company's service area. The contract between the two parties is for a term of 45 years. In the application, the Company used an amortization rate of 4%. A 4% amortization rate on a straight-line basis assumes that the depreciable life of an item is 25 years. The

Company independently chose to depreciate this asset over 25 years rather than the 45-year life as stated in the contract.

Q. Do you believe that a four percent annual depreciation rate is appropriate and reasonable in this circumstance?

A. No. The contract explicitly states that the expected life of the plant is 45 years, which equates to a 2.2% annual depreciation rate. RUCO does recognize that when the contract was written and when the Company actually started using the Goodyear sewer capacity, a gap of time elapsed of two or three years.

Q. What depreciable life and rate are you recommending?

A. I am recommending the Company be allowed to depreciate the sewer plant capacity over a 40-year period as opposed to the 45-year expected life as stated in the contract. That would equate to a 2.5% annual amortization rate and would more closely be what the ACC authorized in LPSCO's last decision, which was 2.52%.

Q. What adjustment are you recommending that would more closely adhere to the original contract between the City and LPSCO and the prior ACC decision?

A. I'm recommending an increase in rate base of $66,911. This adjustment reflects an amortization rate that is very close to what was authorized in

ACC Decision No. 60831 rather than the four percent rate the Company used in making its calculation.

Rate Base Adjustment #3 – Accumulated Deferred Income Taxes (ADIT)

Q. Please explain what accumulated deferred income taxes are and how they are generated?

A. ADIT's can happen when there are temporary differences between the amounts reported for tax purposes and those reported for book purposes. In this instance, a temporary difference has been identified between the tax basis of an asset and its reported (carrying or book) amount in the financial statements that will result in taxable amounts in future years. In other words, a deferred tax liability represents the increase in taxes payable in future years as a result of taxable temporary differences existing at the end of the current year.[1]

Q. What item(s) led to this temporary difference?

A. Rate base or plant assets that are depreciated using different rates and/or life expectancies for tax purposes as opposed to generally accepted accounting principles (GAAP) and NARUC regulatory accounting rules.

Q. What adjustment is necessary to properly account for LPSCO's ADITs?

A. An adjustment to decrease rate base by $7,045 was necessary to reflect the temporary timing differences of ADIT for tax and book reporting

[1] "Intermediate Accounting," 10th Edition, D. Kieso, J. Weygandt, and T. Warfield. Chapter 20 – Accounting for Income Taxes, pages 1060-1061.

purposes. The Company has acknowledged that this adjustment is necessary to reflect the correct test-year ADIT balance.

Rate Base Adjustment #4 – Working Capital

Q. Please explain your adjustment to the Company's working capital request?

A. The Company uses the formula method to determine its need for working capital. In the last rate case, it was suggested that the Company provide a lead/lag study in its next rate application. RUCO has no contentions with the Company's use of the formula method. As long as ratepayers do not have to pre-pay for their services in advance and taking the size of the Company under consideration, RUCO believes LPSCO's use of the formula method to compute its working capital requirement is reasonable.

Q. Please explain the concept of working capital?

A. A company's working capital requirement represents the amount of cash the company must have on hand to cover any differences in the time frame between when revenues are received and expenses must be paid. The most accurate way to measure the working capital requirement is via a lead/lag study. The lead/lag study measures the actual lead and lag days attributable to the individual revenues and expenses. A lead/lag study, however, is costly and resource intensive. As a result, smaller companies quite often utilize what is known as the formula method. The main difference between the formula method and lead/lag study is that where the lead/lag study measures actual leads and lags in revenues and expenses, the formula method simply assumes an average expense lag of 45 days. Theoretically, the formula method when applied to the average small water/sewer utility operation is assumed to be relatively accurate.

Q. Are you proposing any adjustment to the Company's proposed working capital?

A. Yes. I have also utilized the formula method of computing working capital. Since working capital is a function of operating expenses, my recommended level of operating expenses affects the amount of working capital required. As shown on TJC-6, an increase in working capital of $12,566 is warranted based on my recommended operating expenses. The working capital increase I recommend is largely attributable to specific operating expenses that RUCO reallocates to the Sewer Division, which will be discussed later in my testimony.

Rate Base Adjustment #5 – Construction Work In Progress

Q. Has the Company included Construction Work in Progress (CWIP) in its test-year end rate base balance?

A. Yes.

Q. Is this a generally accepted ratemaking component of rate base or practice in Arizona?

A. No. The ACC has historically excluded CWIP from rate base. The exclusion of CWIP from rate base is an accepted rule of ratemaking. The CWIP balance represents expenditures for plant that are neither used nor useful and provide no benefit or service to the current customer base at test-year end. As a result, I have removed the Company's test-year CWIP balance from rate base.

Q. Are there any other reasons why the CWIP balance should not be included in the rate base?

A. Yes. The inclusion of CWIP in rate base will result in matching problems of expenses and revenues. These projects were not in service as of the test-year end and consequently were not necessary for the provision of service to test-year customers. The inclusion of these projects without recognition of customer growth and revenues would result in the mismatch of ratemaking elements.

Q. What adjustment was necessary to remove CWIP from rate base?

A. I have reduced the historical test-year rate base by $1,230,049 to remove the test-year CWIP balance.

OPERATING INCOME

Operating Adjustment #1 – Miscellaneous & Other Sewer Revenues

Q. What is Miscellaneous & Other Sewer Revenue?

A. Miscellaneous Revenue is revenue that is generated from various service tariffs (e.g. Establishment Charges, Reconnect Charges, Late Payment Fees, etc.).

Q. What amount of Miscellaneous & Other Sewer Revenues did LPSCO's Sewer Division record during the test-year?

A. None. The Company booked all of these revenues to the Water Division.

Q. Do you agree with the Company's decision to book all Miscellaneous & Other Revenues to the Water Division?

A. No. This method fails to allocate these revenues between the Water and Sewer Divisions appropriately. Attributing all Miscellaneous & Other Revenue to the Water Division has the effect of understating the sewer revenues and overstating the water revenues with all other ratemaking elements remaining constant.

Q. What adjustment is necessary to properly recognize and book these revenues?

A. Ms. Diaz Cortez, in sponsoring LPSCO's Water Division, allocated 50% of these revenues to the Sewer Division to reflect the fact that these revenues are generated equally from the two divisions. Her reallocation increases sewer test-year revenues by $24,419 as shown in Schedule TJC-9.

Operating Adjustment #2 – Revenue – Bill Count

Q. Please explain your rationale for this adjustment to sewer revenues?

A. The Company had a revenue discrepancy in both the Water and Sewer Divisions. The bill count analysis and general ledger amounts differed in the amount of revenue collected. In the Sewer Division, the bill count analysis produced a larger revenue figure than the general ledger. In the Water Division, the opposite is true (the general ledger booked amount is more than the bill count analysis). The Company recorded the bill account analysis amount to the rate application in both instances. RUCO, however, has consistently maintained that the amount booked in the general ledger is the more reliable figure because of the check and balances that the double entry accounting system provides. Ms. Diaz Cortez's testimony explains more fully why RUCO maintains this position.

Q. What adjustment are you recommending for the Company's Sewer Division?

A. I have readjusted the Company's proforma revenues to reflect the level of revenue actually recorded in the general ledger during the test-year. This adjustment decreases the Company's Sewer Division test-year revenues by $23,320.

Operating Adjustment #3 – Customer Accounting – Non-Variable Expenses

Q. Did the Company annualize its test-year number of customers?

A. Yes. The Company increased its historical test-year revenues consistent with an annualization of customers to test-year end numbers.

Q. Has the Company annualized certain test-year expenses along with its test-year revenues?

A. Yes. The Company has proposed an adjustment to annualize what it calls variable expenses to match the increase in customers with an increase in costs. Ms. Diaz Cortez had an identical adjustment in the Company's Water Division, and she explains what RUCO believes are variable and non-variable expenses. In her testimony, Ms. Diaz Cortez details RUCO's position regarding LPSCO's annualization of expenses associated with its revenue annualization. Please refer to her testimony regarding the reasoning of my adjustment.

Q. What adjustment have you made to the Company's rate application regarding LPSCO's expense annualization associated with its test-year revenue annualization?

A. Following Ms. Diaz Cortez's analysis, my adjustment decreased the Company's expense annualization associated with LPSCO's revenue annualization by $2,078 as shown on Schedule TJC-10.

Operating Adjustment #4 – Office Rent Expense

Q. Please explain your adjustment to the Company's test-year office rent expense?

A. LPSCO rents office space from Suncor Development Company (Suncor), which is LPSCO's affiliate. During the test-year, there were two separate and distinct elements that made up the monthly office rent expense:

1. Base Monthly Rent $1,525
2. Monthly Amortization of Leasehold Improvements...$ 246

(The $246 represents a three-year amortization that was fully amortized at test-year end.)

Q. If the leasehold improvements were fully amortized at test-year end, does the rent expense as shown in the general ledger represent a going-forward level?

A. No. The leasehold improvements were fully amortized as of the end of the test-year. The improvements are fully paid for and the $246 monthly amortization expense is no longer part of the monthly rent expense.

Q. What adjustment is necessary to remove the fully amortized monthly leasehold improvement from the Company's rate application?

A. As shown on Schedule TJC-11, I have decreased test-year office expense by $1,738, which is the portion allocable to the Sewer Division.

Operating Adjustment #5 – Extraordinary Expense/Rental Expense

Q. Please explain the Extraordinary Expense that you are adjusting by removing $13,154 from rental expense.

A. As Ms. Diaz Cortez was reviewing the general ledger for test-year recorded expenses and taking samples of major expense accounts, she asked the Company a question in a data request concerning particular expense items she had reviewed. The Company answered RUCO Data Request #1.20 and Data Request #5.11. The Company provided information pertaining to the two data requests, and it was determined that these two expensed entries were of a non-recurring nature. One was for $350 for renting equipment, which the Company acquiesced to as being a one time charge. The other expense was for hiring a company to locate the cause of a foul odor emitting from a lift station. It too is a one time and non-recurring cost.

Operating Adjustment #6 – Donations and Public Relations

Q. Does the Company's rate application contain any charitable donations and/or public relation type of expenditures?

A. Yes. During the test-year, the Company booked $5,004 in donations and public relations. With the new allocation factor adjustment discussed above, 50% of the $5,004 booked in donations and public relations should be removed in order that they do not become part of the revenue requirement formula.

Q. What is the reasoning not to allow a public utility to make charitable contributions and promote themselves through some means of public relations?

A. I am in no way saying they cannot donate to charitable contributions or make an independent decision to create some form of goodwill for the Company through a means of public relations. What I am saying is if they so choose to partake in any public relations and donations the cost of doing so should be borne entirely by the shareholders. A monopoly utility with a captured customer base should not be allowed to choose what charities that its captured customer base will subsidize or support through their rates. If the shareholders want to donate, let it be done entirely below the line and not in rates.

Q. What adjustment is necessary to remove all charitable donations and public relations from the revenue requirement formula for the sewer division?

A. Schedule TJC-13 has made the necessary adjustment in the amount of $2,502 to remove all such donations and public relations.

Operating Adjustment #7 – Expense Allocations

Q. Does LPSCO allocate expenses between the Water and Sewer Divisions?

A. Yes.

Q. What factors does the Company use to allocate expenses?

A. LPSCO uses labor and/or payroll basis to allocate its expenses between the Water and Sewer Division. In essence, the allocation factor is a fixed rate and driven by labor. The crux of the Company's allocation rate is that not all expenses are actually driven by labor. Regardless of the nature of the expense or account, LPSCO allocates expenses to the Water and Sewer Divisions at 80% and 20%, respectively.

Q. Do you believe that is a fair and reasonable allocation ratio?

A. In some instances, I would say that it is fair, but in other cases, some expenses obviously are not labor driven. In Ms. Diaz Cortez's testimony on page 22, she has identified certain expenses that are labor driven and others that clearly are not labor driven at all. For the sake of eliminating a redundant statement, please refer to her testimony because we both agree which expenses are propelled by labor and which ones are not. She identifies all the expenses and how they should be more fairly allocated.

Q. Have you made an adjustment to reallocate those expenses that clearly are not labor driven?

A. Yes. Since the Water Division receives the majority (80%) of the allocated expenses, we have identified certain expenses that should be allocated on a 50/50 basis. The adjustment to the Sewer Division to reallocate the expenses that is clearly not labor driven increases the sewer expenses by $135,001 and are shown on Schedule MDC-12.

Q. Is this adjustment of reallocating these expenses revenue neutral?

A. Yes. But, utility regulation and ratemaking is based on cost to serve. An allocation that is not equitable promotes subsidization of one division for the other. Thus, one set of customers will be subsidizing another set of customers, which is surely not what we set out to achieve.

Operating Adjustment #11 – Amortization Expense of Sewer Plant Capacity

Q. Please explain the adjustment you are recommending for sewer plant amortization expense?

A. As discussed in the Rate Base section of my testimony, I am recommending a 40-year amortization of the Goodyear Wastewater Treatment Plant (WWTP). The Company has requested amortization of sewer capacity plant at a 4% per annum rate. I gave my reasoning and rationale earlier in my testimony and recommend a 2.5% annual amortization rate rather than the Company's rate as filed in its application. This adjustment decreases operating expenses by $66,911 as shown on Schedule TJC-14. For further explanation concerning this adjustment see **Rate Base Adjustment #2** of my testimony.

Operating Adjustment #12 – Depreciation Expense

Q. Are you proposing an adjustment to test-year depreciation expense?

A. Yes. The Company failed to calculate its depreciation expense based on the year-end level of plant. LPSCO instead has reflected the actual test year recorded depreciation expense.

Q. What adjustment is necessary to make the year-end depreciation calculation?

A. Schedule TJC-15 shows the calculated annualized level of depreciation expense by multiplying the year-end plant balances by LPSCO's authorized sewer depreciation rate of 2.52%. I have also recalculated the Company's amortization income based on test-year end level of contributed plant. This calculation results in a proforma decrease in depreciation expense of $154.

Operating Adjustment #13 – Property Tax Expense

Q. Has the Company made a proforma calculation of its property tax expense?

A. Yes. The Company has recalculated its test year property tax expense based on the new formula method approved by ADOR. The new tax calculation methodology is based on historical levels of revenue generated by the utility. The ADOR averages the past year with the two previous years' gross revenues.

Q. Do you agree with the Company's calculation of test-year property taxes?

A. No. The Company failed to take the actual three previous years' revenue. For test-year ended 2000, the Company used the proposed revenue instead of the actual. LPSCO did average the three years of revenue, but the result was erroneous because the Company used proposed 2000 revenue. The Company did not use the multiplier rate of 2 in order to double the-3 year average actual revenues. The Company further failed to apply a 25% assessment ratio as required by ADOR to its calculated full cash value.

Q. What adjustment have you made for property taxes?

A. I have decreased the Company's property taxes by $79,762 as shown in Schedule TJC-16.

Operating Adjustment #14 – Income Tax Expense

Q. Please discuss your income tax expense adjustment?

A. As shown on Schedule TJC-17, I calculated LPSCO's Sewer Division income tax expense based on RUCO's recommended level of operating income at present water rates. I have utilized the statutory state and federal income tax rates of 6.968% and 34%, respectively.

Q. Have you computed income tax expense based on RUCO's proposed rates?

A. Yes. I calculated the additional income tax attributable to RUCO's proposed rate increase by utilizing the gross revenue conversion factor. This calculation is shown on Schedule TJC-1, page 2.

COST OF CAPITAL

Cost of Debt

Q. Have you calculated the Cost of Debt?

A. Yes. RUCO's recommended cost of debt is shown on Schedule TJC-18. This recommendation is addressed in detail in the testimony of Ms. Diaz Cortez.

Cost of Equity

Q. What is your recommended cost of equity?

A. RUCO is recommending a cost of equity of 9.75%. This recommendation is discussed in detail in the testimony of Ms. Diaz Cortez.

Weighted Cost of Capital

Q. What is your overall weighted cost of capital recommendation?

A. As shown on Schedule TJC-18, I am recommending a weighted cost of capital of 7.64%, which is comprised of the capital structure requested by the Company, and RUCO's recommended cost of debt and equity.

RATE DESIGN

Q. What are your proposed rates?

A. My proposed sewer rates are shown on Schedule TJC-19.

Q. Please describe the basis of your rate design?

A. The basis of my proposed rates is directly and proportionately reflective of the rate design structure that the Company proposed in its application. I started with the Company's proposed rate design and adjusted the rates downward to generate RUCO's recommended revenue requirement.

Q. Did you make any adjustments to the Company's proposed sewer rates?

A. No. With the exception of the reallocation in other sewer revenues labeled as **Operating Adjustment #1 on Schedule TJC-9.** That adjustment was discussed in that section of my testimony.

Q. Did you perform a comprehensive cost of service study and rate design analysis to derive your proposed rates?

A. No. Due to resource constraints, RUCO was not able to perform an in-depth analysis. I have accepted the Company's proposed rate structure while recognizing that if RUCO had performed a full analysis regarding cost of service, my recommendation might have been different.

Effluent Rate

Q. What is LPSCO's currently authorized effluent rate?

A. LPSCO's currently authorized effluent rate is $52.50 per acre foot (A/F).

Q. Is the Company requesting a change in its effluent rate?

A. Yes. The Company is requesting a "market rate" rather than the currently authorized fixed rate per A/F. LPSCO argues that a flexible rate is needed for effluent so it can compete with other sources of non-potable water.

Q. Does the Company currently have a need to sell or otherwise dispose of its effluent?

A. No. The Company does not own or generate its own effluent. Pursuant to a 1994 contract with the City of Goodyear (the City), LPSCO sends all of its wastewater to the City. The City treats LPSCO's wastewater into effluent and, pursuant to its contract with LPSCO, retains ownership of the effluent. The contract allows LPSCO to buy back the effluent and in turn sell it to customers within its CC&N, however, the contract does not *require* LPSCO to buy back any of the effluent. In response to a RUCO data request, the Company stated that it never buys back effluent from the City unless it has already secured a buyer. Thus, LPSCO currently has no effluent that it needs to dispose of.

Q. Why would LPSCO have a need for a competitive effluent rate if it has no effluent it must sell?

A. That is a good question, which the Company has not explained. In response to data requests LPSCO claims that it competes with the City of Goodyear for effluent sales, yet it has no effluent that it must sell unless it opts to buy it from the City. Under current circumstances, LPSCO does not purchase any effluent unless it has already secured a buyer. This is clearly not a competitive situation that would justify the need for a flexible rate.

Q. In different circumstances would a competitive rate potentially be justified?

A. Yes. LPSCO is in the process of building its own sewer plant, which when completed, will generate its own effluent. LPSCO will be required to sell or otherwise dispose of this byproduct. Effluent sales would accomplish two objectives; to dispose of the effluent and to generate revenues to offset the revenue requirement. In such a situation, a competitive rate may make sense in facilitating adequate demand for the effluent.

Q. In its current situation, would a competitive rate make any sense?

A. No. Again, LPSCO does not have ownership of any effluent that it needs to dispose of. In fact, the Company is only in the position to sell effluent if it chooses to *buy* it from the City, and is under no obligation to do so. In short, LPSCO does not produce or own any effluent that it must sell. Thus, there is no need for the Company to compete. Further, during the test year the Company purchased effluent from the City for $52.46 per A/F. Its current tariff rate is $52.50 per A/F. If the Company were authorized a flexible competitive rate, and were to opt to lower the rate, it would result in rates below cost, which translate into losses. Clearly, that is an undesirable result.

Q. What is your recommendation?

A. I recommend that the Commission refuse to authorize a competitive effluent rate at this time, and to retain the current tariff rate of $52.50 per A/F.

Q. Under different circumstances, could a flexible effluent rate potentially have some merit?

A. Yes. Once the Company is producing its own effluent and has a need to dispose of it in an efficient manner, a flexible rate may make sense. However, since the Company currently neither owns or generates its own effluent, a flexible rate is not warranted.

Q. Does this conclude your direct testimony?

A. Yes.

LITCHFIELD PARK SERVICE COMPANY
DOCKET NOS. W-01428A-01-0487 &SW-01428A-010487
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Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
WASTEWATER DIVISION
REVENUE REQUIREMENTS

DOCKET NO. WS-01428A-01-0487
& SW-01428-01-0487
SCHEDULE TJC-1
PAGE 1 OF 2

LINE NO.	DESCRIPTION	(A) COMPANY REQUESTED	(B) RUCO RECOMMENDED
1	Adjusted Rate Base	$ 9,320,569	$ 8,072,003
2	Adjusted Operating Income	456,931	472,663
3	Current Rate of Return (L2 / L1)	4.90%	5.86%
4	Required Rate of Return	9.654%	7.64%
5	Required Operating Income (L4 * L1)	899,774	617,037
6	Operating Income Deficiency (L5 - L2)	442,843	144,375
7	Gross Revenue Conversion Factor	1.6286	1.6286
8	Gross Revenue Increase	$ 721,214	$ 235,128
9	Current Revenues T/Y Adjusted	1,838,298	1,839,397
10	Proposed Annual Revenue (L8 + L9)	2,559,512	2,074,525
11	Percentage Average Increase	39.23%	12.78%

REFERENCES:
Column (A): Company Schedule A-1
Column (B): Schedule TJC-1, pg. 2, TJC-2, and TJC-7

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
GROSS REVENUE CONVERSION FACTOR

DOCKET NO. WS-01428A-01-0487
SCHEDULE TJC-1

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	Revenue	1.0000	
2	Less: Tax Rate	38.60%	NOTE (A)
3	Sub-Total	0.6140	Line 1 - Line 2
4	Revenue Conversion Factor	$\boxed{1.6286}$	Line 1/Line 3

Calculation of Effective Tax Rate

OPERATING INCOME BEFORE TAXES		100.00%
ARIZONA STATE TAX	-	6.97%
TAXABLE INCOME FEDERAL		93.03%
FEDERAL INCOME TAX RATE	x	34.00%
SUBTOTAL		31.63%
ADD STATE TAX RATE		38.60%
EFFECTIVE TAX RATE		38.60%

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
WASTEWATER DIVISION
RATE BASE - ORIGINAL COST

DOCKET NO. WS-01428A-01-0487
SCHEDULE TJC-2

LINE NO.		(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	Plant in Service	$ 9,110,163	$ 2,070,192	$ 11,180,355
2	Less: Accumulated Depreciation	(758,143)	(503,416)	(1,261,559)
3	Net Plant in Service	$ 8,352,020	$ 1,566,776	$ 9,918,796
4	Construction Work In Progress (CWIC)	1,230,049	(1,230,049)	-
5	Total Net Plant	9,582,069	336,727	9,918,796
6	Advances in Aid of Construction (AIAC)	-	-	-
7	Contributions In Aid of Construction (CIAC)	-	(2,070,191)	(2,070,191)
8	Accumulated Amortization of CIAC	-	479,377	479,377
9	Deferred Income Taxes	(346,468)	(7,045)	(353,513)
10	Working Capital	84,968	12,566	97,534
11	Total Rate Base	9,320,569	(1,248,566)	8,072,003

REFERENCES:
Column (A): Company Schedule B-1, pg. 1
Column (B): Schedule TJC-3
Column (C): Column (A) + Column (B)

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
WASTEWATER DIVISION
SUMMARY OF RATE BASE ADJUSTMENTS

DOCKET NO. WS-01428A-01-0487
SCHEDULE TJC-3

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] RUCO ADJUSTED
1	Plant In Service	$ 9,110,163	2,070,192					$ 11,180,355
2	Accumulated Depreciation	(758,143)	(570,327)	66,911				(1,261,559)
3	Net Plant In Service	8,352,020	1,499,865	66,911	-	-	-	9,918,796
4	Construction Work In Progress (CWIP)	1,230,049	-	-	-	-	(1,230,049)	-
5	Total Net Plant	9,582,069	1,499,865	66,911	-	-	(1,230,049)	9,918,796
6	Advances In Aid of Construction (AIAC)	-	-					-
7	Contributions In Aid of Construction (CIAC)	-	(2,070,191)					(2,070,191)
8	Accumulated Amortization CIAC	-	479,377					479,377
9	Deferred Income Taxes	(346,468)	-		(7,045)			(353,513)
10	Working Capital	84,968	-			12,566		97,534
11	Total Rate Base	$ 9,320,569	$ (90,950)	$ 66,911	$ (7,045)	$ 12,566	$ (1,230,049)	$ 8,072,003

Adjustment #:	Reference:
1. Plant, Acc. Depre., CIAC, & Acc. CIAC	TJC-4
2. Amortization of Capacity	TJC-5
3. Acc. Deferred Income Tax	Testimony TJC

Adjustment #:	Reference:
4. Working Capital	TJC-6
5. CWIP	Testimony TJC

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
RATE BASE ADJ. #1 - PLANT, ACCUMULATED DEPRE.
CIAC & ACCUMULATED AMORTIZATION OF CIAC

DOCKET NO. WS-01428A-01-0487
SCHEDULE TJC-4

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	GROSS PLANT BALANCE PER RUCO	$ 11,180,355	SCH. TJC-4, PG. 2
2	GROSS PLANT BALANCE PER COMPANY	9,110,163	CO. SCH. B-1
3	INCREASE IN PLANT BALANCE	2,070,192	LINE 1 - LINE 2
4	ACCUMULATED DEPRECIATION PER RUCO	(1,328,470)	SCH. TJC-4, PG.3
5	ACCUMULATED DEPRECIATION PER COMPANY	(758,143)	CO. SCH. B-1
6	INCREASE IN ACCUMULATED DEPRECIATION	(570,327)	LINE 4 - LINE 5
7	GROSS CIAC BALANCE PER RUCO	(2,070,191)	SCH. TJC-4, PG. 4
8	GROSS CIAC BALANCE PER COMPANY	-	CO. SCH. B-1
9	INCREASE IN GROSS CIAC	(2,070,191)	LINE 7 - LINE 8
10	ACCUMULATED AMORT. OF CIAC PER RUCO	479,377	SCH. TJC-4, PG. 5
11	ACCUMULATED AMORT. OF CIAC PER COMPANY	-	CO. SCH. B-1
12	INCREASE IN ACCUMULATED AMORT. OF CIAC	479,377	LINE 10 - LINE 11

Litchfield Park Service Company - Sewer Division
RECONCILIATION OF PLANT BALANCES
INCLUDES CONTRIBUTED PLANT
12-31-96 TO 12-31-00

GROSS PLANT BALANCE

LINE NO.	ACCT #	DESCRIPTION	BALANCE 12-31-96	ADDITIONS & RETIREMENTS	BALANCE 12-31-97	ADDITIONS & RETIREMENTS	BALANCE 12-31-98	ADDITIONS & RETIREMENTS	BALANCE 12-31-99	ADDITIONS & RETIREMENTS	BALANCE 12-31-00
1	1010	Land	$ -	$ -	-	$ -	$ -	$ -	$ -	$ -	$ -
2	1020	Other Sewer Plant & Equipment	5,240	33	5,273	-	5,273	235	5,508	-	5,508
3	1021	Office Furniture & Equipment	17,034	(838)	16,196	845	17,041	9,992	27,033	2,588	29,621
4	1023	Collection Sewers	1,706,590	36,911	1,743,501	799,281	2,542,782	1,489,639	4,032,421	471,733	4,504,154
5	1126	Service Laterals to Customers	220,437	-	220,437	-	220,437	-	220,437	1,000,349	1,220,786
6	1022	Transportation	-	-	-	-	-	225	225	-	225
7	1032	Collection Sewers Forced	-	-	-	555,286	555,286	-	555,286	670	555,956
8	1026	Effluent Lines	-	-	-	-	-	303,241	303,241	67,722	370,963
9	1027	Power Generation Equipment	-	-	-	-	-	-	-	21,372	21,372
10	1025	Flow Measuring Equipment	-	-	-	-	-	11,020	11,020	-	11,020
11	1028	Outfall Sewer Lines	-	-	-	-	-	-	-	-	-
12	1030	Plant & Misc. Equipment (Capacity)	1,382,656	-	1,382,656	3,078,094	4,460,750	-	4,460,750	-	4,460,750
13	1031	Reserve	-	-	-	1,290,457	1,290,457	(1,125,566)	164,891	(164,891)	-
14		Held For Future Use	-	2,050,364	2,050,364	(2,050,364)	-	-	-	-	-
15		Total Plant	$ 3,331,957	2,086,470	5,418,427	$ 3,673,599	9,092,026	$ 688,786	$ 9,780,812	$ 1,399,543	$ 11,180,355

REFERENCES
DR #RN 1.5

Litchfield Park Service Company - Sewer Division
RECONCILIATION OF PLANT BALANCES
INCLUDES CONTRIBUTED PLANT
12-31-96 TO 12-31-00

ACCUMULATED DEPRECIATION BALANCE

LINE NO.	ACCT #	DESCRIPTION	ACCUM. DEPREC. 12-31-96	DEPREC. EXP. 1997	ACCUM. DEPREC. 12-31-97	DEPREC. EXP. 1998	ACCUM. DEPREC. 12-31-98	DEPREC. EXP. 1999	ACCUM. DEPREC. 12-31-99	DEPREC. EXP. 2000	ACCUM. DEPREC. 12-31-00
1	1010	Land		$ -	-	$ -	$ -	$ -	$ -	$ -	$ -
2	1020	Other Sewer Plant & Equipment		263	-	176	-	136	-	139	
3	1021	Office Furniture & Equipment		831	(1,500)	556	(238)	555	-	714	(1,243)
4	1023	Collection Sewers		86,252	-	71,724	-	82,848	-	107,561	(3,700)
5	1126	Service Laterials to Customers		11,022	-	7,377	-	5,555	-	18,159	
6	1022	Transportation		-	-	-	-	3	-	6	
7	1032	Collection Sewers Forced		-	-	9,292	-	13,993	-	14,002	(3,000)
8	1026	Effluent Lines		-	-	-	-	3,821	-	8,495	
9	1027	Power Generation Equipment		-	-	-	-	-	-	269	
10	1025	Flow Measuring Equipment		-	-	-	-	139	-	278	
11	1028	Outfall Sewer Lines		-	-	-	-	-	-	-	(136,193)
12	1030	Plant & Misc. Equipment (Capacity)		69,133	-	97,780	-	112,411	-	112,411	
13	1031	Reserve		-	-	21,594	-	18,337	-	2,078	
14		Held For Future Use		51,259	-	34,309	-	-	-	-	
				218,760	(1,500)	242,808	(238)	237,798	-	$ 264,111	$ (144,136)
15		Total Plant	$ 510,868		728,128		970,698		$ 1,208,496		$ 1,328,470

Litchfield Park Service Company - Sewer Division
SEWER DIVISION
TEST YEAR ENDED DECEMBER 31, 2000
RECONCILIATION OF CIAC

GROSS CIAC BALANCE

LINE NO.	ACCT #	DESCRIPTION	BALANCE 12-31-96	ADDITIONS & RETIREMENTS	BALANCE 12-31-97	ADDITIONS & RETIREMENTS	BALANCE 12-31-98	ADDITIONS & RETIREMENTS	BALANCE 12-31-99	ADDITIONS & RETIREMENTS	BALANCE 12-31-00
1	1125	Collection Sewer	$ 561,668	$ -	561,668	$ -	$ 561,668	$ -	$ 561,668	$ 287,737	$ 849,405
2	1126	Service Laterals to Customers	220,437	-	220,437	-	220,437	-	220,437	1,000,349	1,220,786
3		TOTAL	782,105	-	782,105	-	782,105	-	782,105	1,288,086	2,070,191

REFERENCES
DR #RN 1.4

Litchfield Park Service Company - Sewer Division
RECONCILIATION OF PLANT BALANCES
INCLUDES CONTRIBUTED PLANT
12-31-96 TO 12-31-00

ACCUMULATED AMORTIZATION OF CIAC

LINE NO.	ACCT #	DESCRIPTION	ACCUM. AMORT. 12-31-96	AMORT. INC 1997	ACCUM. AMORT. 12-31-97	AMORT. INC 1998	ACCUM. AMORT. 12-31-98	AMORT. INC 1999	ACCUM. AMORT. 12-31-99	AMORT. INC 2000	ACCUM. AMORT. 12-31-00
1	1125	Collection Sewer		$ 28,083	$ -	$ 18,797	$ -	$ 14,154	$ -	$ 17,780	$ -
2	1126	Service to Customers		11,022	-	$ 7,377	-	5,555	-	18,159	
					-		-		-		-
			358,449	39,105	397,554	26,174	423,729	19,709	443,438	35,939	479,377

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
RATE BASE ADJ. #2 - ACCUMULATED AMORTIZATION OF PLANT CAPACITY

DOCKET NO. WS-01428A-01-0487
SCHEDULE TJC-5

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	Company Investment in Goodyear Sewer Plant Capacity	$ 4,460,750	Neidlinger W/P #4
2	Accumulated Amortization of Capacity Per Company	178,430	Company Schedule B-2, pg. 1
3	Accumulated Amortization of Capacity Per RUCO (*)	111,519	Line 1 / 40 Year Amotization Agreement
4	RUCO Recommended Amortization Adjustment	$ 66,911	

(*) Based on a 40 year Plant Life and Amortization Basis

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
RATE BASE ADJUSTMENT #4
WORKING CAPITAL

DOCKET NO. WS-01428A-01-0487
Schedule TJC-6

LINE NO.	DESCRIPTION		Total Amount
1	Total Operating Expense Excluding Income Tax		$1,089,899
2	LESS:		
3	Property Tax	49,151	
4	Depreciation	228,684	
5	Rate Case Expense	15,000	
	Purchased Power	25,186	318,021
6			
	Total Operating Expenses		771,878
7			
	1/8th Operating Expenses		96,485
	ADD:		
8	Purchased Power/24		1,049
9	Cash Working Capital per RUCO		$ 97,534
10	Cash Working Capital Per Company		84,968
11	RUCO's Recommended Adjustment		$ 12,566

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
WASTEWATER DIVISION
OPERATING INCOME - TEST YEAR AND RUCO PROPOSED

DOCKET NO. WS-01428A-01-0487
SCHEDULE TJC-7

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] RUCO TEST YEAR ADJUSTMENTS	[C] RUCO TEST YEAR AS ADJUSTED	[D] RUCO PROPOSED CHANGES	[E] RUCO RECOMMENDED
	REVENUES - SEWER:					
1	Revenues From Sewer Service	$ 1,810,447	$ (23,320)	$ 1,787,127	$ 227,363	$ 2,014,490
2	Other Sewer Revenues	27,851	24,419	52,270	7,765	60,035
3	Total Revenues	$ 1,838,298	$ 1,099	$ 1,839,397	$ 235,128	$ 2,074,525
	OPERATING EXPENSES:					
4	Salaries & Wages	$ 71,566	$ -	$ 71,566		$ 71,566
5	Employee Pensions & Benefits	18,908	-	18,908		18,908
6	Purchased Power	25,186	-	25,186		25,186
7	Purchased Treatment Expense	385,980	-	385,980		385,980
8	Outside Services - Legal & Eng.	13,224	-	13,224		13,224
9	Outside Services - Oper. & Maint.	94,089	-	94,089		94,089
10	Rental Expense	22,289	(14,892)	7,398		7,398
11	Materials & Supplies	34,913	-	34,913		34,913
12	General & Administative	30,379	130,421	160,800		160,800
13	Depreciation & Amortization	295,749	(67,065)	228,684		228,684
14	Property Taxes	128,913	(79,762)	49,151		49,151
15	Income Taxes	260,171	16,664	276,835	90,754	367,589
16	Total Operating Expenses	1,381,367	(14,633)	1,366,734	90,754	1,457,487
17	**Net Income**	$ 456,931	$ 15,732	$ 472,663	$ 144,375	$ 617,037

REFERENCES:
Column (A): Co. Sch. C-1, pg. 3
Column (B): Sch. TJC-8
Column (C): Column (A) + Column (B)
Column (D): Sch. TJC-1
Column (E): Column (C) + Column (D)

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
WASTEWATER DIVISION
SUMMARY OF OPERATING ADJUSTMENTS

DOCKET NO. WS-01428A-01-0487
SCHEDULE TJC-8

LINE NO.	DESCRIPTION	COMPANY PROPOSED	ADJ. #1	ADJ. #2	ADJ. #3	ADJ. #4	ADJ. #5	ADJ. #6	ADJ. #7	ADJ. #8	ADJ. #9	ADJ. #10	ADJ. #11	ADJ. #12	ADJ. #13	ADJ. #14	RUCO ADJUSTED
	REVENUES - SEWER:																
1	Revenues From Sewer Service	$ 1,810,447		$ (23,320)													$ 1,787,127
2	Other Sewer Revenues	27,851	24,419														$ 52,270
3	Total Revenues	1,838,298	24,419	(23,320)	-	-	-	-	-	-	-	-	-	-	-	-	$ 1,839,397
	OPERATING EXPENSES:																
4	Salaries & Wages	71,566															71,566
5	Employee Pensions & Benefits	18,908															18,908
6	Purchased Power	25,186															25,186
7	Purchased Treatment Expense	385,980															385,980
8	Outside Services - Legal & Eng.	13,224															13,224
9	Outside Services - Oper. & Maint.	94,089															94,089
10	Rental Expense	22,289				(1,738)	(13,154)										7,398
11	Materials & Supplies	34,913															34,913
12	General & Administrative	30,379			(2,078)			(2,502)	135,001								160,800
13	Depreciation & Amortization	295,749											$ (66,911)	(154)			228,684
14	Property Taxes	128,913													(79,762)		49,151
15	Income Taxes	260,171														$ 16,664	276,835
16	Total Operating Expenses	1,381,367	-	-	(2,078)	(1,738)	(13,154)	(2,502)	135,001	-	-	-	(66,911)	(154)	(79,762)	16,664	1,366,734
17	**Net Income**	$ 456,931	$ 24,419	$ (23,320)	$ 2,078	$ 1,738	$ 13,154	$ 2,502	$ (135,001)	$ -	$ -	$ -	$ 66,911	$ 154	$ 79,762	$ (16,664)	$ 472,663
																	$ 472,663

Adjustment #:	Reference:
1. Misc.Revenue	Sch. TJC-9, pg. 1
2. Bill Count Revenue Revenue	Testimony TJC
3. Non-Variable Expense	Sch. TJC-10
4. Office Rent	Sch. TJC-11
5. Extraordinary Expense	Sch. TJC-12
6. Donations & P/R	Sch. TJC-13
7. Allocation of Expense	Testimony TJC

Adjustment #:	Reference:
8. Not Used	
9. Not Used	
10. Not Used	
11. Amortization Expense	Sch. TJC-14
12. Depreciation Expense	Sch. TJC-15
13. Property Tax	Sch. TJC-16
14. Income Taxes	Sch. TJC-17

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ. #1 - MISCELLANEOUS REVENUE

DOCKET NO. WS-01428A-01-0487
& SW-01428-01-0487
SCHEDULE TJC-9

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	Establishment of Service	$ 36,455	Company W/P 13, pg. 1
2	Re-Connect Charges	4,635	Company W/P 13, pg. 1
3	Returned Checks	840	Company W/P 13, pg. 1
4	Late Payment Fees	6,907	Company W/P 13, pg. 1
5	Total	48,837	Company Schedule C-1
6	Allocation to Other Sewer Revenues	24,419	50% Allocation Factor
7	Adjustment	$ 24,419	Line 5 - Line 6

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ. #3 - NON-VARIABLE EXPENSES -
CUSTOMER ACCOUNTING

DOCKET NO. WS-01428A-01-0487
SCHEDULE TJC-10

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
	NON-VARIABLE COSTS:		
1	Salaries & Wages	$ 16,093	Company W/P-23
2	Merit Pay	2,736	Company W/P-23
3	Fringe Benefits	4,331	Company W/P-23
4	Meter Reading	-	Company W/P-23
5	Total Variable Costs	23,160	Sum of Lines 1 - 4
6	Variable Costs Per Company	57,286	Company W/P-23
7	Variable Costs Per RUCO	34,126	Line 5 - Line 6
8	Test Year Bills	56,827	Company W/P-23
9	Variable Cost Per Bill	0.6005	Line 7/Line 8
10	Increase In Bills	420	Company W/P-23
11	Increase In Variable Costs	252	Line 9 x Line 10
12	Increase In Variable Costs Per Company	2,330	Company W/P-23
13	Adjustment	$ (2,078)	Line 11 - Line 12

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ. #4 - OFFICE RENT

DOCKET NO. WS-01428A-01-0487
& SW-01428-01-0487
SCHEDULE TJC-11

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	Annual Rent	$ 18,295	RUCO DR #1.3
2	Test-Year Sewer Allocation %	20%	STAFF DR #RN 1.3
3	Annual Sewer Office Rent	3,659	Line 1 x Line 2
4	Test-Year Recorded	4,354	Company W/P 6, pg. 2
5	Adjustment @ 20%	(695)	Line 3 - Line 4
6	Adjustment @ 100%	(3,475)	Line 5 / 20%
7	Adjustment @ 50%	$ (1,738)	Line 6 x 50%

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ. #5 - EXTRAORDINARY EXPENSE
RENTAL EQUIPMENT

DOCKET NO. WS-01428A-01-0487
& SW-01428-01-0487
SCHEDULE TJC-12

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	Western Environmental Equipment	$ 350	Company G/L, pg. 148
2	Syneco Systems	12,804	Company G/L, pg. 40
3	Total Adjustment	$ (13,154)	Line 1 + Line 2

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ. #6 - DONATIONS & PUBLIC RELATIONS

DOCKET NO. WS-01428A-01-0487
& SW-01428-01-0487
SCHEDULE TJC-13

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	Donations	$ 54.63	Company G/L, pg. 43
2	Public Relations	946.08	Company G/L, pg. 43
3	Total @ 20%	1,001	Line 1 + Line 2
4	Total @ 100%	5,004	Line 3 / 20%
5	Total Adjustment @ 50%	$ (2,502)	Line 4 x 50%

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ. #11 - AMORTIZATION OF SEWER CAPACITY

DOCKET NO. WS-01428A-01-0487
SCHEDULE TJC-14

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	Company Investment in Goodyear Sewer Plant Capacity	$ 4,460,750	Neidlinger W/P #4
2	Sewer Plant Capacity Life Agreement - 40 Years	40	RUCO DR #3.26, pg. 14
3	Annual Amortization Expense	111,519	Line 1 / Line 2
4	Annual Amortization Per Company	178,430	Company Schedule C-1, pg. 1
5	RUCO Recommended Amortization Adjustment	$ (66,911)	Line 3 - Line 4

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ. #12 - DEPRECIATION EXPENSE

DOCKET NO. WS-01428A-01-0487
& SW-01428-01-0487
SCHEDULE TJC-15

LINE NO.	DESCRIPTION	PLANT 12-31-00	ADJUSTMENTS	RUCO ADJUSTED BALANCE	DEPRECIATION RATE	DEPRECIATION EXPENSE
1	Land	$ -		$ -	0.00%	$ -
2	Other Sewer Plant & Equipment	5,508		5,508	2.52%	139
3	Office Furniture & Equipment	29,621		29,621	2.52%	746
4	Collection Sewers	4,504,154		4,504,154	2.52%	113,505
5	Service Laterals to Customers	1,220,786		1,220,786	2.52%	30,764
6	Transportation	225		225	2.52%	6
7	Collection Sewers Forced	555,956		555,956	2.52%	14,010
8	Effluent Lines	370,963		370,963	2.52%	9,348
9	Power Generation Equipment	21,372		21,372	2.52%	539
10	Flow Measuring Equipment	11,020		11,020	2.52%	278
11	Outfall Sewer Lines	-		-	2.52%	-
12	Plant & Misc. Equipment (Capacity)	4,460,750		4,460,750	AMORTIZE	0
13	Reserve	-		-	2.52%	-
14	Held For Future Use	-		-	2.52%	-
15	Total Plant	11,180,355		11,180,355		169,334
16	Contributed Plant			$ 2,070,191	2.52%	$ 52,169
17	Net Depreciation Expense					117,165
18	Depreciation Expense Per Company					117,319
19	RUCO's Recommended Depreciation Adjustment					$ (154)

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
OPERATING ADJ. #13 - PROPERTY TAX EXPENSE

DOCKET NO. WS-01428A-01-0487
& SW-01428-01-0487
SCHEDULE TJC-16

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	Revenues - 2000	$ 1,692,620	Company Sch. E-2
2	Revenues - 1999	1,420,123	Company Sch. E-2
3	Revenues - 1998	1,041,290	Company Sch. E-2
4	Total	$ 4,154,033	Sum Lines 1, 2, & 3
5	3 Year Average	1,384,678	Line 4/3 Years
6	Multiplier for Revenues (2 x Last 3 yrs. Average Revenue)	x 2	ADOR New Valuation Method
7	Revenues for Full Cash Value	2,769,355	Line 5 x 2 (Multiplier for Revenues)
8	**ADD:** 10% of CWIP Balance	123,005	Company Sch. B-2, pg. 4; Line 4 x 10
9	**LESS:** Licensed Vehicles	1,143	Company's General Ledger
10	Full Cash Value (FCV)	2,891,217	Line 7 + Line 8 minus Line 9
11	Assessment Ratio	25%	Per ADOR New Valuation Method
12	Assessed Value	722,804.31	Line 10 x Line 11
13	Property Tax Rate	6.80%	Neidlinger W/P #29
14	Proforma Property Taxes Payable	49,151	Line 12 x Line 13
15	Property Taxes per Company's Rate Application	128,913	Company Schedule C-1, pg. 1
16	RUCO's Recommended Adjustment	(79,762)	Line 14 - Line 15

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
WASTEWATER DIVISION
OPERATING ADJ. #14 - INCOME TAXES

DOCKET NO. WS-01428A-01-0487
& SW-01428-01-0487
SCHEDULE TJC-17

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
	FEDERAL INCOME TAXES:		
1	Operating Income Before Income Taxes	$ 749,498	Sch. TJC-7
	LESS:		
2	Arizona State Tax	49,975	Line 11
3	Interest Expense	32,288	NOTE (A)
4	Federal Taxable Income	667,235	Line 1 - Lines 2 & 3
5	Federal Income Tax Rate	34.00%	Tax Rate
6	Federal Income Tax Expense	226,860	Line 4 x Line 5
	STATE INCOME TAXES:		
7	Operating Income Before Income Taxes	749,498	Line 1
	LESS:		
8	Interest Expense	32,288	NOTE (A)
9	State Taxable Income	717,210	Line 7 - Line 8
10	State Tax Rate	6.968%	Tax Rate
11	State Income Tax Expense	49,975	Line 9 x Line 10
12	Total Income Taxes	276,835	Line 6 + Line 11
13	Income Taxes per Company	260,171	Company Sch. C-1, pg. 2
14	Adjustment	$ 16,664	Line 12 - Line 13

NOTE A:
Interest Sychronization

Adjusted Rate Base	$ 8,072,003
Weighted Cost of Debt	0.40%
Interest Expense	$ 32,288

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
WASTEWATER DIVISION
COST OF CAPITAL

DOCKET NO. WS-01428A-01-0487
& SW-01428-01-0487
SCHEDULE TJC-18

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) ADJUSTMENT	(C) ADJUSTED BALANCE	(D) CAPITAL RATIO	(E) COST RATE	(F) WEIGHTED COST
1	Long-Term Debt: (NOTE A)	$ 5,335,000	$ -	$ 5,335,000	25.74%	1.57%	0.40%
2	Short-Term Debt	-	-	-	0.00%	0.00%	0.00%
3	Common Equity	15,388,544	-	15,388,544	74.26%	9.75%	7.24%
4	TOTAL	$ 20,723,544	0	$ 20,723,544	100.00%		7.64%

REFERENCES:
Column (A): Company Schedule D-1
Column (B): Testimony MDC
Column (C): Column (A) + Column (B)
Column (D): Column (C) / Column (C) Line #4
Column (E): Testimony MDC
Column (F): Column (D) x Column (E)

Litchfield Park Service Company - Sewer Division
Test Year Ended December 31, 2000

DOCKET NO. WS-01428A-01-0487
SCHEDULE TJC-19

RATE DESIGN AND REVENUE RECONCILIATION

[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
	TEST YEAR - ACTUAL			TEST YEAR - AS ADJUSTED			RUCO PROPOSED				
CUSTOMER CLASS	TEST YEAR BILLS/GALLONS	RATE	REVENUE	ANNUALIZED BILLS/GALLONS	RATE	REVENUE	ANNUALIZED BILLS/GALLONS	RATE	REVENUE	REVENUE INCREASE	PERCENT INCREASE
Residential											
Monthly Charge Data	55,326	$ 23.20	$ 1,283,563	60,144	$ 23.20	$ 1,395,341	60,144	$ 25.50	$ 1,533,672	$ 138,331	9.91%
Measured Service Data Per 1,000 Gal. Water	-										
Totals			$ 1,283,563			$ 1,395,341					
Multi-Family Housing:											
Monthly Charge Data	5,580	$ 21.70	$ 121,086	5,580	$ 21.70	$ 121,086	5,580	$ 24.50	$ 136,710	$ 15,624	12.90%
Measured Service Data Per 1,000 Gal. Water	-										
Totals			$ 121,086			$ 121,086					
Commercial											
Small Commercial - Flat Rate:											
Monthly Charge Data	699	$ 38.30	$ 26,772	699	$ 38.30	$ 26,772	699	$ 43.00	$ 30,057	$ 3,285	12.27%
Measured Service Data Per 1,000 Gal. Water	-										
Totals			$ 26,772			$ 26,772					
Regular Domestic:											
Monthly Charge Data	285	$ 17.50	$ 4,988	285	$ 17.50	$ 4,988	285	$ 20.00	$ 5,700	$ 713	14.29%
Measured Service Data Per 1,000 Gal. Water	22,914,722	$ 1.80	$ 41,246	22,914,722	$ 1.80	$ 41,246	22,914,722	$ 1.93	$ 44,225	$ 2,979	7.22%
Totals			$ 46,234			$ 46,234					
Hard-to-Treat:											
Monthly Charge Data	313	$ 17.50	$ 5,478	348	$ 17.50	$ 6,090	348	$ 29.00	$ 10,092	$ 4,002	65.71%
Measured Service Data Per 1,000 Gal. Water	37,825,111	$ 2.00	$ 75,650	42,054,895	$ 2.00	$ 84,110	42,054,895	$ 2.25	$ 94,624	$ 10,514	12.50%
Totals			$ 81,128			$ 90,200					
Wigwam Hotel:											
Monthly Charge Data	4,164	$ 21.70	$ 90,359	4,164	$ 21.70	$ 90,359	4,164	$ 25.00	$ 104,100	$ 13,741	15.21%
Measured Service Data Per 1,000 Gal. Water	-										
Totals			$ 90,359			$ 90,359					
Wigwam Main:											
Monthly Charge Data	12	$ 625.00	$ 7,500	12	$ 625.00	$ 7,500	12	$ 750.00	$ 9,000	$ 1,500	20.00%
Measured Service Data Per 1,000 Gal. Water	-										
Totals			$ 7,500			$ 7,500					
Schools - Flat Monthly Rate:											
LP Elementary	12	$ 550.00	$ 6,600	12	$ 550.00	$ 6,600	12	$ 625.00	$ 7,500	$ 900	13.64%
PV Elementary	12	$ 550.00	$ 6,600	12	$ 550.00	$ 6,600	12	$ 625.00	$ 7,500	$ 900	13.64%
Western Sky Middle	12	$ 550.00	$ 6,600	12	$ 550.00	$ 6,600	12	$ 750.00	$ 9,000	$ 2,400	36.36%
Millennium High school	12	$ 550.00	$ 6,600	12	$ 550.00	$ 6,600	12	$ 750.00	$ 9,000	$ 2,400	36.36%
Estrella Community College	12	$ 550.00	$ 6,600	12	$ 550.00	$ 6,600	12	$ 1,125.00	$ 13,500	$ 6,900	104.55%
Total Schools			$ 33,000			$ 33,000					
Other Sewer Revenues			$ 27,851			$ 27,851		$ 60,035	$ 60,035	$ 32,184	115.56%
Residential Subtotal			$ 1,404,649			$ 1,395,341			$ 1,533,672	$ 138,331	9.91%
Commercial Subtotal			$ 284,992			$ 415,150			$ 481,008	$ 65,858	15.86%
Other Subtotal			$ 27,851			$ 27,851			$ 60,035	$ 32,184	115.56%
Total Revenue			$ 1,717,492			$ 1,838,342			$ 2,074,714	$ 236,372	12.86%
Sewer Service Revenue per Books			$ 1,692,620			$ 1,838,298					
Excess of Bill Count Over Booked Amount ($)			$ 24,872			$ 44					
Excess of Bill Count Over Booked Amount (%)			1.47%			0.00%					

112.78%

Litchfield Park Service Company - Sewer Division
TEST YEAR ENDED DECEMBER 31, 2000
INCREMENTAL REVENUE FROM INCREASED SERVICE CHARGES

DOCKET NO. WS-01428A-01-0487
SCHEDULE TJC-19

LINE NO.	DESCRIPTION	(A) T/Y BILL COUNT	(B) INCREASE IN RATE	(C) ADDITIONAL REVENUE
1	Establishment Of Service	2,430	$ 5.00	12,150
2	Reconnect Charge	155	$ 20.00	3,100
3	Returned Check Charge	56	$ 5.00	280
4	Total Additional Revenue			15,530
5	Allocation To Water			7,765
6	Additional Sewer Revenue			$ 7,765

REFERENCES:
Col. A - Neidlinger W/P #13, pg. 1
Col. B - Company's Proposed Tariff
Col. C - Column (A) multiplied by Column (B)