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Arizona Corporation Commission
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COMMISSIONER

APR 26 2006

MARC SPITZER
COMMISSIONER

DOCKETED BY: *AK*

IN THE MATTER OF THE)
APPLICATION OF GOODMAN)
WATER COMPANY FOR A)
DETERMINATION OF THE FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN)
ITS RATES AND CHARGES FOR)
UTILITY SERVICES BASED THEREON)

No. W-02500A- W-02500A-06-0281

APPLICATION FOR A RATE ADJUSTMENT
AND NOTICE OF FILING OF DIRECT TESTIMONY OF
THOMAS J. BOURASSA AND CHRISTOPHER W. HILL

The service territory of Goodman Water Company, an Arizona public service corporation, is located in southern Pinal County, Arizona, immediately north of the unincorporated community known as Catalina, in northern Pima County. In the Fall of 1988, the Goodman Water Company (the "Company"), a Class "D" utility, received a Certificate of Convenience & Necessity authorizing it to engage in the water utility business. (See, Decision No. 56118, October 1, 1988). Until the year 2002, the growth in

1 the Company's customer base was insignificant, but since that time, the Company has
2 been adding approximately 100 new customers each year.

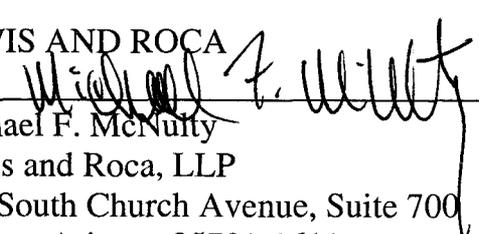
3 The Company's rates for water utility service have not increased in eighteen years;
4 not since its CC&N was approved in 1988. At present, with 459 customers at the end of
5 the test year, the Company has invested over \$2.33 million in plant infrastructure, but the
6 Company's current rate of return, based on the adjusted test year data, is a negative 6
7 percent (-6%). Consequently, rate increases are necessary to ensure that the Company
8 recovers its operating expenses and has an opportunity to earn a reasonable return on the
9 fair value of its utility plant and property devoted to public service.

10 The owners of the Company engaged the services of Mr. Thomas J. Bourassa,
11 C.P.A., to review the rates and tariffs of the Company, to prepare the pre-filed "Direct
12 Testimony of Thomas J. Bourassa" attached as Exhibit "A", and the test year rate
13 schedules attached at Exhibit "B" as required by A.C.R.R. R14-2-103(B). Additionally,
14 the pre-filed "Direct Testimony of Christopher W. Hill", the Company's Manager, is
15 attached at Exhibit "C."

16 Wherefore, the Company respectfully requests, through its legal counsel, Lewis and
17 Roca, LLP, that the Commission grant the Company's application for a determination of
18 the fair value of the Company's utility plant and property, and for an increase in its rates
19 and charges.

20
21 RESPECTFULLY SUBMITTED this 25 day of April, 2006.

22 LEWIS AND ROCA

23 
Michael F. McNulty

24 Lewis and Roca, LLP

25 One South Church Avenue, Suite 700

26 Tucson, Arizona 85701-1611

27 Attorneys for Goodman Water Company
28

1 ORIGINAL AND thirteen (13) copies
2 of the foregoing delivered VIA DHL
3 this 25 day of April, 2006

4 Arizona Corporation Commission
5 Utilities Division – Docket Control
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 COPY of the foregoing delivered VIA
9 U.S. MAIL this 25 day of April, 2006

10 Goodman Water Company
11 6340 North Campbell Avenue, Suite 278
12 Tucson, AZ, 85718

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EXHIBIT A

1 Lewis and Roca, LLP
2 Michael F. McNulty (No. 005107)
3 One South Church Avenue, Suite 700
4 Tucson, Arizona 85701
5 Attorneys for Goodman Water Company

6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7 **KRISTIN K. MAYES**
8 **COMMISSIONER**

9 **WILLIAM A. MUNDELL**
10 **COMMISSIONER**

11 **JEFF HATCH-MILLER**
12 **CHAIRMAN**

13 **MIKE GLEASON**
14 **COMMISSIONER**

15 **MARC SPITZER**
16 **COMMISSIONER**

17 **IN THE MATTER OF THE)**
18 **APPLICATION OF GOODMAN WATER)**
19 **COMPANY, AN ARIZONA)**
20 **CORPORATION, FOR A)**
21 **DETERMINATION OF THE FAIR)**
22 **VALUE OF ITS UTILITY PLANT AND)**
23 **PROPERTY AND FOR INCREASES IN)**
24 **ITS RATES AND CHARGES FOR)**
25 **UTILITY SERVICE BASED THEREON)**

No. W-02500A-

DIRECT TESTIMONY

26 **DIRECT TESTIMONY OF**
27 **THOMAS J. BOURASSA**
28

1 I. INTRODUCTION AND QUALIFICATIONS.

2
3 Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

6 Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

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

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

13 A. Yes. Prior to becoming a private consultant, I was employed by High-Tech
14 Institute, Inc., and served as Controller and Chief Financial Officer. Prior to
15 working for High-Tech Institute, I worked as a Division Controller for the Apollo
16 Group, Inc. Before joining the Apollo Group, I was employed at Kozoman &
17 Kermode, CPAs. In that position, I prepared compilations and other write-up work
18 for water and wastewater utilities, as well as tax returns.

19 In my consulting practice, I have prepared and/or assisted in the preparation
20 of various water and wastewater utility rate applications before the Arizona
21 Corporation Commission ("Commission"), including Vail Water Company, E&T
22 Water Company, Ponderosa Utility Company, Diablo Village Water Company,
23 New River Utility Company, Far West Water & Sewer Company, Sedona Venture
24 Water and Sewer, Bella Vista Water Company, Rio Verde Utilities, Gold Canyon
25 Sewer Company, Green Valley Water Company, Beardsley Water Company, Livco
26 Water and Sewer Company, Pine Water Company, Arizona-American Water
27 Company, Chaparral City Water Company, Valley Utilities Water Company,
28

1 Community Water of Green Valley, Black Mountain Sewer Company, and Avra
2 Water Co-op.

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

4 A. I am testifying in this proceeding on behalf of the applicant, Goodman Water
5 Company ("Goodman" or "the Company"). Goodman is seeking increases in its
6 rates and charges for water utility service in its certificated service area, which is
7 located in Pinal County.

8

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

10

11 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

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

18 **Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.**

19 A. The test year used by Goodman is the 12-month period ending September 30, 2005.
20 The Company is requesting a 10.5 percent return on its fair value rate base
21 ("FVRB"). The Company has also proposed certain pro forma adjustments to take
22 into account known and measurable changes to rate base, expenses and revenues.
23 These pro forma adjustments are consistent with normal ratemaking and are
24 contemplated by the Commission's rules and regulations governing rate
25 applications. See R14-2-103. These adjustments are necessary to obtain a normal
26 or realistic relationship between revenues, expenses and rate base on a going-
27 forward basis.

28

1 The Company's fair value rate base is \$1,275,683. The increase in revenues
2 to provide for recovery of operating expenses and a 10.5 percent return on rate base
3 is approximately \$324,607, an increase of approximately 152 percent over the
4 adjusted and annualized test year revenues.

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

7 A. The Company's rates for water utility service have not been increased since its
8 CC&N was approved in 1988 (Decision No. 56118, October 1, 1988). While the
9 Company has been in business since 1988, it did not begin full operations until
10 2003. Since that time the Company has grown to approximately 459 customers at
11 the end of the test year and has invest over \$2.33 million in plant. The Company's
12 current rate of return, based on the adjusted test year data, is a negative 6 percent.
13 Consequently, rate increases are necessary to ensure that the Company recovers its
14 operating expenses and has an opportunity to earn a reasonable return on the fair
15 value of its utility plant and property devoted to public service.

16
17 **III. SUMMARY OF A, E AND F SCHEDULES.**

18
19 **Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S SCHEDULES.**
20 **PLEASE DESCRIBE THE SCHEDULES LABELED AS A, E, AND F.**

21 A. Goodman is classified as a Class C utility per the Commission Rules. *See* R14-2-
22 103-A. The Company has prepared the required schedules for Class C utilities.

23 The A-1 Schedule is a summary of the rate base, operating income, current
24 operating margin, required operating margin, operating income deficiency, and the
25 increase in gross revenue. A 10.5 percent return on fair value rate base ("FVRB")
26 is requested. The increase in the revenue requirement is \$324,607. Revenues at
27 present and proposed and customer classifications are also shown on this schedule.
28

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

3 Schedule A-3 containing the Company's capital structure for the test year
4 and the two prior years is not required and is excluded.

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

8 Schedule A-5 is the summary of the Company's changes in financial
9 position (cash flow) for the prior two years, the test year at present rates, and a
10 projected year at present and proposed rates is not required and is excluded.

11 The E Schedules are based on the Company's actual operating results, as
12 reported by the Company in annual reports filed with the Commission. Per
13 Commission's rules and regulations governing rate applications the Company has
14 provided prior year fiscal year results. *See* R14-2-103-B. The Company has also
15 provided supplemental information which includes prior year balance sheet and
16 income statement information ending on September 30.

17 The E-1 Schedule contains the comparative balance sheet data the fiscal
18 years 2003, 2004, and September 30, 2005.

19 Schedule E-2, page 1, contains the income statement for the fiscal years
20 2003, 2004, and the year ending September 30, 2005.

21 Schedule E-3 contains the statements of changes in the Company's financial
22 position for the test year and the two prior years is not required and is excluded.

23 Schedule E-4 provides the changes in stockholder's equity is not required
24 and is excluded.

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

1 Schedule E-7 contains operating statistics for the fiscal years ended
2 December 31, 2003, December 31, 2004, and the test year ended September 30,
3 2005.

4 Schedule E-8 contains the taxes charged to operations.

5 The accountant's notes to the financial statements and the financial
6 assumptions used in preparing the rate filing schedules are shown on Schedules E-9
7 and F-4, respectively, in accordance with the Commission's standard filing
8 requirements. The Company does not prepare audited financial statements.

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

11 Schedule F-2 contains the summary of changes in financial position (cash
12 flow) for the prior two years, the test year at present rates, and a projected year at
13 present and proposed rates is not required and is excluded.

14 Schedule F-3 shows the Company's projected construction requirements for
15 one year subsequent to the test year (2006).

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

18
19 **IV. RATE BASE (B SCHEDULES).**

20
21 **Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE**
22 **LABELED AS THE B SCHEDULES?**

23 **A.** Yes. I will start with Schedule B-5, which is the working capital allowance.
24 Because Goodman is a small water utility, I used the "formula method" of
25 computing the working capital allowance to reduce expenses associated with
26 seeking rate relief.

27 **Q. PLEASE CONTINUE.**

28

1 A. The Company's filing does not include Schedules B-3 and B-4. Again, to reduce
2 rate case expense, as well as the potential for disputed issues, Goodman is
3 requesting that its original cost rate base ("OCRB") be used as its FVRB.

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

6 A. Yes. Schedule B-2 shows adjustments to the OCRB cost rate base proposed by the
7 Company. Schedule B-2, pages 2 through 3, is the supporting schedule. These
8 adjustments are, in summary:

9 Adjustment number 1 reduces accumulated depreciation to the re-computed
10 amounts per the Company's plant schedules.

11 **Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON B-**
12 **2 REFLECT THE LAST COMMISSION ORDER?**

13 A. Yes. As I stated, the Company received approval for its CC&N in September
14 1988. The Company has not previously filed a rate case. Thus, the plant shown on
15 Schedule B-2 started with zero plant and shows plant additions and retirements
16 since start up. Pages 2a through 2f of the B-2 schedule, show the details of plant
17 additions, retirements, and accumulated depreciation through the end of the test
18 year using half-year convention for depreciation. The depreciation rate is a
19 composite 2.5 percent.

20 **Q. WHY WAS THERE A DIFFERENCE BETWEEN THE RECORDED**
21 **ACCUMULATED DEPRECIATION AT THE END OF THE TEST YEAR**
22 **AND THE RECOMPUTED AMOUNT?**

23 A. Because the Company used incorrect depreciation rates in the past. Per the Staff
24 report used as the basis for approval of the Company's CC&N (ACC Decision
25 56118, September 15, 1988), a 2.5% depreciation rate should have been used.

26 **Q. PLEASE CONTINUE.**

27

28

1 A. Adjustment number 2 increases plant in service for expenses reclassified to plant in
2 service. The expense adjustments to plant in service will be discussed later in my
3 testimony.

4 Adjustment number 3 shows working capital computed using the formula
5 method as shown on schedule B-5.

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

8 A. As stated, the FVRB shown on Schedule A-1 is based on OCRB.

9
10 **V. INCOME STATEMENT (C SCHEDULES).**

11
12 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO**
13 **THE INCOME STATEMENT AS SHOWN ON SCHEDULES C-1 AND C-2.**

14 A. The test year adjusted income statement is shown on schedule C-1. Details of
15 adjustments are shown on schedule C-2, pages 1 through 13. The following is a
16 summary of adjustments shown on Schedule C-1:

17 Adjustment 1 annualizes depreciation expense. The proposed depreciation
18 rate for each component of utility plant is shown on Schedule C-2, page 2. The
19 depreciation rates approved in the Company's CC&N was a composite rate equal
20 to 2.5 percent for all plant. The Company requests authority to use individual rates
21 by plant account to more realistically reflect individual plant lives. The
22 Commission has been moving away from the use of composite depreciation rates in
23 favor of individual rates. Uniform rates are not always appropriate because they do
24 not reflect a realistic expected life of the plant. The Company's proposed
25 depreciation rates are published by the ACC Staff and are considered "typical and
26 customary".

27 **Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?**

28

1 A. Yes. *e.g.*, *Chaparral City Water Company*, Decision 68176 (September 30, 2005)
2 at 34; and *Valley Utilities Water Company*, Decision 62908 (September 18, 2000)
3 at 5.

4 **Q. WERE DEPRECIATION STUDIES COMPLETED IN THOSE CASES?**

5 A. No. While a depreciation study would provide more definitive rates, depreciation
6 studies are costly and often result in controversy. This in turn results in higher rate
7 case expense. The Staff typical and customary rates are based on anticipated
8 depreciation lives developed by the National Association of Regulatory
9 Commissioners, a recognized authority.

10 **Q. DOESN'T THE USE OF ACCOUNT SPECIFIC DEPRECIATION RATES**
11 **RESULT IN HIGHER DEPRECIATION EXPENSE IN THE INSTANT**
12 **CASE?**

13 A. Yes, however, utilizing depreciation rates which do not realistically reflect the life
14 of assets results under recovery of plant investment through depreciation when the
15 plant reaches the end of its useful life. Utility companies should receive a timely
16 return of plant investment. Without a timely return of plant investment, less cash
17 flow is available for plant replacement and/or new plant investment.

18 **Q. DOES THE USE OF ACCOUNT SPECIFIC DEPRECIATION RATES**
19 **ALWAYS RESULT IN HIGHER DEPRECIATION EXPENSE?**

20 A. No. In the recently filed Black Mountain Sewer case (Docket SW-02361A-05-
21 0657), Black Mountain Sewer Company ("BMSC") proposes account specific
22 depreciation rates which results in approximately \$77,000 less depreciation expense
23 than would have been under BMSC's previously authorized 5 percent composite
24 rate. Again, the underlying principle is to set depreciation rates which more
25 realistically reflect asset lives. The impact on depreciation expense is irrelevant if
26 this principle is to be consistently followed.

27 **Q. PLEASE CONTINUE.**

28

1 Adjustment 2 increases the property taxes based on proposed revenues. The
2 Company's adjustment recognizes the recently passed Arizona legislation (H.B.
3 2779) now codified in A.R.S. § 42-15001, entitled "Assessed Valuation of Class
4 One Property"). The law reduces the assessment ratio ½ percent (0.5%) for the
5 next 10 years starting in 2006. Goodman has proposed a three-year reduction in
6 the assessment ratio, a reduction from 25 percent to 23.5 percent.

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

9 A. To determine full cash value, I used the method employed by the Arizona
10 Department of Revenue - Centrally Valued Properties ("ADOR" or "the
11 Department"). This method determines full cash value by using twice the average
12 of three years of revenue, plus an addition for CWIP and a deduction for the book
13 value of transportation equipment. In the instant case, I used two times the
14 adjusted revenues for September 30, 2005, and revenues at proposed rates. The
15 assessed value (23.5 percent of full cash value) was then multiplied by the property
16 tax rate to determined adjusted property tax expense.

17 **Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?**

18 A. Yes. *e.g.*, *Rio Rico Utilities*, Decision No. 67279 (October 5, 2004), at 8; *Arizona*
19 *Water Company*, Decision No. 64282 (December 28, 2001) at 12-13; *Bella Vista*
20 *Water Company*, Decision No. 65350 (November 1, 2002), at 16; *Arizona-*
21 *American Water Company*, Decision No. 67093 (June 30, 2004), at 9-10. Even
22 more recently, this methodology was utilized by the Commission in *Chaparral City*
23 *Water Company*, Decision No. 68176 (September 30, 2005), at 13-15 and *Arizona*
24 *Water Company-Western Group*, Decision No. 68302 (November 14, 2005) at 28-
25 29. In the Commission's own words, "Staff calculated property taxes using its
26 proposed adjusted test year revenues twice and its recommended revenues once to
27 calculate a three year average of revenues. We agree with Staff that using only
28 historical revenues to calculate property taxes to include in the cost of service fails

1 to capture the effects of future revenue from new rates, and can result in an
2 understatement or overstatement of property tax expense.” Decision No. 67093 at
3 9-10.

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

6 A. Yes. Like income taxes, which are also based on the amount of revenue the utility
7 realizes, property taxes must be adjusted to ensure that the new rates are sufficient
8 to produce the authorized return on rate base. For this reason, since the new
9 ADOR methodology was adopted several years ago, the Commission has
10 repeatedly approved the use of proposed revenues to determine an appropriate level
11 of property tax expense to be recovered through rates.

12 **Q. MR. BOURASSA, ISN'T THERE A LAG FROM THE TIME NEW RATES**
13 **CHARGED CUSTOMERS GO INTO EFFECT AND THE DATE ON**
14 **WHICH PROPERTY TAXES ARE ACTUALLY PAID?**

15 A. Yes. As an example, if new rates for the Company went into effect on January 1,
16 2006, property taxes based on these new rates would first appear on the property
17 tax bill received in September 2007. However, the Company should be accruing
18 property taxes to match the revenues collected. Thus, there is no mismatch
19 between revenues and expenses. Moreover, the property taxes resulting from my
20 calculation are based on only a portion of proposed revenues. To properly consider
21 the future impact of the rate increases, I should have computed the proposed
22 property taxes based solely on proposed revenues rather than averaging proposed
23 and historic revenues. Consequently, this adjustment is conservative.

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

26 A. Adjustment 3 shows the rate case expense. The Company estimates rate case
27 expense of \$100,000 amortized over four years because it believes a four-year
28

1 cycle for future rate cases is reasonable given this utility's circumstances. The
2 Company did not substantially begin serving customers until 2003.

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

5 A. Yes. Rate case expense is primarily driven by three factors: (1) the Commission's
6 ratemaking process; (2) the length of time between rate cases; and (3) the number
7 of parties, issues and complexity of the proceedings.

8 **Q. PLEASE DISCUSS THE FIRST OF THESE FACTORS?**

9 A. The Company cannot raise its rates except by filing for rate relief and the
10 Commission dictates the process for obtaining rate relief. Goodman, a Class C
11 water provider based on the proposed revenues with roughly 460 customers, has to
12 file the substantially the same schedules as a Class A and B utility (*i.e.*, APS,
13 Arizona Water, SW Gas) with hundreds of thousands of customers. While a larger
14 utility's filing would obviously be "larger", Goodman still faces essentially the
15 same requirement of filing multiple copies of every document and notice
16 requirements as a larger utility. In addition to the filing and notice requirements
17 imposed by the Commission on larger utilities. For instance, the Company must
18 prepare three rounds of pre-filed testimony, participate in all of the procedural and
19 evidentiary hearings and open meetings, and typically, file one or more rounds of
20 closing briefs. To meet all of the requirements of obtaining rate relief, Goodman
21 requires the assistance and expertise of a regulatory accountant and attorney,
22 resulting in a substantial portion of the rate case expense actually incurred.

23 **Q. PLEASE DISCUSS THE SECOND FACTOR?**

24 A. The length of time between rate cases has a substantial impact on rate case
25 expense. Every rate case involves reconciliation of plant accounts since the last
26 rate case. Obviously, the longer it has been, the more difficult the reconciliation.
27 Similarly, longer periods between the determination of operating expenses
28

1 typically means more increases in expenses. This leads to larger increases which
2 are always more controversial.

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

5 A. The number of parties has a substantial impact on rate case expense. Cases where
6 RUCO is a party require more effort than cases in which the only adverse party is
7 Staff. Customers and other interveners add to rate case expense and the complexity
8 of the proceedings. The number and complexity of disputed issues also influences
9 total rate case expense, and those impacts cannot be known until the case proceeds.

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

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

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

19 A. As a practical matter, the utility always does. My estimate of \$100,000 assumes
20 Goodman will actually incur a higher amount of total rate case expense. I would
21 also agree that if the utility does something improper, or advances positions in bad-
22 faith, it should shoulder the burden of such actions. But, as I testified, the
23 Commission dictates the process, not the utility and absent such circumstances, the
24 utility must be allowed to recover its reasonably incurred rate case expense.

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

27 A. Adjustment 4 annualizes revenues to the year-end number of customers. The
28 annualization was based on the number of customers at the end of the test year,

1 compared to the actual number of customers during each month of the test year.
2 Average revenues by month were computed for the test year. The average
3 revenues were then multiplied by the increase (or decrease) in number of customers
4 for each month of the test year.

5 Adjustment 5, labeled as 5a, and 5b removes other income and expenses to
6 eliminate their effects on income taxes.

7 Adjustment 6 annualizes purchased power expense based on the additional
8 gallons treated from annualizing revenues to the year-end number of customers.

9 Adjustment 7 reduces test year contractual services for customer billing
10 costs to reflect a rate change from the Company's service provider.

11 Adjustment 8 annualizes contractual services for customer billing costs to
12 properly match expenses to the annualization of revenues.

13 Adjustment 9, labeled as 9a and 9b, reduces salaries and wages expense and
14 associated payroll tax expense to reflect the correct annual salaries and wages.

15 Adjustment 10 removes capitalized expense from contractual services. The
16 expenses are for blue stake services for setting meters and installing service lines,
17 and is properly classified as plant-in-service.

18 Adjustment 11 removes rate case related expense from the test year which is
19 captured by Adjustment 3 above.

20 Adjustment 12 adjusts income tax expense to reflect income taxes at
21 proposed revenues.

22
23 **VI. COST OF CAPITAL (D SCHEDULES).**

24
25 **A. Rate Of Return Summary**

26 **Q. WOULD YOU PLEASE SUMMARIZE YOUR RECOMMENDED EQUITY**
27 **RETURN?**

1 A. Yes. I am recommending a return on equity of 10.5 percent. My recommendation
2 is based on cost of equity estimates using constant growth and multi-stage growth
3 discounted cash flow (“DCF”) models and is confirmed by a risk premium analysis,
4 current and projected equity returns for the sample group of publicly traded
5 utilities, and my review of the economic conditions expected to prevail during the
6 period in which new rates will be in effect. Goodman has no debt; therefore, the
7 overall cost of capital is 10.5 percent.

8 The cost of equity for Goodman cannot be estimated directly because it is
9 extremely small and is not publicly traded. Therefore, there is no market data for
10 Goodman. Consequently, I applied the DCF models to a sample of water utilities
11 selected from the *Value Line Investment Survey*. There are six water utilities in my
12 sample: American States Water, Aqua America, California Water, Connecticut
13 Water, Middlesex Water, and SJW Corp. I selected these water utilities because
14 Staff has used them in recent water utility rate cases. To test my DCF results, I
15 performed a risk premium analysis based on 10-year Treasury rates. Computations
16 of common equity returns using DCF and risk premium approaches are shown on
17 schedules D-4.9 through D-4.13.

18 My DCF analysis indicates that a return on equity (“ROE”) in the range of
19 8.5 percent to 12.0 percent is appropriate. My risk premium analysis serves as a
20 check of reasonableness for the DCF results. That analysis indicates a ROE in the
21 range of 10.3 percent to 11.1 percent. A return on equity of 10.5 percent is within
22 the ranges produced by both types of equity cost estimates, and is conservative
23 when Goodman’s extremely small size compared to the sample and other business
24 risks not captured by the market data are considered.

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

1 A. Yes. The D-1 Schedule shows the common equity, relevant long-term debt and the
2 weighted cost of capital. Again, the Company has no long-term debt in its capital
3 structure.

4 **B. Overview of the Cost of Capital**

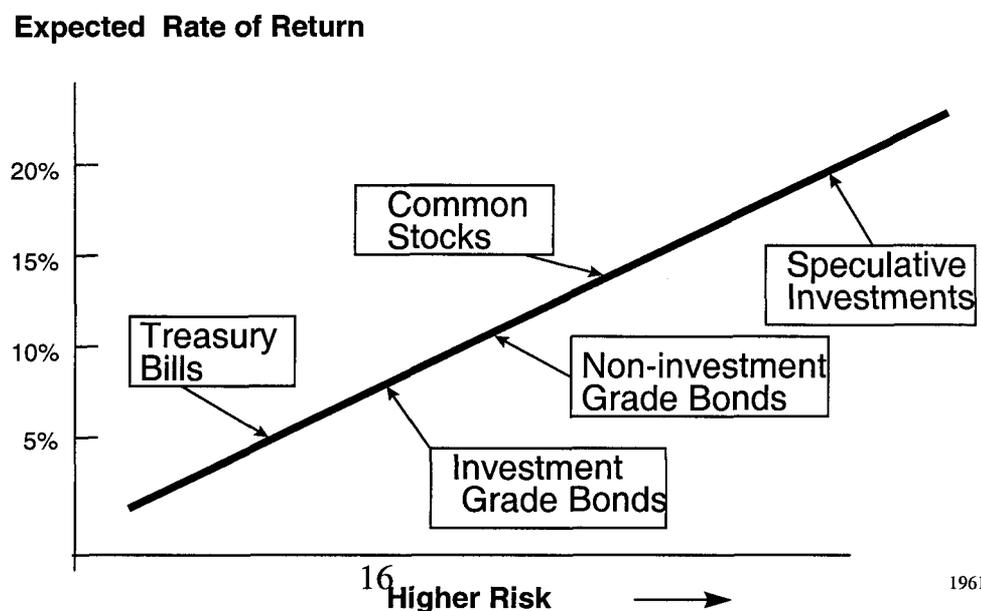
5 **Q. PLEASE PROVIDE AN OVERVIEW OF THE COST OF CAPITAL.**

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

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

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

17
18 **The Capital Market Line (CML)**



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

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

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

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

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The capital markets reflect investor expectations and requirements each day through market prices. Prices for stocks and bonds change to reflect investor expectations and the relative attractiveness of one investment versus another.

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1 While the example provided above seems straightforward, returns on common
2 stocks are not directly observable in advance, in contrast to debt or preferred stocks
3 with fixed payment terms, and therefore they must be estimated from market data.
4 Estimating the cost of equity capital is a matter of informed judgment about the
5 relative risk of the company in question and the expected rate of return
6 characteristics of other alternative investments.

7 **Q. HOW IS THE COST OF CAPITAL FOR A PARTICULAR UTILITY**
8 **DETERMINED?**

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

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

- 20 1) The pure or real rate of interest, often called the risk-free rate of
21 interest; and
22 2) The uncertainty or risk premium (the compensation the investor
23 requires over and above the real or pure rate of interest for subjecting
his capital to additional risk).

24 **Q. WOULD YOU DISCUSS THESE FACTORS IN GREATER DETAIL?**

25 A. The pure rate of interest essentially reflects both the time preference for, and the
26 productivity of, capital. From the standpoint of the individual, it is the rate of
27 interest required to induce the individual to forego present consumption and offer
28 the funds thus saved to others for a specified length of time. Moreover, the pure

1 rate of interest concept is based on the assumption that no uncertainty affects the
2 investment undertaken by the individual, i.e., there is no doubt that the periodic
3 interest payments will be made and the principal returned at the end of the time
4 period. In reality, investments without risk do not exist. Every commitment of
5 funds involves some degree of uncertainty. U.S. Government obligations, however,
6 may at times approach something like a risk free rate of interest. It must be pointed
7 out, however, that U.S. Treasury obligations are only "risk free" in the sense that
8 they are typically regarded as being free of default risk. Holders of these
9 obligations still face the dangers of purchasing power loss (inflation risk) and the
10 loss of capital values if real interest rates rise (interest rate risk).

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

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

17 A. Yes. Conceptually,

$$18 \quad \text{Required Return for} \quad \text{Return on a} \\ 19 \quad \text{Common Stocks} \quad = \quad \text{risk-free asset} \quad + \quad \text{Risk Premium}$$

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

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

26 A. In the past 10 years, inflation and capital market costs have generally declined.
27 Interest rates have been lower than in previous decades. Inflation, as measured by
28 the Consumer Price Index, has been at relatively low levels. The uneven pace of

1 the economy kept consumer prices in check and resulted in low interest rates.
2 Since the first quarter 2004, however, improving economic growth and concerns
3 about inflation have led to fluctuating interest rates. The Federal Reserve began
4 raising interest rates in June 2004 to address these concerns.

5 The economic forecast data show clear expectations for continuing
6 economic growth. The disruptions caused by the August and September 2004
7 hurricanes are considered temporary and the economy continues to perform
8 remarkably well. Real GDP for the third quarter of 2005 grew at 3.8 percent, while
9 the fourth quarter grew at 3.1 percent. Expectations are that real GDP for the first
10 quarter of 2006 will grow at 4.7 percent, but is expected to moderate thereafter. If
11 real GDP grows as expected, 1st quarter 2006 would mark the 12th straight quarter
12 of better than 3 percent growth, the best run since the mid-1980's. Real GDP
13 growth is projected to be 3.0% and 3.5% through in 2006.

14 Policymakers remain concerned about heightened inflation pressures. There
15 has been a rebound in consumer activity and the rise in payrolls may signal a
16 modestly higher level of inflation. Core inflation at the end of 2005 was at the top
17 of the Fed's preferred measure of 1.0%-2.0%, which serves as a reminder to the
18 markets that the Fed's monetary tightening will continue. The Federal Reserve,
19 confronted with above-trend growth, increased the federal funds rate to 4.50% at
20 the end of January 2006.

21 The consensus forecast in early March of 2006 indicated the Federal Reserve
22 would raise the federal funds rate another 25 to 50 basis points in the coming
23 months. On March 28, 2006, the Federal Reserve did increase the federal funds
24 rate to 4.75 percent. Longer range consensus forecasts of the federal funds rate for
25 the first quarter of 2007 is 4.9 percent. The 10-year Treasury bond is projected to
26 increase from its current level of about 4.6 percent to 4.9 percent by the end of the
27 fourth quarter of 2006. Long range consensus forecasts of 10-year Treasury bond
28 rate for 2007 and 2008 are 5.2 percent and 5.2 percent, respectively.

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

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

6 **Q. IS GOODMAN AFFECTED BY THESE SAME MARKET**
7 **UNCERTAINTIES AND CONCERNS?**

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

9 **Q. WHAT ARE THE RECENT DEVELOPMENTS IN THE WATER UTILITY**
10 **INDUSTRY AFFECTING UTILITY INVESTMENTS AND THE MARKET?**

11 A. Although the water utilities in the sample have recently encountered a more
12 favorable regulatory environment, especially in California, the water utility industry
13 is expected to confront increasing infrastructure demands. Many of the current
14 infrastructures are over 100 years old and are in need of significant maintenance
15 and, in some cases, massive renovation and replacement. In addition, water
16 companies are faced with the continued heightened threat of bio-terrorism on U.S.
17 pipelines and reservoirs as well as the continuing need to comply with EPA water
18 purification standards. As infrastructure costs continue to climb, many smaller
19 companies are at a disadvantage. Without sufficient resources to fund
20 improvements, many companies are being forced to sell to larger utilities with the
21 flexibility and capital to deal with them.

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

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

26 Business risk, the basic risk associated with any business undertaking, is the
27 uncertainty associated with the enterprise's day-to-day operations. In essence, it is a
28 function of the normal day-to-day business environment, both locally and

1 nationally. Business risks include the condition of the economy and capital
2 markets, the state of labor markets, regional stability, government regulation,
3 technological obsolescence, and other similar factors that may impact demand for
4 the business product and its cost of production. For example, one of the biggest
5 risks Goodman faces is the ever-changing regulatory climate. Water utilities are
6 subject to strict regulation because of the health and risks associated with their
7 operations. The environmental rules frequently change, usually resulting in
8 additional requirements and increased costs.

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

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

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

27 **Q. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL**
28 **STRUCTURE AND ITS COST OF CAPITAL?**

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

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

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

3 A. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for
4 determining whether a rate of return is reasonable in *Bluefield Water Works and*
5 *Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679,
6 692-93 (1923):

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

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

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

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

- 29 (1) The rate of return should be similar to the return in businesses with
30 similar or comparable risks;
- 31 (2) The return should be sufficient to ensure the confidence in the
32 financial integrity of the utility;
- 33 (3) The return should be sufficient to maintain and support the utilities
34 credit; and

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

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

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

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

19 **C. Estimating the Cost of Equity Capital**

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

22 A. Estimating the cost of equity is a matter of informed judgment. The development
23 of an appropriate rate of return for a regulated enterprise involves the determination
24 the level of risk associated with that enterprise and the determination of an
25 appropriate return for that risk level. Practitioners employ various techniques that
26 provide a link to actual capital market data and assist in defining the various
27 relationships that underlie the equity cost estimation process.
28

1 As I have testified, Goodman is not publicly traded so the information
2 required to directly estimate Goodman's cost of equity is not available.
3 Accordingly, I used a sample of water utilities to provide means of developing an
4 appropriate cost of equity for Goodman. There are six water utilities included in
5 my sample and include American States Water, Aqua America, California Water,
6 Connecticut Water, Middlesex Water, and SJW Corp. All these companies are
7 followed by the *Value Line Investment Survey*.

8 **Q. DOES THE MARKET DATA PROVIDED BY THE WATER UTILITY**
9 **SAMPLE CAPTURE ALL OF THE MARKET RISKS GOODMAN MIGHT**
10 **FACE IF IT WERE PUBLICLY TRADED?**

11 A. In my opinion, no. First, there is no comparable market data for utility companies
12 the size of Goodman. The smallest company in the sample, Connecticut Water, has
13 100 times the net plant investment of Goodman, and over 250 times the revenues.
14 Second, market data for the sample water utilities do not include data for water
15 utilities primarily serving the Arizona market and thus primarily subject to Arizona
16 rate regulation. Arizona rate regulation requires use of historical test years and
17 limited out of period adjustments. Further, Goodman faces the risk that unexpected
18 changes in costs in the period in which new rates will be in effect will not be
19 recovered without a costly and lengthy general rate case.

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

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

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

7 (1) American States primarily serves the California market though
8 Southern California Water Company with over 250,000 California customers in 75
9 communities, primarily in Los Angeles, San Bernardino, and Oranges counties. It
10 has one subsidiary serving the Arizona market with approximately 13,000
11 customers in Fountain Hills and Scottsdale. Approximately 91 percent of
12 American States revenues were derived from Southern California Water. Revenues
13 for American States were over \$228 million in 2004 and net plant was over \$591
14 million at the end of 2004.

15 (2) Aqua America owns regulated utilities in Pennsylvania, Ohio, North
16 Carolina, Illinois, Texas, New Jersey, Florida, Indiana, Maine, Missouri, New
17 York, and South Carolina, serving over 835,000 customers at the end of 2004. The
18 Pennsylvania subsidiary provides over 50 percent of Aqua America's operating
19 revenues. Revenues for Aqua America were over \$442 million in 2004 and net
20 plant was over \$1.79 billion at the end of 2004.

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

26 (4) Connecticut Water Services owns subsidiaries in Connecticut and
27 Massachusetts serving over 87,000 customers. Revenues for Connecticut Water
28

1 Service were over \$53 million in 2004 and net plant was over \$195 million at the
2 end of 2004.

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

8 (6) SJW Corp. owns San Jose Water, which provides water service in an
9 138 square mile area in San Jose, California, and surrounding communities.
10 Revenues for SJW Corp were over \$166 million in 2004 and net plant was over
11 \$286 million at the end of 2004.

12 **Q. HOW DOES GOODMAN COMPARE TO THE SAMPLE WATER**
13 **UTILITIES?**

14 A. It is much smaller. At the end of the test year, Goodman had approximately 459
15 water utility customers. Its revenues totaled less than \$200,000, and its original
16 cost rate base was approximately \$1.3 million. And Goodman is not diversified. It
17 has a relatively small service territory in Pinal County area with relatively low
18 growth potential compared to the sample companies, and no alternative sources of
19 revenue.

20 **Q. IS GOODMAN COMPARABLE TO THE SAMPLE WATER UTILITIES?**

21 A. Certainly, a good argument can be made that Goodman is not comparable to the six
22 publicly traded water utilities in the same group. Unfortunately, as I testified, the
23 approaches commonly used to estimate a utility's cost of equity require market
24 data, which is not available for small private businesses, like Goodman. As a
25 result, much larger, public companies must be used as proxies. This is an important
26 factor to keep in mind, since the criteria established by the Supreme Court in
27 decisions such as *Bluefield Water Works* and *Hope Natural Gas* require the use of
28

1 comparable companies, i.e., companies that would be viewed by investors as
2 having similar risks.

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

7 A. Schedule D-4.2 shows the capital structure of Goodman contains no debt and 100
8 percent equity compared to the average of the water utility sample of 48 percent
9 debt and 52 percent equity. Having no debt in its capital structure implies less
10 financial risk than the water utility sample.

11 **Q. DO YOU HAVE ANY GENERAL CONCERNS WITH THE DATA**
12 **AVAILABLE TO MAKE COST OF EQUITY ESTIMATES FOR THE**
13 **WATER UTILITIES?**

14 A. Yes. Schedule D-4.3 shows that common stock prices have increased significantly
15 during the past five years, and those increases have exceeded the average annual
16 increases in dividends per share (DPS), earnings per share (EPS) and book value
17 per share. *Value Line* (January 2004) suggests part of the reason for this is
18 consolidation in the water utility industry. *Value Line* has advised investors to
19 expect mergers and acquisitions to continue and stock prices from an acquisition to
20 be as much as four times book value.

21 Irrespective of investor merger and acquisition expectations, stock price
22 growth has exceeded book growth. Schedule D-4.4 shows that common stock
23 prices have had annual average price increases during the past 10 years that have
24 exceeded the average annual increases in dividends per share, earnings per share,
25 and book value per share.

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

28

1 A. Yes. Schedule D-4.5 compares the closing stock prices for the March 28, 2005, to
2 the spot price at March 28, 2006. In this period of time, the average increase in
3 prices was over \$7.20 per share. This is an average of nearly 33 percent.

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

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

10 Alternatively, investors may have bid up the prices for the water utility
11 stocks because they expect increases in earnings and dividends in the future. In
12 other words, investors expect the water utilities to be authorized, and to actually
13 earn higher returns on equity.

14 **Q. WHAT METHODS AND CAPITAL MARKET DATA ARE USED TO**
15 **EVALUATE THE COST OF EQUITY CAPITAL?**

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

- 17 (1) comparable earnings methods,
- 18 (2) risk premium methods, and
- 19 (3) DCF methods.

20 The comparable earnings methods used to determine the cost of equity is a direct
21 outgrowth of judicial opinions on the rate of return. The *Bluefield* decision
22 suggests that opportunity cost, as defined in the economic literature, is the
23 appropriate measure of the actual cost of common equity for a regulated utility.
24 This approach involves direct observation of market returns, an assessment of the
25 persistence of those returns, and an evaluation of the risk accepted by that return.
26 The advantage of the comparable earnings approach is that it is easy to calculate
27 and the amount of subjective judgment required is minimal. The basis for
28 comparison is the book value of common equity, which less vulnerable to

1 regulatory influences, in contrast to the market-based DCF model and the capital
2 asset pricing model (“CAPM”).

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

13 **Q. CAN YOU ELABORATE?**

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

26
27
28 ¹ Eugene F. Fama and Kenneth R. French, “The Capital Asset Pricing Model: Theory and Evidence,” *Journal of Economic Perspectives* (Summer 2004) 25-46.

1 besides beta (β) explain portfolio returns better, suggesting the CAPM, while
2 theoretically interesting, is incomplete and has little practical application.

3 **Q. PLEASE CONTINUE.**

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

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

16 **Q. PLEASE EXPLAIN THE DCF METHOD OF ESTIMATING THE COST OF**
17 **EQUITY.**

18 A. The DCF model is based on the concept that the current price of a share of stock is
19 equal to the present value of future cash flows from the purchase of the stock. In
20 other words, the DCF model is an attempt to replicate the market valuation process
21 that sets the price investors are willing to pay for a share of a company's stock. It
22 rests on the assumption that investors rely on the expected returns (i.e., cash flow
23 they expect to receive) to set the price of a security. The DCF model in its most
24 general form is:

25 (1) $P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + CF_n/(1+k)^n$

26 where k is the cost of equity; n is a very large number; P_0 is the current stock price;
27 and, CF_1, CF_2, \dots, CF_n are all the expected future cash flows expected to be received
28 in periods 1, 2, ..., n .

1 Equation (1) can be written to show that the current price (P_0) is also equal to

2
$$(2) \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + P_t/(1+k)^t$$

3 where P_t is the price expected to be received at the end of the period t . If the future
4 price (P_t) included a premium (an expected increase in the stock price or capital
5 gain), the price the investor would pay today in anticipation of receiving that
6 premium would increase. In other words, by estimating the cash flows from the
7 purchase of a stock in the way of dividends and capital gains, we can calculate the
8 investors' required rate of return, i.e., the rate of return investors presumptively
9 used in bidding the current price to the stock (P_0) to its current level. This is a
10 Market Price version of the DCF model. As with the general form of the DCF
11 model in equation (1), in the Market Price approach the current stock price (P_0) is
12 the present value of the expected cash inflows. The cash flows are comprised of
13 dividends and the final selling price of the stock. The estimated cost of equity (k) is
14 the rate of return investors expect if they bought the stock at today's price, held the
15 stock and received dividends through the transition period, and then sold it for price
16 (P_t).

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

19 **A.** Yes. Assume an investor buys a share of common stock for \$40. If the expected
20 dividend during the coming year is \$2.00, then the expected dividend yield is 5
21 percent ($\$2.00/\$40 = 5.0$ percent). If the stock price is also expected to increase to
22 \$43.00 after one year, this \$3.00 expected gain adds an additional 7.5 percent to the
23 expected total rate of return ($\$3.00/\$40 = 7.5$ percent). Thus, the investor buying
24 the stock at \$40 per share, expects a total return of 12.5 percent (5 percent dividend
25 yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the
26 appropriate measure of the cost of capital because this is the rate of return that
27 caused the investor to commit \$40 of his capital by purchasing the stock.
28

1 I have provided a Market Price DCF model in Exhibit 1 to illustrate the
2 Market Price DCF model approach further. The model computes the implied rate
3 of return from a stream of cash flows. The first cash flow is negative and is the
4 purchase price of the stock. I used the spot price at March 28, 2006, as reported by
5 *Zack's Investment Research* as the initial purchase price. The next series of cash
6 flows are the expected dividends for the next four years. The final cash flow is the
7 dividend in year 5 plus the expected selling price of the stock. The selling price of
8 the stock is based on the historical 5-year average annual price growth for each of
9 the stocks. The average implied rate of return is 15.3 percent.

10 **Q. HOW DOES THE RESULT OF YOUR MARKET PRICE DCF COMPARE**
11 **TO THE HISTORICAL COMPOUND ANNUAL MARKET RETURNS FOR**
12 **THE WATER UTILITY SAMPLE?**

13 A. As shown in Exhibit 2, the average 5-year historical compound annual total market
14 return for the water utility sample is 20.3 percent. The 5-year market Price DCF
15 result is lower than the 5 year historical total market returns. The 5-year market
16 price DCF using historical 10 year average annual price growth is closer at 18.3
17 percent. Despite the fact that the historical 5-year average total market returns as
18 well as the market price DCF indicate returns in the range of 15 to 20 percent, I do
19 not rely on this method. I have instead used it to evaluate the reasonableness of the
20 results produced by the other versions of the DCF model I have used.

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

22 A. Under the assumption that future cash flows are expected to grow at a constant rate
23 (“g”), equation (1) can be solved for k and rearranged into the simple form:

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

25 where CF_1/P_0 is the expected dividend yield and g is the expected long term
26 dividend (price) growth rate (“g”). The expected dividend yield is computed as the
27 ratio of next period’s expected dividend (“ CF_1 ”) divided by the current stock price
28 (“ P_0 ”). This form of the DCF model is known as the constant growth DCF model

1 and recognizes that investors expect to receive a portion of their total return in the
2 form of current dividends and the remainder through future dividends and capital
3 (price) appreciation. A key assumption of this form of the model is that investors
4 expect that same rate of return (k) every year and that market price grows at the
5 same rate as dividends. This has not been historically true for the water utility
6 sample as evidenced by the data shown in schedules D-4.3 and D-4.4. As a result,
7 estimates of long-term growth rates (g) should take this into account.

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

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

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

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

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

20 A. I used the spot price for each of stocks of the water utilities in the sample group on
21 March 28, 2006 as reported by *Zacks Investment Research*. The dividend is the
22 expected 2006 dividend.

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

26 A. The DCF model results will be negatively biased because the dividend yield
27 (CF_1/P_0) is reduced by virtue of having a larger denominator, the stock price (P_0).
28 This impact is not by itself problematic, since the DCF model is intended to take

1 into account changes in the stock price (upward or downward). Investors may have
2 bid up the price of the stocks of the water utilities in the sample group because they
3 expect increased growth in earnings and, as a result, increased dividend growth and
4 appreciation in the price of the stock. However, if stock prices have been bid up in
5 anticipation of a merger or an acquisition, then the DCF model estimate will not
6 reflect true market conditions and understate the cost of equity.

7 **Q. WHAT MEASURES OF GROWTH (“g”) HAVE YOU USED?**

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

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

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

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

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

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

26
27 ² Ibbotson Associates, *SBBI Valuation Edition 2005 Yearbook* 75-77; Richard A. Brealey
28 and Stewart C. Myers, *Principles of Corporation Finance* (7th ed. 2003) 156-157.

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

11 **Q. HAVE YOU COMPARED THE ANALYST ESTIMATES OF GROWTH**
12 **WITH HISTORICAL DATA?**

13 A. Yes. As shown in Exhibit 3, the average 5-year historical compound annual capital
14 (price) appreciation is 10.65 percent. The average 10-year historical compound
15 annual capital (price) appreciation is 15.83 percent. This is significantly higher
16 than the average analyst estimates of growth of 8.21 percent. While historical
17 returns do not necessarily reflect what will occur in the future, the analysts'
18 estimates of EPS growth are less than the historical capital appreciation. Thus, I
19 believe using the analyst estimates of EPS growth for the growth rate in the DCF
20 model is conservative.

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

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

25 **Q. HAVE YOU PREPARED CONSTANT GROWTH DCF MODELS USING**
26 **ANALYST ESTIMATES OF DPS GROWTH?**

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

1 A. Yes. Exhibit 4, attached hereto, reflect constant growth DCF results using analyst
2 estimates of DPS growth. The result is 5.9 percent. This is less than the current
3 yield on a Moody's Baa investment grade bond at 6.4 percent. Forecasted Moody's
4 Baa investment grade bonds for 2007-2008 is 7.1 percent.

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

7 A. Yes. Exhibits 5 and 6, attached hereto, reflect constant growth DCF results using
8 five-year historical annual growth rates for DPS and EPS. The DCF results using
9 five-year historical annual growth rates for DPS is 5.6 percent. Again, the current
10 yield on a Moody's Baa investment grade bond is 6.4 percent. Forecasted Moody's
11 Baa investment grade bonds for 2007-2008 is 7.1 percent.

12 The DCF results using five-year historical annual growth rates for EPS is 7.2
13 percent. While this appears to be higher than the current cost of Moody's Baa
14 investment grade bonds, a further review of the data shows that the indicated cost
15 of equity for American States is 2.9 percent and that for Connecticut Water
16 Services is 5.7 percent. Both are below the current cost of Moody's Baa investment
17 grade bonds at 6.4 percent. Further review reveals the indicated cost of equity for
18 California Water at 7.2 percent is approximately equal to the consensus forecast of
19 Moody's Baa investment grade bonds. If these three results are excluded, the
20 average result is 11.2 percent. While I do not rely on this result, it is consistent
21 with my DCF results using analyst estimates for EPS growth.

22 **Q. WHY HAVEN'T YOU AVERAGED THESE RESULTS WITH THE**
23 **RESULTS OF YOUR DCF USING ANALYST EXPECTATIONS OF EPS**
24 **GROWTH?**

25 A. Using the analyst expectations of DPS growth, the historical DPS growth, or
26 historical EPS growth results in returns which are unrealistic. Thus, averaging
27 these results with the results using analyst estimates of EPS growth only serves to
28 depress the indicated cost of equity. Investors would not bid up the price of a

1 utility stock if the expected return is approximately the equal to or less than returns
2 on bonds or other debt investments. As the CML depicted previously illustrates,
3 common stocks are higher and to the right of investment grade bonds on the CML
4 continuum because they are exposed to more risk. The DCF model is a forward
5 looking model and the results using historical DPS and EPS growth are
6 unreasonable.

7 **Q. YOU MENTIONED SUSTAINABLE GROWTH EARLIER. PLEASE**
8 **EXPLAIN WHAT SUSTAINABLE GROWTH IS?**

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

12 (5) $g = br + sv$

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

17 **Q. HOW DID YOU ESTIMATE “br” GROWTH?**

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

20 **Q. HOW DID YOU ESTIMATE “sv” GROWTH?**

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

25 **Q. HOW DO YOUR ESTIMATES FOR SUSTAINABLE GROWTH COMPARE**
26 **TO THE HISTORICAL COMPOUND ANNUAL CAPITAL**
27 **APPRECIATION RETURN?**

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

1 A. The average sustainable growth for the utility sample as shown in schedule D-4.7 is
2 8.41 percent and is lower than the average 5-year and 10-year historical compound
3 annual capital appreciation return of 10.65 percent and 15.83 percent, respectively.

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

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

12 The risk premium method of determining the cost of equity,
13 sometimes referred to as the "stock-bond-yield spread method"
14 or the "risk positioning method," or again the "bond-yield plus
15 risk-premium" method, recognizes that common equity capital
16 is more risky than debt from an investor's standpoint, and that
17 investors require higher returns on stocks than on bonds to
18 compensate for the additional risk. The general approach is
19 relatively straightforward: First, determine the historical
20 spread between the return on debt and the return on equity.
21 Second, add this spread to the current debt yield to derive an
22 estimate of current equity return requirements.

23 The risk premium approach to estimating the cost of equity
24 derives its usefulness from the simple fact that while equity
25 return requirements cannot be readily quantified at any given
26 time, the returns on bonds can be assessed precisely at every
27 instant in time. If the magnitude of the risk premium between
28 stocks and bonds is known, then this information can be used
to produce the cost of common equity. This can be
accomplished retrospectively using historical risk premiums or
prospectively using expected risk premiums.

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

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

1 A. Yes. I have computed the average risk premium for the actual and authorized
2 returns from 1996 to 2005 (10 years) when compared to the 10-year Treasury rate
3 for the six water utilities in the sample group. I then add the average risk premium
4 to the forecasted interest rates for 10-year Treasuries for 2007-2008.

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

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

8 **Q. WHY NOT USE CURRENT RATES FOR TREASURY SECURITIES?**

9 A. The goal is to determine the cost of capital for Goodman when new rates are in
10 effect, not the cost of capital 12 months before new rates are approved. Current
11 interest rates are sometimes higher and sometimes lower than rates during future
12 periods. However, interest rates have been close to 40 year lows in past few years,
13 and have been increasing and are expected to increase.

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

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

19 **D. Details of Cost of Equity Estimates**

20 **Q. PLEASE DISCUSS YOUR ANALYSIS OF THE COST OF EQUITY FOR
21 GOODMAN.**

22 A. In the first part of my analysis, I applied two versions of the constant growth DCF
23 and a two-stage DCF models to the six water utilities in the sample group. The
24 DCF analyses appear on schedules D-4.9, D-4.10, and D-4.11. The DCF models
25 produce an indicated equity cost in the range of 8.6 percent to 12.2 percent.

26 In the second part of my analysis, I developed and reviewed cost of equity
27 estimates based on the bond-yield plus risk premium method. The risk premium
28

1 analysis based on actual and authorized returns on equity indicates an equity cost in
2 the range of 10.3 percent to 11.1 percent.

3 In the third part of my analysis, I compared the actual and authorized returns
4 reported in *AUS Utility Reports* to the results of my DCF and risk premium
5 methods. The range of actual returns is from 8.6 percent to 13.7 percent. The
6 range of authorized returns is from 9.9 percent to 12.7 percent.

7 Finally, I also considered *Value Line's* most current forecasts of the
8 composite equity return for the water utility industry. *Value Line's* forecasts a
9 composite return of 11% for 2005, 10% for 2006, and 11.0% for the 2008-10
10 period.

11 Based on the DCF and risk premium results, and with consideration for
12 current market, industry, and other factors, I believe a return on equity of 10.5
13 percent is appropriate. Goodman has a higher cost of equity than the water utility
14 sample group due to its small size, leverage and other characteristics. Thus, an
15 equity return of 10.5% is conservative for Goodman.

16 **Q. PLEASE DISCUSS YOUR CONSTANT GROWTH DCF MODELS.**

17 A. I computed the cost of equity using two constant growth models. The first, shown
18 on schedule D-4.9, uses analyst's forecasts of earning per share growth. The
19 average of the results is 10.9 percent.

20 The second constant growth DCF model, shown on schedule D-4.10, uses
21 my computations of sustainable growth ("br + sv"). To compute sustainable
22 growth, I used analysts forecasts of the retention ratio and return of common equity
23 to estimate "br" growth. I also used analysts' forecast of the growth in the number
24 of common shares and the current market to book ratio to estimate "vs" growth.
25 The current market to book ratio is based on the spot price at March 28, 2006, and
26 the book value at December 31, 2005. The average of the results is 11.1 percent.

27 **Q. PLEASE DISCUSS YOUR MULTISTAGE DCF MODEL.**

28

1 A. I use a two-stage growth DCF model. The average of the analysts' expected
2 growth is used for the near-term and GDP growth for the long-term. Short-term
3 growth is given a weight of .67. The average result of the two-stage DCF model,
4 shown on schedule D-4.11, is 10.4 percent.

5 **Q. PLEASE DISCUSS YOUR RISK PREMIUM ANALYSIS?**

6 A. The first risk premium analysis, shown on schedule D-4.12, computes the average
7 risk premium on the actual returns for the six water companies from 1996 to 2005
8 (10 years) when compared to the 10-year Treasury rates. The average risk premium
9 is then added to the forecasted interest rates for 10-year Treasuries for 2007-2008.
10 The result of the first risk premium analysis is 10.3 percent.

11 The second risk premium analysis, shown on schedule D-4.13, computes the
12 average risk premium on the authorized returns for the six water companies from
13 1996 to 2005 (10 years) when compared to the 10-year Treasury rate. The average
14 risk premium is then added to the forecasted interest rates for 10-year Treasuries for
15 2007-2008. The result of second risk premium analysis is 10.8 percent.

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

18 A. Schedule D-4-14 shows the actual and authorized returns for the six water utilities.
19 The average of the actual returns is 10.5 percent. The average of the authorized
20 returns is 10.8 percent.

21 **Q. PLEASE SUMMARIZE YOUR RESULTS.**

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

<u>DCF Analysis</u>	<u>Range</u>	<u>Midpoint</u>
Constant Growth (earnings growth)	9.8% - 11.9%	10.9%
Constant Growth (sustainable growth)	8.6% - 12.2%	10.4%
Two-Stage Growth Model	9.8% - 11.2%	10.5%

1 VII. RATE DESIGN (H SCHEDULES).

2 Q. WHAT ARE THE COMPANY'S PRESENT RATES?

3

4 A.

<u>Meter Size</u>	<u>Monthly Minimum</u>	<u>Gallons included in Monthly Minimum</u>
5/8	\$ 18.00	1,000
3/4	\$ 27.00	0
1	\$ 45.00	0
1 1/2	\$ 90.00	0
2	\$ 144.00	0
3	\$ 270.00	0
4	\$ 450.00	0
6	\$ 900.00	0

6 The commodity charge for all meter sizes is \$2.20 per 1,000 gallons
7 above the gallons included in the minimum.

8 The construction meter and standpipe rate is \$4.75 per 1,000 gallons
9 with no minimum monthly charge.

10 Q. WHAT ARE THE COMPANY'S PROPOSED RATES?

11 A. The proposed rates for customers with using a water meter size of:

12

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<u>Meter Size</u>	<u>Monthly Minimum</u>	<u>Gallons included in Monthly Minimum</u>
5/8	\$ 44.78	0
3/4	\$ 67.18	0
1	\$ 111.96	0
1 1/2	\$ 223.92	0
2	\$ 358.27	0
3	\$ 671.76	0
4	\$1,119.60	0

1 Q. HAVE YOU INVERTED THE COMMODITY RATES?

2 A. Yes.

3 Q. ARE THE TIERS FOR THE COMMODITY RATES THE SAME FOR
4 EACH SIZE METER? IF NOT, WOULD YOU PLEASE EXPLAIN WHY
5 THE TIERS ARE DIFFERENT?

6 A. No, the commodity rate tiers are different for 5/8 inch and 3/4 inch, and 1 inch and
7 larger meters. The monthly minimum charges are higher for meters larger than
8 5/8 inch. The monthly minimums are supposed to reflect the demand that
9 customers with larger meters place on the system. A customer on a meter size
10 larger than 5/8 inch, is already paying for his or her higher demand. Thus, the
11 commodity rate tiers should reflect the higher monthly minimums already being
12 paid. To achieve the balance for higher monthly minimums, customers on larger
13 sized meters should have more gallons in each rate tier.

14 Q. WHAT ARE THE TIERS FOR EACH METER SIZE, AND HOW ARE
15 THEY COMPUTED?

16 A. The first commodity rate tier is computed on monthly average usage for the 5/8
17 inch meter size. The monthly average for 5/8 inch meter is 5,500 gallons. I set
18 the first tier for the 5/8 inch and 3/4 inch meters at 4,000 gallons, which is below
19 the average residential average usage for the 5/8 inch metered customers. The
20 first tier for a 1 inch meter and larger meters is 10,000 gallons. A one inch meter
21 flows two and one half times that of a 5/8 inch meter.

22 I set the second tier for the 5/8 inch meter at 10,000 gallons, which is two
23 and one half times the first tier. I set the second tier for 1 inch meters and larger
24 at 25,000 gallons, or two and one half times the first tier gallons.

25 Q. WHAT IS THE IMPORTANCE OF THE COMMODITY RATES, AND
26 HOW DID YOU COMPUTE THEM?

27 A. The first goal of commodity rates should be to generate the revenue requirement.
28 For conservation rate designs, like the inverted tier design, revenue stability is a

1 key aspect. Thus, commodity rates are very important. The second goal of the
2 commodity rates should be that they are understandable by customers. The third
3 goal of the commodity rates is to give customers a price signal to encourage water
4 usage conservation.

5 The first commodity tier rate is the most important, as all customers will
6 be charged this rate. Here, I set the commodity rate at \$5.00, or approximately
7 127% higher than the existing commodity rate of \$2.20. For the commodity tier
8 two, I increased the first tier charge per 1,000 gallons by \$2.70 to \$6.70, or
9 approximately 205% over the existing \$2.20 commodity rate. For the commodity
10 tier three, I increased the second tier charge per 1,000 gallons by \$1.00 to \$7.70,
11 or approximately 250% over the existing \$2.20 commodity rate.

12 **Q. WHAT IS THE RATE IMPACT ON RESIDENTIAL CUSTOMERS**
13 **USING THE MONTHLY AVERAGE WATER USAGE?**

14 A. Customers on 5/8 meters who consume the average quantity of water (5,513
15 gallons per month) will experience a rate increase of \$46.97 per month, or an
16 increase of approximately 168.25%.

17 **Q. IS THE COMPANY REQUESTING ANY OTHER CHANGES IN ITS**
18 **RATES AND TARIFFS?**

19 A. The Company is requesting changes to the meter and service line installation
20 charges to reflect current costs. See schedule H-3, page 3.

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

23 A. No.

24 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

25 A. Yes.

26
27
28

1 ORIGINAL AND thirteen (13) copies
2 of the foregoing delivered VIA DHL
3 this 25 day of April, 2006

4 Arizona Corporation Commission
5 Utilities Division – Docket Control
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 COPY of the foregoing delivered VIA
9 U.S. MAIL this 25 day of April, 2006

10 Goodman Water Company
11 6340 North Campbell Avenue, Suite 278
12 Tucson, AZ 85718

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EXHIBIT B

GOODMAN WATER COMPANY
SCHEDULE "A"

Goodman Water Company
 Test Year Ended September 30, 2005
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Schedule A-1
 Page 1
 Witness: Bourassa

Line No.					
1	Fair Value Rate Base			\$	1,275,683
2					
3	Adjusted Operating Income				(76,594)
4					
5	Current Rate of Return				-6.00%
6					
7	Required Operating Income			\$	133,947
8					
9	Required Rate of Return on Fair Value Rate Base				10.50%
10					
11	Operating Income Deficiency			\$	210,541
12					
13	Gross Revenue Conversion Factor				1.5418
14					
15	Increase in Gross Revenue				
16	Requirement			\$	324,607
17					
18	Customer	Present	Proposed	Dollar	Percent
19	Classification	Rates	Rates	Increase	Increase
20	<u>(Residential Commercial, Irrigation)</u>				
21	5/8 x 3/4 Inch Residential	\$ 124,765	\$ 343,162	\$ 218,397	175.05%
22	3/4 Inch Residential	-	-	-	0.00%
23	1 Inch Residential	10,839	27,362	16,523	152.44%
24	2 Inch Residential	13,982	43,526	29,544	211.31%
25	Construction Water	13,412	21,741	8,329	62.11%
26				-	0.00%
27	Revenue Annualization	32,746	84,216	51,469	157.18%
28				-	0.00%
29	Subtotal	\$ 195,744	\$ 520,007	\$ 324,263	165.66%
30					
31	Other Water Revenues	17,940	17,940	-	0.00%
32				-	0.00%
33				-	0.00%
34	Total of Water Revenues (a)	\$ 213,684	\$ 537,947	\$ 324,263	151.75%
35					
36					
37					
38					
39					
40					
41	<u>SUPPORTING SCHEDULES:</u>				
42	B-1				
43	C-1				
44	C-3				
45	H-1				
46					

Goodman Water Company
 Test Year Ended September 30, 2005
 Summary of Results of Operations

Exhibit
 Schedule A-2
 Page 1
 Witness: Bourassa

Line No.	Description	Prior Years Ended		Test Year		Projected Year	
		12/31/2003	12/31/2004	Actual 9/30/2005	Adjusted 9/30/2005	Present Rates 9/30/2006	Proposed Rates 9/30/2006
1	Gross Revenues	\$ 110,199	\$ 178,577	\$ 180,602	\$ 213,348	\$ 213,348	\$ 537,955
2							
3	Revenue Deductions and	161,610	243,411	306,535	289,943	289,943	404,009
4	Operating Expenses						
5							
6	Operating Income	\$ (51,411)	\$ (64,834)	\$ (125,933)	\$ (76,594)	\$ (76,594)	\$ 133,947
7							
8	Other Income and	-	-	-	-	-	-
9	Deductions						
10							
11	Interest Expense	(32)	(73)	(90)	-	-	-
12							
13	Net Income	\$ (51,443)	\$ (64,907)	\$ (126,023)	\$ (76,594)	\$ (76,594)	\$ 133,947
14							
15	Earned Per Average						
16	Common Share	(0.11)	(0.14)	(0.27)	(0.17)	(0.17)	0.29
17							
18	Dividends Per						
19	Common Share	-	-	-	-	-	-
20							
21	Payout Ratio	-	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	-0.21%	-3.27%	-5.52%	-3.32%	-2.48%	4.35%
25							
26	Return on Year End						
27	Capital	-3.07%	-2.82%	-5.56%	-3.32%	-1.99%	3.47%
28							
29	Return on Average						
30	Common Equity	-11.85%	-5.49%	-9.66%	-5.88%	-6.23%	10.03%
31							
32	Return on Year End						
33	Common Equity	-5.02%	-4.84%	-9.93%	-6.06%	-6.43%	9.55%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	(1,605.19)	(888.14)	(1,399.26)	-	-	-
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	(1,606.59)	(888.14)	(1,399.26)	-	-	-
41							
42							
43	<u>SUPPORTING SCHEDULES</u>						
44	C-1						
45	E-2						
46	F-1						

Goodman Water Company
Test Year Ended September 30, 2005
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		<u>Construction Expenditures</u>	<u>Net Plant Placed in Service</u>	<u>Gross Utility Plant in Service</u>
1				
2	Prior Year Ended 12/31/2002	102,353	102,353	102,353
3				
4	Prior Year Ended 12/31/2003	1,536,960	1,536,960	1,639,314
5				
6	Prior Year Ended 12/31/2004	598,662	672,404	2,311,718
7				
8	Test Year Ended 12/31/2005	602,274	26,013	2,337,731
9				
10	Projected Year Ended 12/31/2006	1,773,859	1,773,859	4,111,590
11				
12				
13				
14				
15	<u>SUPPORTING SCHEDULES:</u>			
16	B-2			
17	E-5			
18	F-3			
19				
20				

GOODMAN WATER COMPANY
SCHEDULE "B"

Goodman Water Company
 Test Year Ended September 30, 2005
 Summary of Rate Base

Exhibit
 Schedule B-1
 Page 1
 Witness: Bourassa

Line No.		<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1			
2	Gross Utility Plant in Service	\$ 2,348,486	\$ 2,348,486
3	Less: Accumulated Depreciation	<u>108,248</u>	<u>108,248</u>
4			
5	Net Utility Plant in Service	\$ 2,240,239	\$ 2,240,239
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction	971,695	971,695
10	Contributions in Aid of		
11	Construction - Net of amortization	-	-
12	Customer Meter Deposits	14,864	14,864
13	Deferred Income Taxes & Credits	-	-
14	Investment tax Credits	-	-
15			
16			
17	<u>Plus:</u>		
18	Unamortized Finance		
19	Charges	-	-
20	Deferred Tax Assets	-	-
21	Allowance for Working Capital	22,003	22,003
22			
23			
24	Total Rate Base	<u>\$ 1,275,683</u>	<u>\$ 1,275,683</u>
25			
26			
27			
28	<u>SUPPORTING SCHEDULES:</u>		
29	B-2		
30	B-3		
31	B-5		
32	E-1		
33			

Goodman Water Company
 Test Year Ended September 30, 2005
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Label	Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	\$ 2,337,731	2	10,755	\$ 2,348,486
3					
4	Less:				
5	Accumulated				
6	Depreciation	201,274	1	(93,026)	108,248
7					
8					
9	Net Utility Plant				
10	in Service	\$ 2,136,458			\$ 2,240,239
11					
12	Less:				
13	Advances in Aid of				
14	Construction	971,695			971,695
15					
16	Contributions in Aid of				
17	Construction - Net	-			-
18					
19	Customer Refundable Meter Deposits	14,864			14,864
20	Deferred Income Tax Liability	-			-
21	Investment Tax Credits	-			-
22		-			-
23					
24	Plus:				
25	Unamortized Finance				
26	Charges	-			-
27	Deferred Income Tax Asset	-			-
28	Working capital	-	3	22,003	22,003
29		-			-
30					
31	Total	\$ 1,149,899			\$ 1,275,683

35 SUPPORTING SCHEDULES:
 36 B-2, pages 2-3
 37 E-1

RECAP SCHEDULES:
 B-1

38
 39
 40
 41
 42
 43
 44

Goodman Water Company
Test Year Ended September 30, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment 1

Exhibit
Schedule B-2
Page 2
Witness: Bourassa

Line
No.

1	<u>Accumulated Depreciation Adjustment</u>		
2			
3	Computed Balance	\$	108,248
4	Balance per Company Schedule E-1		201,274
5	Difference	<u>\$</u>	<u>(93,026)</u>
6			
7			
8			
9			
10			
11	Increase (Decrease) to Accumulated Depreciation	<u>\$</u>	<u>(93,026)</u>
12			
13			
14			
15	<u>SUPPORTING SCHEDULES</u>		
16	B-2, pages 2a-3e		
17			
18			
19			
20			

Goodman Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2a
Witness: Bourassa

Account No.	Description	Deprec. Rate	12/31/1988	Accum. Depr.	1999-2001 Plant Additions	1999-2001 Plant Adjustments	1999-2001 Adjusted Plant Additions	1999-2001 Plant Retirements	1999-2001 Plant Balance	1999-2001 Depr.
301	Organization Cost	0.00%	-	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-
304	Structures and Improvements	2.50%	-	-	-	-	-	-	-	-
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	-	-	-	-
307	Wells and Springs	2.50%	-	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	2.50%	-	-	-	-	-	-	-	-
320	Water Treatment Equipment	2.50%	-	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.50%	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.50%	-	-	-	-	-	-	-	-
333	Services	2.50%	-	-	-	-	-	-	-	-
334	Meters	2.50%	-	-	-	-	-	-	-	-
335	Hydrants	2.50%	-	-	-	-	-	-	-	-
336	Backflow Prevention Devices	2.50%	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	2.50%	-	-	-	-	-	-	-	-
341	Transportation Equipment	2.50%	-	-	-	-	-	-	-	-
342	Stores Equipment	2.50%	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	-	-	-	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-	-	-	-	-
345	Power Operated Equipment	2.50%	-	-	-	-	-	-	-	-
346	Communications Equipment	2.50%	-	-	-	-	-	-	-	-
347	Miscellaneous Equipment	2.50%	-	-	-	-	-	-	-	-
348	Other Tangible Plant	2.50%	-	-	-	-	-	-	-	-
	Plant Held for Future Use		-	-	-	-	-	-	-	-

TOTAL WATER PLANT	
(a)	Depreciation
	Staff Accumulated Depreciation Allocated to Plant
	Retirements (excluding land)
	Accumulated Depreciation Balance
	Half Year Convention used on depreciation

Goodman Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2b
Witness: Bourassa

Account No.	Description	Deprec. Rate	2002 Plant Additions	2002 Plant Adjustments	2002 Adjusted Plant Additions	2002 Plant Retirements	2002 Plant Balance	2002 Deprec.
301	Organization Cost	0.00%	94,596	-	94,596	-	94,596	-
302	Franchise Cost	0.00%	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	-	-
304	Structures and Improvements	2.50%	-	-	-	-	-	-
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	-	-
307	Wells and Springs	2.50%	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-	-	-
311	Electric Pumping Equipment	2.50%	-	-	-	-	-	-
320	Water Treatment Equipment	2.50%	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.50%	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.50%	-	-	-	-	-	-
333	Services	2.50%	7,757	-	7,757	-	7,757	97
334	Meters	2.50%	-	-	-	-	-	-
335	Hydrants	2.50%	-	-	-	-	-	-
336	Backflow Prevention Devices	2.50%	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-	-	-
340	Office Furniture and Fixtures	2.50%	-	-	-	-	-	-
341	Transportation Equipment	2.50%	-	-	-	-	-	-
342	Stores Equipment	2.50%	-	-	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	-	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-	-	-
345	Power Operated Equipment	2.50%	-	-	-	-	-	-
346	Communications Equipment	2.50%	-	-	-	-	-	-
347	Miscellaneous Equipment	2.50%	-	-	-	-	-	-
348	Other Tangible Plant	2.50%	-	-	-	-	-	-
	Plant Held for Future Use		-	-	-	-	-	-

(a)	TOTAL WATER PLANT	102,353	-	102,353	-	102,353	97
	Depreciation						97
	Staff Accumulated Depreciation Allocated to Plant.						-
	Retirements (excluding land)						-
	Accumulated Depreciation Balance						97
	Half Year Convention used on depreciation						-

Goodman Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2c
Witness: Bourassa

Account No.	Description	Deprec. Rate	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Plant Additions	2003 Plant Retirements	2003 Plant Balance	2003 Deprec.
301	Organization Cost	0.00%					94,596	-
302	Franchise Cost	0.00%					-	-
303	Land and Land Rights	0.00%					-	-
304	Structures and Improvements	2.50%					-	-
305	Collecting and Impounding Res.	2.50%					-	-
306	Lake River and Other Intakes	2.50%					-	-
307	Wells and Springs	2.50%	233,767		233,767		233,767	2,922
308	Infiltration Galleries and Tunnels	2.50%					-	-
309	Supply Mains	2.50%					-	-
310	Power Generation Equipment	2.50%					-	-
311	Electric Pumping Equipment	2.50%	542,915		542,915		542,915	6,786
320	Water Treatment Equipment	2.50%					-	-
330	Distribution Reservoirs & Standpipe	2.50%	251,477		251,477		251,477	3,143
331	Transmission and Distribution Mains	2.50%	402,268		402,268		402,268	5,028
333	Services	2.50%	65,581		65,581		65,581	820
334	Meters	2.50%	15,978		15,978		23,735	394
335	Hydrants	2.50%	24,975		24,975		24,975	312
336	Backflow Prevention Devices	2.50%					-	-
339	Other Plant and Miscellaneous Equipment	2.50%					-	-
340	Office Furniture and Fixtures	2.50%					-	-
341	Transportation Equipment	2.50%					-	-
342	Stores Equipment	2.50%					-	-
343	Tools and Work Equipment	2.50%					-	-
344	Laboratory Equipment	2.50%					-	-
345	Power Operated Equipment	2.50%					-	-
346	Communications Equipment	2.50%					-	-
347	Miscellaneous Equipment	2.50%					-	-
348	Other Tangible Plant	2.50%					-	-
	Plant Held for Future Use	2.50%					-	-
			1,536,961	-	1,536,961	-	1,639,314	19,406

TOTAL WATER PLANT
Depreciation
Staff Accumulated Depreciation Allocated to Plant.
Retirements (excluding land)
Accumulated Depreciation Balance
Half Year Convention used on depreciation

(a)

Goodman Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2e
Witness: Bourassa

Account No.	Description	Deprec. Rate	2005			September 30 2005		9 Months Ended September 2005	
			Plant Additions	Plant Adjustments	Adjusted Plant Additions	2005 Plant Retirements	September 2005 Plant Balance	September 2005 Deprec.	
301	Organization Cost	0.00%		9,932	9,932		104,528	-	
302	Franchise Cost	0.00%		-	-		-	-	
303	Land and Land Rights	0.00%		-	-		-	-	
304	Structures and Improvements	2.50%		-	-	9,788	-	184	
305	Collecting and Impounding Res.	2.50%		-	-	-	-	-	
306	Lake River and Other Intakes	2.50%		-	-	-	-	-	
307	Wells and Springs	2.50%		-	-	386,591	-	7,249	
308	Infiltration Galleries and Tunnels	2.50%		-	-	-	-	-	
309	Supply Mains	2.50%		-	-	-	-	-	
310	Power Generation Equipment	2.50%		-	-	-	-	-	
311	Electric Pumping Equipment	2.50%		-	-	686,993	-	12,881	
320	Water Treatment Equipment	2.50%		-	-	11,054	-	207	
330	Distribution Reservoirs & Standpipe	2.50%		-	-	294,460	-	5,521	
331	Transmission and Distribution Mains	2.50%		-	-	611,348	-	11,463	
333	Services	2.50%	16,082	-	-	129,274	-	2,424	
334	Meters	2.50%		-	-	56,742	-	913	
335	Hydrants	2.50%		-	-	46,955	-	880	
336	Backflow Prevention Devices	2.50%		-	-	-	-	-	
339	Other Plant and Miscellaneous Equipment	2.50%		-	-	-	-	-	
340	Office Furniture and Fixtures	2.50%		-	-	-	-	-	
341	Transportation Equipment	2.50%		-	-	-	-	-	
342	Stores Equipment	2.50%		-	-	-	-	-	
343	Tools and Work Equipment	2.50%		-	-	-	-	-	
344	Laboratory Equipment	2.50%		-	-	-	-	-	
345	Power Operated Equipment	2.50%		-	-	-	-	-	
346	Communications Equipment	2.50%		-	-	-	-	-	
347	Miscellaneous Equipment	2.50%		-	-	-	-	-	
348	Other Tangible Plant	2.50%		-	-	-	-	-	
	Plant Held for Future Use			-	-	-	-	-	

16,082	9,932	26,013	-	2,337,731	41,722
TOTAL WATER PLANT					41,722
Depreciation					
Staff Accumulated Depreciation Allocated to Plant.					
Retirements (excluding land)					
Accumulated Depreciation Balance					108,248
Half Year Convention used on depreciation					

(a)

Goodman Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2f
Witness: Bourassa

Account No.	Description	Deprec. Rate				
		1999-2001	2002	2003	2004	2005
301	Organization Cost	0.00%	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-
304	Structures and Improvements	2.50%	-	-	122	306
305	Collecting and Impounding Res.	2.50%	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-
307	Wells and Springs	2.50%	-	2,922	10,677	17,925
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-
311	Electric Pumping Equipment	2.50%	-	6,786	22,160	35,041
320	Water Treatment Equipment	2.50%	-	-	138	345
330	Distribution Reservoirs & Standpipe	2.50%	-	3,143	9,968	15,489
331	Transmission and Distribution Mains	2.50%	-	5,028	17,699	29,161
333	Services	2.50%	-	820	3,255	5,679
334	Meters	2.50%	97	491	1,296	2,209
335	Hydrants	2.50%	-	312	1,211	2,092
336	Backflow Prevention Devices	2.50%	-	-	-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-
340	Office Furniture and Fixtures	2.50%	-	-	-	-
341	Transportation Equipment	2.50%	-	-	-	-
342	Stores Equipment	2.50%	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-
345	Power Operated Equipment	2.50%	-	-	-	-
346	Communications Equipment	2.50%	-	-	-	-
347	Miscellaneous Equipment	2.50%	-	-	-	-
348	Other Tangible Plant	2.50%	-	-	-	-
	Plant Held for Future Use	2.50%	-	-	-	-

TOTAL WATER PLANT	97	19,503	66,526	108,248
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(a) Depreciation
Staff Accumulated Depreciation Allocated to Plant.
Retirements (excluding land)
Accumulated Depreciation Balance
Half Year Convention used on depreciation

Goodman Water Company
Test Year Ended September 30, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment 2

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Line
No.

1	Adjustment to Plant in Service		
2			
3	Reclassified Contractual Services (See C-2, Adjustment 10, Page 11)	\$	10,755
4			
5	Total	<hr/>	10,755
6			
7	Increase (Decrease) to Plant in Service	<hr/>	\$ 10,755
8			
9			
10			
11			
12			
13			
14			
15			
16			

GOODMAN WATER COMPANY
SCHEDULE "C"

Goodman Water Company
 Test Year Ended September 30, 2005
 Income Statement

Exhibit
 Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues						
2	Metered Water Revenues	\$ 162,662	4	\$ 32,746	\$ 195,408	\$ 324,607	\$ 520,015
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	17,940			17,940		17,940
5		<u>\$ 180,602</u>		<u>\$ 32,746</u>	<u>\$ 213,348</u>	<u>\$ 324,607</u>	<u>\$ 537,955</u>
6	Operating Expenses						
7	Salaries and Wages	\$ 64,001	9a	(32,001)	\$ 32,000		\$ 32,000
8	Purchased Water	-			-		-
9	Purchased Power	9,442	6	644	10,086		10,086
10	Chemicals	-			-		-
11	Repairs and Maintenance	9,868			9,868		9,868
12	Office Supplies and Expense	778			778		778
13	Outside Services	104,451	7/8/10/11/12	(26,345)	78,106		78,106
14	Water Testing	3,639			3,639		3,639
15	Rents	-			-		-
16	Transportation Expenses	-			-		-
17	Insurance - General Liability	18,253			18,253		18,253
18	Insurance - Health and Life	-			-		-
19	Regulatory Commission Expense - Rate Case	55	3	24,945	25,000		25,000
20	Miscellaneous Expense	2,386			2,386		2,386
21	Depreciation Expense	86,268	1	43,150	129,418		129,418
22	Taxes Other Than Income	5,324	9b	(2,689)	2,635		2,635
23	Property Taxes	2,070	2	17,200	19,270		19,270
24	Income Tax	-	13	(41,497)	(41,497)	114,066	72,569
25		-			-		-
26	Total Operating Expenses	<u>\$ 306,535</u>		<u>\$ (16,592)</u>	<u>\$ 289,943</u>	<u>\$ 114,066</u>	<u>\$ 404,009</u>
27	Operating Income	<u>\$ (125,933)</u>		<u>\$ 49,339</u>	<u>\$ (76,594)</u>	<u>\$ 210,541</u>	<u>\$ 133,947</u>
28	Other Income (Expense)						
29	Interest Income	1,747	5a	(1,747)	-		-
30	Other income	-			-		-
31	Interest Expense	(90)	5b	90	-		-
32	Other Expense	-			-		-
33		-			-		-
34	Total Other Income (Expense)	<u>\$ 1,657</u>		<u>\$ (1,657)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
35	Net Profit (Loss)	<u>\$ (124,276)</u>		<u>\$ 47,682</u>	<u>\$ (76,594)</u>	<u>\$ 210,541</u>	<u>\$ 133,947</u>

36
 37 SUPPORTING SCHEDULES:
 38 C-2
 39 E-2
 40

RECAP SCHEDULES:
 A-1

Goodman Water Company
 Test Year Ended September 30, 2005
 Adjustments to Revenues and Expenses

Exhibit
 Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	<u>Adjustments to Revenues and Expenses</u>						<u>Subtotal</u>
	<u>1</u> Depreciation Expense	<u>2</u> Property Taxes	<u>3</u> Rate Case Expense	<u>4</u> Revenue Annualization	<u>5</u> Remove Other Inc./Oth. Expense	<u>6</u> Purchased Power Annualization	
1				32,746			32,746
2							
3	Revenues						32,746
4							
5	Expenses	43,150	17,200	24,945		644	85,939
6							
7	Operating						
8	Income	(43,150)	(17,200)	(24,945)	32,746	-	(644)
9							
10	Interest						
11	Expense					(1,747)	(1,747)
12	Other						
13	Income /					90	90
14	Expense						
15							
16	Net Income	(43,150)	(17,200)	(24,945)	32,746	(1,657)	(644)
17							(54,849)
18							
19							
20							
21							
22							
23	Revenues						32,746
24							
25	Expenses	(3,470)	6,034	(34,690)	(10,755)	(3,929)	(14,225)
26							24,904
27	Operating						
28	Income	3,470	(6,034)	34,690	10,755	3,929	14,225
29							7,842
30	Interest						
31	Expense						(1,747)
32	Other						
33	Income /						90
34	Expense						
35							
36	Net Income	3,470	(6,034)	34,690	10,755	3,929	14,225
37							6,185
38							
39							
40							
41							
42							
43	Revenues						32,746
44							
45	Expenses	(41,497)					(16,592)
46							
47	Operating						
48	Income	41,497	-	-	-	-	-
49							49,339
50	Interest						
51	Expense						(1,747)
52	Other						
53	Income /						90
54	Expense						
55							
56	Net Income	41,497	-	-	-	-	-
							47,682

Goodman Water Company
 Test Year Ended September 30, 2005
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Schedule C-2
 Page 2
 Witness: Bourassa

Line No.	Account	Description	Original Cost	Proposed Rate	Depreciation Expense
1	<u>Depreciation Expense</u>				
2					
3					
4					
5	301	Organization Cost	104,528	0.00%	-
6	302	Franchise Cost	-	0.00%	-
7	303	Land and Land Rights	-	0.00%	-
8	304	Structures and Improvements	9,788	3.33%	326
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	386,591	3.33%	12,873
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	-	2.00%	-
14	310	Power Generation Equipment	-	5.00%	-
15	311	Electric Pumping Equipment	686,993	12.50%	85,874
16	320	Water Treatment Equipment	11,054	3.33%	368
17	330	Distribution Reservoirs & Standpipe	294,460	2.22%	6,537
18	331	Transmission and Distribution Mains	611,348	2.00%	12,227
19	333	Services	129,274	3.33%	4,305
20	334	Meters	56,742	8.33%	4,727
21	335	Hydrants	46,955	2.00%	939
22	336	Backflow Prevention Devices	-	6.67%	-
23	339	Other Plant and Miscellaneous Equipment	-	6.67%	-
24	340	Office Furniture and Fixtures	-	6.67%	-
25	341	Transportation Equipment	-	20.00%	-
26	342	Stores Equipment	-	4.00%	-
27	343	Tools and Work Equipment	-	5.00%	-
28	344	Laboratory Equipment	-	10.00%	-
29	345	Power Operated Equipment	-	5.00%	-
30	346	Communications Equipment	-	10.00%	-
31	347	Miscellaneous Equipment	-	10.00%	-
32	348	Other Tangible Plant	-	10.00%	-
33					
34		TOTALS	\$ 2,337,731		\$ 128,176
35					
36					
37		Reclassified Expenses			-
38		Blue Stake Service for setting meters (See C-2 Adjustment 9)			-
39	333	Meters	\$ 10,755	8.33%	896
40		Legal Services related to LXA's (See C-2 Adjustment 11)			
41	331	Transmission and Distribution Mains	17,325	2.00%	347
42					
43					
44			\$ 28,080		\$ 1,242
45					
46		Post Test Year Plant per B-2			
47					-
48					-
49					-
50		Total PTY Plant	\$ -		\$ -
51		Less: Amortization of Contributions - Balance End of TY	\$ -	5.4829%	\$ -
52					
53		Total Depreciation Expense			\$ 129,418
54					
55		Test Year Depreciation Expense			86,268
56					
57		Increase (decrease) in Depreciation Expense			43,150
58					
59		Adjustment to Revenues and/or Expenses			\$ 43,150
60					

Goodman Water Company
 Test Year Ended September 30, 2005
 Adjustment to Revenues and Expenses
 Adjustment Number 2

Exhibit
 Schedule C-2
 Page 3
 Witness: Bourassa

Line No.		
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Adjusted Revenues in year ended 09/31/05	\$ 213,348
4	Adjusted Revenues in year ended 09/31/05	213,348
5	Proposed Revenues	<u>537,955</u>
6	Average of three year's of revenue	\$ 321,551
7	Average of three year's of revenue, times 2	\$ 643,101
8	Add:	
9	Construction Work in Progress at 10%	\$ -
10	Deduct:	
11	Book Value of Transportation Equipment	<u>-</u>
12		
13	Full Cash Value	\$ 643,101
14	Assessment Ratio	<u>23.50%</u>
15	Assessed Value	151,129
16	Property Tax Rate	12.7504%
17		
18	Property Tax	19,270
19	Tax on Parcels	0
20		
21	Total Property Tax at Proposed Rates	\$ <u>19,270</u>
22	Property Taxes in the test year	2,070
23	Change in Property Taxes	<u>\$ 17,200</u>
24		
25		
26	Adjustment to Revenues and/or Expenses	<u>\$ 17,200</u>
27		
28		

Goodman Water Company
Test Year Ended September 30, 2005
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line			
<u>No.</u>			
1	<u>Rate Case Expense</u>		
2			
3	Estimated Rate Case Expense	\$	100,000
4			
5	Estimated Amortization Period in Years		4
6			
7	Annual Rate Case Expense	\$	<u>25,000</u>
8			
9	Test Year Rate Case Expense	\$	55
10			
11	Increase(decrease) Rate Case Expense	\$	<u>24,945</u>
12			
13	Adjustment to Revenue and/or Expense	\$	<u>24,945</u>
14			
15			
16			
17			
18			
19			
20			

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Line
No.

1	<u>Revenue Annualization</u>	
2		
3		
4	Revenue Annualization	\$ 32,746
5		
6		
7		
8	Total Revenue from Annualization	<u>\$ 32,746</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>\$ 32,746</u>
12		
13	<u>SUPPORTING SCHEDULES</u>	
14	C-2 pages 5a to 5c	
15	H-1	
16		
17		
18		
19		
20		

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Line No.			Adjustment Label
1	<u>Remove Other Income and Expenses to Eliminate Effects on Income Taxes</u>		
2			
3			
4	Test Year Interest Income	\$ (1,747)	5a
5	Test Year Interest Expense	90	5b
6			
7			
8	Total	<u>\$ (1,657)</u>	
9			
10			
11	Adjustment to Revenue and/or Expense	<u>\$ (1,657)</u>	
12			
13			
14			
15			
16			
17			
18			
19			
20			

Goodman Water Company
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Line
No.

1	<u>Annualize power cost for additional gallons from annualization of revenues</u>	
2		
3	Test Year Power Costs	\$ 9,442
4	Gallons sold in Test Year (1,000's)	27,941
5	Cost per 1,000 gallons	0.33792
6	Additional gallons from annualization (in 1,000's)	1,905
7		
8	Additional Expense	<u>\$ 644</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>\$ 644</u>
12		
13		
14		
15		
16		
17		
18		
19		
20		

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Line No.			
1	<u>Adjust Outside Service for New Rates From YL Technology</u>		
2			
3			
4	Test Year Number of Bills	4,626	
5	Rate Per Bill During Test Year	\$ 7.75	
6	Total Cost for Billing Services During Test Year		\$ 35,852
7			
8	Test Year Number of Bills	4,626	
9	New Rate Per Bill	\$ 7.00	
10	Total Cost for Billing Services During Test Year		\$ 32,382
11			
12			
13	Increase (decrease) in Outside Services		\$ (3,470)
14			
15	Adjustment to Outside Services		<u>\$ (3,470)</u>
16			
17			
18			
19			
20	Adjustment to Revenue and/or Expense		<u>\$ (3,470)</u>
21			
22			
23			
24			
25			
26			
27			

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Bourassa

Line

No.

1	<u>Annualize Outside Service Costs - Customer Billing and Collection</u>		
2			
3			
4	Additional Bills from Revenue Annualization (1)	862	
5	Cost per Bill (2)	\$ 7.00	
6	Increase (decrease) in Outside Services (1) times (2)	\$	6,034
7			
8	Adjustment to Outside Services	\$	<u>6,034</u>
9			
10			
11			
12			
13	Adjustment to Revenue and/or Expense	\$	<u>6,034</u>
14			
15			
16			
17			
18			
19			
20			

Goodman Water Company
 Test Year Ended September 30, 2005
 Adjustment to Revenues and Expenses
 Adjustment Number 9

Exhibit
 Schedule C-2
 Page 10
 Witness: Bourassa

Line No.				<u>Label</u>
1	<u>Adjust Salaries and Wages to Reflect Correct Annual Amount</u>			
2				
3				
4	Correct Annual Salary of President/Manager	\$	32,000	
5	Amount Recorded in Test Year		<u>64,001</u>	
6	Increase (decrease) in Salaries and Wages		(32,001)	
7				
8				
9	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>(32,001)</u>	9a
10				
11				
12	<u>Adjust Payroll Taxes to reflect correct Salaries and Wages</u>			
13				
14	FICA 6.02%	\$	1,926	
15	Medicare 1.45%		464	
16	FUTA 0.80% (first \$7,000 of wages)		56	
17	SUTA 2.70% (first \$7,000 of wages)		<u>189</u>	
18	Total Payroll Taxes	<u>\$</u>	<u>2,635</u>	
19				
20	Payroll Taxes Recorded in Test Year		<u>5,324</u>	
21				
22	Increase (decrease) in Payroll Taxes	\$	(2,689)	
23				
24				
25	Adjustment to Revenue and/or Expense	<u>\$</u>	<u>(2,689)</u>	9b
26				
27				
28				
29	Total Adjustment to Expenses	<u>\$</u>	<u>(34,690)</u>	
30				
31				
32				
33				

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Schedule C-2
Page 11
Witness: Bourassa

Line

No.

1 Remove Capital Expenditures from Contractual Services

2

3

4

Contractual Services - Blue Stake

\$ 10,755

5

6

7

8

Adjustment to Revenue and/or Expense

\$ (10,755)

9

10

11

12

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Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 11

Exhibit
Schedule C-2
Page 12
Witness: Bourassa

Line
No.

1	<u>Remove Rate Case Expenses from Accounting Services</u>	
2		
3		
4	Accounting Services - Ron Kozoman	\$ 3,929
5		
6		
7		
8	Adjustment to Revenue and/or Expense	<u>\$ (3,929)</u>
9		
10		
11		
12		
13		
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16		
17		
18		
19		
20		

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 12

Exhibit
Schedule C-2
Page 13
Witness: Bourassa

Line

No.

1	<u>Adjust Outside Services to Reflect Correct Annual Amount</u>		
2			
3			
4	Annual Contract Amount for Outside Services - Jim Shiner	\$	17,325
5	Amount Recorded During Test Year		<u>31,550</u>
6	Increase (decrease) in Outside Services	\$	(14,225)
7			
8			
9			
10	Adjustment to Revenue and/or Expense	\$	<u>(14,225)</u>
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Goodman Water Company
 Test Year Ended September 30, 2005
 Computation of Gross Revenue Conversion Factor

Exhibit
 Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Federal Income Taxes	28.17%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	<u>0.00%</u>
6		
7		
8	Total Tax Percentage	35.14%
9		
10	Operating Income % = 100% - Tax Percentage	64.86%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.5418
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		A-1
20		

GOODMAN WATER COMPANY
SCHEDULE "D"

Goodman Water Company
 Test Year Ended September 30, 2005
 Summary of Cost of Capital

Exhibit
 Schedule D-1
 Page 1
 Witness: Bourassa

Line No.	<u>Item of Capital</u>	<u>End of Test Year</u>				<u>End of Projected Year</u>			
		<u>Dollar Amount</u>	Percent of <u>Total</u>	(e) Cost Rate	Weighted Cost	<u>Dollar Amount</u>	Percent of <u>Total</u>	(e) Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
2									
3	Stockholder's Equity (1) (2)	1,372,377	100.00%	10.50%	10.50%	1,506,324	100.00%	10.50%	10.50%
4									
5	Totals	1,372,377	100.00%		10.50%	1,506,324	100.00%		10.50%
6									
7									
8	(1) Increase Equity for A/D adjustment 1, B-2, page 1		\$ 93,026						
9	(2) Increase Equity for expense reclassified to plant adjustment 2, B-2, page 1			\$ 10,755					
10									
11	<u>SUPPORTING SCHEDULES:</u>								
12	D-1								
13	D-3								
14	D-4								
15	E-1								
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

RECAP SCHEDULES:
 A-3

Goodman Water Company
 Test Year Ended September 30, 2005
 Cost of Long Term Debt

Exhibit
 Schedule D-2
 Page 1
 Witness: Bourassa

Line No.	Description of Debt	End of Test Year			End of Projected Year		
		Amount Outstanding	Annual Interest	Interest Rate	Amount Outstanding	Annual Interest	Interest Rate
1		-	-	0.00%	-	-	0.00%
2		-	-	0.00%	-	-	0.00%
3		-	-	0.00%	-	-	0.00%
4		-	-	0.00%	-	-	0.00%
5		-	-	0.00%	-	-	0.00%
6		-	-	0.00%	-	-	0.00%
7		-	-	0.00%	-	-	0.00%
8		-	-	0.00%	-	-	0.00%
9		-	-	0.00%	-	-	0.00%
10		-	-	0.00%	-	-	0.00%
11		-	-	0.00%	-	-	0.00%
12		-	-	0.00%	-	-	0.00%
13	Totals	-	-	0.00%	-	-	0.00%
14							
15	Supporting Schedules:						
16	E-2						
17							
18							
19							
20							
21							
		\$ -	-	0.00%	\$ -	-	0.00%

Goodman Water Company
Test Year Ended September 30, 2005
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

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

RECAP SCHEDULES:
(a) D-1

Goodman Water Company
Test Year Ended September 30, 2005
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line

No.

1
2 The Company is proposing a cost of common equity of 10.5% .
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17 SUPPORTING SCHEDULES:
18 (a) E-1
19
20

RECAP SCHEDULES:
(a) D-1

Goodman Water Company
Selected Characteristics of Water Utilities

Schedule D-4.1
Witness: Bourassa

No.		<u>% Water Revenues</u>	<u>Operating Revenues (millions)</u>	<u>Net Plant (millions)</u>	<u>S&P Bond Rating</u>	<u>Moody's Bond Rating</u>
1	American States	87%	\$ 231.8	\$ 621.0	A-	A2
2	Aqua America	78%	\$ 489.3	\$ 1,890.3	AA-	NR
3	California Water	93%	\$ 312.3	\$ 856.7	NR	A2
4	Connecticut Water	97%	\$ 51.8	\$ 199.4	AA+	NR
5	Middlesex	94%	\$ 73.5	\$ 250.8	A	NR
6	SJW Corp.	97%	\$ 164.3	\$ 301.0	NR	NR
10						
11	Average	91%	\$ 220.5	\$ 686.5		
12						
13	Goodman Water Company	100%	\$ 0.2	\$ 2.2		
14						
15						

Source: AUS Utility Reports (March 2006)

Goodman Water Company
 Capital Structures of Water Utilities December 2005

Schedule D-4.2
 Witness: Bourassa

No.	Book Value		Market Value	
	Long-Term <u>Debt</u>	Common <u>Equity</u>	Long-Term <u>Debt</u>	Common <u>Equity</u>
1.	American States	50.4%	30.3%	69.7%
2.	Aqua America	52.0%	19.9%	80.1%
3.	California Water	48.3%	25.5%	74.5%
4.	Connecticut Water	40.5%	24.2%	75.8%
5.	Middlesex	56.3%	37.6%	62.4%
6.	SJW Corp.	42.6%	23.0%	77.0%
10	Average	48.3%	26.7%	73.3%
13	Goodman Water Company	0.0%	N/A	N/A

Sources:
 Zacks Investment Research
 Thomson First Call

Goodman Water Company
 Comparisons of Past and Future Estimates of Growth

Line No.	Company	Five-year historical average annual changes					Average Future Growth*
		Price	Book Value	DPS	EPS		
1	American States	7.30%	4.08%	0.69%	0.46%	8.00%	
2	Aqua America	16.33%	9.25%	7.40%	8.95%	10.33%	
3	California Water	10.42%	4.01%	0.72%	4.58%	8.50%	
4	Connecticut Water	5.39%	5.31%	1.49%	2.30%		
5	Middlesex	4.31%	4.10%	2.20%	8.10%	6.00%	
6	SJW Corp.	7.17%	5.88%	5.27%	2.82%		
13							
14							
15	GROUP AVERAGE	8.49%	5.44%	2.96%	4.53%	8.21%	
16	GROUP MEDIAN	7.23%	4.70%	1.84%	3.70%	8.25%	
17							

* See Schedule D-4.7
 Sources:

Value Line Data
 Yahoo Finance

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22

Goodman Water Company

Comparisons of Past and Future Estimates of Growth

Line No.	Company	<u>Ten-year historical average annual changes</u>					Average Future Growth*
		Price	Book Value	DPS	EPS		
1.	American States	11.32%	4.12%	0.95%	3.49%	8.00%	
2.	Aqua America	18.95%	8.89%	6.18%	9.61%	10.33%	
3.	California Water	10.97%	2.93%	0.92%	4.35%	8.50%	
4.	Connecticut Water	9.38%	4.03%	1.27%	2.60%		
5.	Middlesex	9.50%	6.35%	2.34%	3.59%	6.00%	
6.	SJW Corp.	12.59%	6.20%	3.95%	-2.89%		
	GROUP AVERAGE	12.12%	5.42%	2.60%	3.46%	8.21%	
	GROUP MEDIAN	11.15%	5.16%	1.80%	3.54%	8.25%	

* See Schedule D-4.7
 Sources:
 Value Line Data
 Yahoo Finance

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22

Goodman Water Company
Stock Price Comparison

Schedule D-4.5
Witness: Bourassa

Line No.	Company	Price at 3/28/2005	Spot Price 3/28/2006	Difference Spot Price	Percent Increase
1	American States (AWR)	\$ 24.72	\$ 36.78	12.06	48.79%
2	Aqua America (WTR)	17.85	27.48	9.63	53.95%
3	California Water (CWT)	32.93	43.61	10.68	32.43%
4	Connecticut Water (CTWS)	24.47	25.07	0.60	2.45%
5	Middlesex (MSEX)	17.42	18.35	0.93	5.34%
6	SJW Corp. (SJW)	17.35	26.63	9.28	53.49%
7					
8				\$ 7.20	32.74%
9					

Sources:

Yahoo Finance
Zacks Investment Research

10
11
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15

Goodman Water Company
Analysts Forecasts of Earnings Per Share Growth

Line No.	(1)	(2)	(3)	(4)	EPS GROWTH			Average Growth (G) (Cols 1-3)
					Zacks	S&P	Value Line	
1.	American States	6.00%	6.00%	12.00%	8.00%			
2.	Aqua America	9.00%	9.00%	13.00%	10.33%			
3.	California Water	9.00%	8.00%	8.50%	8.50%			
4.	Connecticut Water				8.21%			
5.	Middlesex	6.00%	6.00%		6.00%			
6.	SJW Corp.				8.21%			
	GROUP AVERAGE	7.50%	7.25%	11.17%	8.21%			
	GROUP MEDIAN				8.21%			

Sources:
Value Line Investment Survey Dated Jan 27, 2006
Zacks Investment Research Site Dated March 28, 2006
S&P Earnings Guide March 2006

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23

Goodman Water Company
 Estimates of Sustainable Growth

Line No.	(1)	(2)	(3)	(4)	(5)
	Retention Ratio	Rate of Return	br Growth	sv Growth	Average Sustainable Growth (Cols 3+4)
1.	0.54	12.00%	6.51%	2.60%	9.12%
2.	0.47	12.50%	5.83%	1.19%	7.02%
3.	0.42	11.00%	4.66%	4.44%	9.10%
4.					
5.					
6.					
7.					
8.					
9.					
10.					
11.					
12.					
13.					
14.					
15.	0.48	11.83%	5.67%	2.74%	8.41%
16.	0.47	12.00%	5.83%	2.60%	9.10%
17.					
18.					
19.					
20.					
21.					
22.					
23.					

Sources:
 Value Line Data Reported January 27, 2006

Goodman Water Company
 Estimates of sv Growth

Line No.	(1)	(2)	(3)	(4)
	Stock Financing Rate	Current Market to Book Ratio	$\frac{V}{Y}$	sv Growth
1.	American States 4.55%	2.34	0.57	2.60%
2.	Aqua America 1.54%	4.36	0.77	1.19%
3.	California Water 7.02%	2.73	0.63	4.44%
4.	Connecticut Water			na
5.	Middlesex			na
6.	SJW Corp.			na
GROUP AVERAGE	4.37%	3.14	0.66	2.74%
GROUP MEDIAN	4.55%	2.73	0.63	2.60%

Sources:
 Value Line data reported January 27, 2006

Schedule D-4.9
Witness: Bourassa

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Projected EPS Growth

Line No.	(1)	(2)	(3)	(4)	(5)
	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	EPS Growth (g)	Indicated Cost of Equity $k = \text{Div Yld} + g$ (Cols 3+4)
1.	American States	36.78	0.90	2.45%	8.00%
2.	Aqua America	27.48	0.44	1.60%	10.33%
3.	California Water	43.61	1.15	2.64%	8.50%
4.	Connecticut Water	25.07	0.86	3.43%	8.21%
5.	Middlesex	18.35	0.69	3.76%	6.00%
6.	SJW Corp.	26.63	0.56	2.10%	8.21%
13					
14					
15	GROUP AVERAGE				10.9%
16	GROUP MEDIAN				10.8%

(a) See Schedules D-4.5

Sources:

Zacks Investment Research March 28, 2006
Value Line Data January 27, 2006

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Sustainable Growth

Schedule D-4.10
 Witness: Bourassa

Line No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	br	vs	br+sv Growth (g)	Indicated Cost of Equity	
							k=Div Yld + g (Cols 3+6)	
1.	American States	36.78	0.90	2.45%	6.51%	2.60%	9.12%	11.6%
2.	Aqua America	27.48	0.44	1.60%	5.83%	1.19%	7.02%	8.6%
3.	California Water	43.61	1.15	2.64%	4.66%	4.44%	9.10%	11.7%
4.	Connecticut Water	25.07	0.86	3.43%			8.41%	11.8%
5.	Middlesex	18.35	0.70	3.81%			8.41%	12.2%
6.	SJW Corp.	26.63	0.55	2.07%			8.41%	10.5%
15	GROUP AVERAGE							11.1%
16	GROUP MEDIAN							11.7%

(a) See Schedule D-4.6 and D-4.7

Sources:

Zacks Investment Research March 28, 2006
 Value Line data January 27, 2006

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24

Schedule D-4.12
 Witness: Bourassa

**Goodman Water Company
 Risk Premium Equity Cost Analysis
 Average Equity Returns of Sample Water Companies**

Line No.	Actual Returns on Equity	Annual Average 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005 10.04%	4.29%	5.75%
2	2004 8.95%	4.27%	4.68%
3	2003 8.75%	4.01%	4.74%
4	2002 10.25%	4.61%	5.64%
5	2001 10.05%	5.02%	5.03%
6	2000 9.62%	6.03%	3.59%
7	1999 11.20%	5.65%	5.55%
8	1998 10.62%	5.26%	5.36%
9	1997 11.52%	6.35%	5.17%
10	1996 11.67%	6.44%	5.23%
11	1995 10.93%	6.57%	4.36%

10 Year Average Premium
 5 Year Average Premium

5.07%
 5.17%

Forecasted Interest Rates for 2007-2008(c)

5.20%

Projected Returns on Equity
 10 Year Average
 5 Year Average

10.3%
 10.4%

Sources:
 Value Line data reported Jan 27, 2006
 Ibbotson Associates S&P Valuation Edition 2005 Yearbook
 Blue Chip Forecast Interest Rates - 10 year Treas. Dec, 2005
 Federal Reserve

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

Test Year Ended September 30, 2005
 Returns on Equity of Nationally Traded Water
 Utilities as Reported in AUS Utility Reports
 March 2006

Exhibit
 Schedule D-4.14
 Page 1
 Witness: Bourassa

Line No.	Authorized Rate of Return	Current Rate of Return
1	10.0%	9.4%
2	10.1%	12.5%
3	10.1%	8.6%
4	12.7%	12.1%
5	10.0%	8.6%
6	9.9%	13.6%
7		
8		
9	10.5%	10.8%
10		
11		
12		
13		
14		
15		

American States Water Co.
 Aqua America
 California Water
 Connecticut Water Service
 Middlesex Water Co.
 SJW Corp.

Averages

Schedule D-4.13
 Witness: Bourassa

Goodman Water Company
Risk Premium Equity Cost Analysis
Authorized Equity Returns of Sample Water Companies

Line No.	Authorized Returns on Equity	Average Annual 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005 10.80%	4.29%	6.51%
2	2004 10.40%	4.27%	6.13%
3	2003 10.48%	4.01%	6.47%
4	2002 10.62%	4.61%	6.01%
5	2001 10.86%	5.02%	5.84%
6	2000 11.12%	6.03%	5.09%
7	1999 11.12%	5.65%	5.47%
8	1998 11.06%	5.26%	5.80%
9	1997 11.18%	6.35%	4.83%
10	1996 11.58%	6.44%	5.14%
11	1995 11.51%	6.57%	4.94%
12			
13			
14	10 Year Average Premium		5.57%
15	5 Year Average Premium		5.91%
16			
17			
18	Consensus Forecast Interest Rates for 2007-2008(c)		5.20%
19			
20	Projected Returns on Equity		
21	10 Year Average		10.8%
22	5 Year Average		11.1%
23			
24			
25	Sources:		
26	AUS Utility Reports, issues for December various years		
27	Ibbotson Associates SBBI Valuation Edition 2005 Yearbook		
28	Blue Chip Forecast Interest Rates - 10 year Treas. Dec, 2005		
29			

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Market Price

Line No.	(1)	(2)	(3)		(4)	(5)	EXPECTED CASH FLOWS					(13)		
			2006 Div	5 Year Historical Average Div. Growth			Recent Price	5 Year Historical Average Price Growth	Year 5 Price	Year 1 Div	Year 2 Div		Year 3 Div	Year 4 Div
7	Company	\$	0.91	0.69%	36.78	7.30%	\$	0.91	0.92	0.92	0.93	0.93	59.75	Implied ROE = Internal Rate of Return (Cols 7-12)
8	1. American States		0.46	7.40%	27.48	16.33%	\$	0.46	0.49	0.53	0.57	0.57	63.68	11.9%
9	2. Aqua America		1.16	0.72%	43.61	10.42%		1.16	1.25	1.34	1.44	1.44	85.95	19.5%
10	3. California Water		0.87	1.49%	25.07	5.39%		0.87	0.93	1.00	1.08	1.08	44.46	16.5%
11	4. Connecticut Water		0.71	2.20%	18.35	4.31%		0.71	0.76	0.82	0.88	0.88	33.21	14.8%
12	5. Middlesex		0.59	5.27%	26.63	7.17%		0.59	0.63	0.68	0.73	0.73	47.15	15.5%
13	6. SJW Corp.													13.8%
14														
15	GROUP AVERAGE			2.96%		8.49%								15.3%
16	GROUP MEDIAN			1.84%		7.23%								15.2%

Sources:
Value Line Investment Survey Dated Jan 27, 2006
Zacks Investment Research Jan 27, 2006
Yahoo Finance

Exhibit 2
Witness: Bourassa

Goodman Water Company
Historical Compound Annual Total Market Returns

<u>Company</u>	3 Yr.** <u>Return</u>	5 Yr.** <u>Return</u>	10 Yr.*** <u>Return</u>
1. American States	27.67%	16.84%	21.33%
2. Aqua America	55.89%	34.37%	28.45%
3. California Water	39.40%	23.55%	16.58%
4. Connecticut Water	7.28%	16.34%	14.91%
5. Middlesex	15.02%	12.92%	15.01%
6. SJW Corp.	42.94%	17.68%	19.86%
Average	31.37%	20.28%	19.36%

* 2003-2005
** 2001-2005
*** 1996-2005

Sources:
Value Line Data
Yahoo Finance

Exhibit 3
 Witness: Bourassa

Goodman Water Company
 Historical Compound Annual Capital Appreciation Returns

<u>Company</u>	3 Yr.* <u>Return</u>	5 Yr.** <u>Return</u>	10 Yr.*** <u>Return</u>
1. American States	13.90%	8.19%	13.25%
2. Aqua America	32.99%	21.12%	27.11%
3. California Water	21.10%	12.54%	13.65%
4. Connecticut Water	2.09%	7.61%	11.68%
5. Middlesex	6.11%	5.32%	11.55%
6. SJW Corp.	23.91%	9.11%	17.76%
Average	16.68%	10.65%	15.83%

* 2003-2005
 ** 2001-2005
 *** 1996-2005

Sources:
 Value Line Data
 Yahoo Finance

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Analyst Estimates of DPS Growth

Exhibit 4
 Witness: Bourassa

Line No.	(1)	(2)	(3)	(4)	(5)
7	<u>Company</u>	<u>Spot Price (Po)</u>	<u>Next Year's Div (D1)</u>	<u>Dividend Yield</u>	<u>Div. Growth</u>
8	American States	36.78	0.90	2.45%	1.50%
9	Aqua America	27.48	0.44	1.60%	8.00%
10	California Water	43.61	1.15	2.64%	1.50%
11	Connecticut Water	25.07	0.86	3.43%	Not Available
12	Middlesex	18.35	0.69	3.76%	Not Available
13	SJW Corp.	26.63	0.56	2.10%	Not Available
14					
15	GROUP AVERAGE				5.9%
16	GROUP MEDIAN				4.1%
17					
18	Current Baa interest rate				6.4%
19					
20	Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Top 10				8.2%
21	Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Bottom 10				6.1%
22	Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Average				7.1%
23					
24					
25	Sources:				
26	Value Line data report on Jan 27, 2006				
27	Zacks Investment Research data for March 28, 2006				
28	Yahoo Finance				
29	Federal Reserve				
30	Blue Chip Financial Forecast Dec 2005				

Indicated
 Equity Cost
 $k = \text{Div Yld} + G$
 (Cols. 1+4)

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

Exhibit 6
 Witness: Bourassa

Line No.	(1)	(2)	(3)	(4)	(5)	(6)
	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	Historical EPS Growth	Indicated Equity Cost k=Div Yld + G (Cols 1+4)	Indicated Equity Cost k=Div Yld + G (Cols 1+4)
1.	American States	36.78	0.90	2.45%	0.46%	*
2.	Aqua America	27.48	0.44	1.60%	8.95%	10.5%
3.	California Water	43.61	1.15	2.64%	4.58%	7.2%
4.	Connecticut Water	25.07	0.86	3.43%	2.30%	*
5.	Middlesex	18.35	0.70	3.81%	8.10%	11.9%
6.	SJW Corp.	26.63	0.55	2.07%	2.82%	*
7.					2.9%	
8.					10.5%	10.5%
9.					7.2%	7.2%
10.					5.7%	*
11.					11.9%	11.9%
12.					4.9%	*
13.						
14.						
15.						
16.	GROUP AVERAGE					9.9%
17.	GROUP MEDIAN					10.5%
18.	Current Baa interest rate					
19.						
20.	Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Top 10					7.2%
21.	Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Bottom 10					6.5%
22.	Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Average					6.4%
23.						
24.	* Indicated Equity Cost Below Current Cost of Debt					
25.						
26.						
27.	Sources:					
28.	Value Line data report on Jan 27, 2006					
29.	Zacks Investment Research data for March 28, 2006					
30.	Yahoo Finance					
31.	Federal Reserve					
32.	Blue Chip Financial Forecast Dec 2005					

GOODMAN WATER COMPANY
SCHEDULE "E"

Goodman Water Company
 Test Year Ended September 30, 2005
 Comparative Balance Sheets

Exhibit
 Schedule E-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended <u>9/30/2005</u>	Year Ended <u>12/31/2004</u>	Year Ended <u>12/31/2003</u>
1	<u>ASSETS</u>			
2	Plant In Service	\$ 2,337,731	\$ 2,044,029	\$ 1,639,313
3				
4	Non-Utility Plant	-	-	-
5	Construction Work in Progress	-	193,946	-
6	Less: Accumulated Depreciation	(201,274)	(137,890)	(55,723)
7	Net Plant	<u>\$ 2,136,458</u>	<u>\$ 2,100,085</u>	<u>\$ 1,583,590</u>
8				
9	Debt Reserve Fund	\$ -	\$ -	\$ -
10				
11		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
12				
13	CURRENT ASSETS			
14	Cash and Equivalents	\$ 8,679	\$ 111,784	\$ 89,671
15	Restricted Cash	-	-	-
16	Accounts Receivable, Net	16,292	2,121	1,839
17	Unbilled Revenues	-	-	-
18	Materials and Supplies	-	-	-
19	Prepayments	-	-	-
20	Other Current Assets	105,933	84,072	430
21	Total Current Assets	<u>\$ 130,904</u>	<u>\$ 197,977</u>	<u>\$ 91,940</u>
22				
23	Deferred Debits	\$ -	\$ -	\$ -
24				
25	Other Investments & Special Funds	\$ -	\$ -	\$ -
26				
27	TOTAL ASSETS	<u>\$ 2,267,362</u>	<u>\$ 2,298,062</u>	<u>\$ 1,675,530</u>
28				
29				
30	<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
31				
32	Common Equity	\$ 1,268,596	\$ 1,341,338	\$ 1,024,018
33				
34	Long-Term Debt	\$ -	\$ -	\$ -
35				
36	CURRENT LIABILITIES			
37	Accounts Payable	\$ 9,157	\$ 4,466	\$ 2,990
38	Current Portion of Long-Term Debt	-	-	-
39	Payables to Associated Companies	-	-	-
40	Customer Meter Deposits, Current	-	-	-
41	Accrued Taxes	3,049	890	625
42	Accrued Interest	-	-	-
43	Other Current Liabilities	-	-	-
44	Total Current Liabilities	<u>\$ 12,207</u>	<u>\$ 5,356</u>	<u>\$ 3,615</u>
45	DEFERRED CREDITS			
46	Customer Meter Deposits, less current	\$ 14,864	\$ 81,870	\$ 50,117
47	Advances in Aid of Construction	971,695	869,498	597,780
48	Accumulated Deferred Income Taxes	-	-	-
49	Contributions In Aid of Construction, Net	-	-	-
50	Asset Retirement Obligations	-	-	-
51	Total Deferred Credits	<u>\$ 986,559</u>	<u>\$ 951,368</u>	<u>\$ 647,897</u>
52				
53	Total Liabilities & Common Equity	<u>\$ 2,267,362</u>	<u>\$ 2,298,062</u>	<u>\$ 1,675,530</u>
54				
55	<u>SUPPORTING SCHEDULES:</u>			
56	E-5			
57				

Goodman Water Company
Test Year Ended September 30, 2005
Comparative Income Statements

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended <u>9/30/2005</u>	Prior Year Ended <u>12/31/2004</u>	Prior Year Ended <u>12/31/2003</u>
1	Revenues			
2	Metered Water Revenues	\$ 162,662	\$ 162,452	\$ 98,159
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	17,940	16,125	12,040
5	Total Revenues	<u>\$ 180,602</u>	<u>\$ 178,577</u>	<u>\$ 110,199</u>
6	Operating Expenses			
7	Salaries and Wages	\$ 64,001	\$ 40,000	\$ 50,000
8	Purchased Water	-	-	-
9	Purchased Power	9,442	5,551	1,794
10	Chemicals	-	-	-
11	Repairs and Maintenance	9,868	14,057	3,684
12	Office Supplies and Expense	778	679	267
13	Outside Services	104,451	81,686	32,458
14	Water Testing	3,639	1,729	1,333
15	Rents	-	-	-
16	Transportation Expenses	-	-	-
17	Insurance - General Liability	18,253	12,123	11,549
18	Insurance - Health and Life	-	-	-
19	Regulatory Commission Expense - Rate Case	55	45	-
20	Miscellaneous Expense	2,386	1,890	2,042
21	Depreciation Expense	86,268	82,167	53,823
22	Taxes Other Than Income	5,324	3,130	4,315
23	Property Taxes	2,070	354	300
24	Income Tax	-	-	45
25				
26	Total Operating Expenses	<u>\$ 306,535</u>	<u>\$ 243,411</u>	<u>\$ 161,610</u>
27	Operating Income	<u>\$ (125,933)</u>	<u>\$ (64,834)</u>	<u>\$ (51,411)</u>
28	Other Income (Expense)			
29	Interest Income	1,747	1,008	718
30	Other income	-	-	-
31	Interest Expense	(90)	(73)	(32)
32	Other Expense	-	(46)	-
33				
34	Total Other Income (Expense)	<u>\$ 1,657</u>	<u>\$ 889</u>	<u>\$ 686</u>
35	Net Profit (Loss)	<u><u>\$ (124,276)</u></u>	<u><u>\$ (63,945)</u></u>	<u><u>\$ (50,725)</u></u>
36				
37				

Goodman Water Company
 Test Year Ended September 30, 2005
 Detail of Plant in Service

Exhibit
 Schedule E-5
 Page 1
 Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at <u>12/31/2004</u>	Plant Additions, Reclass- ifications or or <u>Retirements</u>	Plant Balance at <u>9/30/2005</u>
1					
2	301	Organization Cost	\$ 94,596	\$ 9,932	\$ 104,528
3	302	Franchise Cost	-	-	-
4	303	Land and Land Rights	-	-	-
5	304	Structures and Improvements	9,788	-	9,788
6	305	Collecting and Impounding Res.	-	-	-
7	306	Lake River and Other Intakes	-	-	-
8	307	Wells and Springs	386,591	-	386,591
9	308	Infiltration Galleries and Tunnels	-	-	-
10	309	Supply Mains	-	-	-
11	310	Power Generation Equipment	-	-	-
12	311	Electric Pumping Equipment	686,993	-	686,993
13	320	Water Treatment Equipment	11,054	-	11,054
14	330	Distribution Reservoirs & Standpipe	294,460	-	294,460
15	331	Transmission and Distribution Mains	611,348	-	611,348
16	333	Services	129,274	-	129,274
17	334	Meters	40,660	16,082	56,742
18	335	Hydrants	46,955	-	46,955
19	336	Backflow Prevention Devices	-	-	-
20	339	Other Plant and Miscellaneous Equipment	-	-	-
21	340	Office Furniture and Fixtures	-	-	-
22	341	Transportation Equipment	-	-	-
23	342	Stores Equipment	-	-	-
24	343	Tools and Work Equipment	-	-	-
25	344	Laboratory Equipment	-	-	-
26	345	Power Operated Equipment	-	-	-
27	346	Communications Equipment	-	-	-
28	347	Miscellaneous Equipment	-	-	-
29	348	Other Tangible Plant	-	-	-
30		Plant Held for Future Use	-	-	-
31					
32		TOTAL WATER PLANT	<u>\$ 2,311,718</u>	<u>\$ 26,013</u>	<u>\$ 2,337,731</u>

SUPPORTING SCHEDULES

RECAP SCHEDULES:

A-4

E-1

37

Goodman Water Company
 Test Year Ended September 30, 2005
 Operating Statistics

Exhibit
 Schedule E-7
 Page 1
 Witness: Bouras

Line No.		Test Year Ended <u>9/30/2005</u>	Prior Year Ended <u>12/31/2004</u>	Prior Year Ended <u>12/31/2003</u>
1	<u>WATER STATISTICS:</u>			
2				
3				
4				
5	Total Gallons Sold (in Thousands)	27,941	32,304	18,493
6				
7				
8				
9	Water Revenues from Customers:	\$ 162,662	\$ 162,452	\$ 98,159
10				
11				
12				
13				
14	Year End Number of Customers	459	370	202
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	61	87	92
19				
20				
21				
22	Annual Revenue per Year End Customer	\$ 354.38	\$ 439.06	\$ 485.94
23				
24	Pumping Cost Per 1,000 Gallons	\$ 0.3379	\$ 0.1718	\$ 0.0970
25	Purchased Water Cost per 1,000 Gallons	\$ -	\$ -	\$ -

Goodman Water Company
Test Year Ended September 30, 2005
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended <u>9/30/2005</u>	Prior Year Ended <u>12/31/2004</u>	Prior Year Ended <u>12/31/2003</u>
1	<u>Description</u>			
2				
3	Federal Income Taxes	\$ -	\$ -	\$ 45
4	State Income Taxes	-	-	-
5	Payroll Taxes	5,324	3,130	4,315
6	Property Taxes	2,070	354	300
7				
8	Totals	<u>\$ 7,394</u>	<u>\$ 3,484</u>	<u>\$ 4,660</u>
9				
10				
11				
12				
13				
14				

Goodman Water Company
Test Year Ended September 30, 2005
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

The Company does conduct independent audits

GOODMAN WATER COMPANY
SCHEDULE "H"

Goodman Water Company
 Revenue Summary
 Test Year Ended September 30, 2005

Exhibit
 Schedule H-1
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Addition Bills	Addition Gallons
1	5/8 x 3/4 Inch Residential	\$124,765	\$343,162	\$ 218,397	175.05%	-	-
2	3/4 Inch Residential	-	-	-	0.00%	-	-
3	1 Inch Residential	10,839	27,362	16,523	152.44%	-	-
4	2 Inch Residential	13,982	43,526	29,544	211.31%	-	-
5	Construction Water	13,412	21,741	8,329	62.11%	-	-
6		-	-	-		-	-
7		-	-	-		-	-
8							
9							
10	Subtotals of Revenues	\$ 162,998	\$ 435,791	\$ 272,793	167.36%		
11							
12	Other Water Revenues	17,940	17,940	-	0.00%		
13							
14							
15							
16	Subtotals of Revenues Revenue Annualizations:	\$ 180,938	\$ 453,731	\$ 272,793	150.77%		
17	5/8 Inch residential	\$ 14,345	\$ 38,268	\$ 23,923	166.76%	537	182,394
18	3/4 Inch Residential	-	-	-	0.00%	-	-
19	1 Inch Residential	18,401	45,948	27,547	149.70%	325	1,722,972
20	2 Inch Residential	-	-	-	0.00%	-	-
21	Construction Water	-	-	-	0.00%	-	-
22	Subtotal Revenue Annualization	32,746	84,216	51,469	157.18%	862	1,905,366
23							
24	Total Revenues Per Bill Count	\$ 213,684	\$ 537,947	\$ 324,263	151.75%		
25	With Annualization						
26							
27	Subtotal of Revenues Above w/o Annualization	\$ 180,938					
28	Revenues Per Annual Report	\$ 180,602					
29	Difference in Dollars	\$ 336					
30	Difference in Percentage	0.19%					
31	Tolerance Allowed by ACC Staff	0.50%					
32							
33							

Goodman Water Company
 Present and Proposed Rates
 Test Year Ended September 30, 2005

Exhibit
 Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and Meter Size (Residential and Commercial)	Monthly Usage Charge for:	Present Rates	Proposed Rates (a)	Percent Change
1	5/8 x 3/4 Inch		\$ 18.00	\$ 44.78	148.80%
2	3/4 Inch		27.00	67.18	148.80%
3	1 Inch		45.00	111.96	148.80%
4	1 1/2 Inch residential or Commercial		90.00	223.92	148.80%
5	2 Inch Residential or Commercial		144.00	358.27	148.80%
6	3 Inch Residential or Commercial		270.00	671.76	148.80%
7	4 Inch Residential or Commercial		450.00	1,119.60	148.80%
8	6 Inch Residential or Commercial		900.00	2,239.20	148.80%
9	Construction Water/Standpipe		-	-	0.00%
10					
11	Gallons included in Minimums 5/8 x 3/4 Inch				
12	Meter only		1,000	-	
13					
14	Tier 1: Gallons upper limit				
15	5/8 x 3/4 Inch	All	100,000,000	Please See	N/A
16	3/4 Inch	All	100,000,000	Page 2 &	N/A
17	1 Inch	All	100,000,000	Page 3	N/A
18	1.5 Inch	All	100,000,000		N/A
19	2 Inch	All	100,000,000		N/A
20	3 Inch	All	100,000,000		N/A
21	4 Inch	All	100,000,000		N/A
22	6 Inch	All	100,000,000		N/A
23	8 Inch	All	100,000,000		N/A
24					
25	Tier 2: (Gallon upper limit, up to, but not exceeding)				
26	5/8 x 3/4 Inch	All	100,000,000	Please See	N/A
27	3/4 Inch	All	100,000,000	Page 2 &	N/A
28	1 Inch	All	100,000,000	Page 3	N/A
29	1.5 Inch	All	100,000,000		N/A
30	2 Inch	All	100,000,000		N/A
31	3 Inch	All	100,000,000		N/A
32	4 Inch	All	100,000,000		N/A
33	6 Inch	All	100,000,000		N/A
34	8 Inch	All	100,000,000		N/A
35					

Goodman Water Company
 Present and Proposed Rates
 Test Year Ended September 30, 2005

Line No.	Customer Classification and Meter Size	Present Rates	Proposed Rates	Percent Change
1	Tier 3: (Gallon upper limit, up to, but not exceeding)			
2	5/8 x 3/4 Inch	100,000,000	Please See	N/A
3	3/4 Inch	100,000,000	Page 2 &	N/A
4	1 Inch	100,000,000	Page 3	N/A
5	1.5 Inch	100,000,000		N/A
6	2 Inch	100,000,000		N/A
7	3 Inch	100,000,000		N/A
8	4 Inch	100,000,000		N/A
9	6 Inch	100,000,000		N/A
10	8 Inch	100,000,000		N/A
11				
12				
13	Commodity Rates (per 1,000 gallons in excess of gallons in Each Tier)			
14	All customer classes except Construction Water	\$ 2.20	\$ 5.00	127.27%
15	All customer classes except Construction Water	2.20	6.70	204.55%
16	All customer classes except Construction Water	2.20	7.70	250.00%
17				
18	Construction Water	\$ 4.75	\$ 7.70	62.11%
19				
20				
21				
22				
23	5/8 and 3/4 Inch Meters			
24	Tier 1	-	4,000	\$ 5.00
25	Tier 2	4,001	10,000	\$ 6.70
26	Tier 3	10,001		\$ 7.70
27				
28				
29	1 Inch Meter and Larger Meters			
30	Tier 1	-	10,000	\$ 5.00
31	Tier 2	10,001	25,000	\$ 6.70
32	Tier 3	25,001		\$ 7.70
33				
34				

Goodman Water Company
Present and Proposed Rates
Test Year Ended September 30, 2005

Line No.	Meter and Service Line Charges	Present Service Line Charge	Present Meter Installation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge
1				\$ 225.00	\$ 385.00	\$ 135.00	\$ 520.00
2							
3							
4							
5							
6							
7	5/8 x 3/4 inch			270.00	385.00	215.00	600.00
8	3/4 inch			300.00	435.00	255.00	690.00
9	1 inch			425.00	470.00	465.00	935.00
10	1 1/2 inch			550.00	630.00	965.00	1,595.00
11	2 inch Turbo			550.00	630.00	1,690.00	2,320.00
12	2 inch, Compound			750.00	805.00	1,470.00	2,275.00
13	3 inch Turbo			750.00	845.00	2,265.00	3,110.00
14	3 inch, compound			1,375.00	1,170.00	2,350.00	3,520.00
15	4 inch Turbo			1,375.00	1,230.00	3,245.00	4,475.00
16	4 inch, compound			2,090.00			
17	5 inch			2,800.00	1,730.00	4,545.00	6,275.00
18	6 inch Turbo			2,800.00	1,770.00	6,280.00	8,050.00
19	6 inch, compound			NA	At Cost	At Cost	At Cost
20	8 inch			NA	At Cost	At Cost	At Cost
21	10 inch			NA	At Cost	At Cost	At Cost
22	12 inch			NA	At Cost	At Cost	At Cost

Other Charges:

27	Establishment		\$ 50.00
28	Establishment (After Hours)		\$ 75.00
29	Reconnection (Delinquent)		\$ 75.00
30	Reconnection (Delinquent) after hours		
31	Meter Test		\$ 20.00
32	Deposit	PER RULE	
33	Deposit Interest	PER RULE	
34	Re-establishment (Within 12 months)	PER RULE	
35	NSF Check	\$ 15.00	
36	Deferred Payment	18%	
37	Meter Re-read	\$ 20.00	
38	Late Fee	\$ 10.00	
39	Customer requested Meter Test	\$ 20.00	

Establishment	(R14-2-403.D.1)
Establishment	(After Hours)
Meter Test	(R14-2-403.D.2)
Deposit	(R14-2-408.F)
Deposit Interest	(R14-2-403.B)
Re-establishment	(R14-2-403.B.3)
NSF Check	(R14-2-403.D.1)
Deferred Payment	(R14-2-409.F.1)
Meter Re-read	(R14-2-409.G.6)
Meter Re-read	(R14-2-408.C.2)

(a) \$ 5.00 minimum or 1.5% of unpaid balance whichever is greater.

Goodman Water Company
 Bill Comparison of Present and Proposed Rates
 Customer Classification 5/8 Inch Meter
 Test Year Ended September 30, 2005
 (Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
 Page 1
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 18.00	\$ 44.78	\$ 26.78	148.80%
1,000	18.00	49.78	\$ 31.78	176.58%
2,000	20.20	54.78	\$ 34.58	171.21%
3,000	22.40	59.78	\$ 37.38	166.89%
4,000	24.60	64.78	\$ 40.18	163.35%
5,000	26.80	71.48	\$ 44.68	166.73%
6,000	29.00	78.18	\$ 49.18	169.60%
7,000	31.20	84.88	\$ 53.68	172.06%
8,000	33.40	91.58	\$ 58.18	174.20%
9,000	35.60	98.28	\$ 62.68	176.08%
10,000	37.80	104.98	\$ 67.18	177.74%
12,000	42.20	120.38	\$ 78.18	185.27%
14,000	46.60	135.78	\$ 89.18	191.38%
16,000	51.00	151.18	\$ 100.18	196.44%
18,000	55.40	166.58	\$ 111.18	200.69%
20,000	59.80	181.98	\$ 122.18	204.32%
25,000	70.80	220.48	\$ 149.68	211.42%
30,000	81.80	258.98	\$ 177.18	216.61%
35,000	92.80	297.48	\$ 204.68	220.56%
40,000	103.80	335.98	\$ 232.18	223.68%
45,000	114.80	374.48	\$ 259.68	226.21%
50,000	125.80	412.98	\$ 287.18	228.29%
60,000	147.80	489.98	\$ 342.18	231.52%
70,000	169.80	566.98	\$ 397.18	233.91%
80,000	191.80	643.98	\$ 452.18	235.76%
90,000	213.80	720.98	\$ 507.18	237.22%
100,000	235.80	797.98	\$ 562.18	238.42%
Average Usage				
5,509	\$ 27.92	\$ 74.89	\$ 46.97	168.25%
Median Usage				
4,500	\$ 25.70	\$ 68.13	\$ 42.43	165.11%

Present Rates:

Monthly Minimum:	\$ 18.00
Gallons in Minimum	1,000
Charge Per 1,000 Gallons	
Up to 100,000,000	\$ 2.20
Up to 100,000,000	\$ 2.20
Over 100,000,000	\$ 2.20

Proposed Rates:

Monthly Minimum:	\$ 44.78
Gallons in Minimum	-
Charge Per 1,000 Gallons	
Up to 4,000	\$ 5.00
Up to 10,000	\$ 6.70
Over 10,001	\$ 7.70

Goodman Water Company
Bill Comparison of Present and Proposed Rates
 Customer Classification 1 Inch Meter
 Test Year Ended September 30, 2005
 (Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
 Page 2
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 45.00	\$ 111.96	\$ 66.96	148.80%
1,000	47.20	116.96	\$ 69.76	147.80%
2,000	49.40	121.96	\$ 72.56	146.88%
3,000	51.60	126.96	\$ 75.36	146.05%
4,000	53.80	131.96	\$ 78.16	145.28%
5,000	56.00	136.96	\$ 80.96	144.57%
6,000	58.20	141.96	\$ 83.76	143.92%
7,000	60.40	146.96	\$ 86.56	143.31%
8,000	62.60	151.96	\$ 89.36	142.75%
9,000	64.80	156.96	\$ 92.16	142.22%
10,000	67.00	161.96	\$ 94.96	141.73%
12,000	71.40	175.36	\$ 103.96	145.60%
14,000	75.80	188.76	\$ 112.96	149.02%
16,000	80.20	202.16	\$ 121.96	152.07%
18,000	84.60	215.56	\$ 130.96	154.80%
20,000	89.00	228.96	\$ 139.96	157.26%
25,000	100.00	262.46	\$ 162.46	162.46%
30,000	111.00	300.96	\$ 189.96	171.14%
35,000	122.00	339.46	\$ 217.46	178.25%
40,000	133.00	377.96	\$ 244.96	184.18%
45,000	144.00	416.46	\$ 272.46	189.21%
50,000	155.00	454.96	\$ 299.96	193.52%
60,000	177.00	531.96	\$ 354.96	200.54%
70,000	199.00	608.96	\$ 409.96	206.01%
80,000	221.00	685.96	\$ 464.96	210.39%
90,000	243.00	762.96	\$ 519.96	213.98%
100,000	265.00	839.96	\$ 574.96	216.97%

Average Usage				
3,816	\$ 53.39	\$ 131.04	\$ 77.64	145.42%
Median Usage				
500	\$ 46.10	\$ 114.46	\$ 68.36	148.29%

Present Rates:

Monthly Minimum:	\$ 45.00
Gallons in Minimum	-
Charge Per 1,000 Gallons	
Up to 100,000,000	\$ 2.20
Up to 100,000,000	\$ 2.20
Over 100,000,000	\$ 2.20

Proposed Rates:

Monthly Minimum:	\$ 111.96
Gallons in Minimum	-
Charge Per 1,000 Gallons	
Up to 10,000	\$ 5.00
Up to 25,000	\$ 6.70
Over 25,001	\$ 7.70

Goodman Water Company
 Bill Comparison of Present and Proposed Rates
 Customer Classification Residential 2 Inch
 Test Year Ended September 30, 2005
 (Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
 Page 3
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 144.00	\$ 358.27	\$ 214.27	148.80%
1,000	146.20	364.97	\$ 218.77	149.64%
2,000	148.40	371.67	\$ 223.27	150.45%
3,000	150.60	378.37	\$ 227.77	151.24%
4,000	152.80	385.07	\$ 232.27	152.01%
5,000	155.00	391.77	\$ 236.77	152.76%
6,000	157.20	398.47	\$ 241.27	153.48%
7,000	159.40	405.17	\$ 245.77	154.19%
8,000	161.60	411.87	\$ 250.27	154.87%
9,000	163.80	418.57	\$ 254.77	155.54%
10,000	166.00	425.27	\$ 259.27	156.19%
12,000	170.40	440.67	\$ 270.27	158.61%
14,000	174.80	456.07	\$ 281.27	160.91%
16,000	179.20	471.47	\$ 292.27	163.10%
18,000	183.60	486.87	\$ 303.27	165.18%
20,000	188.00	502.27	\$ 314.27	167.17%
25,000	199.00	540.77	\$ 341.77	171.74%
30,000	210.00	579.27	\$ 369.27	175.84%
35,000	221.00	617.77	\$ 396.77	179.53%
40,000	232.00	656.27	\$ 424.27	182.88%
45,000	243.00	694.77	\$ 451.77	185.91%
50,000	254.00	733.27	\$ 479.27	188.69%
60,000	276.00	810.27	\$ 534.27	193.58%
70,000	298.00	887.27	\$ 589.27	197.74%
80,000	320.00	964.27	\$ 644.27	201.33%
90,000	342.00	1,041.27	\$ 699.27	204.47%
100,000	364.00	1,118.27	\$ 754.27	207.22%
150,000	474.00	1,503.27	\$ 1,029.27	217.15%
200,000	584.00	1,888.27	\$ 1,304.27	223.33%
250,000	694.00	2,273.27	\$ 1,579.27	227.56%
300,000	804.00	2,658.27	\$ 1,854.27	230.63%
350,000	914.00	3,043.27	\$ 2,129.27	232.96%
400,000	1,024.00	3,428.27	\$ 2,404.27	234.79%
450,000	1,134.00	3,813.27	\$ 2,679.27	236.27%
500,000	1,244.00	4,198.27	\$ 2,954.27	237.48%
Average Usage				
111,083	\$ 388.38	\$ 1,203.61	\$ 815.23	209.90%
Median Usage				
-	\$ 144.00	\$ 358.27	\$ 214.27	148.80%

Present Rates:

Monthly Minimum:	\$ 144.00
Gallons in Minimum	
Charge Per 1,000 Gallons	
Up to 100,000,000	\$ 2.20
Up to 100,000,000	\$ 2.20
Over 100,000,000	\$ 2.20

Proposed Rates:

Monthly Minimum:	\$ 358.27
Gallons in Minimum	-
Charge Per 1,000 Gallons	
Up to -	\$ 5.00
Up to 10,001	\$ 6.70
Over 25,001	\$ 7.70

Goodman Water Company
 Test Year Ended September 30, 2005
 Customer Classification 5/8 Inch Meter

Exhibit
 Schedule H-5
 Page 1
 Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	0
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	0
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	0
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	0
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	0
88,001	89,000	-	1	-	-	-	-	-	-	-	-	-	-	1
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	0
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	0
91,001	92,000	-	-	-	-	-	-	-	1	-	-	-	-	1
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	0
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	0
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	0
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	0
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	0
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	0
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	0
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	0
327,800	327,800	-	-	1	-	-	-	-	-	-	-	-	-	1
Totals		328	300	341	340	352	362	367	399	406	399	412	413	4,419

Average Usage 5,509
 Median Usage 4,500
 Average # Customers 368
 Change in Number of Customers 85

Goodman Water Company
 Test Year Ended September 30, 2005
 Customer Classification 1 Inch Meter

Exhibit
 Schedule H-5
 Page 2
 Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
0	0	-	-	-	1	0	15	16	3	0	2	11	8	56
1	1,000	-	2	-	-	-	-	-	5	12	21	15	23	78
1,001	2,000	-	-	-	-	-	1	-	8	8	2	2	6	27
2,001	3,000	-	-	-	-	-	-	-	-	2	-	2	1	5
3,001	4,000	-	-	-	-	-	-	-	-	2	3	-	-	3
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	0
5,001	6,000	-	-	-	-	-	-	-	1	-	1	1	-	3
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	0
7,001	8,000	-	-	-	-	2	-	-	-	-	1	-	1	4
8,001	9,000	-	-	1	-	-	-	-	-	-	-	-	-	1
9,001	10,000	-	-	-	1	-	-	-	-	-	-	-	-	1
10,001	11,000	-	-	-	-	-	-	-	-	-	-	-	1	1
11,001	12,000	-	-	1	-	-	1	-	-	-	-	1	-	3
12,001	13,000	-	-	1	1	-	-	1	-	-	-	-	-	3
13,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	0
14,001	15,000	-	1	-	-	-	-	-	-	-	-	-	1	2
15,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	0
16,001	17,000	-	-	-	-	-	-	1	-	-	-	1	-	2
17,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	0
18,001	19,000	-	-	-	-	-	-	-	-	-	1	-	1	2
19,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	0
20,001	21,000	1	-	-	-	-	-	-	-	-	-	-	1	2
21,001	22,000	-	-	-	-	-	-	-	1	-	-	-	-	2
22,001	23,000	-	-	-	-	-	-	-	-	-	-	-	-	0
23,001	24,000	-	-	-	-	-	-	-	-	-	-	-	-	0
24,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	0
25,001	26,000	-	-	-	-	-	-	-	-	-	-	-	-	0
26,001	27,000	-	-	-	-	-	-	-	-	-	-	-	-	0
27,001	28,000	-	-	-	-	-	-	-	-	-	-	-	-	0
28,001	29,000	-	-	-	-	-	-	-	-	-	-	-	-	0
29,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	0
30,001	31,000	-	-	-	-	-	-	-	-	-	-	-	-	0
31,001	32,000	-	-	-	-	-	-	-	-	-	-	-	-	0
32,001	33,000	-	-	-	-	-	-	-	-	-	-	-	-	0
33,001	34,000	-	-	-	-	-	-	-	-	-	-	-	-	0
34,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	0
35,001	36,000	-	-	-	-	-	-	-	-	-	-	-	-	0
36,001	37,000	-	-	-	-	-	-	-	-	-	-	1	-	1
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	0
38,001	39,000	-	-	-	-	-	-	-	1	-	-	-	1	2

Goodman Water Company
 Test Year Ended September 30, 2005
 Customer Classification 1 Inch Meter

Exhibit
 Schedule H-5
 Page 2
 Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	0
80,001	81,000	-	-	-	-	-	-	-	-	1	-	-	-	1
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	0
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	0
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	0
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	0
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	0
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	0
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	0
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	0
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	0
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	0
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	0
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	0
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	0
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	0
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	0
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	0
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	0
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	0
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	0
Totals		1	3	3	3	3	3	3	3	3	3	3	4	203

Average Usage 3,816
 Median Usage 500
 Average # Customers 17
 Change in Number of Customers 43

Goodman Water Company
 Test Year Ended September 30, 2005
 Residential 2 Inch
 Customer Classification

Exhibit
 Schedule H-5
 Page 3
 Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
44,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-
48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-
54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-
55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	-
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-

1

1

Goodman Water Company
Test Year Ended September 30, 2005
Residential 2 Inch
Customer Classification

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-
98,001	99,000	1	-	-	-	-	-	-	-	-	-	-	-	1
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-
101,900	101,900	-	-	-	-	-	1	-	-	-	-	-	-	1
105,900	105,900	-	-	-	-	-	-	-	-	-	-	-	-	-
108,100	108,100	-	-	-	-	-	-	-	-	-	-	-	-	-
116,000	116,000	-	-	-	-	-	-	-	-	-	-	1	-	1
127,800	127,800	-	-	-	-	-	-	-	-	-	-	-	-	-
174,200	174,200	-	-	-	-	-	-	-	-	-	-	-	-	-
213,800	213,800	-	-	-	-	-	-	-	-	1	-	-	-	1
242,900	242,900	-	-	-	-	-	-	-	-	-	-	-	-	-
253,300	253,300	-	-	-	-	-	-	-	1	-	-	-	-	1
253,500	253,500	-	-	-	-	-	-	-	-	-	-	-	-	-
273,300	273,300	-	-	-	-	-	1	-	-	-	-	-	-	1
277,400	277,400	-	-	-	-	-	-	-	-	-	-	-	-	-
321,000	321,000	-	-	1	-	-	-	-	-	-	-	-	-	1
321,000	321,000	-	-	-	-	-	-	-	-	-	-	-	-	-
324,700	324,700	-	1	-	-	-	-	-	-	-	-	-	-	1
324,700	324,700	-	-	-	1	-	-	-	-	-	-	-	-	1
886,980	886,980	-	-	-	-	-	-	-	-	1	-	-	-	1

Totals	3	3	3	3	3	3	3	3	3	3	3	3	3	36
Average Usage	111,083													
Median Usage	-													
Average # Customers	3													
Change in Number of Customers	-													

Goodman Water Company
 Test Year Ended September 30, 2005
 Customer Classification Construction Water

Exhibit
 Schedule H-5
 Page 4
 Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
0	0													
1	1,000													
1,001	2,000													
2,001	3,000													
3,001	4,000													
4,001	5,000													
5,001	6,000													
6,001	7,000													
7,001	8,000													
8,001	9,000													
9,001	10,000													
10,001	12,000													
12,001	14,000													
14,001	16,000													
16,001	18,000													
18,001	20,000													
20,001	25,000													
25,001	30,000													
30,001	35,000													
35,001	40,000													
40,001	50,000													
50,001	60,000													
60,001	70,000													
70,001	80,000													
80,001	90,000													
90,001	100,000													
200,400	200,400		1											1
2,623,100	2,623,100												1	1

Totals

1	-	-	-	-	-	-	-	-	-	-	-	-	1	2	
														Average Usage	1,411,750
														Median Usage	1,411,750
														Average # Customers	0
														Change in Number of Customers	-

**GOODMAN WATER COMPANY
SUPPLEMENTAL INFORMATION**

SUPPLEMENTAL INFORMATION

Company Name: Goodman Water Test Year Ended: 2005

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (inches)	Motor Size (inches)	Year Drilled
55-610541	75	440	700	12	8	1982
55-595208	100	500	618	16	8	2004

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)

BOOSTER PUMPS

Horsepower	Quantity
5HP-1	40HP-2
10HP-1	50HP-2
20HP-2	75HP-1
30HP-1	

FIRE HYDRANTS

Quantity Standard	Quantity Other
25	

STORAGE TANKS

Capacity	Quantity
400,000	1

PRESSURE TANKS

Capacity	Quantity
5,000	4

Company Name: Gardner Water Test Year Ended: 2005

WATER COMPANY PLANT DESCRIPTION CONTINUED

MAINS		
Size (in inches)	Material	Length (in feet)
2		
3		
4		
5		
6	PVC	2750
8	PVC	3770
10		
12	PVC	7720
12	DTP	208

CUSTOMER METERS	
Size (in inches)	Quantity
5/8 x 3/4	430
3/4	
1	45
1 1/2	
2	3
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, please list the utility owned assets in each category.

TREATMENT EQUIPMENT:

STRUCTURES:

OTHER:

telemetry system

WATER USE DATA SHEET

NAME OF COMPANY	Goodman Water
ADWR Public Water System Number:	11130

MONTH/YEAR (12 Months of Year)	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)
1. Jan	382	2223	2601
2. Feb	377	1872	2300
3. Mar	439	1760	2118
4. Apr	438	2160	2628
5. May	437	2501	3028
6. Jun	449	2903	3417
7. Jul	474	4095	4545
8. Aug	473	3360	3727
9. Sept	474	4882	5231
10. Oct	479	6909	7391
11. Nov	479	6682	6812
12. Dec	479	5463	5597
TOTAL	NA	44811	49395

Is the water utility located in an ADWR Active Management Area ("AMA")?

YES NO

Does the Company have an ADWR gallons per capita day ("GPCD") requirement?

YES NO

If Yes, please provide the GPCD amount: _____

Note: If you are filing for more than one system, please provide separate data sheets for each system. For explanation of any of the above, please contact the Engineering Supervisor at 602-542-7177.

** Gallons pumped cannot equal or be less than the gallons sold.*

John

Arizona Department of Environmental Quality
Water Quality Compliance Assurance Unit
1110 W. Washington Street, 5415B-1
Phoenix, AZ 85007

Drinking Water Compliance Status Report

Public Water System Name: Goodman Water Company

Public Water System ID #: 11-139

Public Water System Type: CO Non-transient Non-community Transient Non-community

Overall Compliance Status: No Major Deficiencies Major Deficiencies

Monitoring and Reporting Status: No Major Deficiencies Major Deficiencies
Comments:

Operation and Maintenance Status: No Major Deficiencies Major Deficiencies
Comments:

Major unresolved/ongoing operation and maintenance deficiencies:

- unable to maintain 20psf
- inadequate storage
- cross connections/backflow problems
- surface water treatment rule
- treatment deficiencies
- approval of construction
- certified operator
- other

Date of last inspection / sanitary survey: 11-22-02

Administrative Orders:

Is an ADEQ administrative order in effect? Yes No
Comments:

System Information:

Number of Points of Entry 1 Number of Sources 1 Population Served 1100

Service Connections 566 Initial Monitoring Year 2004 Initial MAP Year 2004

Evaluation completed by: Jim Puckett

Phone: 602-771-4649 Date: 3-31-06

Based upon data submitted by the water system, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. This compliance status report does not guarantee the water quality for this system in the future. This compliance status report does not reflect the status of any other water system owned by this utility company.

Post-it® Fax Note	7871	Date	3-7-06	# of pages	1
To	<i>Bellevue</i>	From	<i>Maxwell</i>		
Co/Dept.		To	<i>ADQS</i>		
Phone #		Phone #	<i>771-4624</i>		
Fax #	<i>602-849-8012</i>	Fax #	<i>771-4500</i>		

rl.spd

Revised 12/2003

GOODMAN WATER COMPANY

BALANCE SHEET

Goodman Water Company
Balance Sheet
December 31, 2001

ASSETS

Current Assets		
B of A - Money Market	\$	1,302.13
B of A - Checking		1,750.89
Security Pacific - CD		5,000.00
Officer Loans		100.00
Due from DRHI		14,657.23
Capitalized Water Co Cost		94,595.91
Customer Accts Receivable		(4,339.44)
Prepaid State Income Tax		50.00
		<hr/>
Total Current Assets		113,116.72
Property and Equipment		
		<hr/>
Total Property and Equipment		0.00
Other Assets		
		<hr/>
Total Other Assets		0.00
		<hr/>
Total Assets	\$	<u><u>113,116.72</u></u>

LIABILITIES AND CAPITAL

Current Liabilities		
		<hr/>
Total Current Liabilities		0.00
Long-Term Liabilities		
Western Continental	\$	<u>309,500.00</u>
Total Long-Term Liabilities		<u>309,500.00</u>
Total Liabilities		309,500.00
Capital		
Beginning Balance Equity	(173,386.00)	
Beginning Equity	100.00	
Net Income	(23,097.28)	
		<hr/>
Total Capital		<u>(196,383.28)</u>
Total Liabilities & Capital	\$	<u><u>113,116.72</u></u>

Goodman Water Company
Balance Sheet
September 30, 2002

ASSETS

Current Assets		
B of A - Money Market	\$	36,724.90
B of A - Checking		589.80
Security Pacific - CD		5,000.00
Officer Loans		100.00
Due from DRHI		270.00
Capitalized Water Co Cost		94,595.91
Customer Accts Receivable		930.30
Prepaid State Income Tax		100.00
		<hr/>
Total Current Assets		138,310.91
Property and Equipment		
Meters & Meter Installations		5,080.09
		<hr/>
Total Property and Equipment		5,080.09
Other Assets		
Refundable Money Market		11,291.38
		<hr/>
Total Other Assets		11,291.38
		<hr/>
Total Assets	\$	<u><u>154,682.38</u></u>

LIABILITIES AND CAPITAL

Current Liabilities		
Accounts Payable	\$	353.54
Refundable Customer Deposits		1,938.00
Refundable Installation Fees		9,325.00
Sales Tax Payable		300.86
Muni Tax Payable		5.29
		<hr/>
Total Current Liabilities		11,922.69
Long-Term Liabilities		
Western Continental		309,500.00
		<hr/>
Total Long-Term Liabilities		309,500.00
		<hr/>
Total Liabilities		321,422.69
Capital		
Capitol Stock		(100.00)
Beginning Balance Equity		(173,236.00)
Beginning Equity		(4,471.39)
Net Income		11,067.08
		<hr/>
Total Capital		(166,740.31)
		<hr/>
Total Liabilities & Capital	\$	<u><u>154,682.38</u></u>

Goodman Water Company
Balance Sheet
September 30, 2003

ASSETS

Current Assets		
B of A - Money Market	\$	58,609.10
B of A - Checking		9,055.09
Security Pacific - CD		5,000.00
Officer Loans		100.00
Due from DRHI		330.00
Customer Accts Receivable		<u>1,493.89</u>
Total Current Assets		74,588.08
Property and Equipment		
Reservoirs/Storage Tanks		251,475.98
Wells & Springs		776,682.12
Transmission Lines		402,267.79
Services		160,177.28
Meters & Meter Installations		19,989.32
Fire Hydrants		24,975.00
Accumulated Depreciation		<u>(16,414.33)</u>
Total Property and Equipment		1,619,153.16
Other Assets		
Refundable Money Market		<u>47,634.56</u>
Total Other Assets		<u>47,634.56</u>
Total Assets	\$	<u><u>1,741,375.80</u></u>

LIABILITIES AND CAPITAL

Current Liabilities		
Accounts Payable	\$	1,403.69
Refundable Customer Deposits		8,333.80
Refundable Installation Fees		39,082.50
Sales Tax Payable		1,264.66
Muni Tax Payable		<u>30.51</u>
Total Current Liabilities		50,115.16
Long-Term Liabilities		
Advances for Construction		<u>597,779.78</u>
Total Long-Term Liabilities		<u>597,779.78</u>
Total Liabilities		647,894.94
Capital		
Capitol Stock		107.03
Additional Paid In Capital		1,230,475.23
Beginning Balance Equity		(173,386.00)
Beginning Equity		5,324.69
Net Income		<u>30,959.91</u>
Total Capital		<u>1,093,480.86</u>
Total Liabilities & Capital	\$	<u><u>1,741,375.80</u></u>

Unaudited - For Management Purposes Only

GOODMAN WATER COMPANY
INCOME STATEMENT

Goodman Water Company
Income Statement
For the Four Months Ending October 31, 2001

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 21.21	100.00	\$ 100.01	100.00
	<u>21.21</u>	<u>100.00</u>	<u>100.01</u>	<u>100.00</u>
Total Revenues				
Cost of Sales				
Total Cost of Sales	<u>0.00</u>	0.00	<u>0.00</u>	0.00
Gross Profit	<u>21.21</u>	100.00	<u>100.01</u>	100.00
Expenses				
Maintenance	50.00	235.74	220.22	220.20
Management Service	0.00	0.00	1,500.00	1,499.85
Accounting Services	896.87	4,228.52	1,321.87	1,321.74
Insurance Expense	0.00	0.00	237.00	236.98
Miscellaneous Expenses	0.00	0.00	184.87	184.85
Bank Charges	9.88	46.58	17.52	17.52
Property Tax	523.96	2,470.34	523.96	523.91
	<u>1,480.71</u>	<u>6,981.19</u>	<u>4,005.44</u>	<u>4,005.04</u>
Total Expenses				
Net Income	\$ <u>(1,459.50)</u>	(6,881.19)	\$ <u>(3,905.43)</u>	(3,905.04)

For Management Purposes Only

Goodman Water Company
Income Statement
For the Five Months Ending November 30, 2001

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 22.20	100.00	\$ 122.21	100.00
	22.20	100.00	122.21	100.00
Total Revenues				
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	22.20	100.00	122.21	100.00
Expenses				
Maintenance	50.00	225.23	270.22	221.11
Management Service	0.00	0.00	1,500.00	1,227.40
Accounting Services	0.00	0.00	1,321.87	1,081.64
Insurance Expense	250.00	1,126.13	487.00	398.49
Miscellaneous Expenses	0.00	0.00	184.87	151.27
Bank Charges	11.25	50.68	28.77	23.54
Property Tax	0.00	0.00	523.96	428.74
	311.25	1,402.03	4,316.69	3,532.19
Total Expenses				
Net Income	\$ (289.05)	(1,302.03)	\$ (4,194.48)	(3,432.19)

For Management Purposes Only

Goodman Water Company
Income Statement
For the Six Months Ending December 31, 2001

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 16.89	100.00	\$ 139.10	100.00
	<u>16.89</u>	<u>100.00</u>	<u>139.10</u>	<u>100.00</u>
Total Revenues				
	<u>16.89</u>	<u>100.00</u>	<u>139.10</u>	<u>100.00</u>
Cost of Sales				
	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Cost of Sales				
	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Gross Profit	<u>16.89</u>	<u>100.00</u>	<u>139.10</u>	<u>100.00</u>
Expenses				
Interest Expense	16,848.08	99,751.8	16,848.08	12,112.2
Maintenance	50.00	296.03	320.22	230.21
Management Service	2,000.00	11,841.3	3,500.00	2,516.18
Accounting Services	0.00	0.00	1,321.87	950.30
Insurance Expense	0.00	0.00	487.00	350.11
Miscellaneous Expenses	50.38	298.28	235.25	169.12
Bank Charges	(28.77)	(170.34)	0.00	0.00
Property Tax	0.00	0.00	523.96	376.68
	<u>18,919.69</u>	<u>112,017.</u>	<u>23,236.38</u>	<u>16,704.8</u>
Total Expenses				
	<u>18,919.69</u>	<u>112,017.</u>	<u>23,236.38</u>	<u>16,704.8</u>
Net Income	\$ (18,902.80)	(111,917.)	\$ (23,097.28)	(16,604.8)
	<u>(18,902.80)</u>	<u>(111,917.)</u>	<u>(23,097.28)</u>	<u>(16,604.8)</u>

For Management Purposes Only

Goodman Water Company
Income Statement
For the Seven Months Ending January 31, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 16.42	0.14	\$ 155.52	1.34
Metered Industrial Customers	11,483.60	99.86	11,483.60	98.66
	<u>11,500.02</u>	<u>100.00</u>	<u>11,639.12</u>	<u>100.00</u>
Total Revenues				
Cost of Sales				
Total Cost of Sales	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Gross Profit	<u>11,500.02</u>	<u>100.00</u>	<u>11,639.12</u>	<u>100.00</u>
Expenses				
Interest Expense	0.00	0.00	16,848.08	144.75
Maintenance	50.00	0.43	370.22	3.18
Contractual Services	180.00	1.57	180.00	1.55
Management Service	500.00	4.35	4,000.00	34.37
Accounting Services	0.00	0.00	1,321.87	11.36
Insurance Expense	0.00	0.00	487.00	4.18
Regulatory Commission Expense	45.00	0.39	45.00	0.39
Miscellaneous Expenses	12.00	0.10	247.25	2.12
Bank Charges	8.00	0.07	8.00	0.07
Property Tax	0.00	0.00	523.96	4.50
	<u>795.00</u>	<u>6.91</u>	<u>24,031.38</u>	<u>206.47</u>
Total Expenses				
Net Income	<u>\$ 10,705.02</u>	<u>93.09</u>	<u>\$ (12,392.26)</u>	<u>(106.47)</u>

For Management Purposes Only

Goodman Water Company
Income Statement
For the Eight Months Ending February 28, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 19.18	0.40	\$ 174.70	1.06
Metered Industrial Customers	4,750.00	99.60	16,233.60	98.94
	4,769.18	100.00	16,408.30	100.00
Total Revenues				
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	4,769.18	100.00	16,408.30	100.00
Expenses				
Interest Expense	0.00	0.00	16,848.08	102.68
Maintenance	50.00	1.05	420.22	2.56
Contractual Services	401.80	8.42	581.80	3.55
Management Service	500.00	10.48	4,500.00	27.43
Accounting Services	375.00	7.86	1,696.87	10.34
Insurance Expense	0.00	0.00	487.00	2.97
Regulatory Commission Expense	130.00	2.73	175.00	1.07
Miscellaneous Expenses	170.07	3.57	417.32	2.54
Bank Charges	0.00	0.00	8.00	0.05
Property Tax	0.00	0.00	523.96	3.19
	1,626.87	34.11	25,658.25	156.37
Total Expenses				
Net Income	\$ 3,142.31	65.89	\$ (9,249.95)	(56.37)

For Management Purposes Only

Goodman Water Company
Income Statement
For the Nine Months Ending March 31, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 31.26	0.67	\$ 205.96	0.98
Metered Industrial Customers	4,632.20	99.33	20,865.80	99.02
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Total Revenues	4,663.46	100.00	21,071.76	100.00
 Cost of Sales				
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Total Cost of Sales	0.00	0.00	0.00	0.00
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Gross Profit	4,663.46	100.00	21,071.76	100.00
 Expenses				
Interest Expense	0.00	0.00	16,848.08	79.96
Purchased Power	47.50	1.02	47.50	0.23
Maintenance	50.00	1.07	470.22	2.23
Contractual Services	0.00	0.00	581.80	2.76
Management Service	500.00	10.72	5,000.00	23.73
Legal Fees	8,127.44	174.28	8,127.44	38.57
Accounting Services	1,217.75	26.11	2,914.62	13.83
Testing Expense	55.00	1.18	55.00	0.26
Insurance Expense	0.00	0.00	487.00	2.31
Regulatory Commission Expense	0.00	0.00	175.00	0.83
Miscellaneous Expenses	0.00	0.00	417.32	1.98
Bank Charges	10.00	0.21	18.00	0.09
Dues & Subscription Expense	30.00	0.64	30.00	0.14
Property Tax	0.00	0.00	523.96	2.49
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Total Expenses	10,037.69	215.24	35,695.94	169.40
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Net Income	\$ (5,374.23)	(115.24)	\$ (14,624.18)	(69.40)
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For Management Purposes Only

Goodman Water Company
Income Statement
For the Ten Months Ending April 30, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 31.64	0.73	\$ 237.60	0.94
Metered Industrial Customers	4,307.78	99.27	25,173.58	99.06
	<u>4,339.42</u>	100.00	<u>25,411.18</u>	100.00
Total Revenues				
Cost of Sales				
Total Cost of Sales	<u>0.00</u>	0.00	<u>0.00</u>	0.00
Gross Profit	<u>4,339.42</u>	100.00	<u>25,411.18</u>	100.00
Expenses				
Interest Expense	0.00	0.00	16,848.08	66.30
Purchased Power	0.00	0.00	47.50	0.19
Maintenance	75.00	1.73	545.22	2.15
Contractual Services	0.00	0.00	581.80	2.29
Management Service	500.00	11.52	5,500.00	21.64
Legal Fees	0.00	0.00	8,127.44	31.98
Accounting Services	0.00	0.00	2,914.62	11.47
Testing Expense	15.00	0.35	70.00	0.28
Insurance Expense	0.00	0.00	487.00	1.92
Regulatory Commission Expense	0.00	0.00	175.00	0.69
Miscellaneous Expenses	0.00	0.00	417.32	1.64
Bank Charges	10.00	0.23	28.00	0.11
Dues & Subscription Expense	0.00	0.00	30.00	0.12
Property Tax	523.96	12.07	1,047.92	4.12
	<u>1,123.96</u>	25.90	<u>36,819.90</u>	144.90
Total Expenses				
Net Income	<u>\$ 3,215.46</u>	74.10	<u>\$ (11,408.72)</u>	(44.90)

For Management Purposes Only

Goodman Water Company
Income Statement
For the Eleven Months Ending May 31, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 34.83	0.94	\$ 272.43	0.94
Metered Industrial Customers	3,684.10	99.06	28,857.68	99.06
	<u>3,718.93</u>	<u>100.00</u>	<u>29,130.11</u>	<u>100.00</u>
Total Revenues				
Cost of Sales				
Total Cost of Sales	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Gross Profit	<u>3,718.93</u>	<u>100.00</u>	<u>29,130.11</u>	<u>100.00</u>
Expenses				
Interest Expense	0.00	0.00	16,848.08	57.84
Purchased Power	30.00	0.81	77.50	0.27
Maintenance	75.00	2.02	620.22	2.13
Contractual Services	0.00	0.00	581.80	2.00
Management Service	500.00	13.44	6,000.00	20.60
Legal Fees	0.00	0.00	8,127.44	27.90
Accounting Services	225.00	6.05	3,139.62	10.78
Testing Expense	15.00	0.40	85.00	0.29
Insurance Expense	0.00	0.00	487.00	1.67
Regulatory Commission Expense	0.00	0.00	175.00	0.60
Miscellaneous Expenses	0.00	0.00	417.32	1.43
Bank Charges	10.00	0.27	38.00	0.13
Dues & Subscription Expense	0.00	0.00	30.00	0.10
Property Tax	0.00	0.00	1,047.92	3.60
	<u>855.00</u>	<u>22.99</u>	<u>37,674.90</u>	<u>129.33</u>
Total Expenses				
Net Income	<u>\$ 2,863.93</u>	<u>77.01</u>	<u>\$ (8,544.79)</u>	<u>(29.33)</u>

For Management Purposes Only

Goodman Water Company
Income Statement
For the Twelve Months Ending June 30, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 41.19	0.72	\$ 313.62	0.90
Metered Industrial Customers	4,201.85	73.81	33,059.53	94.94
Other Charges	1,450.00	25.47	1,450.00	4.16
	<hr/>		<hr/>	
Total Revenues	5,693.04	100.00	34,823.15	100.00
Cost of Sales				
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Total Cost of Sales	0.00	0.00	0.00	0.00
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Gross Profit	5,693.04	100.00	34,823.15	100.00
Expenses				
Interest Expense	0.00	0.00	16,848.08	48.38
Purchased Power	15.00	0.26	92.50	0.27
Maintenance	75.00	1.32	695.22	2.00
Contractual Services	105.20	1.85	687.00	1.97
Management Service	500.00	8.78	6,500.00	18.67
Legal Fees	934.00	16.41	9,061.44	26.02
Accounting Services	110.00	1.93	3,249.62	9.33
Testing Expense	0.00	0.00	85.00	0.24
Insurance Expense	0.00	0.00	487.00	1.40
Regulatory Commission Expense	0.00	0.00	175.00	0.50
Miscellaneous Expenses	10.44	0.18	427.76	1.23
Bank Charges	(30.00)	(0.53)	8.00	0.02
Dues & Subscription Expense	0.00	0.00	30.00	0.09
Property Tax	0.00	0.00	1,047.92	3.01
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Total Expenses	1,719.64	30.21	39,394.54	113.13
	<hr/>		<hr/>	
Net Income	\$ 3,973.40	69.79	\$ (4,571.39)	(13.13)
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For Management Purposes Only

Goodman Water Company
Income Statement
For the Three Months Ending September 30, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 50.52	1.06	\$ 142.93	0.94
Metered Residential Customers	880.22	18.54	1,802.48	11.85
Metered Industrial Customers	3,667.00	77.24	12,721.45	83.60
Other Charges	150.00	3.16	550.00	3.61
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Total Revenues	4,747.74	100.00	15,216.86	100.00
Cost of Sales				
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Total Cost of Sales	0.00	0.00	0.00	0.00
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Gross Profit	4,747.74	100.00	15,216.86	100.00
Expenses				
Purchased Power	20.20	0.43	71.80	0.47
Materials & Supplies	0.00	0.00	11.83	0.08
Maintenance	0.00	0.00	1,298.16	8.53
Contractual Services	0.00	0.00	86.80	0.57
Management Service	500.00	10.53	1,500.00	9.86
Legal Fees	0.00	0.00	155.40	1.02
Engineering Service	0.00	0.00	947.50	6.23
Testing Expense	15.00	0.32	60.00	0.39
Telephone	48.34	1.02	288.29	1.89
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Total Expenses	583.54	12.29	4,419.78	29.05
	<hr/>		<hr/>	
Net Income	\$ 4,164.20	87.71	\$ 10,797.08	70.95
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Goodman Water Company
Income Statement
For the Four Months Ending October 31, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 47.53	0.86	\$ 190.46	0.92
Metered Residential Customers	947.53	17.09	2,750.01	13.25
Metered Industrial Customers	3,999.50	72.13	16,720.95	80.54
Other Water Revenue	550.00	9.92	1,100.00	5.30
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Total Revenues	5,544.56	100.00	20,761.42	100.00
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Cost of Sales				
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Total Cost of Sales	0.00	0.00	0.00	0.00
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Gross Profit	5,544.56	100.00	20,761.42	100.00
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Expenses				
Purchased Power	20.20	0.36	92.00	0.44
Materials & Supplies	0.00	0.00	11.83	0.06
Maintenance	0.00	0.00	1,028.16	4.95
Contractual Services	70.00	1.26	156.80	0.76
Management Service	500.00	9.02	2,000.00	9.63
Legal Fees	1,476.93	26.64	1,632.33	7.86
Accounting Services	225.50	4.07	225.50	1.09
Engineering Service	695.00	12.53	1,642.50	7.91
Testing Expense	20.00	0.36	80.00	0.39
Bank Charges	38.00	0.69	38.00	0.18
Office Expense	257.11	4.64	257.11	1.24
Property Tax	306.74	5.53	306.74	1.48
Telephone	48.34	0.87	336.63	1.62
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Total Expenses	3,657.82	65.97	7,807.60	37.61
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Net Income	\$ 1,886.74	34.03	\$ 12,953.82	62.39
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For Management Purposes Only

Goodman Water Company
Income Statement
For the Five Months Ending November 30, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 36.65	0.52	\$ 227.11	0.82
Metered Residential Customers	1,426.86	20.16	4,176.87	15.00
Metered Industrial Customers	4,750.00	67.10	21,470.95	77.12
Other Water Revenue	865.53	12.23	1,965.53	7.06
Total Revenues	7,079.04	100.00	27,840.46	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	7,079.04	100.00	27,840.46	100.00
Expenses				
Purchased Power	31.40	0.44	123.40	0.44
Materials & Supplies	0.00	0.00	11.83	0.04
Maintenance	0.00	0.00	1,028.16	3.69
Contractual Services	0.00	0.00	156.80	0.56
Management Service	500.00	7.06	2,500.00	8.98
Legal Fees	0.00	0.00	1,632.33	5.86
Accounting Services	0.00	0.00	225.50	0.81
Engineering Service	0.00	0.00	1,642.50	5.90
Testing Expense	20.00	0.28	100.00	0.36
Bank Charges	0.00	0.00	38.00	0.14
Dues & Subscription Expense	35.00	0.49	35.00	0.13
Office Expense	0.00	0.00	257.11	0.92
Property Tax	0.00	0.00	306.74	1.10
Telephone	0.00	0.00	336.63	1.21
Total Expenses	586.40	8.28	8,394.00	30.15
Net Income	\$ 6,492.64	91.72	\$ 19,446.46	69.85

For Management Purposes Only

Goodman Water Company
Income Statement
For the Six Months Ending December 31, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 36.75	0.63	\$ 263.86	0.78
Metered Residential Customers	1,525.49	25.95	5,702.36	16.91
Metered Industrial Customers	3,116.03	53.01	24,586.98	72.92
Other Water Revenue	1,200.00	20.41	3,165.53	9.39
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Total Revenues	5,878.27	100.00	33,718.73	100.00
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Cost of Sales				
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Total Cost of Sales	0.00	0.00	0.00	0.00
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Gross Profit	5,878.27	100.00	33,718.73	100.00
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Expenses				
Purchased Power	15.00	0.26	138.40	0.41
Materials & Supplies	0.00	0.00	11.83	0.04
Maintenance	0.00	0.00	1,028.16	3.05
Contractual Services	0.00	0.00	156.80	0.47
Management Service	500.00	8.51	3,000.00	8.90
Legal Fees	0.00	0.00	1,632.33	4.84
Accounting Services	0.00	0.00	225.50	0.67
Engineering Service	0.00	0.00	1,642.50	4.87
Testing Expense	20.00	0.34	120.00	0.36
Regulatory Commission Expense	45.00	0.77	45.00	0.13
Miscellaneous Expenses	407.80	6.94	407.80	1.21
Bank Charges	0.00	0.00	38.00	0.11
Dues & Subscription Expense	0.00	0.00	35.00	0.10
Office Expense	0.00	0.00	257.11	0.76
Property Tax	0.00	0.00	306.74	0.91
Telephone	96.68	1.64	433.31	1.29
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Total Expenses	1,084.48	18.45	9,478.48	28.11
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Net Income	\$ 4,793.79	81.55	\$ 24,240.25	71.89
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For Management Purposes Only

Goodman Water Company
Income Statement
For the Twelve Months Ending June 30, 2003

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 62.65	1.27	\$ 550.54	0.96
Metered Residential Customers	3,739.42	75.51	22,780.50	39.68
Metered Industrial Customers	0.00	0.00	25,379.57	44.21
Other Water Revenue	1,150.00	23.22	8,698.53	15.15
	<u>4,952.07</u>	<u>100.00</u>	<u>57,409.14</u>	<u>100.00</u>
Cost of Sales				
Total Cost of Sales	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Gross Profit	<u>4,952.07</u>	<u>100.00</u>	<u>57,409.14</u>	<u>100.00</u>
Expenses				
Depreciation Expense	16,414.33	331.46	16,414.33	28.59
Purchased Power	15.00	0.30	624.07	1.09
Materials & Supplies	0.00	0.00	72.82	0.13
Maintenance	150.00	3.03	1,898.16	3.31
Contractual Services	0.00	0.00	156.80	0.27
Management Service	1,305.72	26.37	8,313.55	14.48
Legal Fees	180.00	3.63	3,382.33	5.89
Accounting Services	0.00	0.00	725.50	1.26
Engineering Service	0.00	0.00	1,944.35	3.39
Testing Expense	0.00	0.00	210.00	0.37
Insurance Expense	11,549.11	233.22	11,549.11	20.12
Regulatory Commission Expense	0.00	0.00	45.00	0.08
Interest Expense	11.64	0.24	11.64	0.02
Miscellaneous Expenses	50.00	1.01	569.28	0.99
Bank Charges	0.00	0.00	57.00	0.10
Dues & Subscription Expense	0.00	0.00	65.00	0.11
Office Expense	0.00	0.00	257.11	0.45
Property Tax	0.00	0.00	306.74	0.53
Telephone	94.72	1.91	860.27	1.50
	<u>29,770.52</u>	<u>601.17</u>	<u>47,463.06</u>	<u>82.68</u>
Net Income	<u>\$ (24,818.45)</u>	<u>(501.17)</u>	<u>\$ 9,946.08</u>	<u>17.32</u>

For Management Purposes Only

Goodman Water Company
Income Statement
For the Three Months Ending September 30, 2003

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	\$ 64.26	0.27	\$ 172.17	0.41
Metered Residential Customers	6,618.41	27.61	16,140.99	38.90
Metered Industrial Customers	15,738.65	65.66	21,375.95	51.51
Other Water Revenue	1,550.00	6.47	3,809.00	9.18
	<hr/>		<hr/>	
Total Revenues	23,971.32	100.00	41,498.11	100.00
	<hr/>		<hr/>	
Cost of Sales				
	<hr/>		<hr/>	
Total Cost of Sales	0.00	0.00	0.00	0.00
	<hr/>		<hr/>	
Gross Profit	23,971.32	100.00	41,498.11	100.00
	<hr/>		<hr/>	
Expenses				
Purchased Power	404.34	1.69	404.34	0.97
Materials & Supplies	193.69	0.81	193.69	0.47
Maintenance	890.00	3.71	1,240.00	2.99
Management Service	1,458.63	6.08	4,171.17	10.05
Legal Fees	266.60	1.11	383.10	0.92
Accounting Services	2,000.00	8.34	2,000.00	4.82
Engineering Service	428.50	1.79	774.75	1.87
Testing Expense	520.00	2.17	560.00	1.35
Miscellaneous Expenses	0.00	0.00	500.00	1.20
Telephone	119.43	0.50	311.15	0.75
	<hr/>		<hr/>	
Total Expenses	6,281.19	26.20	10,538.20	25.39
	<hr/>		<hr/>	
Net Income	\$ 17,690.13	73.80	\$ 30,959.91	74.61
	<hr/> <hr/>		<hr/> <hr/>	

For Management Purposes Only

EXHIBIT C

1 Lewis and Roca, LLP
2 Michael F. McNulty (No. 005107)
3 One South Church Avenue, Suite 700
4 Tucson, Arizona 85701
5 Attorneys for Goodman Water Company

6 BEFORE THE ARIZONA CORPORATION COMMISSION

7 KRISTIN K. MAYES
8 COMMISSIONER

9 WILLIAM A. MUNDELL
10 COMMISSIONER

11 JEFF HATCH-MILLER
12 CHAIRMAN

13 MIKE GLEASON
14 COMMISSIONER

15 MARC SPITZER
16 COMMISSIONER

17 IN THE MATTER OF THE)
18 APPLICATION OF GOODMAN WATER)
19 COMPANY, AN ARIZONA)
20 CORPORATION, FOR A)
21 DETERMINATION OF THE FAIR)
22 VALUE OF ITS UTILITY PLANT AND)
23 PROPERTY AND FOR INCREASES IN)
24 ITS RATES AND CHARGES FOR)
25 UTILITY SERVICE BASED THEREON)

No. W-02500A-

DIRECT TESTIMONY

26 DIRECT TESTIMONY OF
27 CHRISTOPHER W. HILL
28

1 Q. PLEASE STATE YOUR NAME AND ADDRESS.

2 A. My name is Christopher Hill, and I am the owner of CWH2 Services, LLC. My
3 business address is PO Box 70022, Tucson, Arizona 85737.

4 Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

5 A. I am a certified Grade IV Water and Wastewater Operator, and have been in this
6 field of work for over thirty (30) years. Along with my present position as the
7 Deputy Manager at Metropolitan Domestic Water Improvement District
8 (“MDWID”), I serve as Manager for Goodman Water Company, performing this
9 service as an Independent Contractor since 2004.

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

12 A. Yes. Prior to working at the MDWID, I was employed by the City of Dixon,
13 Illinois, and served as Water and Street Superintendent. Prior to working for the
14 City of Dixon, I worked as a Utility Superintendent for the City of Anitgo,
15 Wisconsin. Before that, I was employed as the County of Du Page, Illinois, where I
16 was Chief Operator

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

18 A. I am testifying in this proceeding on behalf of the applicant, Goodman Water
19 Company (“Goodman” or “the Company”). Goodman is seeking increases in its
20 rates and charges for water utility service in its certificated service area, which is
21 located in Pinal County, Arizona.

22 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

23 A. I will testify in support of the Company’s proposed adjustments to its rates and
24 charges for water utility service, and to provide a general overview to the current
25 regulatory status of the Company.
26
27
28

1 Q. WHERE IS THE COMPANY LOCATED?

2 A. The Company is located in Section 32, Township 10 South, Range 14 East, in Pinal
3 County, Arizona.

4 Q. PLEASE PROVIDE US WITH AN OVERVIEW OF THE COMPANY, AND
5 ADDRESS THE COMPANY'S CUSTOMER GROWTH OVER THE LAST
6 FOUR YEARS.

7 A. The Company, since inception, experiences robust growth. The end of 2002
8 indicated 71 customers; 2003 indicated 202 customers; 2004 indicated 361
9 customers; and 2005 indicated 477 customers.

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

12 A. The Company's rates for water utility service have not been increased since its
13 Certificate of Convenience and Necessity ("CC&N) was approved in 1988
14 (Decision No. 56118, October 1, 1988). The Company's net income in the most
15 recent calendar year, 1995, was (-)\$13,671.02, and there is no chance that the
16 economics of this utility will improve in the future without a rate increase.

17 Q. CAN YOU PROVIDE A GENERAL DESCRIPTION OF THE
18 MANAGEMENT AND STAFFING OF THE COMPANY?

19 A. I provide management services to the Company through CWH2 Services, LLC,
20 which is wholly-owned by me. Certified Operator services, compliance sampling
21 and billing services are provided by yl Technology, LLC. Both entities are located
22 in Pima County.

23 Q. COULD YOU DESCRIBE THE STATUS OF THE WELLS, RESERVOIRS,
24 AND IS THE SYSTEM CURRENTLY AT CAPACITY?

25 A. Two wells supply a main reservoir. Each well is capable of 650 gallons per
26 minute, or 1.83 million gallons per day. The main reservoir has a capacity of
27 400,000 gallons. Four booster pumps provide water to the distribution system from
28

1 Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes.

3

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ORIGINAL AND thirteen (13) copies
of the foregoing delivered VIA DHL
this 25 day of April, 2006

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Arizona Corporation Commission
Utilities Division – Docket Control
1200 West Washington Street
Phoenix, Arizona 85007

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COPY of the foregoing delivered VIA
U.S. MAIL this 25 day of April, 2006

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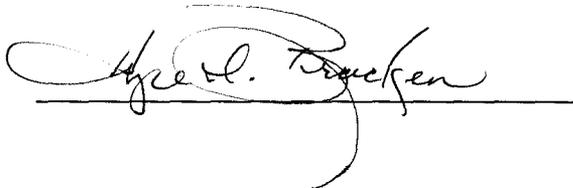
14

Goodman Water Company
6340 North Campbell Avenue, Suite 278
Tucson, AZ 85718

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A handwritten signature in cursive script, appearing to read "Gerald R. Ruckelshaus", is written over a horizontal line.

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