

ORIGINAL NEW APPLICATION



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4 Attorneys for Utility Source, L.L.C.

BEFORE THE ARIZONA CORPORATION COMMISSION

WS-04235A-06-0303

7 IN THE MATTER OF THE) DOCKET NO. W-04325A-06-____
APPLICATION OF UTILITY SOURCE,)
8 L.L.C. FOR A DETERMINATION OF) APPLICATION
THE CURRENT FAIR VALUE OF ITS)
9 UTILITY PROPERTY AND FOR AN)
INCREASE IN ITS WATER AND)
10 WASTEWATER RATES AND)
CHARGES FOR UTILITY SERVICES)
11)

12 Utility Source, L.L.C., (hereinafter referred to as "Utility Source" or the "Company"), by
13 and through the undersigned counsel, hereby submits its rate increase application and in support
14 of said application state as follows:

15 1. Utility Source is authorized to provide water and wastewater service in portions of
16 Coconino County, Arizona.

17 2. The Company is presently providing service under the rates and charges authorized
18 by the Commission in Decision No. 67446, dated January 4, 2005, which Decision required this
19 filing.

20 3. The Company hereby requests the Commission grant an increase in its water rates
21 and charges as contained in the Rate Application which was prepared in accordance with AAC
22 R14-2-103 for Class C companies, and which is attached hereto as Exhibit A and incorporated
23 herein for all purposes.
24

1 4. The Company hereby requests an increase in its wastewater rates and charges as
2 contained in the Rate Application which was prepared in accordance with AAC R14-2-103 for
3 Class C companies, and which is attached hereto as **Exhibit B** and incorporated herein for all
4 purposes.

5 5. The Company's Cost of Capital is set forth in the Schedules attached hereto as
6 **Exhibit D** and incorporated herein for all purposes.

7 6. The supporting testimony of the Company's rate consultant, Thomas J. Bourassa
8 supporting the Water Application, the Wastewater Application, and the Cost of Capital, are
9 attached hereto as **Exhibits D, E, and F** respectively and are incorporated herein by this
10 reference for all purposes.

11 7. The proposed form of Tariff for water and wastewater service is appended hereto as
12 **Exhibit G** and incorporated herein by this reference for all purposes. The specific terms and
13 conditions of that Tariff are hereby requested to be approved by the Commission. The Tariff
14 will then be submitted at the conclusion of this matter as a Compliance Filing with the
15 Commission's mandated changes in the Terms and Conditions and with the Commission
16 approved Rates and Charges.

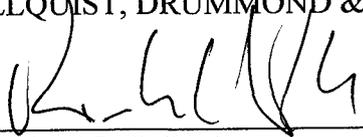
17 8. Notice of this Application will be provided in accordance with the Procedural Order
18 issued in this docket.

19 WHEREFORE, the Company respectfully request that the Commission process this Rate
20 Application as expeditiously as practicable, and thereafter issue an order granting the requested
21 relief and such other relief as the Commission may deem appropriate.

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Respectfully submitted this 1st day of May, 2006.

SALLQUIST, DRUMMOND & O'CONNOR, P.C.

By 

Richard L. Sallquist
4500 S. Lakeshore Drive, Suite 339
Tempe, AZ 85282
Attorneys for Utility Source, L.L.C.

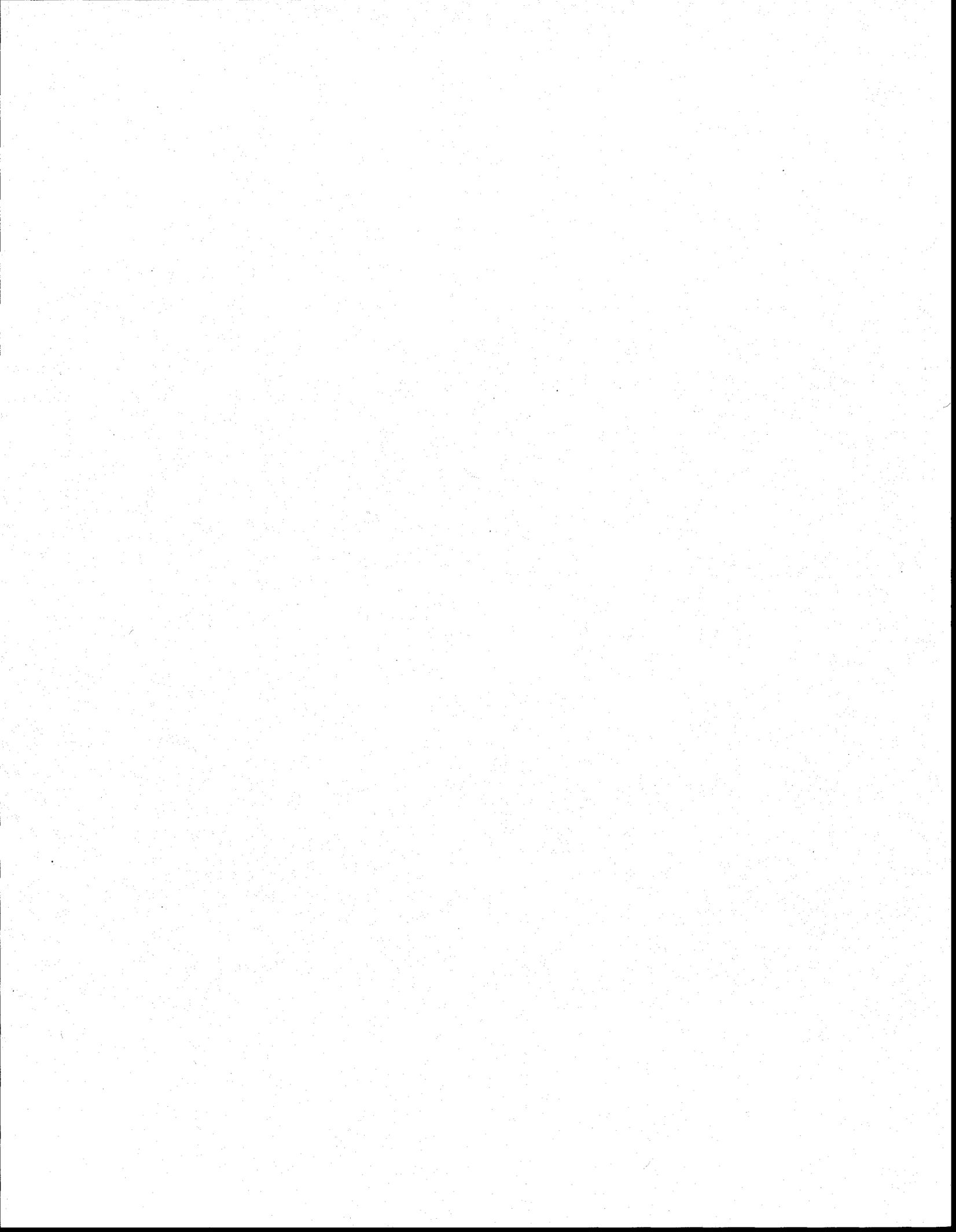
Original and fifteen copies of the foregoing
filed this 1st day of May, 2006,
with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

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EXHIBITS

- A Water Application Supporting Schedules
- B Wastewater Application Supporting Schedules
- C Cost of Capital Supporting Schedules
- D Tom Bourassa's Testimony regarding the Water Application
- E Tom Bourassa's Testimony regarding the Wastewater Application
- F Tom Bourassa's Testimony regarding Cost of Capital
- G Proposed form of Tariff



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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF UTILITY SOURCE,
L.L.C. – SEWER DIVISION, AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN
ITS RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: SW- _____

**WATER DIVISION
SUPPORTING RATE SCHEDULES**

THOMAS J. BOURASSA

Utility Source, LLC - Water Division
 Test Year Ended December 31, 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			\$	3,079,513	
2						
3	Adjusted Operating Income				(77,896)	
4						
5	Current Rate of Return				-2.53%	
6						
7	Required Operating Income			\$	323,349	
8						
9	Required Rate of Return on Fair Value Rate Base				10.50%	
10						
11	Operating Income Deficiency			\$	401,245	
12						
13	Gross Revenue Conversion Factor				1.0000	
14						
15	Increase in Gross Revenue					
16	Requirement			\$	401,245	
17						
18	Customer	Present	Proposed	Dollar	Percent	
19	Classification	Rates	Rates	Increase	Increase	
20	<u>(Residential Commercial, Irrigation)</u>					
21	3/4 Inch Residential	\$ 76,792	\$ 254,546	\$ 177,754	231.47%	
22	1 1/2 Inch Commercial	2,397	8,085	5,689	237.34%	
23	2 Inch Commercial	3,868	13,092	9,224	238.46%	
24				-	0.00%	
25	Revenue Annualization	6,121	20,441	14,320	233.95%	
26				-	0.00%	
27	Proforma Revenues	83,560	277,740	194,180	232.38%	
28				-	0.00%	
29	Subtotal	\$ 172,738	\$ 573,904	\$ 401,166	232.24%	
30						
31	Other Water Revenues	1,657	1,657	-	0.00%	
32				-	0.00%	
33				-	0.00%	
34	Total of Water Revenues (a)	\$ 174,395	\$ 575,562	\$ 401,166	230.03%	

41 SUPPORTING SCHEDULES:

- 42 B-1
- 43 C-1
- 44 C-3
- 45 H-1
- 46

Utility Source, LLC - Water Division
 Test Year Ended December 31, 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 12/31/2005	Adjusted 12/31/2005	Present Rates 12/31/2006	Proposed Rates 12/31/2006
1	Gross Revenues	\$ -	\$ 46,498	\$ 84,647	\$ 174,328	\$ 174,328	\$ 575,573
2							
3	Revenue Deductions and	-	70,864	227,355	252,224	252,224	252,224
4	Operating Expenses						
5							
6	Operating Income	\$ -	\$ (24,366)	\$ (142,708)	\$ (77,896)	\$ (77,896)	\$ 323,349
7							
8	Other Income and	-	-	-	-	-	-
9	Deductions						
10							
11	Interest Expense	-	-	-	-	-	-
12							
13	Net Income	\$ -	\$ (24,366)	\$ (142,708)	\$ (77,896)	\$ (77,896)	\$ 323,349
14							
15	Earned Per Average						
16	Common Share	-	(0.05)	(0.31)	(0.17)	(0.17)	0.70
17							
18	Dividends Per						
19	Common Share	-	-	-	-	-	-
20							
21	Payout Ratio	-	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	0.00%	-132.66%	-8.49%	-212.05%	358.45%	-1487.94%
25							
26	Return on Year End						
27	Capital	0.00%	-66.33%	-4.29%	-212.05%	97.13%	-403.19%
28							
29	Return on Average						
30	Common Equity	0.00%	-133.09%	-8.49%	3340.93%	-2.37%	9.27%
31							
32	Return on Year End						
33	Common Equity	0.00%	-66.54%	-4.29%	188.70%	-2.40%	8.86%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	-	-	-	-	-	-
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	-	-	-	-	-	-
41							
42							
43	<u>SUPPORTING SCHEDULES</u>						
44	C-1						
45	E-2						
46	F-1						

Utility Source, LLC - Water Division
Test Year Ended December 31, 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	-	-	-
3				
4	Prior Year Ended 12/31/2003	-	-	-
5				
6	Prior Year Ended 12/31/2004	-	-	-
7				
8	Test Year Ended 12/31/2005	3,420,464	3,420,464	3,420,464
9				
10	Projected Year Ended 12/31/2006	-	-	3,420,464
11				
12				
13				
14				
15	<u>SUPPORTING SCHEDULES:</u>			
16	B-2			
17	E-5			
18	F-3			
19				
20				

Utility Source, LLC - Water Division
 Test Year Ended December 31, 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	\$ 3,420,464	\$ 3,420,464
3	Less: Accumulated Depreciation	58,465
4		
5	\$ 3,361,999	\$ 3,361,999
6		
7	<u>Less:</u>	
8	Advances in Aid of	
9	Construction	294,745
10	Contributions in Aid of	
11	Construction - Net of amortization	-
12	Customer Meter Deposits	-
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	12,259
22		
23		
24	<u>\$ 3,079,513</u>	<u>\$ 3,079,513</u>
25		
26		
27		
28	<u>SUPPORTING SCHEDULES:</u>	
29	B-2	
30	B-3	
31	B-5	
32	E-1	
33		

Utility Source, LLC - Water Division
 Test Year Ended December 31, 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	\$ 3,420,464			\$ 3,420,464
3					
4	Less:				
5	Accumulated				
6	Depreciation	116,024	1	(57,559)	58,465
7					
8					
9	Net Utility Plant				
10	in Service	\$ 3,304,440			\$ 3,361,999
11					
12	Less:				
13	Advances in Aid of				
14	Construction	-	2	294,745	294,745
15					
16	Contributions in Aid of				
17	Construction - Net	-			-
18					
19	Customer Refundable Meter Deposits	-			-
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	12,259	12,259
29		-			-
30					
31	Total	\$ 3,304,440			\$ 3,079,513

SUPPORTING SCHEDULES:

B-2, pages 2-4

E-1

RECAP SCHEDULES:

B-1

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Utility Source, LLC - Water Division
Test Year Ended December 31, 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	\$ 58,465
4	Balance per Company Schedule E-1	116,024
5	Difference	<u>\$ (57,559)</u>
6		
7		
8		
9		
10		
11	Increase (Decrease) to Accumulated Depreciation	<u>\$ (57,559)</u>
12		
13		
14		
15	<u>SUPPORTING SCHEDULES</u>	
16	B-2, pages 2a-2c	
17		
18		
19		
20		

Account No.	Description	Deprec. Rate	12/31/2004	2004 Accum. Depr.	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Balance	2004 Depr.
351	Organization	0.00%	-	-	-	-	-	-	-	-
352	Franchises	0.00%	-	-	-	-	-	-	-	-
353	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-
354	Structures and Improvements	3.33%	-	-	-	-	-	-	-	-
355	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-
360	Collection Sewers - Force	2.00%	-	-	-	-	-	-	-	-
361	Collection Sewers - Gravity	2.00%	-	-	-	-	-	-	-	-
362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-
363	Services to Customers	2.00%	-	-	-	-	-	-	-	-
364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-
365	Flow Measuring Installations	10.00%	-	-	-	-	-	-	-	-
370	Receiving Wells	3.33%	-	-	-	-	-	-	-	-
371	Pumping Equipment	12.50%	-	-	-	-	-	-	-	-
380	Treatment and Disposal Equipment	5.00%	-	-	-	-	-	-	-	-
381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-
389	Other Plant and Misc. Equipment	6.67%	-	-	-	-	-	-	-	-
390	Office Furniture and Equipment	6.67%	-	-	-	-	-	-	-	-
391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-
393	Tools, Shop and Garage Equipment	5.00%	-	-	-	-	-	-	-	-
394	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-
395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-
398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-
	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

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account	
			Dec-04 2004	Dec-05 2005
351	Organization	0.00%	-	-
352	Franchises	0.00%	-	-
353	Land and Land Rights	0.00%	-	-
354	Structures and Improvements	3.33%	-	938
355	Power Generation Equipment	5.00%	-	805
360	Collection Sewers - Force	2.00%	-	-
361	Collection Sewers - Gravity	2.00%	-	2,606
362	Special Collecting Structures	2.00%	-	-
363	Services to Customers	2.00%	-	604
364	Flow Measuring Devices	10.00%	-	-
365	Flow Measuring Installations	10.00%	-	173
370	Receiving Wells	3.33%	-	-
371	Pumping Equipment	12.50%	-	-
380	Treatment and Disposal Equipment	5.00%	-	27,672
381	Plant Sewers	5.00%	-	-
382	Outfall Sewer Lines	3.33%	-	-
389	Other Plant and Misc. Equipment	6.67%	-	-
390	Office Furniture and Equipment	6.67%	-	-
391	Transportation Equipment	20.00%	-	-
393	Tools, Shop and Garage Equipment	5.00%	-	-
394	Laboratory Equipment	10.00%	-	-
395	Power Operated Equipment	5.00%	-	-
398	Other Tangible Plant	10.00%	-	-
	Plant Held for Future Use		-	-
	TOTAL WATER PLANT		-	32,797

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

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment 2

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Line
No.
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1	<u>Unrecorded developer Advances-in-Aid of Construction</u>		
2			
3	Flagstaff Meadows LXA	\$	294,745
4			
5			
6			
7			
8	Increase (Decrease) to Advances-in-Aid of Construction	\$	<u>294,745</u>
9			
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Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Computation of Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	10,747
3	Pumping Power (1/24 of Pumping Power)		1,512
4	Purchased Water (1/24 of Purchased Water)		-
5	Material and Supplies Inventories		-
6	Prepayments		-
7			
8			
9	Total Working Capital Allowance	\$	<u>12,259</u>
10			
11			
12	Working Capital Requested	\$	<u>12,259</u>
13			
14			

15 SUPPORTING SCHEDULES:

16 E-1

17

RECAP SCHEDULES:

B-1

Utility Source, LLC - Water Division
 Test Year Ended December 31, 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	\$ 82,989	4/5	\$ 89,681	\$ 172,670	\$ 401,245	\$ 573,915
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	1,657			1,657		1,657
5		<u>\$ 84,647</u>		<u>\$ 89,681</u>	<u>\$ 174,328</u>	<u>\$ 401,245</u>	<u>\$ 575,573</u>
6	Operating Expenses						
7	Salaries and Wages	\$ -			\$ -		\$ -
8	Purchased Water	-			-		-
9	Purchased Power	36,292			36,292		36,292
10	Chemicals	530			530		530
11	Repairs and Maintenance	8,747			8,747		8,747
12	Office Supplies and Expense	4,292			4,292		4,292
13	Outside Services	20,630			20,630		20,630
14	Water Testing	8,553			8,553		8,553
15	Rents	-			-		-
16	Transportation Expenses	-			-		-
17	Insurance - General Liability	-			-		-
18	Insurance - Health and Life	-			-		-
19	Regulatory Commission Expense - Rate Case	-	3	12,500	12,500		12,500
20	Miscellaneous Expense	30,722			30,722		30,722
21	Depreciation Expense	116,024	1	907	116,931		116,931
22	Taxes Other Than Income	-			-		-
23	Property Taxes	1,564	2	11,462	13,026		13,026
24	Income Tax	-			-		-
25							
26	Total Operating Expenses	<u>\$ 227,355</u>		<u>\$ 24,869</u>	<u>\$ 252,224</u>	<u>\$ -</u>	<u>\$ 252,224</u>
27	Operating Income	<u>\$ (142,708)</u>		<u>\$ 64,812</u>	<u>\$ (77,896)</u>	<u>\$ 401,245</u>	<u>\$ 323,349</u>
28	Other Income (Expense)						
29	Interest Income	-			-		-
30	Other income	-			-		-
31	Interest Expense	-			-		-
32	Other Expense	-			-		-
33							
34	Total Other Income (Expense)	<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
35	Net Profit (Loss)	<u>\$ (142,708)</u>		<u>\$ 64,812</u>	<u>\$ (77,896)</u>	<u>\$ 401,245</u>	<u>\$ 323,349</u>

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

RECAP SCHEDULES:
 A-1

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Adjustments to Revenues and Expenses

Exhibit
 Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	Adjustments to Revenues and Expenses						Subtotal
	1 Depreciation Expense	2 Property Taxes	3 Rate Case Expense	4 Revenue Annualization	5 Proforma Revenues	6 Intentionally Left Blank	
1							
2							
3	Revenues			6,121	83,560		89,681
4							
5	Expenses	907	11,462	12,500			24,869
6							
7	Operating Income	(907)	(11,462)	(12,500)	6,121	83,560	-
8							64,812
9							
10	Interest Expense						-
11	Other Income / Expense						-
12							
13	Net Income	(907)	(11,462)	(12,500)	6,121	83,560	-
14							64,812
15							
16							
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Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Schedule C-2
 Page 2
 Witness: Bourassa

Line
 No.

1	<u>Depreciation Expense</u>		
2			
3	Account	<u>Original Cost</u>	<u>Proposed Rate</u>
4	No. Description		<u>Depreciation Expense</u>
5	301 Organization Cost	-	0.00%
6	302 Franchise Cost	-	0.00%
7	303 Land and Land Rights	210,000	0.00%
8	304 Structures and Improvements	109,250	3.33%
9	305 Collecting and Impounding Res.	-	2.50%
10	306 Lake River and Other Intakes	-	2.50%
11	307 Wells and Springs	2,233,883	3.33%
12	308 Infiltration Galleries and Tunnels	-	6.67%
13	309 Supply Mains	-	2.00%
14	310 Power Generation Equipment	87,400	5.00%
15	311 Electric Pumping Equipment	161,494	12.50%
16	320 Water Treatment Equipment	5,487	3.33%
17	330 Distribution Reservoirs & Standpipe	345,000	2.22%
18	331 Transmission and Distribution Mains	147,200	2.00%
19	333 Services	86,250	3.33%
20	334 Meters	-	8.33%
21	335 Hydrants	34,500	2.00%
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			
35			
36	TOTALS	\$ 3,420,464	\$ 116,931
37			
38			
39	Other	-	-
40			
41			
42		\$ -	\$ -
43			
44	Post Test Year Plant per B-2		
45			
46			
47			
48	Total PTY Plant	\$ -	\$ -
49	Less: Amortization of Contributions - Balance End of TY	\$ -	3.4186%
50			
51	Total Depreciation Expense		\$ 116,931
52			
53			
54			
55	Adjusted Depreciation Expense		\$ 116,931
56			
57	Test Year Depreciation Expense		\$ 116,024
58			
59	Increase (decrease) in Depreciation Expense		907
60			
61	Adjustment to Revenues and/or Expenses		\$ 907
62			
63			

Utility Source, LLC - Water Division
 Test Year Ended December 31, 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	\$	174,328
4	Adjusted Revenues in year ended 09/31/05		174,328
5	Proposed Revenues		<u>575,573</u>
6	Average of three year's of revenue	\$	308,076
7	Average of three year's of revenue, times 2	\$	616,152
8	Add:		
9	Construction Work in Progress at 10%	\$	-
10	Deduct:		
11	Book Value of Transportation Equipment		<u>-</u>
12			
13	Full Cash Value	\$	616,152
14	Assessment Ratio		<u>23.50%</u>
15	Assessed Value		144,796
16	Property Tax Rate		8.9963%
17			
18	Property Tax		13,026
19	Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	\$	<u>13,026</u>
22	Property Taxes in the test year		<u>1,564</u>
23	Change in Property Taxes	\$	<u>11,462</u>
24			
25			
26	Adjustment to Revenues and/or Expenses	\$	<u>11,462</u>
27			
28			

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line
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Rate Case Expense		
Estimated Rate Case Expense	\$	50,000
Estimated Amortization Period in Years		4
Annual Rate Case Expense	\$	<u>12,500</u>
Test Year Rate Case Expense	\$	-
Increase(decrease) Rate Case Expense	\$	<u>12,500</u>
Adjustment to Revenue and/or Expense	\$	<u>12,500</u>

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Line

No.

1 Revenue Annualization

2

3

4 Revenue Annualization

\$ 6,121

5

6

7

8 Total Revenue from Annualization

\$ 6,121

9

10

11 Adjustment to Revenue and/or Expense

\$ 6,121

12

13 SUPPORTING SCHEDULES

14 C-2

15 H-1

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Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Line

No.

1	<u>Proforma Customer Growth</u>		
2			
3			
4	Projected Customer Growth 3/4 Inch Meter		350
5	Average Bill	\$	19.90
6	No. of bills		12
7	Total Revenues from Projected Growth	\$	<u>83,560</u>
8			
9			
10	Adjustment to Revenue and/or Expense	\$	<u>83,560</u>
11			
12	<u>SUPPORTING SCHEDULES</u>		
13	C-2		
14	H-1		
15			
16			
17			
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19			

Utility Source, LLC - Water Division
 Test Year Ended December 31, 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	0.00%
2		
3	State Income Taxes	0.00%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	0.00%
9		
10	Operating Income % = 100% - Tax Percentage	100.00%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.0000
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		A-1
20		

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Summary of Cost of Capital

Exhibit
 Schedule D-1
 Page 1
 Witness: Bourassa

Line No.	Item of Capital	End of Test Year				End of Projected Year			
		Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	(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)	3,383,299	100.00%	10.50%	10.50%	3,706,647	100.00%	10.50%	10.50%
4									
5	Totals	3,383,299	100.00%		10.50%	3,706,647	100.00%		10.50%
6									
7									

(1) Increase Equity for A/D adjustment 1, B-2, page 1 \$ 57,559

SUPPORTING SCHEDULES:

- 12 D-1
- 13 D-3
- 14 D-4
- 15 E-1

RECAP SCHEDULES:

- A-3

16
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Utility Source, LLC - Water Division
Test Year Ended December 31, 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	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:				RECAP SCHEDULES:		
18	(a) E-1				(a) D-1		
19							
20							

Utility Source, LLC - Water Division
Test Year Ended December 31, 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

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SUPPORTING SCHEDULES:

(a) E-1

RECAP SCHEDULES:

(a) D-1

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Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Comparative Balance Sheets

Exhibit
 Schedule E-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended 12/31/2005	Year Ended 12/31/2004	Year Ended 12/31/2003
1	ASSETS			
2	Plant In Service	\$ 3,420,464	\$ -	\$ -
3				
4	Non-Utility Plant	-	-	-
5	Construction Work in Progress	-	-	-
6	Less: Accumulated Depreciation	(116,024)	-	-
7	Net Plant	\$ 3,304,440	\$ -	\$ -
8				
9	Debt Reserve Fund	\$ -	\$ -	\$ -
10				
11		\$ -	\$ -	\$ -
12				
13	CURRENT ASSETS			
14	Cash and Equivalents	\$ 1,883	\$ 22,589	\$ -
15	Restricted Cash	-	-	-
16	Accounts Receivable, Net	20,040	14,145	-
17	Unbilled Revenues	-	-	-
18	Materials and Supplies	-	-	-
19	Prepayments	-	-	-
20	Other Current Assets	-	-	-
21	Total Current Assets	\$ 21,923	\$ 36,734	\$ -
22				
23	Deferred Debits	\$ -	\$ -	\$ -
24				
25	Other Investments & Special Funds	\$ -	\$ -	\$ -
26				
27	TOTAL ASSETS	\$ 3,326,363	\$ 36,734	\$ -
28				
29				
30	LIABILITIES AND STOCKHOLDERS' EQUITY			
31				
32	Common Equity	\$ 3,325,740	\$ 36,617	\$ -
33				
34	Long-Term Debt	\$ -	\$ -	\$ -
35				
36	CURRENT LIABILITIES			
37	Accounts Payable	\$ -	\$ -	\$ -
38	Current Portion of Long-Term Debt	-	-	-
39	Payables to Associated Companies	-	-	-
40	Customer Meter Deposits, Current	-	-	-
41	Accrued Taxes	-	-	-
42	Accrued Interest	-	-	-
43	Other Current Liabilities	623	118	-
44	Total Current Liabilities	\$ 623	\$ 118	\$ -
45	DEFERRED CREDITS			
46	Customer Meter Deposits, less current	\$ -	\$ -	\$ -
47	Advances in Aid of Construction	-	-	-
48	Accumulated Deferred Income Taxes	-	-	-
49	Contributions In Aid of Construction, Net	-	-	-
50	Asset Retirement Obligations	-	-	-
51	Total Deferred Credits	\$ -	\$ -	\$ -
52				
53	Total Liabilities & Common Equity	\$ 3,326,363	\$ 36,734	\$ -
54				
55	SUPPORTING SCHEDULES:			
56	E-5			
57				

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Comparative Income Statements

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 12/31/2005	Prior Year Ended 12/31/2004	Prior Year Ended 12/31/2003
1	Revenues			
2	Metered Water Revenues	\$ 82,989	\$ 46,498	\$ -
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	1,657	-	-
5	Total Revenues	<u>\$ 84,647</u>	<u>\$ 46,498</u>	<u>\$ -</u>
6	Operating Expenses			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Water	-	-	-
9	Purchased Power	36,292	18,047	-
10	Chemicals	530	-	-
11	Repairs and Maintenance	8,747	2,418	-
12	Office Supplies and Expense	4,292	181	-
13	Outside Services	20,630	34,516	-
14	Water Testing	8,553	15,481	-
15	Rents	-	-	-
16	Transportation Expenses	-	-	-
17	Insurance - General Liability	-	-	-
18	Insurance - Health and Life	-	-	-
19	Regulatory Commission Expense - Rate Case	-	-	-
20	Miscellaneous Expense	30,722	221	-
21	Depreciation Expense	116,024	-	-
22	Taxes Other Than Income	-	-	-
23	Property Taxes	1,564	-	-
24	Income Tax	-	-	-
25				
26	Total Operating Expenses	<u>\$ 227,355</u>	<u>\$ 70,864</u>	<u>\$ -</u>
27	Operating Income	<u>\$ (142,708)</u>	<u>\$ (24,366)</u>	<u>\$ -</u>
28	Other Income (Expense)			
29	Interest Income	-	-	-
30	Other income	-	-	-
31	Interest Expense	-	-	-
32	Other Expense	-	-	-
33				
34	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
35	Net Profit (Loss)	<u>\$ (142,708)</u>	<u>\$ (24,366)</u>	<u>\$ -</u>
36				
37				

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Detail of Plant in Service

Exhibit
 Schedule E-5
 Page 1
 Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2004	Plant Additions, Reclassifications or Retirements	Plant Balance at 12/31/2005
1					
2	301	Organization Cost	\$ -	\$ -	\$ -
3	302	Franchise Cost	-	-	-
4	303	Land and Land Rights	-	210,000	210,000
5	304	Structures and Improvements	-	109,250	109,250
6	305	Collecting and Impounding Res.	-	-	-
7	306	Lake River and Other Intakes	-	-	-
8	307	Wells and Springs	-	2,233,883	2,233,883
9	308	Infiltration Galleries and Tunnels	-	-	-
10	309	Supply Mains	-	-	-
11	310	Power Generation Equipment	-	87,400	87,400
12	311	Electric Pumping Equipment	-	161,494	161,494
13	320	Water Treatment Equipment	-	5,487	5,487
14	330	Distribution Reservoirs & Standpipe	-	345,000	345,000
15	331	Transmission and Distribution Mains	-	147,200	147,200
16	333	Services	-	86,250	86,250
17	334	Meters	-	-	-
18	335	Hydrants	-	34,500	34,500
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	\$ -	\$ 3,420,464	\$ 3,420,464

SUPPORTING SCHEDULES

RECAP SCHEDULES:

A-4
 E-1

33
 34
 35
 36
 37

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Operating Statistics

Exhibit
 Schedule E-7
 Page 1
 Witness: Bouras

Line No.		Test Year Ended <u>12/31/2005</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)	19,596	0	0
6				
7				
8				
9	Water Revenues from Customers:	\$ 82,989	\$ -	\$ -
10				
11				
12				
13				
14	Year End Number of Customers	337	-	-
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	58	0	0
19				
20				
21				
22	Annual Revenue per Year End Customer	\$ 246.26	\$ -	\$ -
23				
24	Pumping Cost Per 1,000 Gallons	\$ 1.8521	\$ -	\$ -
25	Purchased Water Cost per 1,000 Gallons	\$ -	\$ -	\$ -

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended <u>12/31/2005</u>	Prior Year Ended <u>12/31/2004</u>	Prior Year Ended <u>12/31/2003</u>
1				
2				
3	Federal Income Taxes	\$ -	\$ -	\$ -
4	State Income Taxes	-	-	-
5	Payroll Taxes	-	-	-
6	Property Taxes	1,564	-	-
7				
8	Totals	<u>\$ 1,564</u>	<u>\$ -</u>	<u>\$ -</u>
9				
10				
11				
12				
13				
14				

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

The Company does conduct independent audits

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Projected Income Statements - Present & Proposed Rates

Exhibit
 Schedule F-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2006	At Proposed Rates Year Ended 12/31/2006
1	Revenues			
2	Metered Water Revenues	\$ 82,989	\$ 172,670	\$ 573,915
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	1,657	1,657	1,657
5		<u>\$ 84,647</u>	<u>\$ 174,328</u>	<u>\$ 575,573</u>
6	Operating Expenses			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Water	-	-	-
9	Purchased Power	36,292	36,292	36,292
10	Chemicals	530	530	530
11	Repairs and Maintenance	8,747	8,747	8,747
12	Office Supplies and Expense	4,292	4,292	4,292
13	Outside Services	20,630	20,630	20,630
14	Water Testing	8,553	8,553	8,553
15	Rents	-	-	-
16	Transportation Expenses	-	-	-
17	Insurance - General Liability	-	-	-
18	Insurance - health and Life	-	-	-
19	Regulatory Commission Expense - Rate Case	-	12,500	12,500
20	Miscellaneous Expense	30,722	30,722	30,722
21	Depreciation Expense	116,024	116,931	116,931
22	Taxes Other Than Income	-	-	-
23	Property Taxes	1,564	13,026	13,026
24	Income Tax	-	-	-
25				
26	Total Operating Expenses	<u>\$ 227,355</u>	<u>\$ 252,224</u>	<u>\$ 252,224</u>
27	Operating Income	<u>\$ (142,708)</u>	<u>\$ (77,896)</u>	<u>\$ 323,349</u>
28	Other Income (Expense)			
29	Interest Income	-	-	-
30	Other income	-	-	-
31	Interest Expense	-	-	-
32	Other Expense	-	-	-
33	Gain/Loss Sale of Fixed Assets	-	-	-
34	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
35	Net Profit (Loss)	<u><u>\$ (142,708)</u></u>	<u><u>\$ (77,896)</u></u>	<u><u>\$ 323,349</u></u>
36				

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Projected Construction Requirements

Exhibit
 Schedule F-3
 Page 1
 Witness: Bourassa

Line No.	Account		Test Year	2006
	Number	Plant Asset:		
4	301	Organization Cost	\$ -	\$ -
5	302	Franchise Cost	-	-
6	303	Land and Land Rights	210,000	-
7	304	Structures and Improvements	109,250	-
8	306	Lake, River and Other Intakes	-	-
9	307	Wells and Springs	-	-
10	310	Power Generation Equipment	2,233,883	-
11	311	Electric Pumping Equipment	-	-
12	320	Water Treatment Equipment	-	-
13	330	Distribution Reservoirs & Standpipe	87,400	-
14	331	Transmission and Distribution Mains	161,494	-
15	333	Services	5,487	-
16	334	Meters	345,000	-
17	335	Hydrants	147,200	-
18	339	Plant Structures and Improvements	86,250	-
19	340	Office Furniture and Fixtures	-	-
20	341	Transportation Equipment	34,500	-
21	343	Tools and Work Equipment	-	-
22	344	Power Operated Equipment	-	-
23	345	Communications Equipment	-	-
24	346	Miscellaneous Equipment	-	-
25	348	Other Tangible Plant	-	-
26				
27	Total		<u>\$ 3,420,464</u>	<u>\$ -</u>
28				
29				
30				

Utility Source, LLC - Water Division
Test Year Ended December 31, 2005
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line

No.

1 Property Taxes were computed using the method used by the Arizona Department
2 of Revenue

3

4 Projected construction expenditures are shown on Schedule A-4.

5

6 Expense adjustments are shown on Schedule C2, and are explained in the testimony.

7

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Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Revenue Summary

Exhibit
 Schedule H-1
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2	3/4 Inch Meter - Residential	76,792	254,546	177,754	231.47%	44.03%	44.23%
3	1 Inch Meter						
4	1.5 Inch Meter Commercial	2,397	8,085	5,689	237.34%	1.37%	1.40%
5	2 Inch Meter Commercial	3,868	13,092	9,224	238.46%	2.22%	2.27%
6							
7	Miscellaneous Revenues	1,657	1,657	-	0.00%	0.95%	0.29%
8	Total Water Revenues	\$ 84,715	\$ 277,381	\$ 192,666	227.43%	48.58%	48.19%
9	3/4 Inch customer revenue						
10	annualized to end of year, based on						
11	year end number of customers	\$ 6,121	\$ 20,441	\$ 14,320	233.95%	3.51%	3.55%
12	Proforma Revenues ⁽¹⁾	\$ 83,560	\$ 277,740	\$ 194,180	232.38%	47.91%	48.26%
13	Total Water Revenues, after correction for						
14	Billing to hundreds of Gallons	\$ 174,395	\$ 575,562	\$ 401,166	461.38%	52.09%	51.74%
15							
16	(1) See C-2 adjustment number 5.						
17							
18							
19	Total Water Revenues without Revenue						
20	Annualization and Proforma Revenues	\$ 84,715					
21	Water Revenues Per General Ledger	\$ 84,647					
22	Difference	\$68					
23							
24	Percentage Error	-0.08%					
25							
26							

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Analysis of Revenue by Detailed Class
 Rates

Exhibit
 Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2005	Average Consumption	Revenues		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1							
2	3/4 Inch Meter - Residential	307	4,740	\$ 76,792	\$ 254,546	\$ 177,754	232.38%
3	1 Inch Meter	-	-	\$ -	\$ -	\$ -	0.00%
4	1.5 Inch Meter Commercial	1	64,470	\$ 2,397	\$ 8,085	\$ 5,689	237.34%
5	2 Inch Meter Commercial	1	103,821	\$ 3,868	\$ 13,092	\$ 9,224	238.46%
6	3/4 Inch Meter - Residential Revenue Annualization	307	4,740	\$ 6,121	\$ 20,441	\$ 14,320	233.95%
7	Proforma Revenues	350	4,740	\$ 83,560	\$ 277,740	\$ 194,180	232.38%
8							

Utility Source, LLC - Water Division
 Changes in Representative Rates
 Test Year Ended December 31, 2005

Exhibit
 Schedule H-3
 Page 2
 Witness: Bourassa

Line No.	Meter and Service Line Installation Charges	Present Rates	Proposed Rates
1		\$0.00	\$0.00
2		\$575.00	\$575.00
3		\$660.00	\$660.00
4	Meter Size	\$900.00	\$900.00
5	5/8 x 3/4 Inch	\$1,525.00	\$1,525.00
6	3/4 Inch	\$3,360.00	\$3,360.00
7	1 Inch	\$6,035.00	\$6,035.00
8	1 1/2 Inch		
9	2 Inch		
10	4 Inch		
11	6 Inch		
12			
13			
14			
15			
16			
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(NOT APPLICABLE)

Utility Source, LLC - Water Division
 Changes in Representative Rate Schedules
 Test Year Ended December 31, 2005

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment, per Rule R14-2-403D	\$ 20.00	\$ 20.00
2	Establishment (After Hours)	\$ 40.00	\$ 40.00
3	Re-establishment, Per Rule R14-2-403D (a)	\$ 30.00	\$ 30.00
4	Reconnection, per Rule R14-2-403D	\$ 50.00	\$ 50.00
5	Reconnection (After Hours)	\$ 40.00	\$ 40.00
6	Charge for Moving Meter	Cost	Cost
7	Minimum Deposit Requirement, per Rule R14-2-403B	(b)	(b)
8	Meter test, if correct per Rule R14-2-408F	N/A	N/A
9	Meter Re-Read per Rule R14-2-408C	\$ 10.00	\$ 10.00
10	NSF Check, per Rule R14-2-409F	\$ 20.00	\$ 20.00
11	Deferred Finance Charge, per month	1.50%	1.50%
12	Late Payment Charge, per month	1.50%	1.50%
13	Service Calls, per hour (e)	40.00	\$ 40.00
14	Meter Advances	See Page 2	See Page 2
15	Main Extension, per Rule R14-2-406B	Cost	Cost
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(a) Same customer, same location within 12 months. Number of months off the system times the monthly minimum.
 (b) The Company does not normally require a deposit prior to provision of service. However, if service is not in the property owner's name, this deposit is required.
 Also, in the event service is disconnected for non-payment, this deposit may be required.
 Residential - 2 times the estimated average monthly bill
 Non-residential - 2 1/2 times the estimated maximum monthly bill.
 Deposit interest 3.0%

TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).

Utility Source, LLC - Water Division
 Bill Comparison at Present and Proposed Rates
 Customer Classification: 3/4 Inch Meters

Exhibit
 Schedule H-4
 Page 1
 Witness: Bourassa

Usage	Present Bill \$	Proposed Bill \$	Dollar Increase	Percent Increase
-	6.48	24.30	17.82	275.00%
1,000	9.31	33.12	23.81	255.79%
2,000	12.14	41.95	29.81	245.53%
3,000	14.97	50.77	35.80	239.16%
4,000	17.80	59.60	41.80	234.81%
5,000	20.63	68.42	47.79	231.65%
6,000	23.95	78.77	54.82	228.90%
7,000	27.27	89.12	61.85	226.82%
8,000	30.59	99.47	68.88	225.19%
9,000	33.91	109.83	75.92	223.88%
10,000	37.23	120.18	82.95	222.80%
12,000	43.87	140.88	97.01	221.14%
14,000	50.51	161.59	111.08	219.91%
16,000	58.54	186.62	128.08	218.80%
18,000	67.96	215.99	148.03	217.83%
20,000	77.38	245.37	167.99	217.09%
25,000	100.93	318.80	217.87	215.86%
30,000	124.48	392.22	267.74	215.09%
35,000	148.03	465.65	317.62	214.57%
40,000	171.58	539.08	367.50	214.19%
45,000	195.13	612.51	417.38	213.90%
50,000	218.68	685.94	467.26	213.67%
60,000	265.78	832.80	567.02	213.34%
70,000	312.88	979.66	666.78	213.11%
80,000	359.98	1,126.51	766.53	212.94%
90,000	407.08	1,273.37	866.29	212.81%
100,000	454.18	1,420.23	966.05	212.70%

Present Rates:
 Monthly Minimum: \$ 6.48
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 5,000 \$ 2.83
 Over 15,000 \$ 3.32
 \$ 4.71

Proposed Rates:
 Monthly Minimum: \$ 24.30
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 5,000 \$ 8.82
 Up to 15,000 \$ 10.35
 Over \$ 14.69

Average Usage	4,740	\$ 19.90	\$ 66.13	\$ 46.23	232.38%
Median Usage	4,500	\$ 19.22	\$ 64.01	\$ 44.79	233.11%

Utility Source, LLC - Water Division
 Bill Comparison at Present and Proposed Rates
 Customer Classification 1 1/2 Inch Meters

Exhibit
 Schedule H-4
 Page 2
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 9.62	\$ 81.00	\$ 71.38	742.00%
1,000	12.59	90.26	77.67	616.92%
2,000	15.56	99.52	83.96	539.59%
3,000	18.53	108.78	90.25	487.06%
4,000	21.50	118.04	96.54	449.03%
5,000	24.47	127.30	102.83	420.24%
6,000	27.44	136.56	109.12	397.68%
7,000	30.41	145.82	115.41	379.52%
8,000	33.38	155.08	121.70	364.60%
9,000	36.35	164.34	127.99	352.12%
10,000	39.32	173.60	134.28	341.52%
12,000	45.26	192.13	146.87	324.49%
14,000	51.20	210.65	159.45	311.42%
16,000	57.14	229.17	172.03	301.06%
18,000	63.08	247.69	184.61	292.66%
20,000	69.02	266.21	197.19	285.70%
25,000	83.87	312.51	228.64	272.61%
30,000	98.72	358.81	260.09	263.47%
35,000	113.57	405.12	291.55	256.71%
40,000	128.42	451.42	323.00	251.52%
45,000	143.27	497.72	354.45	247.40%
50,000	158.12	544.02	385.90	244.06%
60,000	187.82	636.63	448.81	238.96%
70,000	217.52	729.23	511.71	235.25%
80,000	247.22	821.84	574.62	232.43%
90,000	276.92	914.44	637.52	230.22%
100,000	306.62	1,007.05	700.43	228.43%
Average Usage				
64,470	201.10	678.02	476.93	237.16%
Median Usage				
60,000	187.82	636.63	448.81	238.96%

Present Rates:
 Monthly Minimum: \$ 9.62
 Gallons in Minimum -
 Charge Per 1,000 Gallons \$ 2.97
 All gals

Proposed Rates:
 Monthly Minimum: \$ 81.00
 Gallons in Minimum -
 Charge Per 1,000 Gallons \$ 9.26
 All gals

Utility Source, LLC - Water Division
 Bill Comparison at Present and Proposed Rates
 Customer Classification: 2 Inch Meters - Commercial

Exhibit
 Schedule H-4
 Page 3
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 14.00	\$ 129.60	\$ 115.60	825.71%
1,000	16.97	138.86	121.89	718.27%
2,000	19.94	148.12	128.18	642.83%
3,000	22.91	157.38	134.47	586.95%
4,000	25.88	166.64	140.76	543.90%
5,000	28.85	175.90	147.05	509.71%
6,000	31.82	185.16	153.34	481.91%
7,000	34.79	194.42	159.63	458.85%
8,000	37.76	203.68	165.92	439.42%
9,000	40.73	212.94	172.21	422.82%
10,000	43.70	222.20	178.50	408.48%
12,000	49.64	240.73	191.09	384.94%
14,000	55.58	259.25	203.67	366.44%
16,000	61.52	277.77	216.25	351.51%
18,000	67.46	296.29	228.83	339.21%
20,000	73.40	314.81	241.41	328.90%
25,000	88.25	361.11	272.86	309.19%
30,000	103.10	407.41	304.31	295.16%
35,000	117.95	453.72	335.77	284.67%
40,000	132.80	500.02	367.22	276.52%
45,000	147.65	546.32	398.67	270.01%
50,000	162.50	592.62	430.12	264.69%
60,000	192.20	685.23	493.03	256.52%
70,000	221.90	777.83	555.93	250.53%
80,000	251.60	870.44	618.84	245.96%
90,000	281.30	963.04	681.74	242.35%
100,000	311.00	1,055.65	744.65	239.44%
Average Usage	322.35	1,091.03	768.68	238.46%
Median Usage	313.68	1,063.99	750.31	239.20%

Present Rates:
 Monthly Minimum: \$ 14.00
 Gallons in Minimum -
 Charge Per 1,000 Gallons \$ 2.97
 All gals

Proposed Rates:
 Monthly Minimum: \$ 129.60
 Gallons in Minimum -
 Charge Per 1,000 Gallons \$ 9.26
 All gals

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Customer Classification: 3/4 Inch Meters
 Bill Count

Exhibit
 Schedule H-5
 Page 1
 Witness: Bourassa

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep.	Month of Oct.	Month of Nov.	Month of Dec.	Total
1	-	1,000	44	34	34	40	33	33	23	20	32	28	22	17	360
1,001	1,001	2,000	30	29	35	16	15	27	16	27	17	19	19	26	276
2,001	2,001	3,000	21	22	30	27	31	29	31	23	20	27	34	32	327
3,001	3,001	4,000	30	33	29	35	22	25	22	15	30	28	27	34	330
4,001	4,001	5,000	27	40	32	33	34	31	33	25	29	46	41	49	420
5,001	5,001	6,000	42	27	41	44	42	46	44	34	41	34	45	58	498
6,001	6,001	7,000	27	33	38	40	39	41	19	25	34	31	45	51	423
7,001	7,001	8,000	24	28	14	19	28	28	26	30	33	24	29	32	315
8,001	8,001	9,000	14	7,001	13	17	23	13	14	18	21	21	19	15	198
9,001	9,001	10,000	8	11	8	7	14	9	13	18	16	16	14	6	140
10,001	10,001	11,000	2	6	1	1	4	9	9	14	14	12	17	4	93
11,001	11,001	12,000	0	3	0	2	2	4	10	11	13	8	5	4	62
12,001	12,001	13,000	0	1	0	3	3	4	14	8	6	10	4	4	57
13,001	13,001	14,000	0	3	3	0	1	5	5	6	4	10	6	1	44
14,001	14,001	15,000	0	0	2	0	2	3	4	9	6	6	3	1	36
15,001	15,001	16,000	0	1	0	1	3	0	1	4	5	3	0	0	18
16,001	16,001	17,000	0	0	0	0	0	0	2	2	3	1	1	0	13
17,001	17,001	18,000	0	1	0	0	0	0	4	6	0	3	0	0	14
18,001	18,001	19,000	0	0	0	0	0	1	2	6	1	2	0	0	14
19,001	19,001	20,000	0	1	0	0	0	2	1	2	0	1	0	1	8
20,001	20,001	21,000	0	1	0	0	0	1	2	2	1	1	0	0	8
21,001	21,001	22,000	0	1	0	0	0	0	4	2	1	1	0	0	9
22,001	22,001	23,000	0	0	0	0	0	0	1	0	1	0	0	0	3
23,001	23,001	24,000	0	0	0	0	0	1	1	2	0	1	0	0	5
24,001	24,001	25,000	0	0	0	0	0	0	3	2	0	0	0	0	5
25,001	25,001	26,000	0	0	0	0	0	0	0	0	0	0	0	0	0
26,001	26,001	27,000	0	1	1	0	0	0	0	1	0	1	0	0	2
27,001	27,001	28,000	0	0	0	0	0	0	0	1	0	0	0	0	4
28,001	28,001	29,000	0	1	0	0	0	0	0	0	0	0	0	0	0
29,001	29,001	30,000	0	0	0	0	0	0	0	0	0	1	0	0	2
30,001	30,001	31,000	0	0	0	0	0	0	0	0	0	0	0	0	0
31,001	31,001	32,000	0	0	0	0	0	0	1	0	0	0	0	0	1
32,001	32,001	33,000	0	0	0	0	0	1	0	0	0	1	0	0	1
33,001	33,001	34,000	0	0	0	0	0	0	0	1	0	0	0	0	1
34,001	34,001	35,000	0	0	0	0	0	0	0	1	0	0	0	0	1
35,001	35,001	36,000	0	0	0	0	0	0	0	0	0	0	0	0	0
36,001	36,001	37,000	0	0	0	0	0	0	0	0	0	0	0	0	0
37,001	37,001	38,000	0	0	0	0	0	0	0	0	0	0	0	0	0
38,001	38,001	39,000	0	0	0	0	0	0	0	0	0	0	0	0	0
39,001	39,001	40,000	0	0	0	0	0	0	0	0	0	0	0	0	0
40,001	40,001	41,000	0	0	0	0	0	0	0	0	1	0	0	0	1
41,001	41,001	42,000	0	0	0	0	0	0	0	0	0	0	0	0	0

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Customer Classification: 3/4 Inch Meters
 Bill Count

Exhibit
 Schedule H-5
 Page 1
 Witness: Bourassa

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep.	Month of Oct.	Month of Nov.	Month of Dec.	Total Totals
42,001	43,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
43,001	44,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
44,001	45,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
45,001	46,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
46,001	47,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
47,001	48,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
48,001	49,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
49,001	50,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
50,001	51,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
51,001	52,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
52,001	53,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
53,001	54,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
54,001	55,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
55,001	56,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
56,001	57,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
57,001	58,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
58,001	59,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
59,001	60,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60,001	61,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
61,001	62,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
62,001	63,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
63,001	64,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
64,001	65,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65,001	66,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
66,001	67,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
67,001	68,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
68,001	69,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
69,001	70,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70,001	71,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
71,001	72,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
72,001	73,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
73,001	74,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
74,001	75,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
75,001	76,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
76,001	77,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
77,001	78,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
78,001	79,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
79,001	80,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
80,001	81,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
81,001	82,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
82,001	83,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
83,001	84,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
84,001	85,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Customer Classification: 3/4 Inch Meters
 Bill Count

Exhibit
 Schedule H-5
 Page 1
 Witness: Bourassa

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep.	Month of Oct.	Month of Nov.	Month of Dec.	Total Totals
85,001	85,001	86,000	0	0	0	0	0	0	0	0	0	0	0	0	0
86,001	86,001	87,000	0	0	0	0	0	0	0	0	0	0	0	0	0
87,001	87,001	88,000	0	0	0	0	0	0	0	0	0	0	0	0	0
88,001	88,001	89,000	0	0	0	0	0	0	0	0	0	0	0	0	0
89,001	89,001	90,000	0	0	0	0	0	0	0	0	0	0	0	0	0
90,001	90,001	91,000	0	0	0	0	0	0	0	0	0	0	0	0	0
91,001	91,001	92,000	0	0	0	0	0	0	0	0	0	0	0	0	0
92,001	92,001	93,000	0	0	0	0	0	0	0	0	0	0	0	0	0
93,001	93,001	94,000	0	0	0	0	0	0	0	0	0	0	0	0	0
94,001	94,001	95,000	0	0	0	0	0	0	0	0	0	0	0	0	0
95,001	95,001	96,000	0	0	0	0	0	0	0	0	0	0	0	0	0
96,001	96,001	97,000	0	0	0	0	0	0	0	0	0	0	0	0	0
97,001	97,001	98,000	0	0	0	0	0	0	0	0	0	0	0	0	0
98,001	98,001	99,000	0	0	0	0	0	0	0	0	0	0	0	0	0
99,001	99,001	100,000	0	0	0	0	0	0	0	0	0	0	0	0	0
Totals			269	288	281	286	296	316	306	314	329	337	332	335	3,689

Average Number of Customers 307
 Average Usage 4,740

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Customer Classification 1 1/2 Inch Meters
 Bill Count

Exhibit
 Schedule H-5
 Page 2
 Witness: Bourassa

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
1		1,000													0
1,001		2,000													0
2,001		3,000													0
3,001		4,000													0
4,001		5,000													0
5,001		6,000													0
6,001		7,000													0
7,001		8,000													0
8,001		9,000													0
9,001		10,000													0
10,001		11,000													0
11,001		12,000													0
12,001		13,000													0
13,001		14,000													0
14,001		15,000													0
15,001		16,000													0
16,001		17,000													0
17,001		18,000													0
18,001		19,000													0
19,001		20,000													0
20,001		21,000													0
21,001		22,000													0
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													0
37,001		38,000													0
38,001		39,000													0

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Customer Classification 1 1/2 Inch Meters
 Bill Count

Exhibit
 Schedule H-5
 Page 2
 Witness: Bourassa

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
	39,001	40,000													0
	40,001	41,000													0
	41,001	42,000													0
	42,001	43,000													0
	43,001	44,000													0
	44,001	45,000													0
	45,001	46,000													0
	46,001	47,000													0
	47,001	48,000												1	2
	48,001	49,000					1								1
	49,001	50,000			1										1
	50,001	51,000													0
	51,001	52,000													0
	52,001	53,000													0
	53,001	54,000													0
	54,001	55,000													1
	55,001	56,000													0
	56,001	57,000													0
	57,001	58,000													0
	58,001	59,000													1
	59,001	60,000													0
	60,001	61,000												1	1
	61,001	62,000													0
	62,001	63,000													0
	63,001	64,000													1
	64,001	65,000													0
	65,001	66,000													1
	66,001	67,000													0
	67,001	68,000													0
	68,001	69,000													0
	69,001	70,000													0
	70,001	71,000													0
	71,001	72,000													0
	72,001	73,000													0
	73,001	74,000													0
	74,001	75,000													0
	75,001	76,000													0
	76,001	77,000													1
	77,001	78,000													0
	78,001	79,000													0

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Customer Classification 1 1/2 Inch Meters
 Bill Count

Exhibit
 Schedule H-5
 Page 2
 Witness: Bourassa

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
	79,001	80,000													0
	80,001	81,000													0
	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													1
	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
	Over 100,000 gallons								1						1
	103,639	103,639													0
Average Usage															
1 1 1 1 1 1 1 1 1 1 1 1 1 1 12															
64,470															

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Customer Classification: 2 Inch Meters - Commercial
 Bill Count

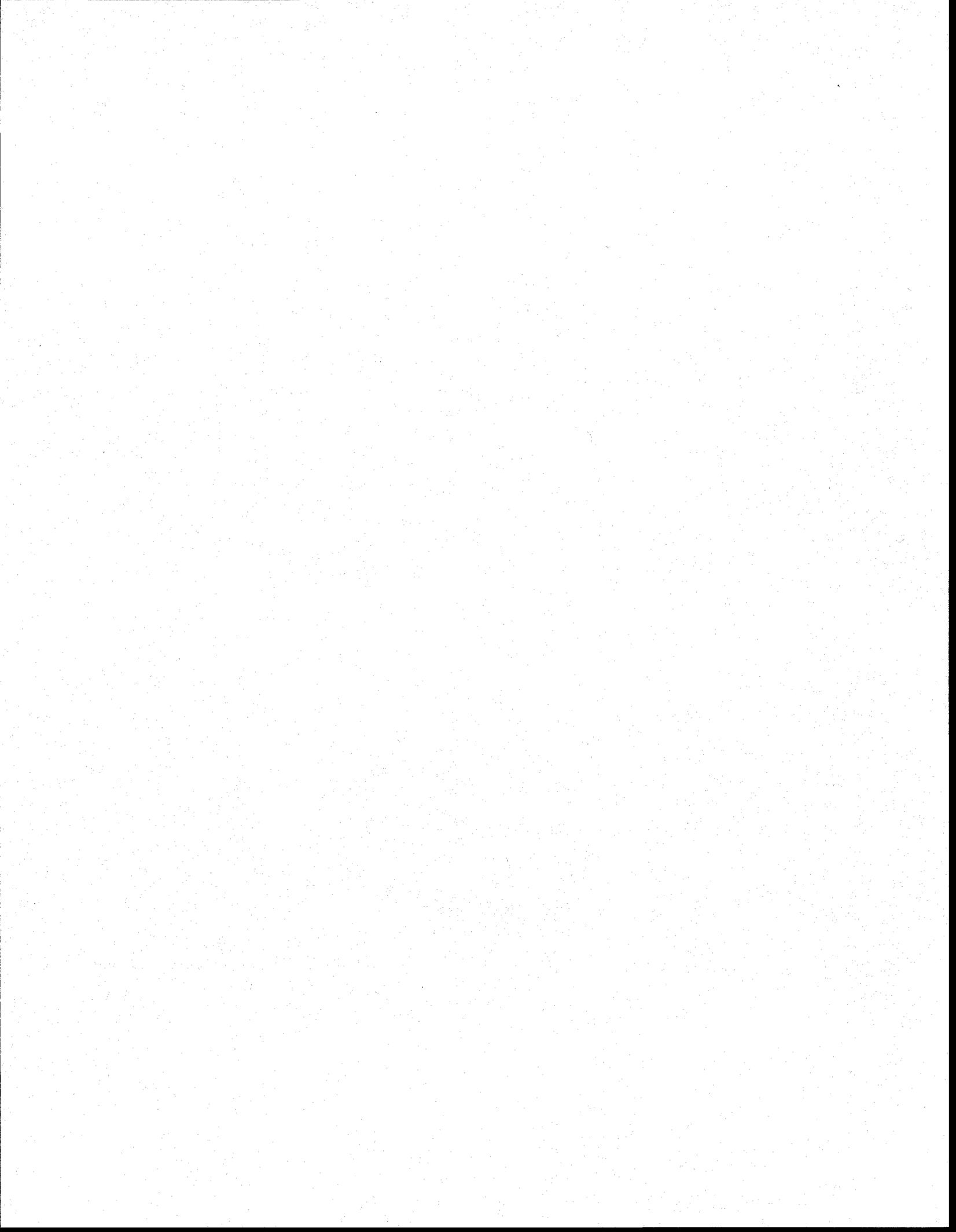
Exhibit
 Schedule H-5
 Page 3
 Witness: Bourassa

Usage	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
1	1,000	-	-	-	-	-	-	-	-	-	-	-	-	0
1,001	2,000	-	-	-	-	-	-	-	-	-	-	-	-	0
2,001	3,000	-	-	-	-	-	-	-	-	-	-	-	-	0
3,001	4,000	-	-	-	-	-	-	-	-	-	-	-	-	0
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	0
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	0
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	0
7,001	8,000	-	-	-	-	-	-	-	-	-	-	-	-	0
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	0
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	0
10,001	11,000	-	-	-	-	-	-	-	-	-	-	-	-	0
11,001	12,000	-	-	-	-	-	-	-	-	-	-	-	-	0
12,001	13,000	-	-	-	-	-	-	-	-	-	-	-	-	0
13,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	0
14,001	15,000	-	-	-	-	-	-	-	-	-	-	-	-	0
15,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	0
16,001	17,000	-	-	-	-	-	-	-	-	-	-	-	-	0
17,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	0
18,001	19,000	-	-	-	-	-	-	-	-	-	-	-	-	0
19,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	0
20,001	21,000	-	-	-	-	-	-	-	-	-	-	-	-	0
21,001	22,000	-	-	-	-	-	-	-	-	-	-	-	-	0
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	-	-	-	-	-	-	-	-	-	-	-	-	0

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Customer Classification: 2 Inch Meters - Commercial
 Bill Count

Exhibit
 Schedule H-5
 Page 3
 Witness: Bourassa

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep.	Month of Oct.	Month of Nov.	Month of Dec.	Total Year
37,001	38,000	38,000	-	-	-	-	-	-	-	-	-	-	-	-	0
38,001	39,000	39,000	-	-	-	-	-	-	-	-	-	-	-	-	0
39,001	40,000	40,000	-	-	-	-	-	-	-	-	-	-	-	-	0
40,001	41,000	41,000	-	-	-	-	-	-	-	-	-	-	-	-	0
41,001	42,000	42,000	-	1	-	-	-	-	-	-	-	-	-	-	1
42,001	43,000	43,000	-	-	-	-	-	-	-	-	-	-	-	-	0
43,001	44,000	44,000	-	-	-	-	-	-	-	-	-	-	-	-	0
44,001	45,000	45,000	-	-	-	-	-	-	-	-	-	-	-	-	0
45,001	46,000	46,000	-	-	-	-	-	-	-	-	-	-	-	-	0
46,001	47,000	47,000	-	-	-	-	-	-	-	-	-	-	-	-	0
47,001	48,000	48,000	-	-	-	-	-	-	-	-	-	-	-	-	0
48,001	49,000	49,000	-	-	-	-	-	-	-	-	-	-	-	-	0
49,001	50,000	50,000	-	-	-	-	-	-	-	-	-	-	-	-	0
50,001	51,000	51,000	-	-	-	-	-	-	-	-	-	-	-	-	0
51,001	52,000	52,000	-	-	-	-	-	-	-	-	-	-	-	-	0
52,001	53,000	53,000	-	-	-	-	-	-	-	-	-	-	-	-	0
53,001	54,000	54,000	-	-	-	-	-	-	-	-	-	-	-	-	0
54,001	55,000	55,000	-	-	-	-	-	-	-	-	-	-	-	-	0
55,001	56,000	56,000	-	-	-	-	-	-	-	-	-	-	-	-	0
56,001	57,000	57,000	-	-	-	-	-	-	-	-	-	-	-	-	0
57,001	58,000	58,000	-	-	-	-	-	-	-	-	-	-	-	-	0
58,001	59,000	59,000	-	-	-	-	-	-	-	-	-	-	-	-	0
59,001	60,000	60,000	-	-	-	-	-	-	-	-	-	-	-	-	0
60,001	61,000	61,000	-	-	-	-	-	-	-	-	-	-	-	-	0
61,001	62,000	62,000	-	-	-	-	-	-	-	-	-	-	-	-	0
62,001	63,000	63,000	-	-	-	-	-	-	-	-	-	-	-	-	0
63,001	64,000	64,000	-	-	-	-	-	-	-	-	-	-	-	-	0
64,001	65,000	65,000	-	-	-	-	-	-	-	-	-	-	-	-	0
65,001	66,000	66,000	-	-	-	-	-	-	-	-	-	-	-	-	0
66,001	67,000	67,000	-	-	-	-	-	-	-	-	-	-	-	-	0
67,001	68,000	68,000	-	-	-	-	-	-	-	-	-	-	-	-	0
68,001	69,000	69,000	-	-	-	-	-	-	-	-	-	-	-	-	0
69,001	70,000	70,000	-	-	-	-	-	-	-	-	-	-	-	-	0
70,001	71,000	71,000	-	-	-	-	-	-	-	-	-	-	-	-	0
71,001	72,000	72,000	-	-	-	-	-	-	-	-	-	-	-	-	0
72,001	73,000	73,000	-	-	-	-	-	-	-	-	-	-	-	-	0
73,001	74,000	74,000	-	-	-	-	-	-	-	-	-	-	-	-	0
74,001	75,000	75,000	-	-	-	-	-	-	-	-	-	-	-	-	0



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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF UTILITY SOURCE,
L.L.C. – SEWER DIVISION, AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN
ITS RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: SW-_____

**SEWER DIVISION
SUPPORTING RATE SCHEDULES**

THOMAS J. BOURASSA

EXHIBIT B

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 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	\$	1,401,953
2			
3	Adjusted Operating Income		(40,014)
4			
5	Current Rate of Return		-2.85%
6			
7	Required Operating Income	\$	147,205
8			
9	Required Rate of Return on Fair Value Rate Base		10.50%
10			
11	Operating Income Deficiency	\$	187,219
12			
13	Gross Revenue Conversion Factor		1.0000
14			
15	Increase in Gross Revenue		
16	Requirement	\$	187,219
17			

	Customer Classification	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
18					
19	Classification				
20	<u>(Residential Commercial, Irrigation)</u>				
21	3/4 Inch Residential	\$ 47,983	\$ 127,970	\$ 79,988	166.70%
22	1.5 Inch Commercial	2,750	7,334	\$ 4,584	166.70%
23	2 Inch Commercial	3,326	8,872	\$ 5,545	166.70%
24					0.00%
25	Revenue Annualization	3,836	10,230	\$ 6,394	166.70%
26					0.00%
27	Proforma Revenues	54,353	144,959	\$ 90,606	166.70%
28				-	0.00%
29	Subtotal	\$ 112,248	\$ 299,365	\$ 187,117	166.70%
30					
31	Other Revenues	1,657	1,657	-	0.00%
32					0.00%
33					0.00%
34	Total of Water Revenues (a)	\$ 113,905	\$ 301,022	\$ 187,117	164.27%

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SUPPORTING SCHEDULES:

- B-1
- C-1
- C-3
- H-1

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 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 12/31/2005	Adjusted 12/31/2005	Present Rates 12/31/2006	Proposed Rates 12/31/2006
1	Gross Revenues	\$ -	\$ 28,031	\$ 47,803	\$ 113,905	\$ 113,905	\$ 301,124
2							
3	Revenue Deductions and	-	44,113	134,582	153,919	153,919	153,919
4	Operating Expenses						
5							
6	Operating Income	\$ -	\$ (16,083)	\$ (86,779)	\$ (40,014)	\$ (40,014)	\$ 147,205
7							
8	Other Income and	-	-	-	-	-	-
9	Deductions						
10							
11	Interest Expense	-	-	-	-	-	-
12							
13	Net Income	\$ -	\$ (16,083)	\$ (86,779)	\$ (40,014)	\$ (40,014)	\$ 147,205
14							
15	Earned Per Average						
16	Common Share	-	(0.03)	(0.19)	(0.09)	(0.09)	0.32
17							
18	Dividends Per						
19	Common Share	-	-	-	-	-	-
20							
21	Payout Ratio	-	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	0.00%	-155.67%	-10.90%	-193.65%	-277.62%	1021.34%
25							
26	Return on Year End						
27	Capital	0.00%	-77.83%	-5.52%	-193.65%	-490.19%	1803.34%
28							
29	Return on Average						
30	Common Equity	0.00%	-155.67%	-10.90%	-6099.84%	-2.58%	8.95%
31							
32	Return on Year End						
33	Common Equity	0.00%	-77.83%	-5.52%	206.78%	-2.61%	8.56%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	-	-	-	-	-	-
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	-	-	-	-	-	-
41							
42							
43	<u>SUPPORTING SCHEDULES</u>						
44	C-1						
45	E-2						
46	F-1						

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 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	-	-	-
3				
4	Prior Year Ended 12/31/2003	-	-	-
5				
6	Prior Year Ended 12/31/2004	-	-	-
7				
8	Test Year Ended 12/31/2005	1,624,802	1,624,802	1,624,802
9				
10	Projected Year Ended 12/31/2006	-	-	1,624,802
11				
12				
13				
14				
15	<u>SUPPORTING SCHEDULES:</u>			
16	B-2			
17	E-5			
18	F-3			
19				
20				

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 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	\$ 1,624,802	\$ 1,624,802
3	Less: Accumulated Depreciation	<u>32,797</u>	<u>32,797</u>
4			
5	Net Utility Plant in Service	\$ 1,592,005	\$ 1,592,005
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction	197,973	197,973
10	Contributions in Aid of		
11	Construction - Net of amortization	-	-
12	Customer Meter Deposits	-	-
13	Deferred Income Taxes & Credits	-	-
14	Investment tax Credits	-	-
15	Plant Held for Future Use	-	-
16			
17	<u>Plus:</u>		
18	Unamortized Finance		
19	Charges	-	-
20	Deferred Tax Assets	-	-
21	Allowance for Working Capital	7,921	7,921
22			
23			
24	Total Rate Base	<u>\$ 1,401,953</u>	<u>\$ 1,401,953</u>
25			
26			
27			
28	<u>SUPPORTING SCHEDULES:</u>		
29	B-2		
30	B-3		
31	B-5		
32	E-1		
33			

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Actual at End of Test Year		Proforma Adjustments Label Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	\$ 1,624,802			\$ 1,624,802
3					
4	Less:				
5	Accumulated				
6	Depreciation	65,422	1	(32,625)	32,797
7					
8					
9	Net Utility Plant				
10	in Service	\$ 1,559,380			\$ 1,592,005
11					
12	Less:				
13	Advances in Aid of				
14	Construction	-	2	197,973	197,973
15					
16	Contributions in Aid of				
17	Construction - Net	-			-
18					
19	Customer Refundable Meter Deposits	-			-
20	Deferred Income Tax Liability	-			-
21	Investment Tax Credits	-			-
22	Plant Held for Future Use	-			-
23					
24	Plus:				
25	Unamortized Finance				
26	Charges	-			-
27	Deferred Income Tax Asset	-			-
28	Working capital	-	3	7,921	7,921
29		-			-
30					
31	Total	\$ 1,559,380			\$ 1,401,953

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 35 SUPPORTING SCHEDULES:
 36 B-2, pages 2-4
 37 E-1

38
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RECAP SCHEDULES:
 B-1

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 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	\$	32,797
4	Balance per Company Schedule E-1		<u>65,422</u>
5	Difference	\$	<u>(32,625)</u>
6			
7			
8			
9			
10			
11	Increase (Decrease) to Accumulated Depreciation	\$	<u>(32,625)</u>
12			
13			
14			
15	<u>SUPPORTING SCHEDULES</u>		
16	B-2, pages 2a-2c		
17			
18			
19			
20			

Utility Source, LLC - Sewer Division
 Plant Additions and Retirements

Exhibit
 Schedule B-2
 Page 2a
 Witness: Bourassa

Account No.	Description	Deprec. Rate	12/31/2004	2004 Accum. Depr.	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Balance	2004 Depr.
351	Organization	0.00%	-	-	-	-	-	-	-	-
352	Franchises	0.00%	-	-	-	-	-	-	-	-
353	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-
354	Structures and Improvements	3.33%	-	-	-	-	-	-	-	-
355	Power Generation Equipment	5.00%	-	-	-	-	-	-	-	-
360	Collection Sewers - Force	2.00%	-	-	-	-	-	-	-	-
361	Collection Sewers - Gravity	2.00%	-	-	-	-	-	-	-	-
362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-
363	Services to Customers	2.00%	-	-	-	-	-	-	-	-
364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-
365	Flow Measuring Installations	10.00%	-	-	-	-	-	-	-	-
370	Receiving Wells	3.33%	-	-	-	-	-	-	-	-
371	Pumping Equipment	12.50%	-	-	-	-	-	-	-	-
380	Treatment and Disposal Equipment	5.00%	-	-	-	-	-	-	-	-
381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-
389	Other Plant and Misc. Equipment	6.67%	-	-	-	-	-	-	-	-
390	Office Furniture and Equipment	6.67%	-	-	-	-	-	-	-	-
391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-
393	Tools, Shop and Garage Equipment	5.00%	-	-	-	-	-	-	-	-
394	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-
395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-
398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-
	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	-

Utility Source, LLC - Sewer Division
 Plant Additions and Retirements

Exhibit
 Schedule B-2
 Page 4c
 Witness: Bourassa

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account	
			2004	2005
351	Organization	0.00%	-	-
352	Franchises	0.00%	-	-
353	Land and Land Rights	0.00%	-	-
354	Structures and Improvements	3.33%	-	938
355	Power Generation Equipment	5.00%	-	805
360	Collection Sewers - Force	2.00%	-	-
361	Collection Sewers - Gravity	2.00%	-	2,606
362	Special Collecting Structures	2.00%	-	-
363	Services to Customers	2.00%	-	604
364	Flow Measuring Devices	10.00%	-	-
365	Flow Measuring Installations	10.00%	-	173
370	Receiving Wells	3.33%	-	-
371	Pumping Equipment	12.50%	-	-
380	Treatment and Disposal Equipment	5.00%	-	27,672
381	Plant Sewers	5.00%	-	-
382	Outfall Sewer Lines	3.33%	-	-
389	Other Plant and Misc. Equipment	6.67%	-	-
390	Office Furniture and Equipment	6.67%	-	-
391	Transportation Equipment	20.00%	-	-
393	Tools, Shop and Garage Equipment	5.00%	-	-
394	Laboratory Equipment	10.00%	-	-
395	Power Operated Equipment	5.00%	-	-
398	Other Tangible Plant	10.00%	-	-
	Plant Held for Future Use		-	-
	TOTAL WATER PLANT		-	32,797

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

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment 2

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Line

No.

1	<u>Unrecorded developer Advances-in-Aid of Constrction</u>		
2			
3	Flagstaff Meadows LXA	\$	197,973
4			
5			
6			
7			
8	Increase (Decrease) to Advances-in-Aid of Construction	\$	<u>197,973</u>
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Computation of Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	7,921
3	Pumping Power (1/24 of Pumping Power)		-
4	Purchased Water (1/24 of Purchased Water)		-
5	Material and Supplies Inventories		-
6	Prepayments		-
7			
8			
9	Total Working Capital Allowance	\$	<u>7,921</u>
10			
11			
12	Working Capital Requested	\$	<u>7,921</u>
13			
14			

15 SUPPORTING SCHEDULES:

16 E-1

17

RECAP SCHEDULES:

B-1

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 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	Flat Rate and Metered Revenues	\$ 46,145	4/5/6	\$ 66,103	\$ 112,248	\$ 187,219	\$ 299,467
3	Misc. Service Revenues	-			-		-
4	Other Wastewater Revenues	1,657			1,657		1,657
5		<u>\$ 47,803</u>		<u>\$ 66,103</u>	<u>\$ 113,905</u>	<u>\$ 187,219</u>	<u>\$ 301,124</u>
6	Operating Expenses						
7	Salaries and Wages	\$ -			\$ -		\$ -
8	Purchased Wastewater Treatment	-			-		-
9	Sludge Removal Expense	-			-		-
10	Purchased Power	17,423			17,423		17,423
11	Fuel for Power Production	-			-		-
12	Chemicals	3,945			3,945		3,945
13	Materials and Supplies	4,793			4,793		4,793
14	Contractual Services - Professional	1,195			1,195		1,195
15	Contractual Services - Testing	20,472			20,472		20,472
16	Contractual Services - Other	15,000			15,000		15,000
17	Repairs and Maintenance	-			-		-
18	Rents	-			-		-
19	Transportation Expenses	-			-		-
20	Insurance	-			-		-
21	Regulatory Commission Expense - Rate Case	-	3	12,500	12,500		12,500
22	Miscellaneous Expense	5,465			5,465		5,465
23	Depreciation Expense	65,422	1	172	65,594		65,594
24	Taxes Other Than Income	-			-		-
25	Property Taxes	867	2	6,666	7,533		7,533
26	Income Tax	-			-		-
27							
28							
29	Total Operating Expenses	<u>\$ 134,582</u>		<u>\$ 19,337</u>	<u>\$ 153,919</u>	<u>\$ -</u>	<u>\$ 153,919</u>
30	Operating Income	<u>\$ (86,779)</u>		<u>\$ 46,765</u>	<u>\$ (40,014)</u>	<u>\$ 187,219</u>	<u>\$ 147,205</u>
31	Other Income (Expense)						
32	Interest Income	-			-		-
33	Other income	-			-		-
34	Interest Expense	-			-		-
35	Other Expense	-			-		-
36							
37	Total Other Income (Expense)	<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
38	Net Profit (Loss)	<u>\$ (86,779)</u>		<u>\$ 46,765</u>	<u>\$ (40,014)</u>	<u>\$ 187,219</u>	<u>\$ 147,205</u>

39
 40 SUPPORTING SCHEDULES:
 41 C-2
 42 E-2
 43

RECAP SCHEDULES:
 A-1

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 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	351	Organization	-	0.00%	-
6	352	Franchises	-	0.00%	-
7	353	Land and Land Rights	105,000	0.00%	-
8	354	Structures and Improvements	56,350	3.33%	1,876
9	355	Power Generation Equipment	32,200	5.00%	1,610
10	360	Collection Sewers - Force	-	2.00%	-
11	361	Collection Sewers - Gravity	260,553	2.00%	5,211
12	362	Special Collecting Structures	-	2.00%	-
13	363	Services to Customers	60,375	2.00%	1,208
14	364	Flow Measuring Devices	-	10.00%	-
15	365	Flow Measuring Installations	3,450	10.00%	345
16	370	Receiving Wells	-	3.33%	-
17	371	Pumping Equipment	-	12.50%	-
18	380	Treatment and Disposal Equipment	1,106,874	5.00%	55,344
19	381	Plant Sewers	-	5.00%	-
20	382	Outfall Sewer Lines	-	3.33%	-
21	389	Other Plant and Misc. Equipment	-	6.67%	-
22	390	Office Furniture and Equipment	-	6.67%	-
23	391	Transportation Equipment	-	20.00%	-
24	393	Tools, Shop and Garage Equipment.	-	5.00%	-
25	394	Laboratory Equipment	-	10.00%	-
26	395	Power Operated Equipment	-	5.00%	-
27	398	Other Tangible Plant	-	10.00%	-
28					
29					
30					
31					
32					
33					
34		TOTALS	\$ 1,624,802		\$ 65,594
35					
36		Other			-
37					
38					
39			\$ -		\$ -
40					
41		Post Test Year Plant per B-2			-
42					
43					
44					
45		Total PTY Plant	\$ -		\$ -
46		Less: Amortization of Contributions - Balance End of TY	\$ -	4.0370%	\$ -
47					
48		Total Depreciation Expense			\$ 65,594
49					
50					
51					
52		Adjusted Depreciation Expense			\$ 65,594
53					
54		Test Year Depreciation Expense			\$ 65,422
55					
56		Increase (decrease) in Depreciation Expense			\$ 172
57					
58		Adjustment to Revenues and/or Expenses			\$ 172
59					
60					

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 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	\$	113,905
4	Adjusted Revenues in year ended 09/31/05		113,905
5	Proposed Revenues		<u>301,124</u>
6	Average of three year's of revenue	\$	176,311
7	Average of three year's of revenue, times 2	\$	352,623
8	Add:		
9	Construction Work in Progress at 10%	\$	-
10	Deduct:		
11	Book Value of Transportation Equipment		<u>-</u>
12			
13	Full Cash Value	\$	352,623
14	Assessment Ratio		<u>23.50%</u>
15	Assessed Value		82,866
16	Property Tax Rate		9.0903%
17			
18	Property Tax		7,533
19	Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	\$	7,533
22	Property Taxes in the test year		<u>867</u>
23	Change in Property Taxes	\$	<u>6,666</u>
24			
25			
26	Adjustment to Revenues and/or Expenses	\$	<u>6,666</u>
27			
28			

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line

No.

1	Rate Case Expense		
2			
3	Estimated Rate Case Expense	\$	50,000
4			
5	Estimated Amortization Period in Years		4
6			
7	Annual Rate Case Expense	\$	<u>12,500</u>
8			
9	Test Year Rate Case Expense	\$	-
10			
11	Increase(decrease) Rate Case Expense	\$	<u>12,500</u>
12			
13	Adjustment to Revenue and/or Expense	\$	<u>12,500</u>
14			
15			
16			
17			
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19			
20			

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Line
No.

1	<u>Unrecorded Revenues</u>	
2		
3		
4	Unrecorded Revenues	\$ 7,914
5		
6		
7		
8	Total	<u>\$ 7,914</u>
9		
10		
11	Adjustment to Revenue and/or Expense	<u>\$ 7,914</u>
12		
13	<u>SUPPORTING SCHEDULES</u>	
14	H-1	
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Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Line

No.

1 Revenue Annualization

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Revenue Annualization

\$ 3,836

Total Revenue from Annualization

\$ 3,836

Adjustment to Revenue and/or Expense

\$ 3,836

SUPPORTING SCHEDULES

C-2

H-1

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Line

No.

1	<u>Proforma Customer Growth</u>		
2			
3			
4	Projected Customer Growth 3/4 Inch Meter		350
5	Average Bill	\$	12.94
6	No. of bills		12
7	Total Revenues from Projected Growth	\$	<u>54,353</u>
8			
9			
10	Adjustment to Revenue and/or Expense	\$	<u>54,353</u>
11			
12	<u>SUPPORTING SCHEDULES</u>		
13	C-2		
14	H-1		
15			
16			
17			
18			
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Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 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	0.00%
2		
3	State Income Taxes	0.00%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	0.00%
9		
10	Operating Income % = 100% - Tax Percentage	100.00%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.0000
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		A-1
20		

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Summary of Cost of Capital

Exhibit
 Schedule D-1
 Page 1
 Witness: Bourassa

Line No.	Item of Capital	End of Test Year				End of Projected Year			
		Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
3	Stockholder's Equity (1)	1,604,435	100.00%	10.50%	10.50%	1,751,640	100.00%	10.50%	10.50%
5	Totals	1,604,435	100.00%		10.50%	1,751,640	100.00%		10.50%

6
 7
 8 (1) Increase Equity for A/D adjustment 1, B-2, page 1 \$ 32,625
 9

11 SUPPORTING SCHEDULES:

- 12 D-1
- 13 D-3
- 14 D-4
- 15 E-1

RECAP SCHEDULES:

- A-3

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Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 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							

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 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	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:				RECAP SCHEDULES:		
18	(a) E-1				(a) D-1		
19							
20							

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 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% .

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SUPPORTING SCHEDULES:

18

(a) E-1

19

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RECAP SCHEDULES:

(a) D-1

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Comparative Balance Sheets

Exhibit
 Schedule E-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended 12/31/2005	Year Ended 12/31/2004	Year Ended 12/31/2003
1	ASSETS			
2	Plant In Service	\$ 1,624,802	\$ -	\$ -
3				
4	Non-Utility Plant	-	-	-
5	Construction Work in Progress	-	-	-
6	Less: Accumulated Depreciation	(65,422)	-	-
7	Net Plant	\$ 1,559,380	\$ -	\$ -
8				
9	Debt Reserve Fund	\$ -	\$ -	\$ -
10				
11		\$ -	\$ -	\$ -
12				
13	CURRENT ASSETS			
14	Cash and Equivalents	\$ 1,471	\$ 12,707	\$ -
15	Restricted Cash	-	-	-
16	Accounts Receivable, Net	10,959	7,956	-
17	Unbilled Revenues	-	-	-
18	Materials and Supplies	-	-	-
19	Prepayments	-	-	-
20	Other Current Assets	-	-	-
21	Total Current Assets	\$ 12,430	\$ 20,663	\$ -
22				
23	Deferred Debits	\$ -	\$ -	\$ -
24				
25	Other Investments & Special Funds	\$ -	\$ -	\$ -
26				
27	TOTAL ASSETS	\$ 1,571,810	\$ 20,663	\$ -
28				
29				
30	LIABILITIES AND STOCKHOLDERS' EQUITY			
31				
32	Common Equity	\$ 1,571,810	\$ 20,663	\$ -
33				
34	Long-Term Debt	\$ -	\$ -	\$ -
35				
36	CURRENT LIABILITIES			
37	Accounts Payable	\$ -	\$ -	\$ -
38	Current Portion of Long-Term Debt	-	-	-
39	Payables to Associated Companies	-	-	-
40	Customer Meter Deposits, Current	-	-	-
41	Accrued Taxes	-	-	-
42	Accrued Interest	-	-	-
43	Other Current Liabilities	-	-	-
44	Total Current Liabilities	\$ -	\$ -	\$ -
45	DEFERRED CREDITS			
46	Customer Meter Deposits, less current	\$ -	\$ -	\$ -
47	Advances in Aid of Construction	-	-	-
48	Accumulated Deferred Income Taxes	-	-	-
49	Contributions In Aid of Construction, Net	-	-	-
50	Asset Retirement Obligations	-	-	-
51	Total Deferred Credits	\$ -	\$ -	\$ -
52				
53	Total Liabilities & Common Equity	\$ 1,571,810	\$ 20,663	\$ -
54				
55	SUPPORTING SCHEDULES:			
56	E-5			
57				

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Comparative Income Statements

Exhibit
 Schedule E-2
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended <u>12/31/2005</u>	Prior Year Ended <u>12/31/2004</u>	Prior Year Ended <u>12/31/2003</u>
1	Revenues			
2	Flat Rate and Metered Revenues	\$ 46,145	\$ 28,031	\$ -
3	Misc. Service Revenues	-	-	-
4	Other Wastewater Revenues	1,657	-	-
5	Total Revenues	<u>\$ 47,803</u>	<u>\$ 28,031</u>	<u>\$ -</u>
6	Operating Expenses			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Wastewater Treatment	-	-	-
9	Sludge Removal Expense	-	-	-
10	Purchased Power	17,423	18,047	-
11	Fuel for Power Production	-	-	-
12	Chemicals	3,945	-	-
13	Materials and Supplies	4,793	4,425	-
14	Contractual Services - Professional	1,195	21,272	-
15	Contractual Services - Testing	20,472	-	-
16	Contractual Services - Other	15,000	-	-
17	Repairs and Maintenance	-	-	-
18	Rents	-	-	-
19	Transportation Expenses	-	-	-
20	Insurance	-	-	-
21	Regulatory Commission Expense - Rate Case	-	-	-
22	Miscellaneous Expense	5,465	369	-
23	Depreciation Expense	65,422	-	-
24	Taxes Other Than Income	-	-	-
25	Property Taxes	867	-	-
26	Income Tax	-	-	-
27				
28	Total Operating Expenses	<u>\$ 134,582</u>	<u>\$ 44,113</u>	<u>\$ -</u>
29	Operating Income	<u>\$ (86,779)</u>	<u>\$ (16,083)</u>	<u>\$ -</u>
30	Other Income (Expense)			
31	Interest Income	-	-	-
32	Other income	-	-	-
33	Interest Expense	-	-	-
34	Other Expense	-	-	-
35				
36	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
37	Net Profit (Loss)	<u><u>\$ (86,779)</u></u>	<u><u>\$ (16,083)</u></u>	<u><u>\$ -</u></u>
38				
39				

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Detail of Plant in Service

Exhibit
 Schedule E-5
 Page 1
 Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2004	Plant Additions, Reclassifications or Retirements	Plant Balance at 12/31/2005
1					
2	351	Organization	\$ -	\$ -	\$ -
3	352	Franchises	-	-	-
4	353	Land and Land Rights	-	105,000	105,000
5	354	Structures and Improvements	-	56,350	56,350
6	355	Power Generation Equipment	-	32,200	32,200
7	360	Collection Sewers - Force	-	-	-
8	361	Collection Sewers - Gravity	-	260,553	260,553
9	362	Special Collecting Structures	-	-	-
10	363	Services to Customers	-	60,375	60,375
11	364	Flow Measuring Devices	-	-	-
12	365	Flow Measuring Installations	-	3,450	3,450
13	370	Receiving Wells	-	-	-
14	371	Pumping Equipment	-	-	-
15	380	Treatment and Disposal Equipment	-	1,106,874	1,106,874
16	381	Plant Sewers	-	-	-
17	382	Outfall Sewer Lines	-	-	-
18	389	Other Plant and Misc. Equipment	-	-	-
19	390	Office Furniture and Equipment	-	-	-
20	391	Transportation Equipment	-	-	-
21	393	Tools, Shop and Garage Equipment.	-	-	-
22	394	Laboratory Equipment	-	-	-
23	395	Power Operated Equipment	-	-	-
24	398	Other TangiblePlant	-	-	-
25					
26					
27					
28					
29					
30					
31					
32		TOTAL WATER PLANT	\$ -	\$ 1,624,802	\$ 1,624,802

SUPPORTING SCHEDULES

RECAP SCHEDULES:

A-4
 E-1

37

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Operating Statistics

Exhibit
 Schedule E-7
 Page 1
 Witness: Bouras

Line No.		Test Year Ended <u>12/31/2005</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 Treated (in Thousands)	19,596	0	0
6				
7				
8				
9	Wastewater Revenues from Customers:	\$ 46,145	\$ -	\$ -
10				
11				
12				
13				
14	Year End Number of Customers	337	-	-
15				
16				
17	Annual Gallons (in Thousands)			
18	Treated Per Year End Customer	58	0	0
19				
20				
21				
22	Annual Revenue per Year End Customer	\$ 136.93	\$ -	\$ -
23				
24	Pumping Cost Per 1,000 Gallons	\$ 0.8891	\$ -	\$ -
25	Purchased Water Cost per 1,000 Gallons	\$ -	\$ -	\$ -

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2005	Prior Year Ended 12/31/2004	Prior Year Ended 12/31/2003
1	Description			
2				
3	Federal Income Taxes	\$ -	\$ -	\$ -
4	State Income Taxes	-	-	-
5	Payroll Taxes	-	-	-
6	Property Taxes	867	-	-
7				
8	Totals	<u>\$ 867</u>	<u>\$ -</u>	<u>\$ -</u>
9				
10				
11				
12				
13				
14				

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

The Company does conduct independent audits

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Projected Income Statements - Present & Proposed Rates

Exhibit
 Schedule F-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2006	At Proposed Rates Year Ended 12/31/2006
1	Revenues			
2	Flat Rate and Metered Revenues	\$ 46,145	\$ 112,248	\$ 299,467
3	Misc. Service Revenues	-	-	-
4	Other Wastewater Revenues	1,657	1,657	1,657
5		<u>\$ 47,803</u>	<u>\$ 113,905</u>	<u>\$ 301,124</u>
6	Operating Expenses			
7	Salaries and Wages	\$ -	\$ -	\$ -
8	Purchased Wastewater Treatment	-	-	-
9	Sludge Removal Expense	-	-	-
10	Purchased Power	17,423	17,423	17,423
11	Fuel for Power Production	-	-	-
12	Chemicals	3,945	3,945	3,945
13	Materials and Supplies	4,793	4,793	4,793
14	Contractual Services - Professional	1,195	1,195	1,195
15	Contractual Services - Testing	20,472	20,472	20,472
16	Contractual Services - Other	15,000	15,000	15,000
17	Repairs and Maintenance	-	-	-
18	Rents	-	-	-
19	Transportation Expenses	-	-	-
20	Insurance	-	-	-
21	Regulatory Commission Expense - Rate Case	-	12,500	12,500
22	Miscellaneous Expense	5,465	5,465	5,465
23	Depreciation Expense	65,422	65,594	65,594
24	Taxes Other Than Income	-	-	-
25	Property Taxes	867	7,533	7,533
26	Income Tax	-	-	-
27				
28	Total Operating Expenses	<u>\$ 134,582</u>	<u>\$ 153,919</u>	<u>\$ 153,919</u>
29	Operating Income	<u>\$ (86,779)</u>	<u>\$ (40,014)</u>	<u>\$ 147,205</u>
30	Other Income (Expense)			
31	Interest Income	-	-	-
32	Other income	-	-	-
33	Interest Expense	-	-	-
34	Other Expense	-	-	-
35	Gain/Loss Sale of Fixed Assets	-	-	-
36	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
37	Net Profit (Loss)	<u><u>\$ (86,779)</u></u>	<u><u>\$ (40,014)</u></u>	<u><u>\$ 147,205</u></u>
38				

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Projected Construction Requirements

Exhibit
 Schedule F-3
 Page 1
 Witness: Bourassa

Line No.	Account	Test Year	2006
1			
2			
3	<u>Number</u> <u>Plant Asset:</u>		
4	301 Organization Cost	\$ -	\$ -
5	302 Franchise Cost	-	-
6	303 Land and Land Rights	105,000	-
7	304 Structures and Improvements	56,350	-
8	306 Lake, River and Other Intakes	32,200	-
9	307 Wells and Springs	-	-
10	310 Power Generation Equipment	260,553	-
11	311 Electric Pumping Equipment	-	-
12	320 Water Treatment Equipment	60,375	-
13	330 Distribution Reservoirs & Standpipe	-	-
14	331 Transmission and Distribution Mains	3,450	-
15	333 Services	-	-
16	334 Meters	-	-
17	335 Hydrants	1,106,874	-
18	339 Plant Structures and Improvements	-	-
19	340 Office Furniture and Fixtures	-	-
20	341 Transportation Equipment	-	-
21	343 Tools and Work Equipment	-	-
22	344 Power Operated Equipment	-	-
23	345 Communications Equipment	-	-
24	346 Miscellaneous Equipment	-	-
25	348 Other Tangible Plant	-	-
26			
27	Total	<u>\$ 1,624,802</u>	<u>\$ -</u>
28			
29			
30			

Utility Source, LLC - Sewer Division
Test Year Ended December 31, 2005
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line

No.

- 1 Property Taxes were computed using the method used by the Arizona Department
- 2 of Revenue
- 3
- 4 Projected construction expenditures are shown on Schedule A-4.
- 5
- 6 Expense adjustments are shown on Schedule C2, and are explained in the testimony.
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Revenue Summary

Exhibit
 Schedule H-1
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2	3/4 Inch Meter - Residential	47,983	127,970	79,988	166.70%	42.13%	42.51%
3	1 Inch Meter						
4	1.5 Inch Meter Motel	2,750	7,334	4,584	166.70%	2.41%	2.44%
5	2 Inch Meter Commercial	3,326	8,872	5,545	166.70%	2.92%	2.95%
6							
7	Miscellaneous Revenues	1,657	1,657	-	0.00%	1.46%	0.55%
8	Total Water Revenues	\$ 55,717	\$ 145,834	\$ 90,117	161.74%	48.91%	48.45%
9	3/4 Inch customer revenue						
10	annualized to end of year, based on						
11	year end number of customers						
12	Proforma Revenues ⁽¹⁾	\$ 3,836	\$ 10,230	\$ 6,394	166.70%	3.37%	3.40%
13	Total Water Revenues, after correction for	\$ 54,353	\$ 144,959	\$ 90,606	166.70%	47.72%	48.16%
14	Billing to hundreds of Gallons	\$ 113,905	\$ 301,022	\$ 187,117	164.27%	52.28%	51.84%
15							
16	(1) See C-2 adjustment number 6.						
17							
18	Total Water Revenues without Revenue		\$ 55,717				
19	Annualization and Proforma Revenues	\$ 47,803					
20	Water Revenues Per General Ledger	\$ 7,914	\$ 55,717				
21	C-2 Adjustment for Unrecorded Revenues ⁽²⁾		\$0				
22	Difference						
23							
24	Percentage Error		0.00%				
25							
26	(2) Company billed less than it should have based on water usage.						
27	Accounted for in C-2 adjustment 4.						

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Analysis of Revenue by Detailed Class
 Rates

Exhibit
 Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2005	Average Water Usage	Revenues		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1							
2	3/4 Inch Meter - Residential	307	4,740	\$ 47,983	\$ 127,970	\$ 79,988	166.70%
3	1 Inch Meter	-	-	-	-	-	0.00%
4	1.5 Inch Meter Motel	1	64,470	\$ 2,750	\$ 7,334	\$ 4,584	166.70%
5	2 Inch Meter Commercial	1	103,821	\$ 3,326	\$ 8,872	\$ 5,545	166.70%
6	3/4 Inch Meter - Residential Revenue Annualization	307	4,740	\$ 3,836	\$ 10,230	\$ 6,394	166.70%
7	Proforma Revenues	350	4,740	\$ 54,353	\$ 144,959	\$ 90,606	166.70%
8							

Utility Source, LLC - Sewer Division
 Changes in Representative Rates
 Test Year Ended December 31, 2005

Exhibit
 Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and Meter Size	Present Rates	Proposed Rates	Percent Change
1	Monthly Usage Charge for:			
2	Flat Rates	\$ -	\$ -	0.00%
3	Residential			
4	Commercial and Industrial			
5	Car washes, laundromats, Commercial, Manufacturing			
6	Hotels, Motels			
7	Restaurants			
8	Industrial Laundries			
9	Waste haulers			
10	Restaurant Grease			
11	Treatment Plant Sludge			
12	Mud Sump Waste			
13				
14	Rate per 1,000 Gallons of Water Usage			
15	Residential	\$ 2.73	\$ 7.28	166.70%
16	Commercial and Industrial			
17	Car washes, laundromats, Commercial, Manufacturing	2.67	7.12	166.70%
18	Hotels, Motels	3.58	9.55	166.70%
19	Restaurants	4.42	11.79	166.70%
20	Industrial Laundries	3.92	10.45	166.70%
21	Waste haulers	80.00	213.36	166.70%
22	Restaurant Grease	70.00	186.69	166.70%
23	Treatment Plant Sludge	80.00	213.36	166.70%
24	Mud Sump Waste	250.00	666.75	166.70%
25				
26				
27	Gallons In Minimum			
28	All Meter Sizes	-	-	
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				

TAXES AND ASSESSMENTS
 In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).

Utility Source, LLC - Sewer Division
 Changes in Representative Rate Schedules
 Test Year Ended December 31, 2005

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment per Rule R14-2-603D (a)	\$ 20.00	\$ 20.00
2	Establishment, after hours	\$ 40.00	\$ 40.00
3	Re-establishment, per Rule R14-2-603D	\$ 40.00	\$ 40.00
4	Re-connection of Service, per Rule R-14-2-603D	\$ 50.00	\$ 50.00
5	Re-connection, after hours	\$ 40.00	\$ 40.00
6	Deposit Requirement, per Rule R14-2-603B	(b)	(b)
7	NSF check charge, per Rule R14-2-608E (c)	\$ 20.00	\$ 20.00
8	Deferred Payment Charge, per month (d)	1.50%	1.50%
9	Late Payment, per month	1.50%	1.50%
10	Service Calls, per hour (e)	40.00	\$ 40.00
11	Service Lateral Connection Charge (f)		
12	Residential	\$ 500.00	\$ 500.00
13	Commercial	Cost	Cost
14	Main Extension	(g)	(g)

- (a) Same customer, same location within 12 months. Number of months off the system times the monthly minimum.
- (b) The Company does not normally require a deposit prior to provision of service. However, if service is not in the property owner's name, this deposit is required.
 Also, in the event service is disconnected for non-payment, this deposit may be required.
 Residential - 2 times the estimated average monthly bill
 Non-residential - 2 1/2 times the estimated maximum monthly bill.
 Deposit interest 3.0%
- (c) This charge does not apply if wastewater service is paid with the same NSF check used to pay for water service for which the NSF fee is charged.
- (d) Deferred payments for wastewater service are only available if established in connection with deferred payments for water service.
- (e) For service problem found to be on Customer's side of property line, Company will not repair the problem.
- (f) Company shall own the Service lateral up to the Customer's property line. Company shall maintain and operate the Service lateral only from the connection to the main line or the right-of-way up to its connection with the Customer's Service lateral at the edge of the right-of-way, beyond which maintenance is the Customer's responsibility.
- (g) All Main Extensions shall be completed at cost and shall be non-refundable Contributions-in-Aid of Construction.

TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).

Utility Source, LLC - Sewer Division
 Bill Comparison at Present and Proposed Rates
 Customer Classification: 3/4 Inch Meters

Exhibit
 Schedule H-4
 Page 1
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase #DIV/0!	Present Rates:
1,000	2.73	7.28	4.55	166.70%	Monthly Minimum:
2,000	5.46	14.56	9.10	166.70%	Gallons in Minimum
3,000	8.19	21.84	13.65	166.70%	Charge Per 1,000 Gallons
4,000	10.92	29.12	18.20	166.70%	\$ -
5,000	13.65	36.40	22.75	166.70%	\$ -
6,000	16.38	43.69	27.31	166.70%	\$ 2.73
7,000	19.11	50.97	31.86	166.70%	
8,000	21.84	58.25	36.41	166.70%	
9,000	24.57	65.53	40.96	166.70%	
10,000	27.30	72.81	45.51	166.70%	
12,000	32.76	87.37	54.61	166.70%	
14,000	38.22	101.93	63.71	166.70%	
16,000	43.68	116.49	72.81	166.70%	
18,000	49.14	131.06	81.92	166.70%	
20,000	54.60	145.62	91.02	166.70%	
25,000	68.25	182.02	113.77	166.70%	
30,000	81.90	218.43	136.53	166.70%	
35,000	95.55	254.83	159.28	166.70%	
40,000	109.20	291.24	182.04	166.70%	
45,000	122.85	327.64	204.79	166.70%	
50,000	136.50	364.05	227.55	166.70%	
60,000	163.80	436.85	273.05	166.70%	
70,000	191.10	509.66	318.56	166.70%	
80,000	218.40	582.47	364.07	166.70%	
90,000	245.70	655.28	409.58	166.70%	
100,000	273.00	728.09	455.09	166.70%	
Average Usage	12.94	\$ 34.51	\$ 21.57	166.70%	
4,740					
Median Usage	12.29	\$ 32.76	\$ 20.48	166.70%	
4,500					

Utility Source, LLC - Sewer Division
 Bill Comparison at Present and Proposed Rates
 Customer Classification 1 1/2 Inch Meters

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>
	\$	\$	\$	#DIV/0!
1,000	3.58	9.55	5.97	166.70%
2,000	7.16	19.10	11.94	166.70%
3,000	10.74	28.64	17.90	166.70%
4,000	14.32	38.19	23.87	166.70%
5,000	17.90	47.74	29.84	166.70%
6,000	21.48	57.29	35.81	166.70%
7,000	25.06	66.84	41.78	166.70%
8,000	28.64	76.38	47.74	166.70%
9,000	32.22	85.93	53.71	166.70%
10,000	35.80	95.48	59.68	166.70%
12,000	42.96	114.57	71.61	166.70%
14,000	50.12	133.67	83.55	166.70%
16,000	57.28	152.77	95.49	166.70%
18,000	64.44	171.86	107.42	166.70%
20,000	71.60	190.96	119.36	166.70%
25,000	89.50	238.70	149.20	166.70%
30,000	107.40	286.44	179.04	166.70%
35,000	125.30	334.18	208.88	166.70%
40,000	143.20	381.91	238.71	166.70%
45,000	161.10	429.65	268.55	166.70%
50,000	179.00	477.39	298.39	166.70%
60,000	214.80	572.87	358.07	166.70%
70,000	250.60	668.35	417.75	166.70%
80,000	286.40	763.83	477.43	166.70%
90,000	322.20	859.31	537.11	166.70%
100,000	358.00	954.79	596.79	166.70%
<u>Average Usage</u>	230.80	615.55	384.75	166.70%
<u>Median Usage</u>	214.80	572.87	358.07	166.70%

Present Rates:
 Monthly Minimum:
 Gallons in Minimum \$ -
 Charge Per 1,000 Gallons \$ 3.58

Proposed Rates:
 Monthly Minimum:
 Gallons in Minimum \$ -
 Charge Per 1,000 Gallons \$ 9.55

Utility Source, LLC - Sewer Division
Bill Comparison at Present and Proposed Rates
Customer Classification 1 1/2 Inch Meters

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
--------------	-------------------------------	--------------------------------	----------------------------------	-----------------------------------

Utility Source, LLC - Sewer Division
 Bill Comparison at Present and Proposed Rates
 Customer Classification: 2 Inch Meters - Commercial

Exhibit
 Schedule H-4
 Page 3
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1,000	2.67	7.12	4.45	166.70%
2,000	5.34	14.24	8.90	166.70%
3,000	8.01	21.36	13.35	166.70%
4,000	10.68	28.48	17.80	166.70%
5,000	13.35	35.60	22.25	166.70%
6,000	16.02	42.73	26.71	166.70%
7,000	18.69	49.85	31.16	166.70%
8,000	21.36	56.97	35.61	166.70%
9,000	24.03	64.09	40.06	166.70%
10,000	26.70	71.21	44.51	166.70%
12,000	32.04	85.45	53.41	166.70%
14,000	37.38	99.69	62.31	166.70%
16,000	42.72	113.93	71.21	166.70%
18,000	48.06	128.18	80.12	166.70%
20,000	53.40	142.42	89.02	166.70%
25,000	66.75	178.02	111.27	166.70%
30,000	80.10	213.63	133.53	166.70%
35,000	93.45	249.23	155.78	166.70%
40,000	106.80	284.84	178.04	166.70%
45,000	120.15	320.44	200.29	166.70%
50,000	133.50	356.04	222.54	166.70%
60,000	160.20	427.25	267.05	166.70%
70,000	186.90	498.46	311.56	166.70%
80,000	213.60	569.67	356.07	166.70%
90,000	240.30	640.88	400.58	166.70%
100,000	267.00	712.09	445.09	166.70%
Average Usage	277.20	739.30	462.09	166.70%
Median Usage	269.41	718.50	449.10	166.70%

Present Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons
 \$ -
 \$ -
 \$ 2.67

Proposed Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons
 \$ -
 \$ -
 \$ 7.12

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Customer Classification: 3/4 Inch Meters
 Bill Count

Exhibit
 Schedule H-5
 Page 1
 Witness: Bourassa

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep.	Month of Oct.	Month of Nov.	Month of Dec.	Total Totals
1	1,000	44	34	40	33	23	20	32	28	22	17	19	22	17	360
1,001	2,000	30	29	16	15	16	27	17	19	27	32	19	19	26	276
2,001	3,000	21	22	27	31	31	29	20	31	23	20	27	34	32	327
3,001	4,000	30	33	35	22	22	25	30	22	15	30	28	27	34	330
4,001	5,000	27	40	33	34	33	25	29	33	25	29	46	41	49	420
5,001	6,000	42	27	44	42	44	46	41	44	34	41	34	45	58	498
6,001	7,000	27	33	40	39	19	25	34	19	25	34	31	45	51	423
7,001	8,000	24	28	19	28	26	30	33	26	30	33	24	29	32	315
8,001	9,000	14	10	17	23	14	18	21	14	18	21	21	19	15	198
9,001	10,000	8	11	7	14	13	18	16	13	14	16	16	14	6	140
10,001	11,000	2	6	1	4	9	14	14	9	14	14	12	17	4	93
11,001	12,000	0	3	2	2	4	11	13	10	11	13	8	5	4	62
12,001	13,000	0	1	3	3	4	8	6	14	8	6	10	4	4	57
13,001	14,000	0	3	0	1	5	6	4	5	6	4	10	6	1	44
14,001	15,000	0	0	2	2	4	9	6	4	9	6	6	3	1	36
15,001	16,000	0	1	1	3	0	4	5	3	4	5	3	0	0	18
16,001	17,000	0	0	0	0	3	2	3	2	2	3	1	1	0	13
17,001	18,000	0	1	0	0	0	6	0	4	6	0	3	0	0	14
18,001	19,000	0	1	0	0	1	2	1	2	2	1	2	1	1	13
19,001	20,000	0	0	0	0	0	2	0	1	2	0	1	0	0	8
20,001	21,000	0	1	0	0	1	2	1	2	2	1	1	0	0	8
21,001	22,000	0	1	0	0	4	2	1	4	2	1	1	0	0	9
22,001	23,000	0	0	0	0	1	0	1	1	0	1	0	0	0	3
23,001	24,000	0	0	0	0	1	2	0	1	2	0	1	0	0	5
24,001	25,000	0	0	0	0	3	2	0	3	2	0	0	0	0	5
25,001	26,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
26,001	27,000	0	1	0	0	0	1	0	0	1	0	1	0	0	2
27,001	28,000	0	0	0	0	0	0	0	0	0	0	0	0	0	4
28,001	29,000	0	1	0	0	0	0	0	0	0	0	0	0	0	0
29,001	30,000	0	0	0	0	0	0	0	0	0	0	1	0	0	2
30,001	31,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
31,001	32,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
32,001	33,000	0	0	0	0	0	0	0	0	0	0	1	0	0	1
33,001	34,000	0	0	0	0	0	1	0	0	0	0	0	0	0	1
34,001	35,000	0	0	0	0	0	0	0	0	0	0	0	0	0	1
35,001	36,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
36,001	37,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
37,001	38,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
38,001	39,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
39,001	40,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
40,001	41,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
41,001	42,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
41,001	42,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep.	Month of Oct.	Month of Nov.	Month of Dec.	Total Totals
42,001	43,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
43,001	44,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
44,001	45,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
45,001	46,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
46,001	47,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
47,001	48,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
48,001	49,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
49,001	50,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
50,001	51,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
51,001	52,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
52,001	53,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
53,001	54,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
54,001	55,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
55,001	56,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
56,001	57,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
57,001	58,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
58,001	59,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
59,001	60,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60,001	61,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
61,001	62,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
62,001	63,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
63,001	64,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
64,001	65,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65,001	66,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
66,001	67,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
67,001	68,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
68,001	69,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
69,001	70,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70,001	71,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
71,001	72,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
72,001	73,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
73,001	74,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
74,001	75,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
75,001	76,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
76,001	77,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
77,001	78,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
78,001	79,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
79,001	80,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
80,001	81,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
81,001	82,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
82,001	83,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
83,001	84,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
84,001	85,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Customer Classification: 3/4 Inch Meters
 Bill Count

Exhibit
 Schedule H-5
 Page 1
 Witness: Bourassa

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep.	Month of Oct.	Month of Nov.	Month of Dec.	Total Totals
85,001	86,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
86,001	87,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
87,001	88,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
88,001	89,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
89,001	90,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
90,001	91,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
91,001	92,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
92,001	93,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
93,001	94,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
94,001	95,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
95,001	96,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
96,001	97,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
97,001	98,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
98,001	99,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
99,001	100,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Totals			269	288	281	286	296	316	306	314	329	337	332	335	3,689
Average Number of Customers															307
Average Usage															4,740

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Customer Classification 1 1/2 Inch Meters
 Bill Count

Exhibit
 Schedule H-5
 Page 2
 Witness: Bourassa

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
1	1,000														0
1,001	2,000														0
2,001	3,000														0
3,001	4,000														0
4,001	5,000														0
5,001	6,000														0
6,001	7,000														0
7,001	8,000														0
8,001	9,000														0
9,001	10,000														0
10,001	11,000														0
11,001	12,000														0
12,001	13,000														0
13,001	14,000														0
14,001	15,000														0
15,001	16,000														0
16,001	17,000														0
17,001	18,000														0
18,001	19,000														0
19,001	20,000														0
20,001	21,000														0
21,001	22,000														0
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														0
37,001	38,000														0
38,001	39,000														0

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Customer Classification 1 1/2 Inch Meters
 Bill Count

Exhibit
 Schedule H-5
 Page 2
 Witness: Bourassa

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep	Month of Oct	Month of Nov	Month of Dec	Total Year
39,001	40,000														0
40,001	41,000														0
41,001	42,000														0
42,001	43,000														0
43,001	44,000														0
44,001	45,000														0
45,001	46,000														0
46,001	47,000														0
47,001	48,000														0
48,001	49,000														0
49,001	50,000				1										1
50,001	51,000														0
51,001	52,000														0
52,001	53,000														0
53,001	54,000														0
54,001	55,000														0
55,001	56,000														0
56,001	57,000														0
57,001	58,000														0
58,001	59,000														0
59,001	60,000														0
60,001	61,000														0
61,001	62,000														0
62,001	63,000														0
63,001	64,000														0
64,001	65,000														0
65,001	66,000														0
66,001	67,000														0
67,001	68,000														0
68,001	69,000														0
69,001	70,000														0
70,001	71,000														0
71,001	72,000														0
72,001	73,000														0
73,001	74,000														0
74,001	75,000														0
75,001	76,000														0
76,001	77,000														0
77,001	78,000														0
78,001	79,000														0

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Customer Classification: 2 Inch Meters - Commercial
 Bill Count

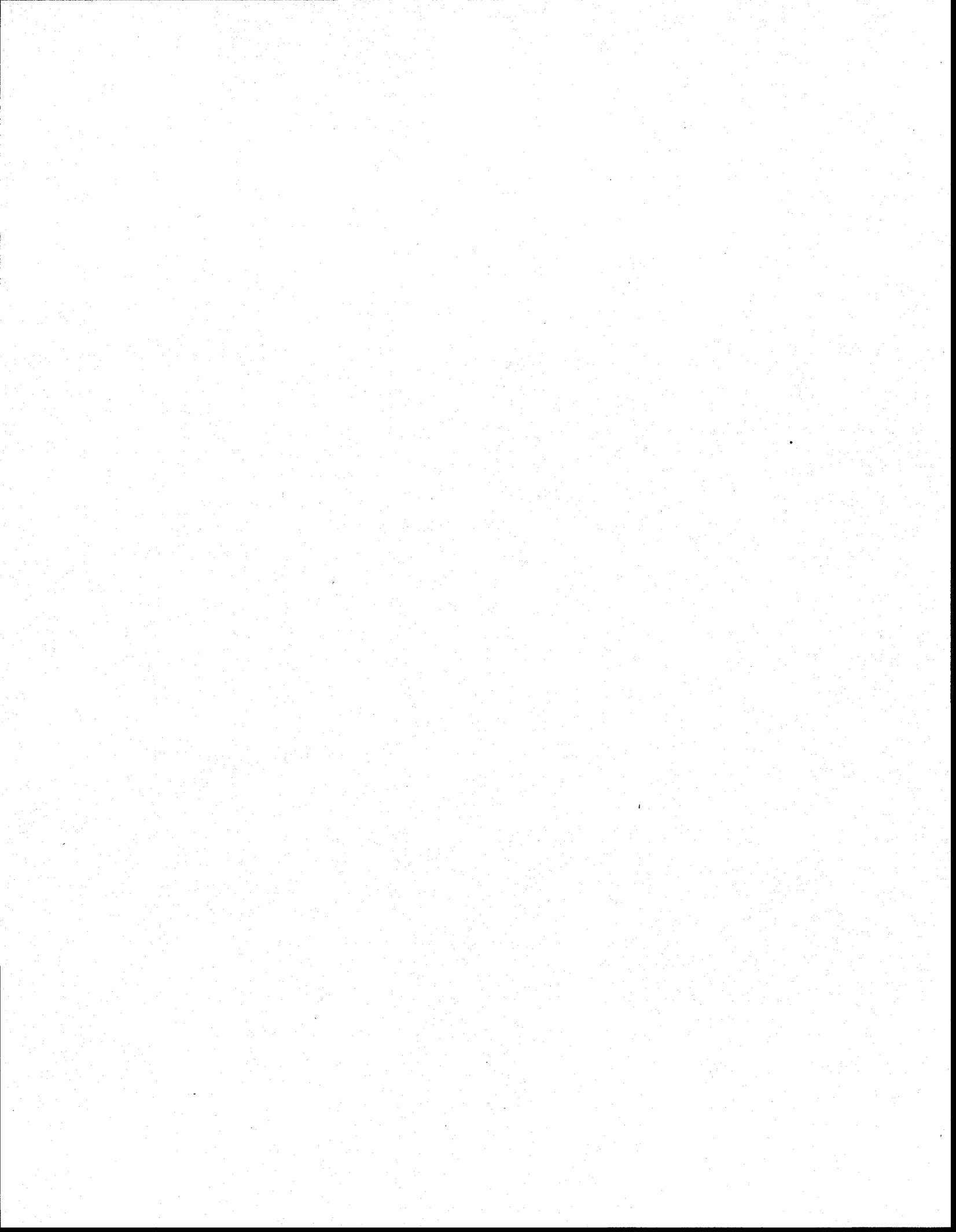
Exhibit
 Schedule H-5
 Page 3
 Witness: Bourassa

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep.	Month of Oct.	Month of Nov.	Month of Dec.	Total Year
1	1,000	1,000	-	-	-	-	-	-	-	-	-	-	-	-	0
1,001	2,000	2,000	-	-	-	-	-	-	-	-	-	-	-	-	0
2,001	3,000	3,000	-	-	-	-	-	-	-	-	-	-	-	-	0
3,001	4,000	4,000	-	-	-	-	-	-	-	-	-	-	-	-	0
4,001	5,000	5,000	-	-	-	-	-	-	-	-	-	-	-	-	0
5,001	6,000	6,000	-	-	-	-	-	-	-	-	-	-	-	-	0
6,001	7,000	7,000	-	-	-	-	-	-	-	-	-	-	-	-	0
7,001	8,000	8,000	-	-	-	-	-	-	-	-	-	-	-	-	0
8,001	9,000	9,000	-	-	-	-	-	-	-	-	-	-	-	-	0
9,001	10,000	10,000	-	-	-	-	-	-	-	-	-	-	-	-	0
10,001	11,000	11,000	-	-	-	-	-	-	-	-	-	-	-	-	0
11,001	12,000	12,000	-	-	-	-	-	-	-	-	-	-	-	-	0
12,001	13,000	13,000	-	-	-	-	-	-	-	-	-	-	-	-	0
13,001	14,000	14,000	-	-	-	-	-	-	-	-	-	-	-	-	0
14,001	15,000	15,000	-	-	-	-	-	-	-	-	-	-	-	-	0
15,001	16,000	16,000	-	-	-	-	-	-	-	-	-	-	-	-	0
16,001	17,000	17,000	-	-	-	-	-	-	-	-	-	-	-	-	0
17,001	18,000	18,000	-	-	-	-	-	-	-	-	-	-	-	-	0
18,001	19,000	19,000	-	-	-	-	-	-	-	-	-	-	-	-	0
19,001	20,000	20,000	-	-	-	-	-	-	-	-	-	-	-	-	0
20,001	21,000	21,000	-	-	-	-	-	-	-	-	-	-	-	-	0
21,001	22,000	22,000	-	-	-	-	-	-	-	-	-	-	-	-	0
22,001	23,000	23,000	-	-	-	-	-	-	-	-	-	-	-	-	0
23,001	24,000	24,000	-	-	-	-	-	-	-	-	-	-	-	-	0
24,001	25,000	25,000	-	-	-	-	-	-	-	-	-	-	-	-	0
25,001	26,000	26,000	-	-	-	-	-	-	-	-	-	-	-	-	0
26,001	27,000	27,000	-	-	-	-	-	-	-	-	-	-	-	-	0
27,001	28,000	28,000	-	-	-	-	-	-	-	-	-	-	-	-	0
28,001	29,000	29,000	-	-	-	-	-	-	-	-	-	-	-	-	0
29,001	30,000	30,000	-	-	-	-	-	-	-	-	-	-	-	-	0
30,001	31,000	31,000	-	-	-	-	-	-	-	-	-	-	-	-	0
31,001	32,000	32,000	-	-	-	-	-	-	-	-	-	-	-	-	0
32,001	33,000	33,000	-	-	-	-	-	-	-	-	-	-	-	-	0
33,001	34,000	34,000	-	-	-	-	-	-	-	-	-	-	-	-	0
34,001	35,000	35,000	-	-	-	-	-	-	-	-	-	-	-	-	0
35,001	36,000	36,000	-	-	-	-	-	-	-	-	-	-	-	-	0
36,001	37,000	37,000	-	-	-	-	-	-	-	-	-	-	-	-	0
37,001	38,000	38,000	-	-	-	-	-	-	-	-	-	-	-	-	0
38,001	39,000	39,000	-	-	-	-	-	-	-	-	-	-	-	-	0

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Customer Classification: 2 Inch Meters - Commercial
 Bill Count

Exhibit
 Schedule H-5
 Page 3
 Witness: Bourassa

Usage	From:	To:	Month of Jan-05	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sep.	Month of Oct.	Month of Nov.	Month of Dec.	Total Year
	39,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	40,001	41,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	41,001	42,000	-	1	-	-	-	-	-	-	-	-	-	-	1
	42,001	43,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	43,001	44,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	44,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	0
	78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	0



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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF UTILITY SOURCE,
L.L.C. – SEWER DIVISION, AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN
ITS RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO: SW-_____

**COST OF CAPITAL
SCHEDULES**

THOMAS J. BOURASSA

EXHIBIT C

Utility Source, LLC
Selected Characteristics of Water Utilities

Schedule D-4.1
Witness: Bourassa

No.		% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1	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	Utility Source, LLC	56%	\$ 0.2	\$ 5.0		
14						
15						

Source: AUS Utility Reports (April 2006)

No.		Book Value		Market Value	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1.	American States	50.4%	49.6%	28.4%	71.6%
2.	Aqua America	52.0%	48.0%	22.2%	77.8%
3.	California Water	48.3%	51.7%	25.5%	74.5%
4.	Connecticut Water	40.6%	59.4%	23.4%	76.6%
5.	Middlesex	56.3%	43.7%	37.3%	62.7%
6.	SJW Corp.	42.6%	57.4%	24.1%	75.9%
10					
11	Average	48.3%	51.7%	26.8%	73.2%
12					
13	Utility Source, LLC	0.0%	100.0%	N/A	N/A
14					
15					

Sources:
Zacks Investment Research

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Utility Source, LLC
Comparisons of Past and Future Estimates of Growth

Line No.	Company	<u>Five-year historical average annual changes</u>					Average Future Growth*
		Price	Book Value	DPS	EPS		
1.	American States	7.30%	4.42%	0.69%	0.46%	7.67%	
2.	Aqua America	16.33%	9.25%	7.40%	8.95%	10.33%	
3.	California Water	10.42%	4.85%	0.72%	4.30%	8.50%	
4.	Connecticut Water	5.39%	4.94%	1.49%	-3.56%		
5.	Middlesex	4.31%	4.10%	2.20%	8.10%	4.00%	
6.	SJW Corp.	7.17%	5.88%	5.27%	2.82%		
	GROUP AVERAGE	8.49%	5.57%	2.96%	3.51%	7.63%	
	GROUP MEDIAN	7.23%	4.89%	1.84%	3.56%	8.08%	

* 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

Utility Source, LLC

Schedule D-4.4
Witness: Bourassa

Comparisons of Past and Future Estimates of Growth

Line No.	Company	Ten-year historical average annual changes						Average Future Growth*
		Price	Value	DPS	EPS	Book		
1.	American States	11.32%	4.29%	0.95%	3.49%		7.67%	
2.	Aqua America	18.95%	8.89%	6.18%	9.61%		10.33%	
3.	California Water	10.97%	3.34%	0.92%	4.21%		8.50%	
4.	Connecticut Water	9.38%	3.84%	1.27%	-0.66%			
5.	Middlesex	9.50%	6.35%	2.34%	3.59%		4.00%	
6.	SJW Corp.	12.59%	6.20%	3.95%	-2.89%			
	GROUP AVERAGE	12.12%	5.48%	2.60%	2.89%		7.63%	
	GROUP MEDIAN	11.15%	5.24%	1.80%	3.54%		8.08%	

* 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

Utility Source, LLC
Stock Price Comparison

Schedule D-4.5
Witness: Bourassa

Line No.	Company	Price at 4/25/2005	Spot Price 4/25/2006	Difference Spot Price	Percent Increase
1	American States (AWR)	\$ 24.34	\$ 39.54	\$ 15.20	62.45%
2	Aqua America (WTR)	20.15	24.09	3.94	19.55%
3	California Water (CWT)	33.18	43.24	10.06	30.32%
4	Connecticut Water (CTWS)	22.82	25.93	3.11	13.63%
5	Middlesex (MSEX)	17.17	18.61	1.44	8.39%
6	SJW Corp. (SJW)	17.67	25.10	7.43	42.05%
7					
8				\$ 6.86	29.40%
9					

Sources:
Yahoo Finance
Zacks Investment Research

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Utility Source, LLC
 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%	5.00%	12.00%			7.67%	
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						7.63%	
5.	Middlesex	4.00%	4.00%				4.00%	
6.	SJW Corp.						7.63%	
	GROUP AVERAGE	7.00%	6.50%	11.17%			7.63%	
	GROUP MEDIAN						7.65%	

Sources:
 Value Line Investment Survey Dated April 27, 2006
 Zacks Investment Research Site Dated April 25, 2006
 S&P Earnings Guide April 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

Utility Source, LLC
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%	2.74%	9.25%
2.	0.55	13.00%	7.15%	1.14%	8.29%
3.	0.42	11.00%	4.66%	4.42%	9.08%
4.					
5.					
6.					
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9.					
10.					
11.					
12.					
13.					
14.					
15.	0.51	12.00%	6.11%	2.77%	8.87%
16.	0.54	12.00%	6.51%	2.74%	9.08%
17.					

Sources:
Value Line Data Reported April 27, 2006

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Utility Source, LLC
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=Div Yld + g (Cols 3+4)
1.	American States 39.54	0.91	2.30%	7.67%	10.0%
2.	Aqua America 24.09	0.44	1.83%	10.33%	12.2%
3.	California Water 43.24	1.15	2.66%	8.50%	11.2%
4.	Connecticut Water 25.93	0.86	3.32%	7.63%	10.9%
5.	Middlesex 18.61	0.69	3.71%	4.00%	7.7%
6.	SJW Corp. 25.10	0.56	2.23%	7.63%	9.9%
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(a) See Schedules D-4.5

Sources:

Zacks Investment Research April 25, 2006
Value Line Data April 27, 2006

GROUP AVERAGE
GROUP MEDIAN

10.3%
10.5%

Utility Source, LLC
 Estimates of sv Growth

Line No.	(1)	(2)	(3)	(4)
	Stock Financing Rate	Current Market to Book Ratio	v	sv Growth
1.	American States 4.55%	2.52	0.60	2.74%
2.	Aqua America 1.54%	3.82	0.74	1.14%
3.	California Water 7.02%	2.70	0.63	4.42%
4.	Connecticut Water			na
5.	Middlesex			na
6.	SJW Corp.			na
	GROUP AVERAGE	3.01	0.66	2.77%
	GROUP MEDIAN	2.70	0.63	2.74%

Sources:
 Value Line data reported January 27, 2006

Utility Source, LLC
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Sustainable Growth

Schedule D-4.10
 Witness: Bourassa

Line No.	(1) Company	(2) Spot Price (Po)	(3) Next Year's Div (D1)	(4) Dividend Yield	(5) br	(6) vs	(7) Sustainable Growth(a) br+sv	(8) Growth (g)	(9) Indicated Cost of Equity k=Div Yld + g (Cols 3+8)
1.	American States	39.54	0.91	2.30%	6.51%	2.74%	9.25%	11.6%	
2.	Aqua America	24.09	0.44	1.83%	7.15%	1.14%	8.29%	10.1%	
3.	California Water	43.24	1.15	2.66%	4.66%	4.42%	9.08%	11.7%	
4.	Connecticut Water	25.93	0.86	3.32%			8.87%	12.2%	
5.	Middlesex	18.61	0.70	3.76%			8.87%	12.6%	
6.	SJW Corp.	25.10	0.55	2.19%			8.87%	11.1%	
15.	GROUP AVERAGE							11.5%	
16.	GROUP MEDIAN							11.6%	

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

Sources:
 Zacks Investment Research April 25, 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

Utility Source, LLC
Discounted Cash Flow Analysis (Water)
Two-Stage Growth - Projected

Line No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Spot Price(P ₀)	Next Year's Div (D ₁)	Yield (D ₁ /P ₀)	Near Term (a)	Long Term (GDP)	Average (b)	Indicated Cost of Equity
1.	American States	39.54	0.91	2.30%	7.67%	6.80%	9.7%
2.	Aqua America	24.09	0.44	1.83%	10.33%	6.80%	11.0%
3.	California Water	43.24	1.15	2.66%	8.50%	6.80%	10.6%
4.	Connecticut Water	25.93	0.86	3.32%	7.63%	6.80%	10.7%
5.	Middlesex	18.61	0.70	3.76%	4.00%	6.80%	8.7%
6.	SJW Corp.	25.10	0.55	2.19%	7.63%	6.80%	9.5%
13							
14							
15	GROUP AVERAGE						10.0%
16	GROUP MEDIAN						10.1%
17							
18	(a) See Schedule D-4.5						
19	(b) Near term growth given weighting of .67						
20							
21	Sources:						
22	Zacks Investment Research April 25, 2006						
23	Value Line data January 27, 2006						

Schedule D-4.12
 Witness: Bourassa

Utility Source, LLC
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	9.75%	4.29%
2	2004	8.95%	4.27%
3	2003	8.75%	4.01%
4	2002	10.25%	4.61%
5	2001	10.05%	5.02%
6	2000	9.62%	6.03%
7	1999	11.20%	5.65%
8	1998	10.62%	5.26%
9	1997	11.52%	6.35%
10	1996	11.67%	6.44%
11	1995	10.93%	6.57%
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30			

10 Year Average Premium
 5 Year Average Premium

Forecasted Interest Rates for 2007-2008(c)

Projected Returns on Equity
 10 Year Average
 5 Year Average

Sources:

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

5.04%
 5.11%

5.20%

10.2%
 10.3%

Utility Source, LLC
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	4.29%	6.21%
2	2004	4.27%	6.13%
3	2003	4.01%	6.47%
4	2002	4.61%	6.01%
5	2001	5.02%	5.84%
6	2000	6.03%	5.09%
7	1999	5.65%	5.47%
8	1998	5.26%	5.80%
9	1997	6.35%	4.83%
10	1996	6.44%	5.14%
11	1995	6.57%	4.94%
12			
13			
14	10 Year Average Premium		5.70%
15	5 Year Average Premium		6.13%
16			
17			
18	Consensus Forecast Interest Rates for 2007-2008(c)		5.20%
19			
20	Projected Returns on Equity		
21	10 Year Average		10.9%
22	5 Year Average		11.3%
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			

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

Line No.		Authorized Rate of Return	Current Rate of Return
1	American States Water Co.	10.0%	10.4%
2	Aqua America	10.1%	11.5%
3	California Water	10.1%	9.3%
4	Connecticut Water Service	12.7%	12.0%
5	Middlesex Water Co.	10.0%	8.4%
6	SJW Corp.	9.9%	11.5%
7			
8			
9	Averages	10.5%	10.5%
10			
11			
12			
13			
14			
15			

Utility Source, LLC

Discounted Cash Flow Analysis (Water)
Market Price

Line No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	EXPECTED CASH FLOWS					(12)	(13)
								Year 1	Year 2	Year 3	Year 4	Year 5		
	2006	Recent	5 Year Historical Average	Recent	5 Year Historical Average	Price	Price	Div	Div	Div	Div	Div	Div + Price	Implied ROE = Internal Rate of Return (Cols 7-12)
1.	\$ 0.91	39.54	0.69%	39.54	7.30%	\$ 56.25	\$ (39.54)	\$ 0.91	\$ 0.92	\$ 0.92	\$ 0.93	\$ 0.93	\$ 63.68	11.6%
2.	0.46	24.09	7.40%	24.09	16.33%	51.33	(24.09)	0.46	0.49	0.53	0.57	0.57	56.45	19.9%
3.	1.16	43.24	0.72%	43.24	10.42%	70.97	(43.24)	1.16	1.25	1.34	1.44	1.44	85.34	16.5%
4.	0.87	25.93	1.48%	25.93	5.39%	33.72	(25.93)	0.87	0.93	1.00	1.08	1.08	45.57	14.5%
5.	0.71	18.61	2.20%	18.61	4.31%	22.98	(18.61)	0.71	0.76	0.82	0.88	0.88	33.53	15.4%
6.	0.59	25.10	5.27%	25.10	7.17%	35.48	(25.10)	0.59	0.63	0.68	0.73	0.73	44.98	14.2%
13														
14														
15														15.4%
16														14.9%
17														
18														
19														
20														
21														
22														
23														

Sources:

- Value Line Investment Survey Dated Jan 27, 2006
- Zacks Investment Research April 25, 2006
- Yahoo Finance

Utility Source, LLC

Exhibit 2

Witness: Bourassa

Historical Compound Annual Total Market Returns

<u>Company</u>	<u>3 Yr.**</u> <u>Return</u>	<u>5 Yr.**</u> <u>Return</u>	<u>10 Yr.***</u> <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

Utility Source, LLC
 Historical Compound Annual Capital Appreciation Returns

Exhibit 3
 Witness: Bourassa

Company	3 Yr.* Return	5 Yr.** Return	10 Yr.*** Return
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

Utility Source, LLC
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)
	Company	Next Year's Div (D1)	Dividend Yield	Div. Growth	Indicated Equity Cost k=Div Yld + G (Cols 1+4)
1.	American States	0.91	2.30%	1.50%	3.8%
2.	Aqua America	0.44	1.83%	8.00%	9.8%
3.	California Water	1.15	2.66%	1.50%	4.2%
4.	Connecticut Water	0.86	3.32%	Not Available	
5.	Middlesex	0.69	3.71%	Not Available	
6.	SJW Corp.	0.56	2.23%	Not Available	
7.		39.54			
8.		24.09			
9.		43.24			
10.		25.93			
11.		18.61			
12.		25.10			
13.					
14.					
15.	GROUP AVERAGE				5.9%
16.	GROUP MEDIAN				4.2%
17.					
18.	Current Baa interest rate				6.7%
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 April 26, 2006				
27.	Zacks Investment Research data for April 26, 2006				
28.	Yahoo Finance				
29.	Federal Reserve April 26,2006				
30.	Blue Chip Financial Forecast Dec 2005				

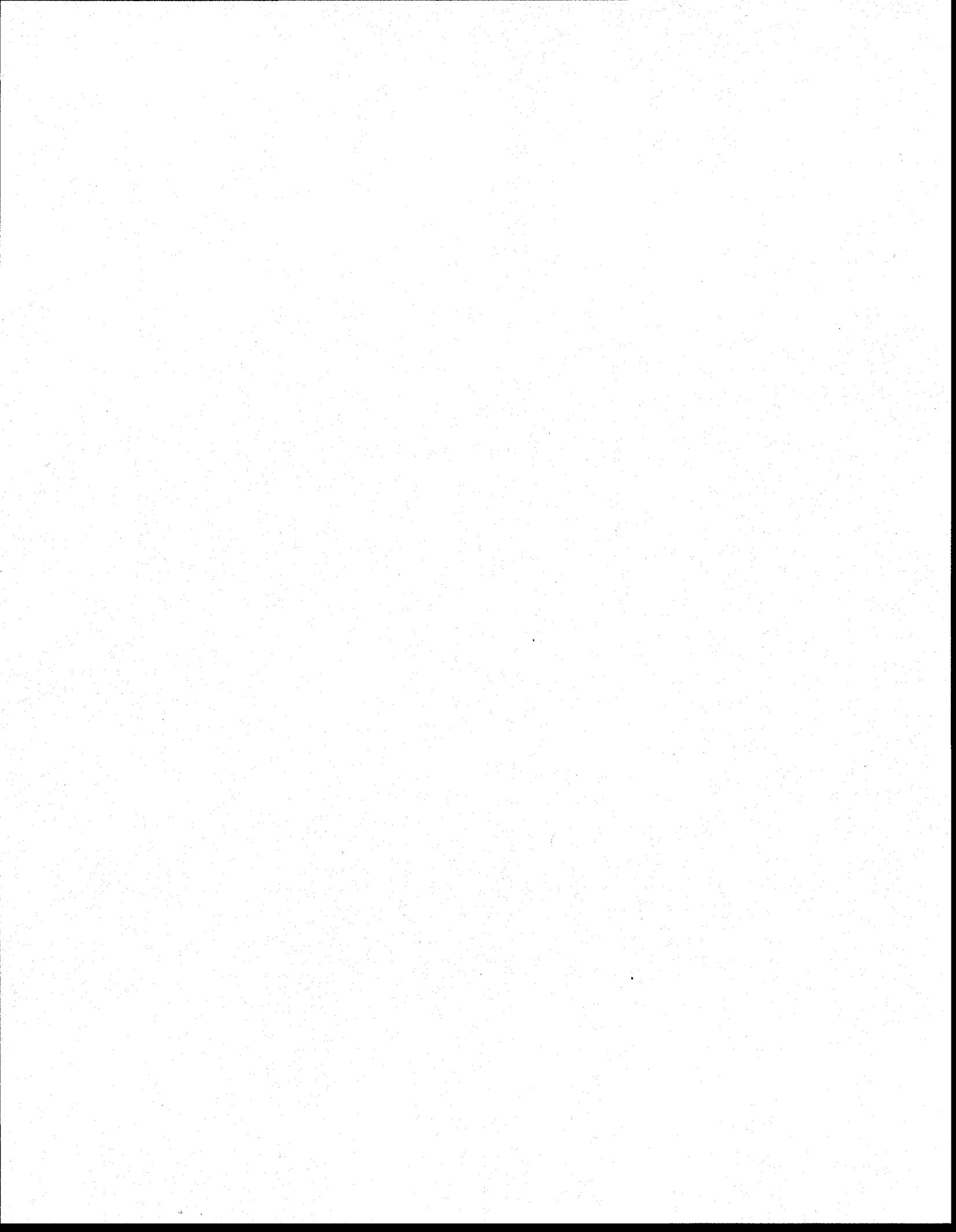
Utility Source, LLC
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using 5 Year Historical Dividend Growth

Line No.	(1)	(2)	(3)	(4)	(5)
	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	Historical Div. Growth	Indicated Equity Cost k=Div Yld + G (Cols 1+4)
1.	American States	39.54	0.91	2.30%	3.0%
2.	Aqua America	24.09	0.44	1.83%	9.2%
3.	California Water	43.24	1.15	2.66%	3.4%
4.	Connecticut Water	25.93	0.86	3.32%	4.8%
5.	Middlesex	18.61	0.70	3.76%	6.0%
6.	SJW Corp.	25.10	0.55	2.19%	7.5%
7.					
8.					
9.					
10.					
11.					
12.					
13.					
14.					
15.	GROUP AVERAGE				5.6%
16.	GROUP MEDIAN				5.4%
17.					
18.	Current Baa interest rate				6.7%
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.	* Indicated Equity Cost Below Cost of Debt				
25.					
26.	Sources:				
27.	Value Line data report on April 26, 2006				
28.	Zacks Investment Research data for April 26, 2006				
29.	Yahoo Finance				
30.	Federal Reserve April 26,2006				
31.	Blue Chip Financial Forecast Dec 2005				

Utility Source, LLC
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)	
	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	Historical EPS Growth	Indicated Equity Cost k=Div Yld + G (Cols 1+4)	
1.	American States	39.54	0.91	2.30%	0.46%	2.8%
2.	Aqua America	24.09	0.44	1.83%	8.95%	10.8%
3.	California Water	43.24	1.15	2.66%	4.30%	7.0%
4.	Connecticut Water	25.93	0.86	3.32%	-3.56%	-0.2%
5.	Middlesex	18.61	0.70	3.76%	8.10%	11.9%
6.	SJW Corp.	25.10	0.55	2.19%	2.82%	5.0%
7.						
8.						
9.						
10.						
11.						
12.						
13.						
14.						
15.	GROUP AVERAGE					6.2%
16.	GROUP MEDIAN					6.0%
17.						
18.	Current Baa interest rate					6.7%
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.	* Indicated Equity Cost Below Current Cost of Debt					
25.						
26.						
27.	Sources:					
28.	Value Line data report on April 26, 2006					
29.	Zacks Investment Research data for April 26, 2006					
30.	Yahoo Finance					
31.	Federal Reserve April 26, 2006					
32.	Blue Chip Financial Forecast Dec 2005					



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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF UTILITY
SOURCE, L.L.C. – WATER
DIVISION, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR
INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO: W-_____

**DIRECT TESTIMONY OF
THOMAS J. BOURASSA**

EXHIBIT D

1 **I. INTRODUCTION AND QUALIFICATIONS.**

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

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

5 **Q. WHAT IS YOUR PROFESSION AND BACKGROUND?**

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

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

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

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

1 Company, Community Water of Green Valley, Black Mountain Sewer Company,
2 and Avra 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, Utility Source, L.L.C.
5 – Water Division (“USLLC” or “the Company”). USLLC is seeking increases in
6 its rates and charges for water utility service in its certificated service area, which
7 is located in Coconino County.

8 **II. OVERVIEW OF THE COMPANY’S REQUEST FOR RATE RELIEF.**

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

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

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

19 A. The test year used by USLLC is the 12-month period ending December 31, 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-

1 forward basis.

2 The Company's fair value rate base is \$3,079,513. The increase in revenues
3 to provide for recovery of operating expenses and a 10.5 percent return on rate
4 base is approximately \$401,245, an increase of approximately 230 percent over the
5 adjusted and annualized test year revenues.

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

8 A. In the ACC decision approving the Company's CC&N, the Company was ordered
9 to file a rate case by May 1, 2006 using a 2005 test year. (Decision No. 67446,
10 January 4, 2005). The Company has grown to approximately 337 customers at the
11 end of the test year and has invested over \$3.4 million in plant. The Company's
12 current rate of return, based on the adjusted test year data, is a negative 5.16
13 percent. As demonstrated by the Company's filing, rate increases are necessary to
14 ensure that the Company recovers its operating expenses and has an opportunity to
15 earn a reasonable return on the fair value of its utility plant and property devoted to
16 public service.

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

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

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

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

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
6 test 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.

15 The E-1 Schedule contains the comparative balance sheet data the years
16 fiscal years end December 31, 2003, 2004, and 2005.

17 Schedule E-2, page 1, contains the income statement for the fiscal years
18 ended December 31, 2003, 2004, and 2005.

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

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

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

25 Schedule E-7 contains operating statistics for the fiscal years ended
26 December 31 2003, 2004, and 2005.

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

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

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

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

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

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

15 **IV. RATE BASE (B SCHEDULES).**

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

18 A. Yes. I will start with Schedule B-5, which is the working capital allowance.
19 Because USLLC is a small water utility, I used the "formula method" of
20 computing the working capital allowance to reduce expenses associated with
21 seeking rate relief. The working capital adjustment is reflected in B2 adjustment
22 number 4.

23 **Q. PLEASE CONTINUE.**

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

- 1 **Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO**
2 **THE ORIGINAL COST RATE BASE?**
- 3 A. Yes. Schedule B-2 shows adjustments to the OCRB cost rate base proposed by the
4 Company. Schedules B-2, pages 2 through 3, are the supporting schedules. These
5 adjustments are, in summary:
- 6 B-2 adjustment number 1 reduces accumulated depreciation to the re-
7 computed amounts per the Company's plant schedules.
- 8 **Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON B-**
9 **2 REFLECT THE LAST COMMISSION ORDER?**
- 10 A. Yes. As I stated, the Company received approval for its CC&N in January 2005.
11 The Company has not previously filed a rate case. Thus, the plant shown on
12 Schedule B-2 started with zero plant and shows plant additions and retirements
13 since start up. Pages 2a through 2c of the B-2 schedule, show the details of plant
14 additions, retirements, and accumulated depreciation through the end of the test
15 year using half-year convention for depreciation.
- 16 **Q. WHY WAS THERE A DIFFERENCE BETWEEN THE RECORDED**
17 **ACCUMULATED DEPRECIATION AT THE END OF THE TEST YEAR**
18 **AND THE RECOMPUTED AMOUNT?**
- 19 A. Because the Company used full-year convention for depreciation in the past. The
20 Company should have used half-year convention.
- 21 **Q. PLEASE CONTINUE.**
- 22 A. B-2 adjustment number 2 increase advances-in-aid of construction ("AIAC") for
23 unrecorded developer advances.
- 24 **Q. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON**
25 **A-1 DETERMINED?**
- 26 A. As stated, the FVRB shown on Schedule A-1 is based on OCRB.

1 **V. INCOME STATEMENT (C SCHEDULES).**

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

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

7 Adjustment 1 annualizes depreciation expense. The proposed depreciation
8 rate for each component of utility plant is shown on Schedule C-2, page 2. The
9 depreciation rates were approved in Decision 67446.

10 **Q. PLEASE CONTINUE.**

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

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

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

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

2 A. Yes. *E.g., Rio Rico Utilities*, Decision No. 67279 (October 5, 2004), at 8; *Arizona*
3 *Water Company*, Decision No. 64282 (December 28, 2001) at 12-13; *Bella Vista*
4 *Water Company*, Decision No. 65350 (November 1, 2002), at 16; *Arizona-*
5 *American Water Company*, Decision No. 67093 (June 30, 2004), at 9-10. Even
6 more recently, this methodology was utilized by the Commission in *Chaparral*
7 *City Water Company*, Decision No. 68176_(September 30, 2005), at 13-15 and
8 *Arizona Water Company-Western Group*, Decision No. 68302 (November 14,
9 2005) at 28-29. In the Commission's own words, "Staff calculated property taxes
10 using its proposed adjusted test year revenues twice and its recommended revenues
11 once to calculate a three year average of revenues. We agree with Staff that using
12 only historical revenues to calculate property taxes to include in the cost of service
13 fails to capture the effects of future revenue from new rates, and can result in an
14 understatement or overstatement of property tax expense." Decision No. 67093 at
15 9-10.

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

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

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

1 A. Yes. As an example, if new rates for the Company went into effect on January 1,
2 2006, property taxes based on these new rates would first appear on the property
3 tax bill received in September 2007. However, the Company should be accruing
4 property taxes to match the revenues collected. Thus, there is no mismatch
5 between revenues and expenses. Moreover, the property taxes resulting from my
6 calculation are based on only a portion of proposed revenues. To properly
7 consider the future impact of the rate increases, I should have computed the
8 proposed property taxes based solely on proposed revenues rather than averaging
9 proposed and historic revenues. Consequently, this adjustment is conservative.

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

12 A. Adjustment 3 shows the rate case expense. The Company estimates rate case
13 expense of \$50,000 amortized over four years because it believes a four-year cycle
14 for future rate cases is reasonable given this utility's circumstances.

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

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

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

21 A. The Company cannot raise its rates except by filing for rate relief and the
22 Commission dictates the process for obtaining rate relief. USLLC, a Class C water
23 provider based on the proposed revenues with roughly 350 customers, has to file
24 the substantially the same schedules as a Class A and B utility (*i.e.*, APS, Arizona
25 Water, SW Gas) with hundreds of thousands of customers. While a larger utility's
26 filing would obviously be "larger", USLLC still faces essentially the same

1 requirement of filing multiple copies of every document and notice requirements
2 as a larger utility. In addition to the filing and notice requirements imposed by the
3 Commission on larger utilities. For instance, the Company must prepare three
4 rounds of pre-filed testimony, participate in all of the procedural and evidentiary
5 hearings and open meetings, and typically, file one or more rounds of closing
6 briefs. To meet all of the requirements of obtaining rate relief, USLLC requires
7 the assistance and expertise of a regulatory accountant and attorney, resulting in a
8 substantial portion of the rate case expense actually incurred.

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

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

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

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

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

26 A. Yes, it is an estimate based on my experience. But I can only consider the

1 foreseeable. If things turn out more complicated than anticipated, the Company
2 will modify its request to account for that increased expense. Conversely, if the
3 case proceeds and rate case expense is lower than expected, we would make an
4 appropriate adjustment downward.

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

7 A. As a practical matter, the utility always does. My estimate of \$50,000 assumes
8 USLLC will actually incur a higher amount of total rate case expense. I would
9 also agree that if the utility does something improper, or advances positions in bad-
10 faith, it should shoulder the burden of such actions. But, as I testified, the
11 Commission dictates the process, not the utility and absent such circumstances, the
12 utility must be allowed to recover its reasonably incurred rate case expense.

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

15 A. Adjustment 4 annualizes revenues to the year-end number of customers. The
16 annualization was based on the number of customers at the end of the test year,
17 compared to the actual number of customers during each month of the test year.
18 Average revenues by month were computed for the test year. The average
19 revenues were then multiplied by the increase (or decrease) in number of
20 customers for each month of the test year.

21 Adjustment 5 increases revenues for proposed projected growth of 350
22 customers. This is based on known projects currently under development and
23 assumes full build-out. The Company has proposed projected revenues in order to
24 minimize the impact on rates and is not intended to set any precedent for this or
25 any other Company regulated by the Commission.

26

1 **VI. RATE DESIGN (H SCHEDULES).**

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

3 A.

4 <u>Meter Size</u>	<u>Monthly Minimum</u>	<u>Gallons included in Monthly Minimum</u>
5 5/8	N/A	N/A
6 3/4	\$ 6.48	0
7 1	\$ 8.02	0
8 1 1/2	\$ 9.62	0
9 2	\$ 14.00	0
10 3	N/A	0
11 4	\$ 58.00	0
12 6	\$ 89.80	0

13

14 The commodity charge for residential (all meter sizes) is as follows:

15 <u>Tier</u>	<u>Charge Per 1,000 gallons</u>
16 Zero to 5,000 gallons	\$2.83
17 5,001 to 15,000 gallons	\$3.32
18 Over 15,000 gallons	\$4.71

19 For multi-family, mobile home, and commercial customers, the
20 commodity rate is \$2.97 per 1,000 gallons for all gallons.

21 There is no commodity rate for irrigation customers. The
22 construction meter and standpipe rate is \$6.00 per 1,000 gallons with no
23 minimum monthly charge.

24 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES?**

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

26 Meter	Monthly	Gallons included
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<u>Size</u>	<u>Minimum</u>	<u>in Monthly Minimum</u>
5/8	N/A	0
3/4	\$ 24.30	0
1	\$ 40.50	0
1 1/2	\$ 81.00	0
2	\$ 129.60	0
3	\$ 259.20	0
4	\$ 405.00	0
6	\$ 810.00	0

The commodity charge for residential (all meter sizes) is as follows:

<u>Tier</u>	<u>Charge Per 1,000 gallons</u>
Zero to 5,000 gallons	\$ 8.82
5,001 to 15,000 gallons	\$10.35
Over 15,000 gallons	\$14.69

For multi-family, mobile home, and commercial customers, the proposed commodity rate is \$9.26 per 1,000 gallons for all gallons.

The proposed commodity rate for irrigation customers is \$9.26. The construction meter and standpipe rate is \$10.35 per 1,000 gallons with no minimum monthly charge.

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

A. Customers on 3/4 meters who consume the average quantity of water (4,740 gallons per month) will experience a rate increase of \$46.23 per month, or an increase of approximately 232%.

Q. ARE THERE ANY PROPOSED CHANGES TO THE COMPANY'S

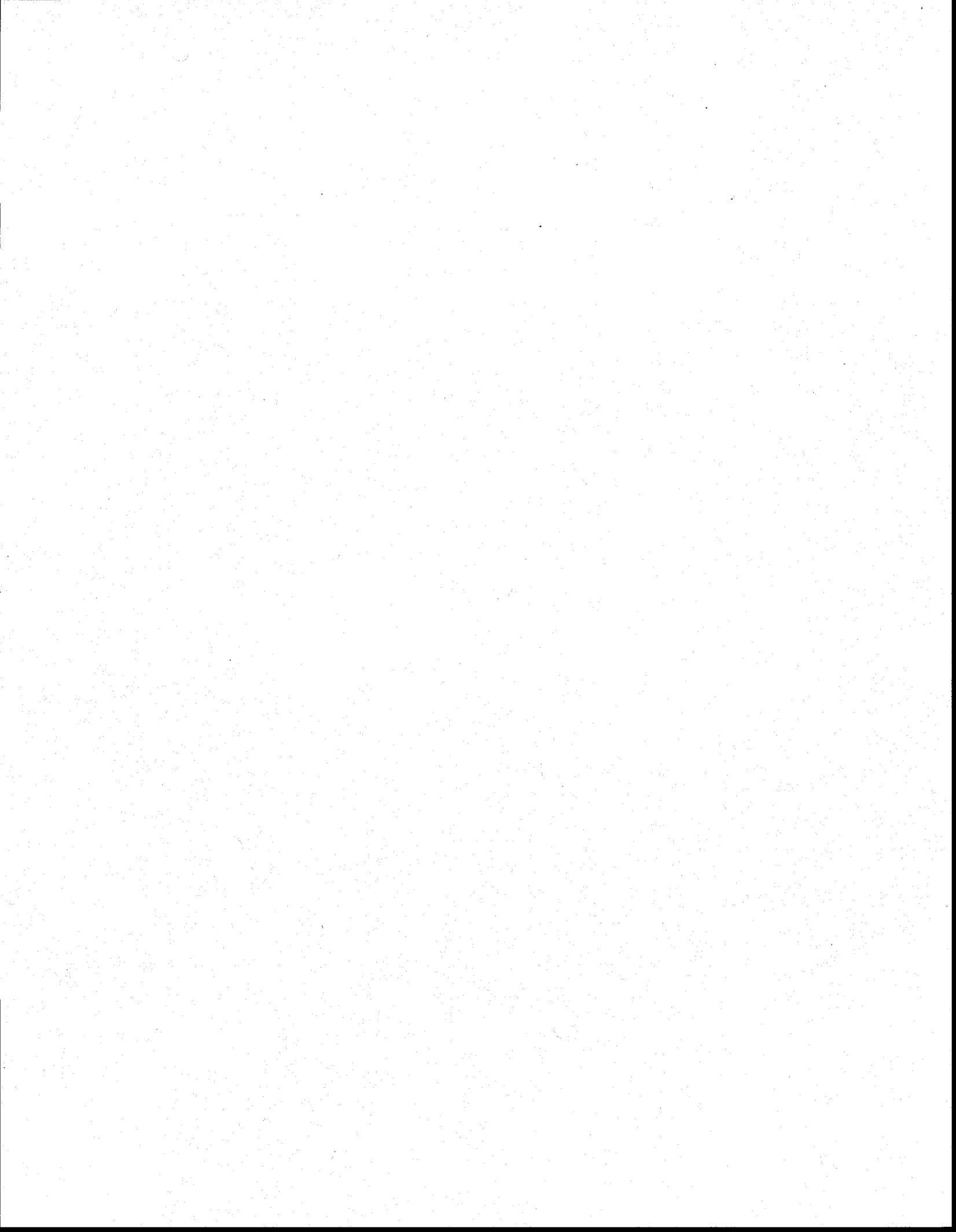
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MISCELLANEOUS SERVICE CHARGES?

A. No.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.



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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF UTILITY
SOURCE, L.L.C. – SEWER DIVISION,
AN ARIZONA CORPORATION, FOR
A DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR
INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO: SW-_____

**DIRECT TESTIMONY OF
THOMAS J. BOURASSA**

EXHIBIT E

1 **I. INTRODUCTION AND QUALIFICATIONS.**

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

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

5 **Q. WHAT IS YOUR PROFESSION AND BACKGROUND?**

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

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

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

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

1 Company, Community Water of Green Valley, Black Mountain Sewer Company,
2 and Avra 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, Utility Source, L.L.C.
5 – Sewer Division (“USLLC” or “the Company”). USLLC is seeking increases in
6 its rates and charges for water utility service in its certificated service area, which
7 is located in Coconino County.

8 **II. OVERVIEW OF THE COMPANY’S REQUEST FOR RATE RELIEF.**

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

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

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

19 A. The test year used by USLLC is the 12-month period ending December 31, 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-

1 forward basis.

2 The Company's fair value rate base is \$1,401,953. The increase in revenues
3 to provide for recovery of operating expenses and a 10.5 percent return on rate
4 base is approximately \$187,219, an increase of approximately 164 percent over the
5 adjusted and annualized test year revenues.

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

8 A. In the ACC decision approving the Company's CC&N, the Company was ordered
9 to file a rate case by May 1, 2006 using a 2005 test year. (Decision No. 67446,
10 January 4, 2005). The Company has grown to approximately 337 customers at the
11 end of the test year and has invested over \$1.6 million in plant. The Company's
12 current rate of return, based on the adjusted test year data, is a negative 2.85
13 percent. As demonstrated by the Company's filing, rate increases are necessary to
14 ensure that the Company recovers its operating expenses and has an opportunity to
15 earn a reasonable return on the fair value of its utility plant and property devoted to
16 public service.

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

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

20 A. USLLC is classified as a Class C utility per the Commission Rules. See R14-2-
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23 operating margin, required operating margin, operating income deficiency, and the
24 increase in gross revenue. A 10.5 percent return on fair value rate base ("FVRB")
25 is requested. Revenues at present and proposed and customer classifications are
26 also shown on this schedule.

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
6 test 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.

15 The E-1 Schedule contains the comparative balance sheet data the years
16 fiscal years end December 31, 2003, 2004, and 2005.

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18 ended December 31, 2003, 2004, and 2005.

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24 year, and one year prior to the end of the test year.

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26 December 31 2003, 2004, and 2005.

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

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

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

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

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

15 **IV. RATE BASE (B SCHEDULES).**

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

18 A. Yes. I will start with Schedule B-5, which is the working capital allowance.
19 Because USLLC is a small wastewater utility, I used the "formula method" of
20 computing the working capital allowance to reduce expenses associated with
21 seeking rate relief. The working capital adjustment is reflected in B2 adjustment
22 number 4.

23 **Q. PLEASE CONTINUE.**

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

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

3 A. Yes. Schedule B-2 shows adjustments to the OCRB cost rate base proposed by the
4 Company. Schedules B-2, pages 2 through 3, are the supporting schedules. These
5 adjustments are, in summary:

6 B-2 adjustment number 1 reduces accumulated depreciation to the re-
7 computed amounts per the Company's plant schedules.

8 **Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON B-**
9 **2 REFLECT THE LAST COMMISSION ORDER?**

10 A. Yes. As I stated, the Company received approval for its CC&N in January 2005.
11 The Company has not previously filed a rate case. Thus, the plant shown on
12 Schedule B-2 started with zero plant and shows plant additions and retirements
13 since start up. Pages 2a through 2c of the B-2 schedule, show the details of plant
14 additions, retirements, and accumulated depreciation through the end of the test
15 year using half-year convention for depreciation.

16 **Q. WHY WAS THERE A DIFFERENCE BETWEEN THE RECORDED**
17 **ACCUMULATED DEPRECIATION AT THE END OF THE TEST YEAR**
18 **AND THE RECOMPUTED AMOUNT?**

19 A. Because the Company used full-year convention for depreciation in the past. The
20 Company should have used half-year convention.

21 **Q. PLEASE CONTINUE.**

22 A. B-2 adjustment number 2 increase advances-in-aid of construction ("AIAC") for
23 unrecorded developer advances.

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

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

1 **V. INCOME STATEMENT (C SCHEDULES).**

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

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

7 Adjustment 1 annualizes depreciation expense. The proposed depreciation
8 rate for each component of utility plant is shown on Schedule C-2, page 2. The
9 depreciation rates were approved in Decision 67446.

10 **Q. PLEASE CONTINUE.**

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

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

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

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

2 A. Yes. *E.g., Rio Rico Utilities*, Decision No. 67279 (October 5, 2004), at 8; *Arizona*
3 *Water Company*, Decision No. 64282 (December 28, 2001) at 12-13; *Bella Vista*
4 *Water Company*, Decision No. 65350 (November 1, 2002), at 16; *Arizona-*
5 *American Water Company*, Decision No. 67093 (June 30, 2004), at 9-10. Even
6 more recently, this methodology was utilized by the Commission in *Chaparral*
7 *City Water Company*, Decision No. 68176_(September 30, 2005), at 13-15 and
8 *Arizona Water Company-Western Group*, Decision No. 68302 (November 14,
9 2005) at 28-29. In the Commission's own words, "Staff calculated property taxes
10 using its proposed adjusted test year revenues twice and its recommended revenues
11 once to calculate a three year average of revenues. We agree with Staff that using
12 only historical revenues to calculate property taxes to include in the cost of service
13 fails to capture the effects of future revenue from new rates, and can result in an
14 understatement or overstatement of property tax expense." Decision No. 67093 at
15 9-10.

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

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

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

1 A. Yes. As an example, if new rates for the Company went into effect on January 1,
2 2006, property taxes based on these new rates would first appear on the property
3 tax bill received in September 2007. However, the Company should be accruing
4 property taxes to match the revenues collected. Thus, there is no mismatch
5 between revenues and expenses. Moreover, the property taxes resulting from my
6 calculation are based on only a portion of proposed revenues. To properly
7 consider the future impact of the rate increases, I should have computed the
8 proposed property taxes based solely on proposed revenues rather than averaging
9 proposed and historic revenues. Consequently, this adjustment is conservative.

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

12 A. Adjustment 3 shows the rate case expense. The Company estimates rate case
13 expense of \$50,000 amortized over four years because it believes a four-year cycle
14 for future rate cases is reasonable given this utility's circumstances.

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

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

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

21 A. The Company cannot raise its rates except by filing for rate relief and the
22 Commission dictates the process for obtaining rate relief. USLLC, a Class C
23 wastewater provider based on the proposed revenues with roughly 350 customers,
24 has to file the substantially the same schedules as a Class A and B utility (*i.e.*,
25 APS, Arizona Water, SW Gas) with hundreds of thousands of customers. While a
26 larger utility's filing would obviously be "larger", USLLC still faces essentially

1 the same requirement of filing multiple copies of every document and notice
2 requirements as a larger utility. In addition to the filing and notice requirements
3 imposed by the Commission on larger utilities. For instance, the Company must
4 prepare three rounds of pre-filed testimony, participate in all of the procedural and
5 evidentiary hearings and open meetings, and typically, file one or more rounds of
6 closing briefs. To meet all of the requirements of obtaining rate relief, USLLC
7 requires the assistance and expertise of a regulatory accountant and attorney,
8 resulting in a substantial portion of the rate case expense actually incurred.

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

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

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

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

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

26 A. Yes, it is an estimate based on my experience. But I can only consider the

1 foreseeable. If things turn out more complicated than anticipated, the Company
2 will modify its request to account for that increased expense. Conversely, if the
3 case proceeds and rate case expense is lower than expected, we would make an
4 appropriate adjustment downward.

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

7 A. As a practical matter, the utility always does. My estimate of \$50,000 assumes
8 USLLC will actually incur a higher amount of total rate case expense. I would
9 also agree that if the utility does something improper, or advances positions in bad-
10 faith, it should shoulder the burden of such actions. But, as I testified, the
11 Commission dictates the process, not the utility and absent such circumstances, the
12 utility must be allowed to recover its reasonably incurred rate case expense.

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

15 A. Adjustment 4 annualizes revenues to the year-end number of customers. The
16 annualization was based on the number of customers at the end of the test year,
17 compared to the actual number of customers during each month of the test year.
18 Average revenues by month were computed for the test year. The average
19 revenues were then multiplied by the increase (or decrease) in number of
20 customers for each month of the test year.

21 Adjustment number 5 increases revenues for unbilled revenues during the
22 test year. Wastewater bills are based on water usage. The Company under billed
23 wastewater services during the test year as confirmed by the bill count and shown
24 on the H-1 schedule. This adjustment is required to properly reflect test year
25 revenues.

26 Adjustment 6 increases revenues for proposed projected growth of 350

1 customers. This is based on known projects currently under development and
 2 assumes full build-out. The Company has proposed projected revenues in order to
 3 minimize the impact on rates and is not intended to set any precedent for this or
 4 any other Company regulated by the Commission.

5 **VI. RATE DESIGN (H SCHEDULES).**

6 **Q. WHAT ARE THE COMPANY'S PRESENT RATES?**

7	A.	<u>Customer</u>	<u>Flat Monthly</u>	<u>Charge per 1,000 gallons</u>
8		<u>Class</u>	<u>Charge</u>	<u>of Water Usage</u>
9		Residential	N/A	\$ 2.73
10		Car Washes,		
11		Laundromats, Commercial,		
12		Manufacturing	N/A	\$ 2.67
13		Hotels, Motels	N/A	\$ 3.58
14		Restaurants	N/A	\$ 4.42
15		Industrial Laundries	N/A	\$ 3.92
16		Waste Haulers	N/A	\$80.00
17		Restaurant Grease	N/A	\$70.00
18		Treatment Plant Sludge	N/A	\$80.00
19		Mud Sump Waste	N/A	\$250.00

20 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES?**

21 A. The proposed rates for customers is:

22	A.	<u>Customer</u>	<u>Flat Monthly</u>	<u>Charge per 1,000 gallons</u>
23		<u>Class</u>	<u>Charge</u>	<u>of Water Usage</u>
24		Residential	N/A	\$ 7.28
25		Car Washes,		

26

1	Laundromats, Commercial,		
2	Manufacturing	N/A	\$ 7.12
3	Hotels, Motels	N/A	\$ 9.55
4	Restaurants	N/A	\$ 11.79
5	Industrial Laundries	N/A	\$ 10.45
6	Waste Haulers	N/A	\$213.36
7	Restaurant Grease	N/A	\$186.69
8	Treatment Plant Sludge	N/A	\$213.36
9	Mud Sump Waste	N/A	\$666.75

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

12 A. Residential Customers who consume the average quantity of water (4,740 gallons
13 per month) will experience a rate increase of \$34.51 per month, or an increase of
14 approximately 167%.

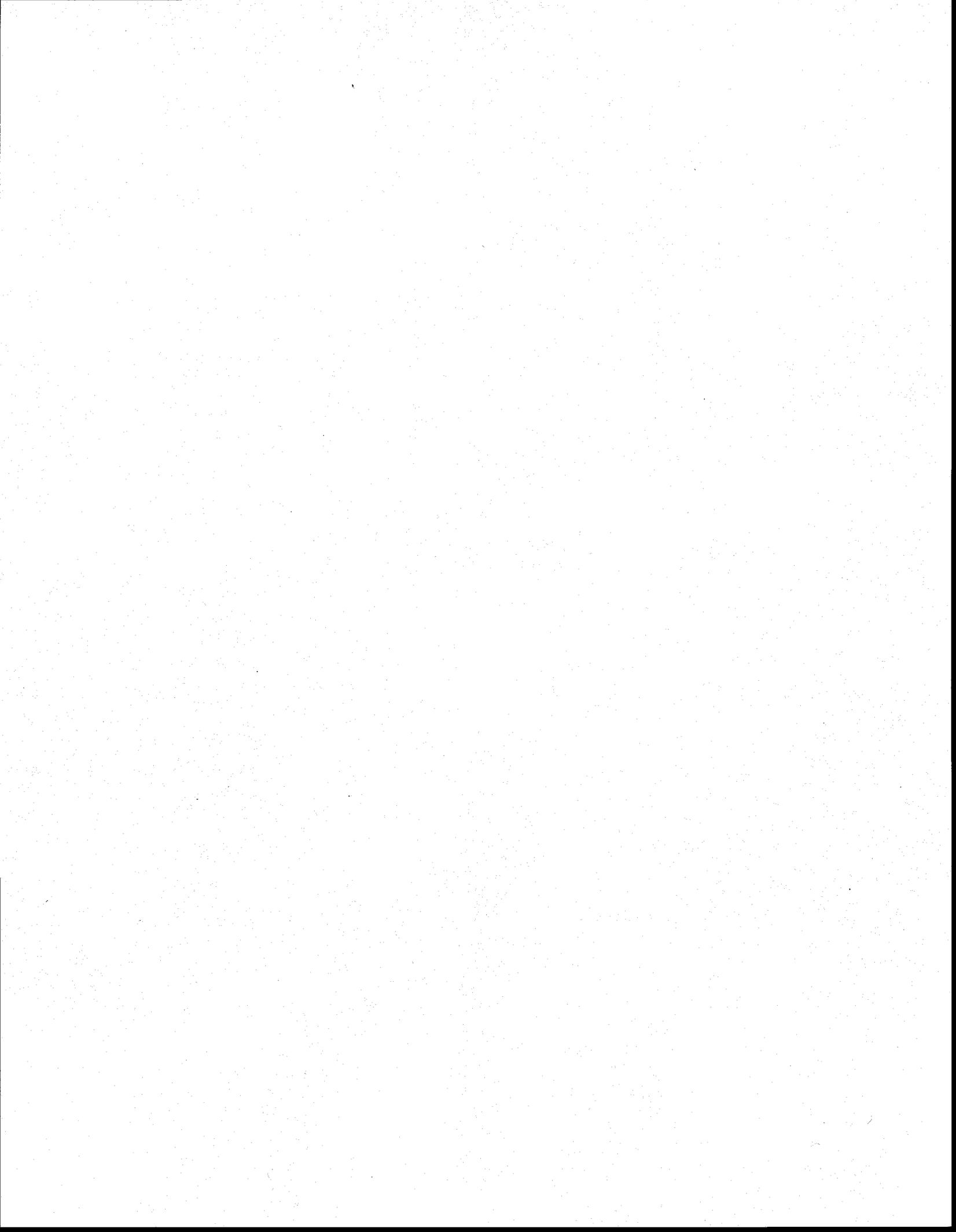
15 **Q. ARE THERE ANY PROPOSED CHANGES TO THE COMPANY'S**
16 **MISCELLANEOUS SERVICE CHARGES?**

17 A. No.

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

19 A. Yes.

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF UTILITY
SOURCE, L.L.C. – SEWER DIVISION,
AN ARIZONA CORPORATION, FOR
A DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR
INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO: SW-_____

**COST OF CAPITAL
DIRECT TESTIMONY OF
THOMAS J. BOURASSA**

EXHIBIT F

1 **I. INTRODUCTION AND QUALIFICATIONS.**

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

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

5 **Q. WHAT IS YOUR PROFESSION AND BACKGROUND?**

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

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

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

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

1 Company, Community Water of Green Valley, Black Mountain Sewer Company,
2 and Avra 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, Utility Source, L.L.C.
5 (“USLLC” or “the Company”). USLLC is seeking increases in its rates and
6 charges for water and wastewater utility service in its certificated service area,
7 which is located in Coconino County.

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

9 A. I will testify in support of the Company’s proposed fair rate of return. I am
10 sponsoring Schedules D, which are filed concurrently herewith in support of the
11 Company’s application.

12 **II. COST OF CAPITAL (D SCHEDULES).**

13 **A. Rate Of Return Summary**

14 **Q. WOULD YOU PLEASE SUMMARIZE YOUR RECOMMENDED EQUITY**
15 **RETURN?**

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

23 The cost of equity for USLLC cannot be estimated directly because it is
24 extremely small and is not publicly traded. Therefore, there is no market data for
25 USLLC. Consequently, I applied the DCF models to a sample of water utilities
26 selected from the *Value Line Investment Survey*. There are six water utilities in my

1 sample: American States Water, Aqua America, California Water, Connecticut
2 Water, Middlesex Water, and SJW Corp. I selected these water utilities because
3 Staff has used them in recent water utility rate cases. To test my DCF results, I
4 performed a risk premium analysis based on 10-year Treasury rates. Computations
5 of common equity returns using DCF and risk premium approaches are shown on
6 schedules D-4.9 through D-4.13.

7 My DCF analysis indicates that a return on equity ("ROE") in the range of
8 8.5 percent to 12.0 percent is appropriate. My risk premium analysis serves as a
9 check of reasonableness for the DCF results. That analysis indicates a ROE in the
10 range of 10.3 percent to 11.1 percent. A return on equity of 10.5 percent is within
11 the ranges produced by both types of equity cost estimates, and is conservative
12 when USLLC's extremely small size compared to the sample and other business
13 risks not captured by the market data are considered.

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

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

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

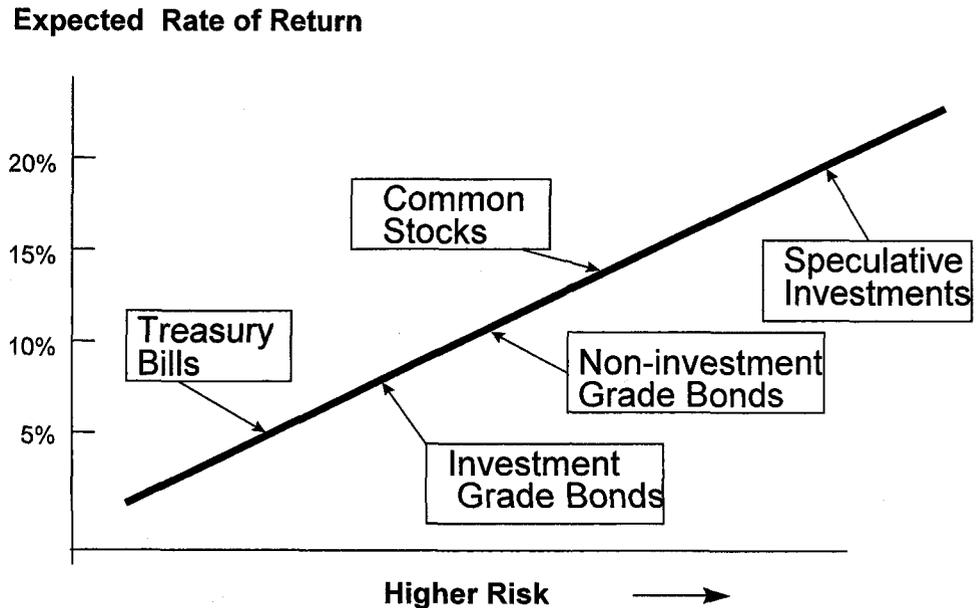
20 **Q. PLEASE PROVIDE AN OVERVIEW OF THE COST OF CAPITAL.**

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

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

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

7 The Capital Market Line (CML)



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

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

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

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

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

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

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

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DETERMINED?

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

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

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

Q. WOULD YOU DISCUSS THESE FACTORS IN GREATER DETAIL?

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

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

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

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

12 A. Yes. Conceptually,

$$13 \quad \begin{array}{l} \text{Required Return for} \\ \text{Common Stocks} \end{array} = \begin{array}{l} \text{Return on a} \\ \text{risk-free asset} \end{array} + \text{Risk Premium}$$

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

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

20 A. In the past 10 years, inflation and capital market costs have generally declined.
21 Interest rates have been lower than in previous decades. Inflation, as measured by
22 the Consumer Price Index, has been at relatively low levels. The uneven pace of
23 the economy kept consumer prices in check and resulted in low interest rates.
24 Since the first quarter 2004, however, improving economic growth and concerns
25 about inflation have led to fluctuating interest rates. The Federal Reserve began
26

1 raising interest rates in June 2004 to address these concerns.

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

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

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

26 **Q. IS THERE A RELATIONSHIP BETWEEN THE COST OF EQUITY AND**

1 **INTEREST RATES?**

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

5 **Q. IS USLLC AFFECTED BY THESE SAME MARKET UNCERTAINTIES**
6 **AND CONCERNS?**

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

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

10 A. Although the water utilities in the sample have recently encountered a more
11 favorable regulatory environment, especially in California, the water utility
12 industry is expected to confront increasing infrastructure demands. Many of the
13 current infrastructures are over 100 years old and are in need of significant
14 maintenance and, in some cases, massive renovation and replacement. In addition,
15 water companies are faced with the continued heightened threat of bio-terrorism on
16 U.S. pipelines and reservoirs as well as the continuing need to comply with EPA
17 water purification standards. As infrastructure costs continue to climb, many
18 smaller companies are at a disadvantage. With out sufficient resources to fund
19 improvements, many companies are being forced to sell to larger utilities with the
20 flexibility and capital to deal with them.

21 **Q. ARE WASTEWATER UTILITIES FACED WITH SIMILAR INDUSTRY**
22 **ISSUES AS WELL?**

23 A. Yes. Wastewater utilities must also comply with new and more stringent
24 regulatory standards and are confronted by the similar bio-terorrism threats. The
25 2004 hurricanes highlighted the potential public health effects and dangers when
26 wastewater treatment facilities are damaged. Wastewater utilities also face high

1 infrastructure costs, perhaps even greater costs than water utilities. Wastewater
2 capital costs on a per customer basis are generally much higher than those for water
3 utilities. Further, wastewater treatment facilities must be built in capacity
4 increments large enough to be economical in the long-term. For utilities facing
5 growth, treatment facilities are required to be built well before the capacity can be
6 fully utilized. These two conditions substantially increase investment and financial
7 risk.

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

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

12 Business risk, the basic risk associated with any business undertaking, is the
13 uncertainty associated with the enterprise's day-to-day operations. In essence, it is
14 a function of the normal day-to-day business environment, both locally and
15 nationally. Business risks include the condition of the economy and capital
16 markets, the state of labor markets, regional stability, government regulation,
17 technological obsolescence, and other similar factors that may impact demand for
18 the business product and its cost of production. For example, one of the biggest
19 risks USLLC faces is the ever-changing regulatory climate. Water utilities are
20 subject to strict regulation because of the health and risks associated with their
21 operations. The environmental rules frequently change, usually resulting in
22 additional requirements and increased costs.

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

26 Financial risk, on the other hand, concerns the distribution of business risk

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

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

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

17 **A.** Generally, when a firm engages in debt financing, it exposes itself to risks that,
18 once debt becomes significant relative to the total capital structure, increase in a
19 geometric fashion compared to the linear percentage increase in the debt ratio
20 itself. This risk is illustrated by considering the effect of leverage on net earnings.
21 For example, as leverage increases, the equity ratio falls. This creates two adverse
22 effects on the investor. First, equity earnings decline rapidly and may even
23 disappear. Second, the "cushion" of equity protection for debt falls. A decline in
24 the protection afforded debt holders, or the possibility of a serious decline in debt
25 protection, will act to increase the cost of debt financing. Therefore, one may
26 conclude that each new financing, whether through debt or equity, impacts the

1 marginal cost of future financing by any alternative method. For a firm already
2 perceived as being over-leveraged, this additional borrowing would cause the
3 marginal cost of both equity and debt to increase. On the other hand, if the same
4 firm instead employed equity funding, this could actually reduce the real marginal
5 cost of additional borrowing, even if the particular equity issuance occurred at a
6 higher unit cost than an equivalent amount of debt.

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

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

20 A. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for
21 determining whether a rate of return is reasonable in *Bluefield Water Works and*
22 *Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679,
23 692-93 (1923):

24 A public utility is entitled to such rates as will permit it to
25 earn a return on the value of the property which it employs
26 for the convenience of the public equal to that generally being
made at the same time and in the same general part of the
country on investments on other business undertaking which

1 are attended by corresponding risks and uncertainties.... The
2 return should be reasonably sufficient to assure confidence in
3 the financial soundness of the utility and should be adequate,
4 under efficient and economical management to maintain and
5 support its credit and enable it to raise money necessary for
6 the proper discharge of its public duties. A rate of return may
7 be reasonable at one time and become too high or too low by
8 changes affecting opportunities for investment, the money
9 market, and business conditions generally.

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

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

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

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

21 (2) The return should be sufficient to ensure the confidence in the financial
22 integrity of the utility;

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

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

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

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

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

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

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

15 A. Estimating the cost of equity is a matter of informed judgment. The development
16 of an appropriate rate of return for a regulated enterprise involves the determination
17 the level of risk associated with that enterprise and the determination of an
18 appropriate return for that risk level. Practitioners employ various techniques that
19 provide a link to actual capital market data and assist in defining the various
20 relationships that underlie the equity cost estimation process.

21 As I have testified, USLLC is not publicly traded so the information
22 required to directly estimate USLLC’s cost of equity is not available.
23 Accordingly, I used a sample of water utilities to provide means of developing an
24 appropriate cost of equity for USLLC. Water utilities are used because there are
25 no publicly traded companies that derive the bulk of their revenue from both water
26 and wastewater services. There are six water utilities included in my sample and

1 include American States Water, Aqua America, California Water, Connecticut
2 Water, Middlesex Water, and SJW Corp. All these companies are followed by the
3 *Value Line Investment Survey*.

4 **Q. ARE THE WATER UTILITIES IN YOUR SAMPLE DIRECTLY**
5 **COMPARABLE TO USLLC?**

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

11 **Q. DOES THE MARKET DATA PROVIDED BY THE WATER UTILITY**
12 **SAMPLE CAPTURE ALL OF THE MARKET RISKS USLLC MIGHT**
13 **FACE IF IT WERE PUBLICLY TRADED?**

14 A. In my opinion, no. First, there is no comparable market data for utility companies
15 the size of USLLC. The smallest company in the sample, Connecticut Water, has
16 40 times the net plant investment of USLLC, and over 320 times the revenues.
17 Second, market data for the sample water utilities do not include data for water
18 utilities primarily serving the Arizona market and thus primarily subject to Arizona
19 rate regulation. Arizona rate regulation requires use of historical test years and
20 limited out of period adjustments. Further, USLLC faces the risk that unexpected
21 changes in costs in the period in which new rates will be in effect will not be
22 recovered without a costly and lengthy general rate case.

23 The water sample is heavily weighted with utilities doing business in
24 California. American States, California Water, and SJW Corp. are based in
25 California and receive the bulk of revenues from utility service in that state. These
26 utilities are face less regulatory risk because the California Public Utilities

1 Commission ("PUC") allows the use of future test years and balancing accounts for
2 expenses such as purchased power and purchased water. Aqua America, the
3 largest water utility in the group, has operations in more than 10 states. As a result,
4 its systems are regulated by different state commissions and are less affected by
5 unfavorable decisions and policies of a particular regulatory commission.

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

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

12 (1) American States primarily serves the California market though Southern
13 California Water Company provides water services to over 1 million people within
14 75 communities in 10 counties in the State of California, primarily in Los Angeles,
15 San Bernardino, and Oranges counties. It has one subsidiary serving the Arizona
16 market with approximately 13,000 customers in Fountain Hills and Scottsdale.
17 Approximately 91 percent of American States revenues were derived from
18 Southern California Water. Revenues for American States were over \$236 million
19 in 2005 and net plant was over \$629 million at the end of 2005.

20 (2) Aqua America owns regulated utilities in Pennsylvania, Ohio, North
21 Carolina, Illinois, Texas, New Jersey, Florida, Indiana, Maine, Missouri, New
22 York, and South Carolina, serving over 864,000 customers at the end of 2005.
23 Revenues for Aqua America were over \$496 million in 2005 and net plant was
24 over \$1.97 billion at the end of 2005.

25 (3) California Water Service Group owns subsidiaries in California, New
26 Mexico, Washington, and Hawaii serving over 500,000 customers. The California

1 operations account for over 95 percent of customers and over 96 percent of
2 operating revenues. Revenues for California Water were over \$320 million in
3 2005 and net plant was over \$756 million at the end of 2005.

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

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

13 (6) SJW Corp. owns San Jose Water, which provides water service in an
14 138 square mile area in San Jose, California, and surrounding communities.
15 Revenues for SJW Corp were over \$180.1 million in 2005 and net plant was over
16 \$301 million at the end of 2005.

17 **Q. HOW DOES USLLC COMPARE TO THE SAMPLE WATER UTILITIES?**

18 A. It is much smaller. At the end of the test year, USLLC had approximately 350
19 water utility customers. Its revenues totaled less than \$91,000, and its net plant
20 was approximately \$1.86 million. And USLLC is not diversified. It has a
21 relatively small service territory in Coconino County with relatively low growth
22 potential compared to the sample companies, and no alternative sources of revenue.

23 **Q. IS USLLC COMPARABLE TO THE SAMPLE WATER UTILITIES?**

24 A. Certainly, a good argument can be made that USLLC is not comparable to the six
25 publicly traded water utilities in the same group. Unfortunately, as I testified, the
26 approaches commonly used to estimate a utility's cost of equity require market

1 data, which is not available for small private businesses, like USLLC. As a result,
2 much larger, public companies must be used as proxies. This is an important factor
3 to keep in mind, since the criteria established by the Supreme Court in decisions
4 such as *Bluefield Water Works* and *Hope Natural Gas* require the use of
5 comparable companies, i.e., companies that would be viewed by investors as
6 having similar risks.

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

11 A. Schedule D-4.2 shows the capital structure of USLLC contains no debt and 100
12 percent equity compared to the average of the water utility sample of 48 percent
13 debt and 52 percent equity. Having no debt in its capital structure implies less
14 financial risk than the water utility sample.

15 **Q. DO YOU HAVE ANY GENERAL CONCERNS WITH THE DATA**
16 **AVAILABLE TO MAKE COST OF EQUITY ESTIMATES FOR THE**
17 **WATER UTILITIES?**

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

25 Irrespective of investor merger and acquisition expectations, stock price
26 growth has exceeded book growth. Schedule D-4.4 shows that common stock

1 prices have had annual average price increases during the past 10 years that have
2 exceeded the average annual increases in dividends per share, earnings per share,
3 and book value per share.

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

6 A. Yes. Schedule D-4.5 compares the closing stock prices for the April 25, 2005 to
7 the spot price at April 25, 2006. In this period of time, the average increase in
8 prices was over \$6.86 per share. This is an average of nearly 30 percent.

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

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

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

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

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

- 22 (1) comparable earnings methods,
- 23 (2) risk premium methods, and
- 24 (3) DCF methods.

25 The comparable earnings methods used to determine the cost of equity is a direct
26 outgrowth of judicial opinions on the rate of return. The *Bluefield* decision

1 suggests that opportunity cost, as defined in the economic literature, is the
2 appropriate measure of the actual cost of common equity for a regulated utility.
3 This approach involves direct observation of market returns, an assessment of the
4 persistence of those returns, and an evaluation of the risk accepted by that return.
5 The advantage of the comparable earnings approach is that it is easy to calculate
6 and the amount of subjective judgment required is minimal. The basis for
7 comparison is the book value of common equity, which is less vulnerable to
8 regulatory influences, in contrast to the market-based DCF model and the capital
9 asset pricing model ("CAPM").

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

21 **Q. CAN YOU ELABORATE?**

22 A. Yes. Despite more than 30 years of attempts to empirically validate the CAPM
23 approach, there is no consensus on its legitimacy. There are a few hints that the
24 model is incorrect. For starters, we all hold different portfolios. Therefore, it
25 cannot be exactly true. Researchers have focused on the more interesting issue of
26 whether rates of return depend upon beta (β) and whether the elegant, linear form

1 of the model holds for all types of stocks. What they have found is that real
2 markets typically deviate broadly from the original version of the CAPM, which is
3 sometimes called the Sharpe-Linter model. Some of the most forceful arguments
4 against the CAPM are presented in a recent article written by Dr. Eugene Fama and
5 Dr. Kenneth French.¹ Reviewing various empirical studies of the CAPM, these
6 authors found that beta does a relatively poor job at explaining differences in the
7 actual returns of portfolios of U.S. stocks. They noted that there are variables
8 besides beta (β) explain portfolio returns better, suggesting the CAPM, while
9 theoretically interesting, is incomplete and has little practical application.

10 **Q. PLEASE CONTINUE.**

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

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

23 **Q. PLEASE EXPLAIN THE DCF METHOD OF ESTIMATING THE COST OF**
24 **EQUITY.**

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

$$8 \quad (1) \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + CF_n/(1+k)^n$$

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

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

$$14 \quad (2) \quad P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \dots + P_t/(1+k)^t$$

15 where P_t is the price expected to be received at the end of the period t . If the future
16 price (P_t) included a premium (an expected increase in the stock price or capital
17 gain), the price the investor would pay today in anticipation of receiving that
18 premium would increase. In other words, by estimating the cash flows from the
19 purchase of a stock in the way of dividends and capital gains, we can calculate the
20 investors' required rate of return, i.e., the rate of return investors presumptively
21 used in bidding the current price to the stock (P_0) to its current level. This is a
22 Market Price version of the DCF model. As with the general form of the DCF
23 model in equation (1), in the Market Price approach the current stock price (P_0) is
24 the present value of the expected cash inflows. The cash flows are comprised of
25 dividends and the final selling price of the stock. The estimated cost of equity (k)
26 is the rate of return investors expect if they bought the stock at today's price, held

1 the stock and received dividends through the transition period, and then sold it for
2 price (P_t).

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

5 A. Yes. Assume an investor buys a share of common stock for \$40. If the expected
6 dividend during the coming year is \$2.00, then the expected dividend yield is 5
7 percent ($\$2.00/\$40 = 5.0$ percent). If the stock price is also expected to increase to
8 \$43.00 after one year, this \$3.00 expected gain adds an additional 7.5 percent to the
9 expected total rate of return ($\$3.00/\$40 = 7.5$ percent). Thus, the investor buying
10 the stock at \$40 per share, expects a total return of 12.5 percent (5 percent dividend
11 yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the
12 appropriate measure of the cost of capital because this is the rate of return that
13 caused the investor to commit \$40 of his capital by purchasing the stock.

14 I have provided a Market Price DCF model in Exhibit 1 to illustrate the
15 Market Price DCF model approach further. The model computes the implied rate
16 of return from a stream of cash flows. The first cash flow is negative and is the
17 purchase price of the stock. I used the spot price at March 28, 2006, as reported by
18 *Zack's Investment Research* as the initial purchase price. The next series of cash
19 flows are the expected dividends for the next four years. The final cash flow is the
20 dividend in year 5 plus the expected selling price of the stock. The selling price of
21 the stock is based on the historical 5-year average annual price growth for each of
22 the stocks. The average implied rate of return is 15.4 percent.

23 **Q. HOW DOES THE RESULT OF YOUR MARKET PRICE DCF COMPARE**
24 **TO THE HISTORICAL COMPOUND ANNUAL MARKET RETURNS FOR**
25 **THE WATER UTILITY SAMPLE?**

26 A. As shown in Exhibit 2, the average 5-year historical compound annual total market

1 return for the water utility sample is 20.3 percent. The 5-year market Price DCF
2 result is lower than the 5 year historical total market returns. The 5-year market
3 price DCF using historical 10 year average annual price growth is 18.3 percent.
4 Despite the fact that the historical 5-year and 10-year total market returns as well as
5 the market price DCF indicate returns in the range of 15 to 20 percent, I do not rely
6 on this method. I have instead used it to evaluate the reasonableness of the results
7 produced by the other versions of the DCF model I have used.

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

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

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

13 where CF_1/P_0 is the expected dividend yield and g is the expected long term
14 dividend (price) growth rate (“g”). The expected dividend yield is computed as the
15 ratio of next period’s expected dividend (“ CF_1 ”) divided by the current stock price
16 (“ P_0 ”). This form of the DCF model is known as the constant growth DCF model
17 and recognizes that investors expect to receive a portion of their total return in the
18 form of current dividends and the remainder through future dividends and capital
19 (price) appreciation. A key assumption of this form of the model is that investors
20 expect that same rate of return (k) every year and that market price grows at the
21 same rate as dividends. This has not been historically true for the water utility
22 sample as evidenced by the data shown in schedules D-4.3 and D-4.4. As a result,
23 estimates of long-term growth rates (g) should take this into account.

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

26 Under the multi-stage growth DCF model, equation (1) is expanded to incorporate

1 two or more growth rate periods and is written as:

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

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

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

10 A. I used the spot price for each of stocks of the water utilities in the sample group on
11 April 25, 2006 as reported by *Zacks Investment Research*. The dividend is the
12 expected 2006 dividend.

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

16 A. The DCF model results will be negatively biased because the dividend yield
17 (CF_1/P_0) is reduced by virtue of having a larger denominator, the stock price (P_0).
18 This impact is not by itself problematic, since the DCF model is intended to take
19 into account changes in the stock price (upward or downward). Investors may have
20 bid up the price of the stocks of the water utilities in the sample group because they
21 expect increased growth in earnings and, as a result, increased dividend growth and
22 appreciation in the price of the stock. However, if stock prices have been bid up in
23 anticipation of a merger or an acquisition, then the DCF model estimate will not
24 reflect true market conditions and understate the cost of equity.

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

26 A. I have used earnings growth forecasts, where available, from three different,

1 widely-followed sources: *Zack's Investment Research*, *Standard & Poor Earnings*
2 *Guide*, and *Value Line Investment Survey*. Schedule D-4.6 reflects estimates of
3 earnings growth.

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

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

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

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

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

18 A. The DCF model requires estimates of growth that investors expect in the future.
19 Accordingly, I used analysts' forecasts of growth. Logically, in estimating future
20 growth, financial institutions and analysts have taken into account all relevant
21 historical information on a company as well as other more recent information.³ To
22 the extent that past results provide useful indications of future growth prospects,

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

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

1 analysts' forecasts would already incorporate that information. In addition, a
2 stock's current price reflects known historic information on that company,
3 including its past earnings history. Any further recognition of the past will double
4 count what has already occurred. Therefore, forward-looking growth rates should
5 be used.

6 **Q. HAVE YOU COMPARED THE ANALYST ESTIMATES OF GROWTH**
7 **WITH HISTORICAL DATA?**

8 A. Yes. As shown in Exhibit 3, the average 5-year historical compound annual capital
9 (price) appreciation is 10.65 percent. The average 10-year historical compound
10 annual capital (price) appreciation is 15.83 percent. This is significantly higher
11 than the average analyst estimates of growth of 7.63 percent. While historical
12 returns do not necessarily reflect what will occur in the future, the analysts'
13 estimates of EPS growth are significantly less than the historical capital
14 appreciation and the historical total returns. Thus, I believe using the analyst
15 estimates of EPS growth for the growth rate in the DCF model is conservative.

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

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

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

22 A. Yes. Exhibit 4, attached hereto, reflect constant growth DCF results using analyst
23 estimates of DPS growth. The result is 5.9 percent. This is less than the current
24 yield on a Moody's Baa investment grade bond at 6.7 percent. Forecasted
25 Moody's Baa investment grade bonds for 2007-2008 is 7.1 percent.

26 **Q. HAVE YOU PREPARED CONSTANT GROWTH DCF MODELS USING**

1 **HISTORICAL DPS AND EPS GROWTH RATES?**

2 A. Yes. Exhibits 5 and 6, attached hereto, reflect constant growth DCF results using
3 five-year historical annual growth rates for DPS and EPS. The DCF results using
4 five-year historical annual growth rates for DPS is 5.6 percent. The DCF results
5 using five-year historical annual growth rates for EPS is 6.2 percent. Both are
6 below the cost of Moody's Baa investment grade bonds is 6.7 percent. Forecasted
7 Moody's Baa investment grade bonds for 2007-2008 is 7.1 percent.

8 **Q. WHY HAVEN'T YOU AVERAGED THESE RESULTS WITH THE**
9 **RESULTS OF YOUR DCF USING ANALYST EXPECTATIONS OF EPS**
10 **GROWTH?**

11 A. Using the analyst expectations of DPS growth, the historical DPS growth, or
12 historical EPS growth results in returns which are unrealistic. Thus, averaging
13 these results with the results using analyst estimates of EPS growth only serves to
14 depress the indicated cost of equity. Investors would not bid up the price of a
15 utility stock if the expected return is approximately the equal to or less than returns
16 on bonds or other debt investments. As the CML depicted previously illustrates,
17 common stocks are higher and to the right of investment grade bonds on the CML
18 continuum because they are exposed to more risk. The DCF model is a forward
19 looking model and the results using historical DPS and EPS growth are
20 unreasonable.

21 **Q. YOU MENTIONED SUSTAINABLE GROWTH EARLIER. PLEASE**
22 **EXPLAIN WHAT SUSTAINABLE GROWTH IS?**

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

26 (5) $g = br + sv$

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

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

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

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

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

13 **Q. HOW DO YOUR ESTIMATES FOR SUSTAINABLE GROWTH**
14 **COMPARE TO THE HISTORICAL COMPOUND ANNUAL CAPITAL**
15 **APPRECIATION RETURN?**

16 A. The average sustainable growth for the utility sample as shown in schedule D-4.7 is
17 8.41 percent and is lower than the average 5-year and 10-year historical compound
18 annual capital appreciation return of 10.65 percent and 15.83 percent, respectively.

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

22 A. Risk premium methods are based on the assumption that equity securities are
23 riskier than debt. Since equity securities are riskier, investors require a higher rate
24 of return. The risk premium between equity securities and debt can be directly
25 estimated by comparing authorized and actual returns on equity with the current

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

1 yields of investment grade bonds or other debt instruments:

2 The risk premium method of determining the cost of equity,
3 sometimes referred to as the "stock-bond-yield spread
4 method" or the "risk positioning method," or again the "bond-
5 yield plus risk-premium" method, recognizes that common
6 equity capital is more risky than debt from an investor's
7 standpoint, and that investors require higher returns on stocks
8 than on bonds to compensate for the additional risk. The
9 general approach is relatively straightforward: First,
10 determine the historical spread between the return on debt and
11 the return on equity. Second, add this spread to the current
12 debt yield to derive an estimate of current equity return
13 requirements.

14 The risk premium approach to estimating the cost of equity
15 derives its usefulness from the simple fact that while equity
16 return requirements cannot be readily quantified at any given
17 time, the returns on bonds can be assessed precisely at every
18 instant in time. If the magnitude of the risk premium between
19 stocks and bonds is known, then this information can be used
20 to produce the cost of common equity. This can be
21 accomplished retrospectively using historical risk premiums or
22 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
APPROACH?**

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

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

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

Q. WHY NOT USE CURRENT RATES FOR TREASURY SECURITIES?

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

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

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

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

12 **Q. PLEASE DISCUSS YOUR ANALYSIS OF THE COST OF EQUITY FOR**
13 **USLLC.**

14 A. In the first part of my analysis, I applied two versions of the constant growth DCF
15 and a two-stage DCF models to the six water utilities in the sample group. The
16 DCF analyses appear on schedules D-4.9, D-4.10, and D-4.11. The DCF models
17 produce an indicated equity cost in the range of 7.7 percent to 12.6 percent.

18 In the second part of my analysis, I developed and reviewed cost of equity
19 estimates based on the bond-yield plus risk premium method. The risk premium
20 analysis based on actual and authorized returns on equity indicates an equity cost in
21 the range of 10.2 percent to 11.3 percent.

22 In the third part of my analysis, I compared the actual and authorized returns
23 reported in *AUS Utility Reports* to the results of my DCF and risk premium
24 methods. The range of actual returns is from 9.9 percent to 12.7 percent. The
25 range of authorized returns is from 8.4 percent to 12.0 percent.

26 Finally, I also considered *Value Line's* most current forecasts of the

1 composite equity return for the water utility industry. *Value Line's* forecasts a
2 composite return of 10% for 2006, 10.5% for 2006, and 11.5% for the 2009-11
3 period.

4 Based on the DCF and risk premium results, and with consideration for
5 current market, industry, and other factors, I believe a return on equity of 10.5
6 percent is appropriate. USLLC has a higher cost of equity than the water utility
7 sample group due to its small size, leverage and other characteristics. Thus, an
8 equity return of 10.5 percent is conservative for USLLC.

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

10 A. I computed the cost of equity using two constant growth models. The first, shown
11 on schedule D-4.9, uses analyst's forecasts of earning per share growth. The
12 average of the results is 10.3 percent.

13 The second constant growth DCF model, shown on schedule D-4.10, uses
14 my computations of sustainable growth ("br + sv"). To compute sustainable
15 growth I used analysts forecasts of the retention ratio and return of common equity
16 to estimate "br" growth. I also used analysts' forecast of the growth in the number
17 of common shares and the current market to book ratio to estimate "vs" growth.
18 The current market to book ratio is based on the spot price at April 25, 2006 and
19 the book value at December 31, 2005. The average of the results is 11.5 percent.

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

21 A. I use a two-stage growth DCF model. The average of the analysts' expected
22 growth is used for the near-term and GDP growth for the long-term. Short-term
23 growth is given a weight of .67. The average result of the two-stage DCF model,
24 shown on schedule D-4.11, is 10.0 percent.

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

26 A. The first risk premium analysis, shown on schedule D-4.12, computes the average

1 risk premium on the actual returns for the six water companies from 1996 to 2005
2 (10 years) when compared to the 10-year Treasury rates. The average risk
3 premium is then added to the forecasted interest rates for 10-year Treasuries for
4 2007-2008. The result of the first risk premium analysis is 10.2 percent.

5 The second risk premium analysis, shown on schedule D-4.13, computes the
6 average risk premium on the authorized returns for the six water companies from
7 1996 to 2005 (10 years) when compared to the 10-year Treasury rate. The average
8 risk premium is then added to the forecasted interest rates for 10-year Treasuries
9 for 2007-2008. The result of second risk premium analysis is 10.8 percent.

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

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

15 **Q. PLEASE SUMMARIZE YOUR RESULTS.**

16 A. The following table summarizes the results of the models I have used, and provides
17 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)	7.7% - 12.2%	10.0%
Constant Growth (sustainable growth)	10.1% - 12.6%	11.4%
Two-Stage Growth Model	9.8% - 11.2%	9.9%
<u>Risk Premium Analysis</u>		
Actual Returns	10.2% - 10.3%	10.3%
Authorized Returns	10.9% - 11.3%	11.1%
<u>Comparable Earnings</u>		
Actual Returns	9.9% - 12.7%	11.3%

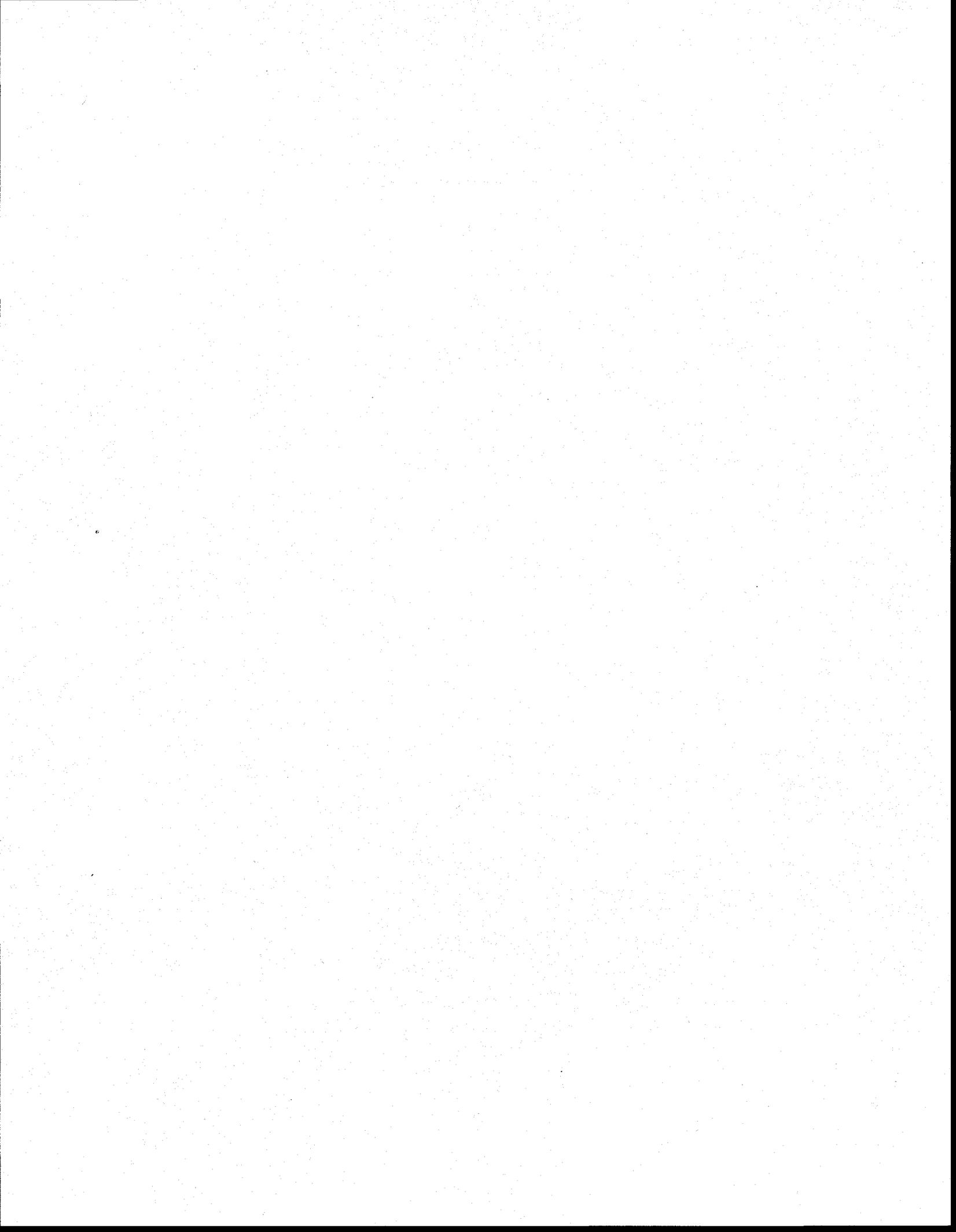
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Authorized Returns	9.9% - 12.0%	10.2%
Value Line Industry Composite (2006)		10.0%
Value Line Industry Composite (2007)		10.5%
Value Line Industry Composite (2009)		11.5%

At 10.5 percent, my recommended cost of equity is near the middle of the range of estimates produced by the DCF and risk premium models, but nevertheless within the ranges of both sets of estimates. My recommendation represents a reasonable balance between the economic forecasts of higher interest rates during the period in which rates will be in effect, the reduced equity costs obtained from low dividend yields using the DCF model, and my judgment about USLLC's additional risks not captured by the market models, including the risk of rate regulation and small size for USLLC.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.



UTILITY SOURCE, L.L.C.

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TARIFF

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EXHIBIT G

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Applies to all WATER service areas

PART ONE

STATEMENT OF CHARGES
WATER SERVICE

I. RATES

In Opinion and Order No. 67446, dated January 4, 2005, the Commission approved the following rates and charges to become effective January 4, 2005.

<u>Meter Size</u> Inches	<u>Usage Included in</u> <u>Minimum Charge</u> Gallons	<u>Minimum</u> <u>Charge</u> Per Month
A. General Residential, Commercial, Industrial, and Irrigation Service		
5/8 X 3/4 Meter	0	N/A
3/4" Meter	-0-	6.48
1" Meter	-0-	8.02
1 1/2" Meter	-0-	9.62
2" Meter	-0-	14.00
4" Meter	-0-	58.00
6" Meter	-0-	89.80

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

B. Commodity Charges

The rate for use in addition to the minimum stated above shall be the same for all sizes of meters. Additional usage shall be at the following rate per 1,000 gallons:

<u>Consumption</u>	<u>Rate</u>
<u>Residential</u>	
0-5,000	\$2.83
5,000-15,000	\$3.32
15,001 and over	\$4.71
<u>Multi-Family, Mobile Home, Commercial</u>	
All	\$2.97
<u>Standpipe</u>	
All	\$6.00
<u>Construction Water</u>	
All	\$6.00

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

II. TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-409(D)(5).

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PART ONE**STATEMENT OF CHARGES**
WATER SERVICE**III. ADDITIONAL CHARGES¹**

A.	Establishment of Service Per Rule R14-2-403D. (new customer charge, in addition to E, L and M below)	\$ 20.00
	1. If after hours	\$ 40.00
B.	Re-establishment of Service Per Rule R14-2-403D (same customer, same location within 12 months)	\$30.00
C.	Reconnection of Service Per Rule R14-2-403D	\$ 50.00
	1. If after hours	\$ 40.00
D.	Charge for Moving Meter at Customer Request Per Rule R14-2-405B	Cost ²

¹ Additional charges authorized in Paragraph III H, I and J shall not be duplicated for dual service customers.

² See Sheet No. 8.

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PART ONE

**STATEMENT OF CHARGES
WATER SERVICE**

E.	Minimum Deposit Requirement Per Rule R14-2-403B	
	1. Residential customer	(2 times estimated average monthly bill)
	2. Non residential customer	(2-1/2 times estimated maximum monthly bill)
	3. Deposit Interest (per annum)	3.0%
F.	Meter test per Rule, If correct Per Rule R14-2-408F	N/A
G.	Meter Reread Per Rule R14-2-408C	\$ 10.00
H.	Charge for NSF Check Per Rule R14-2-409F	\$ 20.00
I.	Deferred Payment Finance Charge Per month	1.5%

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

J.	Late Payment Charge Per Month	1.5% ^{3 4}
K.	Service Calls, per hour After hours only	\$40.00 ⁵

³ Bills for utility services are due and payable when rendered. Any payment not received within fifteen (15) days from the date the bill was rendered shall be considered delinquent and subject to the termination policy set forth in the Company's rate tariff. All Late Payment Charges shall be billed on the customer's next regularly scheduled billing. If the customer fails to pay the Late Payment Charge by the due date on the next billing, the customer will receive a ten (10) day termination notice. If the customer does not pay the Late Payment Charges by that date the service will be terminated. Service shall be terminated only for that service for which the customer is delinquent or is in violation of other Tariff or Rule provisions. All customers whose service is terminated for failure to pay the Late Payment Charges are subject to the Company's reconnection charges set forth in the Company's tariff.

⁴ This charge shall not apply if the customer has arranged for a Deferred Payment Plan.

⁵ For service problem found to be on Customer's side of meter. Company will not repair problem.

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Cancelling Sheet No.

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

L.	Meter Advance Policy ⁶	
		<u>Advance</u> ⁷
	3/4" Meter	\$575.00
	1" Meter	\$660.00
	1 1/2" Meter	\$900.00
	2" Meter	\$1,525.00
	4" Meter	\$3,360.00
	6" Meter	\$6,035.00
M.	Main Extension Tariff	Cost ⁸
	Per Rule R14-2-406B	

⁶ The customer shall be the owner of and be responsible for the design, installation, maintenance and operation of the Service Line on the customer's side of the water meter.

⁷ Plus county permit charges. Permit charges are non-refundable.

⁸ Per Sheet No. 8.

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Cancelling Sheet No.

Applies to all WATER service areas

PART ONE**STATEMENT OF CHARGES**
WATER SERVICE**IV. PERMITTED COSTS**

- A. Costs shall be verified by invoice.
- B. For services that are provided by the Company at costs, cost shall include labor, materials, other charges incurred, and overhead not to exceed 10%. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.
- C. In the event that the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.
- D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the provision of the service or after the Company's receipt of invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date. However, if the actual cost is more than five percent (5%) greater than the total amount paid, the customer will only be required to pay five percent (5%) more than the total amount paid, unless the Company can demonstrate that the increased costs were beyond its control and could not be foreseen at the time the estimate for the total amount paid was made.

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PART ONE

STATEMENT OF CHARGES
WATER SERVICE

E. At the customer's request, the Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.

F. Permitted costs shall include any Federal, State or local taxes that are or may be payable by the Company as a result of any tariff or contract for water facilities under which the Customer advances or contributes funds or facilities to the Company.

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Cancelling Sheet No.

Applies to all **WATER** service areas

PART TWO**STATEMENT OF TERMS AND CONDITIONS**
WATER SERVICE**I. CROSS-CONNECTION CONTROL****A. Purpose.**

To protect the public water supply in the Company's water supply in the Company's water system from the possibility of contamination caused by backflow through unprotected cross-connections by requiring the installation and periodic testing of backflow-prevention assemblies pursuant to the provisions of the Arizona Administrative Code, Title 14, Chapter 2, Section 405.B.6 as adopted by the Arizona Corporation Commission, and Title 18, Chapter 4, Section 115, as adopted by the Arizona Department of Environmental Quality, or Maricopa County Environmental Services Division, as those regulations may be revised from time to time.

B. Inspections.

The customers shall cooperate fully with the Company in its efforts to investigate and determine the degree of potential health hazard to the public water supply which may result from conditions existing on the customer's premises.

C. Requirements.

In compliance with the Rules and Regulations of the Arizona Corporation Commission and the Arizona Department of Environmental Quality, specifically A.A.C. R14-2-405.B.6 and A.A.C. R18-4-115 relating to backflow prevention:

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Cancelling Sheet No.

Applies to all WATER service areas

PART TWO**STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE**

1. The Company may require a customer to pay for and have installed, maintain, test and repair a backflow-prevention assembly if A.A.C. R18-4-115.B or C applies.

2. A backflow-prevention assembly required to be installed by the customer under this tariff shall comply with the requirements set forth in A.A.C. R18-4-115.D and E.

3. The Company shall give any customer who is required to install and/or test a backflow-prevention assembly written notice of said requirement. If A.A.C. R14-2-410.B.1.a. is not applicable, the customer shall be given thirty (30) days in which to comply with this notice. If the customer can show good cause as to why he cannot install the device within thirty (30) days, the Company or the Arizona Corporation Commission Staff may grant additional time for this requirement.

4. Testing shall be in conformance with the requirements of A.A.C. R18-4-115.F. and Maricopa County Environmental Services Division. The Company shall not require an unreasonable number of tests.

5. The customer shall provide the Company with records of installation and testing. For each backflow-prevention assembly, these records shall include:

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PART TWO**STATEMENT OF TERMS AND CONDITIONS
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- a. assembly identification number and description;
- b. location;
- c. date(s) of test(s);
- d. description of repairs made by tester; and
- e. tester's name and certificate number.

D. Discontinuance of Service.

In accordance with A.A.C. R14-2-407 and 410 and provisions of this tariff, the Company may terminate service or deny service to a customer who fails to install and/or test a backflow-prevention assembly as required by this tariff.

1. In the event the backflow-prevention assembly has not been installed or fails any test and A.A.C. R14-2-410.B.1.a. is applicable, the Company may terminate service immediately and without notice. The backflow-prevention assembly shall be installed and repaired by the customer and retested before service is restored.

2. In the event the backflow-prevention assembly has not been installed or fails any test and A.A.C. R14-2-410.B.1.a. is not applicable, the backflow-prevention assembly shall be installed and/or repaired by the customer and tested within fourteen (14) days of written notice by the Company. Failure to install or to remedy the deficiency or dysfunction of the assembly, or failure to retest shall be grounds for termination of water utility service in accordance with A.A.C. R14-2-410.

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PART TWO**STATEMENT OF TERMS AND CONDITIONS**
WATER SERVICE**II. INTERRUPTIBLE SERVICE; COMPANY'S LIABILITY**
LIMITATIONS

A. The Company will supply only such water at such pressures as may be available from time to time as a result of the normal operation of its water system. The Company will maintain a minimum water pressure of 20 p.s.i. and will not guarantee a specific gallons per minute flow rate at any public fire hydrants or fire sprinkler service. In the event service is interrupted, irregular or defective, or fails from causes beyond the Company's control or through ordinary negligence of its employees or agents, the Company will not be liable for any injuries or damages arising therefrom.

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PART TWO

**STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE**

III. CURTAILMENT PLAN FOR UTILITY SOURCE, L.L.C.

ADEQ Public Water System Number: PWS I.D. #03-394

Utility Source, LLC ("Company") is authorized to curtail water service to all customers, residential and commercial, within its certificated area under the following terms and conditions:

This curtailment plan shall become part of the Arizona Department of Environmental Quality Emergency Operations Plan for the Company.

The Company shall notify its customers of this new tariff as part of its next regularly scheduled billing after the effective date of this tariff or no later than sixty (60) days after the date of this tariff.

The Company shall provide a copy of the curtailment plan to any customer, upon request.

Stage 1 Exists When:

Company is able to maintain water storage in the system at 100 percent of capacity and there are no known problems with its well production or water storage in the system.

Restrictions: Under Stage 1, Company is deemed to be operating normally and no curtailment is necessary.

Notice Requirements: Under Stage 1, no notice is necessary.

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PART TWO**STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE****Stage 2 Exists When:**

- a. Company's water storage or well production has been less than 80 percent of capacity for at least 48 consecutive hours, and
- b. Company has identified issues such as steadily declining water table, an increased draw-down threatening pump operations, or poor water production creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Restrictions: Under Stage 2, the Company may request the customers to voluntarily employ water conservation measures to reduce water consumption by approximately 50 percent. Outside watering should be limited to essential water, dividing outside watering on some uniform basis (such as even and odd days) and eliminating outside watering on weekends and holidays.

Notice Requirements: Under Stage 2, the Company is required to notify customers by delivering written notice door to door at each service address, or by United States first class mail to the billing address or, at the Company's option both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.

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PART TWO**STATEMENT OF TERMS AND CONDITIONS**
WATER SERVICE**Stage 3 Exists When:**

- a. Company's total water storage or well production has been less than 50 percent of capacity for at least 24 consecutive hours, and
- b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, or poor water production, creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis. Standpipe service shall be suspended.

Restrictions: Under Stage 3, Company shall request the customer to voluntarily employ water conservation measures to reduce daily consumption by approximately 50 percent. All outside watering should be eliminated, except livestock, and indoor water conservation techniques should be employed whenever possible. Standpipe service shall be suspended.

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PART TWO**STATEMENT OF TERMS AND CONDITIONS**
WATER SERVICENotice Requirements:

1. Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option both. Such Notice shall notify the customers of the general nature of the problem and the need to conserve water.
2. Beginning with Stage 3, Company shall post at least two (2) signs showing the curtailment stage. Signs shall be posted at noticeable locations, like at the well sites and at the entrance to the major subdivision served by the Company.
3. Company shall notify the Consumer Services Section of the Utilities Division of the Corporation Commission at least 12 hours prior to entering Stage 3.

Once Stage 3 has been reached, the Company must begin to augment the supply of water by either hauling or through an emergency interconnect with an approved water supply in an attempt to maintain the curtailment at a level no higher than Stage 3 until a permanent solution has been implemented.

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PART TWO**STATEMENT OF TERMS AND CONDITIONS**
WATER SERVICE**Stage 4 Exists When:**

- a. Company's total water storage or well production has been less than 25 percent of capacity for at least 12 consecutive hours, and
- b. Company has identified issues such as a steadily declining water table, increased draw down threatening pump operations, or poor water production, creating a reasonable belief the Company will be unable to meet anticipated water demand on a sustained basis.

Restrictions: Under Stage 4, Company shall inform the customers of a **mandatory** restriction to employ water conservation measures to reduce daily consumption. Failure to comply will result in customer disconnection. The following uses of water shall be prohibited:

- ◆ Irrigation of outdoor lawns, trees, shrubs, or any plant life is prohibited
- ◆ Washing of any vehicle is prohibited
- ◆ The use of water for dust control or any outdoor cleaning uses is prohibited
- ◆ The use of drip or misting systems of any kind is prohibited
- ◆ The filling of any swimming pool, spas, fountains or ornamental pools is prohibited
- ◆ The use of construction water shall be prohibited

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- ◆ Restaurant patrons shall be served water only upon request
- ◆ Any other water intensive activity is prohibited

The Company's operation of its standpipe service shall be prohibited. The addition of new service lines and meter installations is prohibited.

Notice Requirements:

1. Company is required to notify customers by delivering written notice to each service address, or by United States first class mail to the billing address or, at the Company's option, both. Such notice shall notify the customers of the general nature of the problem and the need to conserve water.
2. Company shall post at least two (2) signs showing curtailment stage. Signs shall be posted at noticeable locations, like at the well sites and at the entrance to the major subdivision served by the Company.
3. Company shall notify the Consumer Services Section of the Utilities Division of the Corporation Commission at least 12 hours prior to entering Stage 4.

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Once Stage 4 has been reached, the Company must augment the supply of water by hauling or through an emergency interconnect from an approved supply in an attempt to maintain the supply until a permanent solution has been implemented.

Customers who fail to comply with cessation of outdoor use provisions will be given a written notice to end all outdoor use. Failure to comply with in two (2) working days of receipt of the notice will result in temporary loss of service until an agreement can be made to end unauthorized use of outdoor water. To restore service, the customer shall be required to pay all authorized reconnection fees. If a customer believes he/she has been disconnected in error, the customer may contact the Commission's Consumer Service Section at 1-800-222-7000 to initiate an investigation.

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PART TWO

STATEMENT OF TERMS AND CONDITIONS
WATER SERVICE

IV. RULES AND REGULATIONS

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-401 through A.A.C. R14-2-411 will be controlling of Company procedures, unless specific Commission Order(s) provide otherwise.

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Applies to all WASTEWATER service areas

PART THREE

**STATEMENT OF CHARGES
WASTEWATER SERVICE**

I. RATES

In Opinion and Order No. 67446, dated January 4, 2005, the Commission approved the following rates and charges to become effective on January 4, 2004:

<u>Water Service Size</u>	<u>Minimum Charge</u>	<u>Rate per 1,000 Water Usage</u>
A. General Residential Service		
All Sizes	-0-	\$2.73
B. Commercial and Industrial Service		
Car washes, Laundromats,		
Commercial, manufacturing	-0-	\$2.67
Hotels, Motels	-0-	\$3.58
Restaurants	-0-	\$4.42
Industrial Laundries	-0-	\$3.92
Waste Haulers	-0-	\$80.00
Restaurant Grease	-0-	\$70.00
Treatment Plant Sludge	-0-	\$80.00
Mud Sump Waste	-0-	\$250.00

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PART THREE

**STATEMENT OF CHARGES
WASTEWATER SERVICE**

II. TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).

III. ADDITIONAL CHARGES⁹

A.	Establishment of Service per Rule R14-2-603D (new customer charge, in addition to D, I and J below)	\$20.00 ¹⁰
1.	If after hours	40.00
B.	Re-establishment of Service per Rule R14-2-603D (same customer, same location within 12 months)	Note ¹¹
C.	Reconnection of Service Per Rule R14-2-603D	50.00
1.	If after hours	40.00

⁹ Additional charges authorized in Paragraph III E, F and G shall not be duplicated for dual service customers.

¹⁰ Initial monthly billing under PART THREE I to new wastewater service for homes under construction shall commence no sooner than 30, and no more than 60 days after the water meter is installed. Wastewater billing to new service at existing locations shall be pro-rated from the start of service.

¹¹ Number of months off system times the sum of the monthly minimum.

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**STATEMENT OF CHARGES
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D.	Deposit Requirement ¹² per Rule R140-2-603B	
1.	Residential customer	(2 times estimated average monthly bill)
2.	Non-residential customer	(2-1/2 times estimated maximum monthly bill)
3.	Deposit Interest	3.0%
E.	Charge for NSF Check per Rule R14-2-608E ¹³	\$20.00
F.	Deferred Payment Finance Charge, per month ¹⁴	1.5%

¹² The Company does not normally require a deposit prior to the provision of service. However, if the service is not in the property owner's name, this deposit is required. Also in the event service is disconnected due to nonpayment, this deposit may be required.

¹³ This charge shall not apply if wastewater service is paid with the same NSF check used to pay for water service for which a NSF fee is charged.

¹⁴ Deferred payments for wastewater service are only available if established in connection with deferred payments for water service under PART ONE, III(I) of this tariff.

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**STATEMENT OF CHARGES
WASTEWATER SERVICE**

G.	Late Payment, Per Month, per Rule R14-2-608F	1.5% ^{15 16}
H.	Service Calls, per hour After hours only	\$40.00 ¹⁷
I.	Service Lateral Connection Charge ¹⁸ Residential Commercial	\$500.00 Cost ¹⁹
J.	Main Extension Tariff, per Rule R14-2-606B	Cost ²⁰

¹⁵ This charge shall not apply if the customer has arranged for a Deferred Payment Plan.

¹⁶ Bills for utility services are due and payable when rendered. Any payment not received within fifteen (15) days from the date the bill was rendered shall be considered delinquent and subject to the termination policy set forth in the Company's rate tariff. All Late Payment Charges shall be billed on the customer's next regularly scheduled billing. If the customer fails to pay the Late Payment Charge by the due date on the next billing, the customer will receive a ten (10) day termination notice. If the customer does not pay the Late Payment Charges by that date the service will be terminated. Service shall be terminated only for that service for which the customer is delinquent or is in violation of other Tariff or Rule provisions. All customers whose service is terminated for failure to pay the Late Payment Charges are subject to the Company's reconnection charges set forth in the Company's tariff.

¹⁷ For service problem found to be on Customer's side of lot line. Company will not repair problem.

¹⁸ The Company shall own the Service Lateral up to the Customer's property line. The Customer shall own the Service Lateral beyond that point. The Company shall maintain and operate the Service Lateral only from the connection to the main line in the street or right-of-way up to its interconnection with the Customer's Service Lateral at the edge of the right-of-way, beyond which maintenance is the Customer's responsibility

¹⁹ Per Sheet No. 26.

²⁰ All Main Extensions shall be completed at cost per Sheet No. 30 and shall be non-refundable Contributions-in-Aid-of-Construction.

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PART THREE**STATEMENT OF CHARGES
WASTEWATER SERVICE****IV. PERMITTED COSTS**

- A. Costs shall be verified by invoice.
- B. For services that are provided by the Company at cost, cost shall include labor, materials, other charges incurred, and overhead not to exceed 10 percent. However, prior to any such service being provided, the estimated cost of such service will be provided by the Company to the customer. After review of the cost estimate, the customer will pay the amount of the estimated cost to the Company.
- C. In the event that the actual cost is less than the estimated cost, the Company will refund the excess to the customer within 30 days after completion of the provision of the service or after Company's receipt of invoices, timesheets or other related documents, whichever is later.
- D. In the event the actual cost is more than the estimated cost, the Company will bill the customer for the amount due within 30 days after completion of the invoices, timesheets or other related documents, whichever is later. The amount so billed will be due and payable 30 days after the invoice date. However, if the actual amount is more than five percent (5%) greater than the total amount paid, the customer will only be required to pay five percent (5%) more than the total amount paid, unless the Company can demonstrate that the increased cost was beyond its control and could not be foreseen at the time the estimate for the total amount was made.
- E. At the customer's request, the Company shall make available to the customer all invoices, timesheets or related documents that support the cost for providing such service.

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PART THREE

**STATEMENT OF CHARGES
WASTEWATER SERVICE**

- F. Permitted costs shall include any Federal, State or local taxes that are or may be payable by the Company as a result of any tariff or contract for wastewater facilities under which the Customer advances or contributes funds or facilities to the Company.

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PART FOUR**STATEMENT OF TERMS AND CONDITIONS
WASTEWATER SERVICE****I. CUSTOMER DISCHARGE TO SYSTEM****A. Service Subject to Regulation**

The Company provides wastewater service using treatment and collection facilities that are regulated by numerous county, state and federal Statutes and Regulations. Those Regulations include limitations as to domestic strength wastewater and the type of wastewater that may be discharged into the system by any person directly or indirectly connected to the plant.

B. Waste Limitations

The Company has established the permissible limits of concentration as domestic strength wastewater and will limit concentration for various specific substances, materials, waters, or wastes that can be accepted in the sewer system, and to specify those substances, materials, waters, or wastes that are prohibited from entering the sewer system. Each permissible limit so established shall be placed on file in the business office of the Company, with a copy filed with the Commission. No person shall discharge, or cause to be discharged, any new sources of inflow including, but not limited to, storm water, surface water, groundwater, roof runoffs, subsurface drainage, cooling water, or polluted industrial process waters into the sanitary sewer. The Company will require an affidavit from all commercial and industrial customers, and their professional engineer, stating that the wastewater discharged to the system does not exceed domestic strength.

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PART FOUR

STATEMENT OF TERMS AND CONDITIONS
WASTEWATER SERVICE

C. Inspection and Right of Entry

Every facility that is involved directly or indirectly with the discharge of wastewater to the Treatment Plant may be inspected by the Company as it deems necessary. These facilities shall include but not be limited to sewers; sewage pumping plants; all processes; devices and connection sewers; and all similar sewerage facilities. Inspections may be made to determine that such facilities are maintained and operated properly and are adequate to meet the provisions of these rules. Inspections may include the collection of samples. Authorized personnel of the Company shall be provided immediate access to all of the above facilities or to other facilities directly or indirectly connected to the Treatment Plant at all reasonable times including those occasioned by emergency conditions. Any permanent or temporary obstruction to easy access to the user's facility to be inspected shall promptly be removed by the facility user or owner at the written or verbal request of the Company and shall not be replaced. No person shall interfere with, delay, resist or refuse entrance to an authorized Company representative attempting to inspect any facility involved directly or indirectly with a discharge of wastewater to the Treatment Plant. Adequate identification shall be provided by the Company for all inspectors and other authorized personnel and these persons shall identify themselves when entering any property for inspection purposes or when inspecting the work of any contractor.

All transient motor homes, travel trailers and other units containing holding tanks must arrive at the Company's service area in an empty condition. Inspection will

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PART FOUR**STATEMENT OF TERMS AND CONDITIONS
WASTEWATER SERVICE**

be required of said units prior to their being allowed to hookup to the wastewater system.

D. Termination of Water Service for Violation of Wastewater Rules and Regulations

The Company is authorized to discontinue water service to any person connected to both its water and sewer systems who violates the Company's wastewater terms and conditions as set forth in this PART FOUR or in any way creates a public health hazard or the likelihood of such a public health hazard. This termination authority does not apply to non-payment for water or wastewater services.

II. RULES AND REGULATIONS

The Company has adopted the Rules and Regulations established by the Commission as the basis for its operating procedures. A.A.C. R14-2-601 through A.A.C. R14-2-609 will be controlling of Company procedures, unless specifically approved tariffs or Commission Order(s) provide otherwise.

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