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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Black Mountain Sewer Corporation ("Black Mountain"), an Arizona corporation, hereby submits this Notice of Filing Rejoinder Testimony in the above-referenced matter. Specifically, filed herewith are the following testimonies, along with supporting schedules and/or exhibits:

1. Rejoinder Testimony of Joel L. Wade.
2. Rejoinder Testimony of Thomas J. Bourassa.

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DATED this 26th day of May, 2006.

FENNEMORE CRAIG, P.C.

By____________________________
Jay L. Shapiro
Patrick J. Black
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Attorneys for Black Mountain Sewer Company

ORIGINAL and thirteen (13) copies of the foregoing were delivered this 26th day of May, 2006, to:

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

COPIES hand delivered this 26th day of May, 2006 to:

Teena Wolfe
Administrative Law Judge
Arizona Corporation Commission
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Phoenix, AZ 85007

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Residential Utility Consumer Office
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And COPIES mailed this 26th day of May, 2006 to:

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Carefree, AZ 85377

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

REJOINDER TESTIMONIES OF

THOMAS J. BOURASSA

and

JOEL L. WADE

WADE

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BEFORE THE ARIZONA CORPORATION COMMISSION

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REJOINDER TESTIMONY OF

JOEL L. WADE

I. INTRODUCTION, PURPOSE AND SUMMARY.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. Joel L. Wade, 21410 N. 19th Ave. Suite 201, Phoenix, Arizona 85027.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes, my rebuttal testimony was submitted in support of Black Mountain Sewer Corporation's ("BMSC" or "Company") application for rate increases.

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

A. My rejoinder testimony relates to the Town of Carefree's ("Town") continuing claims of odor problems originating from the BMSC wastewater collection and treatment system.

II. ODOR COMPLAINTS.

Q. DOES BMSC HAVE AN ODOR PROBLEM, MR. WADE?

A. No, it has an odor complaint problem.

Q. WHAT IS THE DIFFERENCE?

A. BMSC has control over its facilities, its operations and any odors that are emitted from the operation of its facilities. The Company has taken steps and eliminated any odors that can be characterized as problematic, and it appears that many of the complaints the Town points to pre-date the Company's efforts to address odor complaints. Pearson SB at 3-5. In fact, Mr. Pearson's surrebuttal testimony discussing odor complaints shows that customer complaints have steadily declined since BMSC began and then completed plant improvements to address odor complaints. *Id.* What BMSC cannot control is the customers and Town officials, some of whom have chosen to continue to complain about a problem that has been remedied.

Q. THERE DOES APPEAR TO BE AN INCREASE IN COMPLAINTS IN THE TIME FRAME OF DECEMBER 2005 THROUGH MAY 2006. WHAT DO YOU MAKE OF THAT?

A. I am not surprised to find odor complaints in the time frame of December 2005 through May of 2006. It was during this time that the Boulders HOA performed a pavement replacement project throughout the Boulders community. Included as part of the contracted work was the repair and adjustment of all utility facilities that were disturbed during the replacement of pavement. During this time, BMSC noted numerous instances of damage and/or sub-standard repair of sewer mains in the sewer system. *See* Correspondence dated January 5, 2006, copy attached hereto as Wade Rejoinder Exhibit 1. It is my recollection that it took nearly three months after this letter was sent for the Boulders HOA to respond and remedy these damages.

Q. WHAT ABOUT THE TESTIMONY OF THE TOWN MANAGER THAT THE TOWN IS AWARE OF CURRENT ODOR PROBLEMS?

A. Mr. Francom supports this claim by making two points, the second of which is that BMSC has an odor problem because it is continuing to receive customer complaints. Francom SB at 3. Mr. Pearson makes the same point in his testimony. Pearson SB at 3-5. Mr. Francom also testifies that not all of the Company's customers agree that there is <u>no</u> odor problem. Francom SB at 5. This is exactly my point—BMSC has a problem with customer complaints about odors.

Q. FAIR ENOUGH, BUT MR. FRANCOM ALSO CLAIMS HE PERSONALLY SMELLED RAW SEWAGE AT ONE OF THE COMPANY'S LIFT STATIONS. ISN'T THAT EVIDENCE OF AN ODOR PROBLEM?

A. It may be considered evidence of an odor problem by Mr. Francom, however, there are a number of reasons odors may be misconstrued as sewer gases. For example, BMSC has identified a number of fugitive odor emitters unrelated to the Company's infrastructure or operation. These include illicit discharges of grease from commercial customers, stagnant water in low-lying stormwater tributaries and uncovered residential and commercial waste receptacles. Evidence of these examples were presented to the Town Council some time ago. Remediation of these sources is largely outside the Company's control.

Q. **IS IT POSSIBLE THAT MR. FRANCOM IS RIGHT AND ODORS ARE JUST NOT BEING DETECTED AT ALL TIMES?**

A. It is possible because the Company cannot be everywhere all the time. However, BMSC took this possibility into account in its odor assessment efforts. As identified in the LTS studies, over 200 consecutive hours of data was collected, and repeated during the same days of the week for two consecutive weeks. Wade RB at 3-9 and Wade RB Exhibits 1 and 2. As Mr. Francom admits, the Town has no scientific data to support its claims. Francom SB at 4. But BMSC does. Wade RB Exhibits 1 and 2.

Q. **MR. FRANCOM ALSO TESTIFIES THAT YOU CANNOT DISPUTE THAT LONG RAW SEWAGE RETENTION TIMES RESULT IN SEPTIC SEWAGE. HOW DO YOU RESPOND?**

A. Mr. Francom is wrong — in fact, I could not disagree more. If not properly controlled, sewer detention can become a catalyst in support of septic conditions, however, it does not <u>cause</u> these conditions. Septic conditions are a result of depleted oxygen levels, improper pH and alkalinity conditions as well as supportive levels of the required bacteria. Sewage may remain in a sewer system indefinitely without becoming septic if the proper conditions are maintained. Cities like Phoenix, Scottsdale and Glendale maintain sewer systems with many times longer detention than the BMSC system. These large sewer conveyance systems are able to accomplish this by controlling the conditions of the sewer, in many instances utilizing the same methodology as BMSC.

Q. **MR. FRANCOM TESTIFIES THAT THE TOWN'S OFFER TO PAY FOR TEST EQUIPMENT IS CONSISTENT WITH BMSC'S OWN EXPERTS RECOMMENDATIONS. WHY NOT JUST LET THE TOWN PAY FOR THIS TEST EQUIPMENT?**

A. Ultimately, that is a decision for the Company, and I made my recommendation based from the completed LTS report conclusions. The recommendation for the improvements Mr. Francom is referring to was reported in the LTS Phase III report. These recommendations were premature and ultimately recanted in the Phase VI report. *See* Wade RB Exhibit 1. The reason for this is that further research and odor control development under the Phase VI report showed that under controlled sewer conditions, this type of odor control was not warranted, and I agree with LTS Phase VI conclusions.

Q. **DO YOU WISH TO MAKE ANY OTHER COMMENTS AT THIS TIME?**

A. Yes, I would like to respond to Mr. Francom's comment about his having personal knowledge of BMSC's system because he operated it for five years. Francom SB at 2-3. First, that was several years ago before Algonquin acquired the Company and, as made abundantly clear in my rebuttal testimony, there have been major improvements to the system since Mr. Francom was involved in the operations. *See, generally,* Wade RB. Second, while I do not intend to disparage Mr. Francom, he was operating a system that had an odor problem. I have no personal knowledge of the issues that led to those odorous conditions, however, it is very clear by the numerous odor control reports, regulatory inspections and supportive regulatory correspondence that those same conditions simply do not exist today. Why these conditions existed doesn't really matter because the system does not have an odor problem today and for all its complaining, the Town has not shown or even alleged that BMSC is operating out of compliance with any law, regulation or applicable industry standard.

Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes.

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WADE EXHIBITS

WADE REJOINDER

EXHIBIT 1

Black Mountain Sewer Corporation

January 5, 2006

Boulders Home Owners Association.
Attn: Home Owners Association President
7518 E Elbow Bend Rd,
Carefree, AZ 85377

RE: BOULDERS HOA PAVEMENT IMPROVEMENT PROJECT - OFFICIAL NOTICE OF DAMAGED UTILITIES

Dear Home Owners Association President:

Please allow this letter to serve as **Official Notice of Damaged Utilities** owned by Black Mountain Sewer Company (BMSC) in correlation with to Boulders Homeowners Association's (BHOA) most recent pavement improvements (noted as "The Pavement Project") relevant to adjustment work performed by Sunland Paving (Contracted Construction Company or Contractor). During the course of construction of the project, BMSC Staff have noted numerous events and activities, which have led to serious damages to surface and below grade utilities owned by BMSC. These damages include, but are not limited to the following:

- Asphalt overlay material adhering to manhole lids. This material needs to be removed to allow secure fastening of the manhole lid and covers to the mounting ring;
- Manhole ring adjustments utilizing bricks need to be properly grouted securely inside the manhole.
- All manholes and connecting sewers need to be properly cleaned of all construction material and debris, which have fallen into the manhole during the course of construction.
- All manhole lids must be properly seated within the mounting ring to protect the sewer from storm water run-off and infiltration.
- All manhole covers removed during the course of construction must be replaced with the original manhole lid or a new "like-in kind" specifically machined and manufactured for the "like-in-kind" receiving manhole. Mismatched manhole covers with protruding air gaps or uneven placement will not be accepted.
- All manhole covers in the collection system prior to the Project bore the insignia

Black Mountain Sewer Co.
PO Box 459
Litchfield Park, AZ, 85340

Telephone: (623) 935-9367 Facsimile: (623) 935-1020

"Sanitary Sewer." Mismatched or improper markings on the manhole covers with other city logos or non-compliance identifications (ie "Storm Sewer," "Town of Buckeye" "Arizona Water") will not be accepted, and must be replaced with manholes' of proper insignia.

- Manholes with bolt-down covers and rubber gasket seals are required to be replaced with new, "like-in-kind" mounting hardware and gasket material (mounting hardware and gasket materials has been removed or damaged to gain access).

- Several manholes and covers have been physically damaged during removal and/or replacement. All damages must be repaired, or replaced with "like-in-kind", new materials.

- Several manholes and sewer clean-outs are still buried under pavement, have not been properly raised to surface level, and have not been properly inspected for further damages.

As a result, it is BMSC's intention to reject final approval or acceptance of the construction, installation or repair work conducted by BHOA or its Contractor. All sewer rings; risers and manhole cover re-installation, not in strict compliance with current Arizona Revised Statutes (ARS) and Maricopa County Association of Governments (MAG) Uniform Standard Details for Public Works Construction rules and specification will not be accepted.

As a major component of our sewer collection system serving as many as 1500 customers, let me express our deepest concern that the modifications and corrections conducted by the BHOA and its contractor are not properly constructed nor installed to recognized engineering specification or construction standards. It is our understanding that BHOA will take immediate and decisive measures with site-specific characterization to expedite remedial action to meet the project requirements applicable to current ARS and MAG rules and specification. Until such time that BMSC is convinced that all subsidence, settlement and sub-standard installation issues have been properly addressed, and all damaged equipment has been repaired to required specification, BMSC is forced to withhold final construction approval and may exercise all remedies allowed by law.

We look forward to your immediate response to this very serious situation, as environmental health and safety concerns as well as property damage issues are at risk. If I can be of further assistance, please contact my office at 623-298-4823.

BLACK MOUNTAIN SEWER CORPORATION

Sincerely,

Joel L. Wade
Manager of Engineering and Construction
Algonquin Water Services L.L.C.

cc:
Michael D. Weber, P.E. – Vice President & General Manager - Algonquin Water Services L.L.C.
Charles Hernandez – Operations Manager - BMSC
Dan Shanaman – Wastewater Operator - BMSC
Jim Subers – Chief Construction Inspector - BMSC
Pat Neal – Boulders HOA
Project File

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REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

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FENNEMORE CRAIG, P.C.
PHOENIX

I. INTRODUCTION AND PURPOSE OF TESTIMONY.

Q. PLEASE STATE YOUR NAME AND ADDRESS?

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

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct and rebuttal testimony was submitted in support of the initial application in this docket by Black Mountain Sewer Corporation ("BMSC" or "Company").

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

A. I will provide rejoinder testimony in response to the rebuttal filings by Arizona Corporation Commission Utilities Division Staff ("Staff") and the Residential Utility Consumer Office ("RUCO") with respect to rate base, revenues and expenses, cost of capital and rate design.

Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING IN THIS REJOINDER TESTIMONY?

A. The Company is proposing a total revenue requirement of $1,473,999, which constitutes an increase in revenues of $268,547, or 22.28% over test year revenues.

Q. HOW DOES THIS COMPARE WITH THE COMPANY'S REBUTTAL FILING?

A. There is a very slight difference. In the rebuttal filing, the Company requested a total revenue requirement of $1,478,341, which required an increase in revenues of $272,889, or 22.64%.

Q. WHY IS THE REQUESTED REVENUE INCREASE LOWER IN BMSC'S REJOINDER FILING?

A. In its rejoinder filing, BMSC accepted an expense adjustment from Staff and corrected an error in its rate base related to the adoption of Staff's proposed prepaid expense of zero. *See* Direct Testimony of Crystal S. Brown ("Brown DT") at 31 and Surrebuttal Testimony of Crystal S. Brown ("Brown SB") at 12-13. The net result of these adjustments is a $1,380 increase in the proposed level of operating expenses compared to the rebuttal filing and a net decrease in Original Cost Rate Base ("OCRB") and Fair Value Rate Base ("FVRB") of $6,000 from the rebuttal filing.

Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY, STAFF, AND RUCO AT THIS STAGE OF THE PROCEEDING?

A. The proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Increase	% Increase
Staff - Surrebuttal	$1,753,118	$ 216,990	18.00%
RUCO - Surrebuttal	$1,213,210	$ 5,470	.45%
Company - Rejoinder	$1,473,999	$ 268,547	22.28%

II. <u>RATE BASE.</u>

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS?

A. The rate bases proposed by all parties in the case are as follows:

	OCRB	FVRB
Staff - Surrebuttal	$ 1,753,118	$ 1,753,118
RUCO - Surrebuttal	$ 1,372,834	$ 1,372,834
Company - Rejoinder	$ 1,642,269	$ 1,642,269

FENNEMORE CRAIG
PROFESSIONAL CORPORATION
PHOENIX

A. Post Test Year Plant.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company's rejoinder rate base adjustments to OCRB are shown on Rejoinder Schedules B-2, page 2 through 4. Rejoinder Schedule B-2, page 1, shows the rejoinder OCRB. The Company continues to propose that certain post test year plant be included in rate base and has accepted Staff's adjustment to reduce prepaids to zero.

Q. DO STAFF AND RUCO AGREE TO THE INCLUSION OF POST-TEST YEAR PLANT?

A. Yes. Both Staff and RUCO agree to accept the Company's proposed post test year plant. *See* Brown SB at 2; Surrebuttal Testimony of Mary Lee Diaz Cortez ("Diaz-Cortez SB") at 3. However, Staff's surrebuttal rate base does not include the proposed post test year plant. *See* Staff Surrebuttal Schedule CSB-4.

Q. HOW CAN THAT BE?

A. I do not know. Both RUCO and the Company agree that the cost of the chlorinator is $85,699. Staff's rate base should be increased by $85,699.

Q. HAS THE COMPANY ALSO PROPOSED AN ADJUSTMENT TO RETIRE AN EXISTING CHLORINATOR WHICH WAS REPLACED BY THE NEW ONE?

A. Yes. Company's Rejoinder Schedule adjustment 2 reflects this retirement.

B. Deferred Income Taxes.

Q. DOES THE COMPANY CONTINUE INCLUDE DEFERRED INCOME TAXES IN ITS RATE BASE SCHEDULES?

A. Yes. Both Staff and the Company agree to include deferred income tax ("DIT") assets of approximately $164,000, an increase to rate base.

Q. DOES RUCO CONTINUE TO PROPOSE DEFERRED INCOME TAXES IN RATE BASE?

A. Yes, but RUCO proposes a DIT liability of $161,250, a reduction to rate base.

Q. MR. DIAZ-CORTEZ CLAIMS THAT UTILITY BUSINESSES "ALMOST UNFAILINGLY CREATE NET DEFERRED TAX LIABILITIES". DO YOU AGREE?

A. No. This statement (Diaz-Cortez SB at 4) is purely unsupported speculation. In my experience, it is also not true. When a significant amount of plant has been financed by CIAC and AIAC, or when there are net operating losses, DIT assets are common.

Q. WHAT ABOUT RUCO'S CLAIM THAT ITS DIT METHODOLOGY COMPLIES WITH SFAS 109?

A. RUCO's method is inconsistent with SFAS 109. In her surrebuttal testimony (at page 6), Ms. Diaz-Cortez testifies that the "method adopted, however, must be systematic, rational, and consistent with the broad principles established by this statement…". But SFAS 109 further states that an inconsistent method is "a method that allocates deferred taxes to a member of a group using a method fundamentally different from the asset and liability method…" *See* Statement of Financial Accounting Standard 109, page 20, copy attached hereto as Bourassa Rejoinder Exhibit 1.

As I have testified, RUCO's allocation is based on the purchase price for the Company's stock. It is therefore inconsistent with the principles established by SFAS 109. In contrast, the calculation made by the Company and adopted by Staff is consistent with SFAS 109 because it is based on the amounts of assets and liabilities on the books of the Company that created the deferred taxes of the

Company's parent. *See* Rebuttal Testimony of Thomas J. Bourassa ("Bourassa RB") at 11. Additionally, RUCO is attempting to allocate a deferred tax liability generated by assets and liabilities of affiliated (through common shareholder ownership) companies, which have no other relationship to the assets and liabilities of BMSC other than having the same parent company. It follows that RUCO's recommendation should not be adopted.

C. Working Capital.

Q. HAVE YOU MADE A REJOINDER ADJUSTMENT CONCERNING WORKING CAPITAL AND PREPAID EXPENSES?

A. Yes. As I have testified, the Company agrees with Staff's adjustment to reduce working capital and prepaid expenses to zero. *See* Bourassa RB at 11. However, an error was made in the Company's rebuttal filing. The intent of the Company's rebuttal adjustment was to reduce prepaid expenses to zero, but the adjustment doubled the direct filing amount to ($6,000). Company Rejoinder Schedule B-2, adjustment number 1 removes this amount and sets prepaid expenses to zero.

Q. DOES RUCO CONTINUE TO PROPOSE NEGATIVE WORKING CAPITAL?

A. Yes. RUCO claims its estimates were not speculation as evidenced by the fact that they used expense lags as contained in the formula method that the Company initially used and the revenue leads based on the bill date and due dates of the Company. *See* Diaz-Cortez SB at 8. However, none of the parties prepared a lead-lag study, which is what is required to accurately show the revenue and expense leads and lags. Therefore, the best course of action is to allow zero working capital, which both Staff and the Company have done.

D. <u>AIAC/CIAC Balances</u>.

Q. HAS STAFF ACKNOWLEDGED ITS ERROR OF INCLUDING $101,845 OF HOOK-UP FEES FROM JANUARY 1994 THOUGH JUNE 1994 IN ITS COMPUTATION OF ACCUMULATED AMORTIZATION OF CIAC?

A. Not directly in testimony; however, Staff's surrebuttal schedule CSB-8 reflects the correct starting balance and it now appears that the Company and Staff agree on the starting point in the calculation of accumulated amortization.

Q. DO STAFF AND THE COMPANY AGREE ON THE ACCUMULATED AMORTIZATION BALANCE AT THE END OF THE TEST YEAR?

A. No. Staff's accumulated amortization balance is $3,301,772 while the Company's is $3,329,900.

Q. WHY IS THE COMPANY'S ACCUMULATED AMORTIZATION BALANCE HIGHER THAN STAFF'S?

A. Staff does not include expired AIAC contracts in its gross CIAC balance, which contracts should have been recorded in 1999. The additional accumulated depreciation from amortization since 1999 is not included in Staff's computation as shown on Staff's surrebuttal schedule CSB-8. As I testified in rebuttal, during the Company's review of its CIAC and AIAC balances, $150,095 of expired AIAC contracts were found and these should be reclassified. *See* Bourassa RB at 12.

Q. IS THE $150,095 THE DIFFERENCE BETWEEN STAFF'S ADJUSTED GROSS CIAC BALANCE AND THE COMPANY'S ADJUSTED GROSS CIAC BALANCE?

A. Yes. Staff's and the Company's gross CIAC balances are $4,707,536 and 4,857,632, respectively. The difference is $150,096, rounded.

Q. HOW DOES THIS RECLASSIFICATION AFFECT RATE BASE?

A. Merely reclassifying some gross AIAC to gross CIAC results in a net zero impact on rate base. However, accumulated amortization must be increased if the reclassification should have been made prior to the test year end. In the instant case, the reclassification should have taken place in 1999. As a result, the accumulated amortization balance should reflect the amortization from 1999 through the end of the test year. The net effect on rate base is an increase of approximately $28,000.

Q. DID STAFF INCREASE PLANT-IN-SERVICE FOR UNRECORDED PLANT RELATED TO THE COMPANY'S PROPOSED ADJUSTMENTS TO AIAC AND CIAC?

A. No. Staff claims the Company did not provide source documentation to support its assertion that the plant was funded by CIAC. *See* Brown SB at 11. Ms. Brown missed the point completely. In rebuttal, the Company agreed with Staff's adjustments to CIAC and adjusted its CIAC accordingly. The adjustments brought the Staff and the Company's gross CIAC balances into agreement with Staff (excluding the expired AIAC contracts reclassified to CIAC). *See* Bourassa RB at 16. However, Staff's adjustment to CIAC in direct was one-sided. The complete adjustment necessarily involves an adjustment to CIAC as well as plant-in-service, otherwise plant-in-service (and rate base) would be understated. *Id.* The net effect of the adjustment on rate base should be zero.

Q. WHAT ADDITIONAL SOURCE DOCUMENTATION DOES STAFF REQUIRE?

A. According to Staff it requires, "invoices, timesheets, and all other supporting documentation." *See* Staff Response to Company Data Request 5.22, copy attached hereto as Bourassa Rejoinder Exhibit 2.

Q. DID STAFF EVER REQUEST THIS INFORMATION PREVIOUSLY?

A. No, but we have it available or could have provided it if requested.

Q. DID STAFF ADJUST CIAC FOR THE COST OF LAND OF $452,467?

A. Yes. Staff removed both the land cost of $452,467 as well as unexpended CIAC of $380,900 from the CIAC balance, totaling $833,367. I will discuss this later in my testimony.

Q. IS THERE A PROBLEM WITH STAFF'S ADJUSTMENT TO CIAC?

A. Yes. Inexplicably, while Staff reduced CIAC by $452,567, Staff increased plant-in-service by $452,467. Understandably, Staff tried to make a balanced adjustment unlike its one-sided adjustment I discussed above. However, the adjustment to increase land is in error. The cost of the land is already included in plant-in-service. An appropriate offsetting entry, for example to "Cash" or "Customer Refunds", would not affect any rate base elements. In short, Staff has overstated plant-in-service by $452,467. Even though the adjustment benefits the Company it should be reversed because it is not a proper adjustment.

E. <u>Termination of Hook-Up Fee and Customer Refunds</u>.

Q. DOES STAFF AGREE WITH THE COMPANY ON REFUNDING CIAC HOOK-UP FEES USED FOR LAND PURCHASES AND FOR UN-EXPENDED HOOK-UP FEES TOTALING $833,367?

A. Yes, however, Staff does not agree with how the refunds are to be calculated. *See* Brown SB at 18. The Company's proposed refund is computed on a per customer basis, irrespective of customer class. Each customer will receive the same amount. *See* Bourassa RB at 77. Staff believes the refunds should be calculated based upon the amount contributed by each customer class. *See* Brown SB at 18.

FENNEMORE CRAIG
PROFESSIONAL CORPORATION
PHOENIX

Q. DOES THE COMPANY TRACK THE AMOUNTS CONTRIBUTED BY EACH CUSTOMER CLASS?

A. No. This information is not available, nor would it necessarily result in a more fair refund computation.

Q. WHY IS THE COMPANY'S PROPOSED REFUND COMPUTATION FAIR?

A. The Company has essentially two classes of customers, residential and commercial. Over 92 percent of the customer base is residential. Since most of the Company's customer growth and customer base is residential, the CIAC refund will be made primarily to the residential class – presumably where most of the hook-up fees were derived.

Q. HAS RUCO ACCEPTED THE COMPANY'S PROPOSAL TO REFUND HOOK-UP FEES TO CUSTOMERS AS STAFF HAS?

A. RUCO is silent on the issue. Given that the proposed refund to customers is substantial and RUCO being a utility consumer advocate, I would have expected RUCO to have weighed in on the matter.

F. Staff's Removal of "Affiliated Profit".

Q. DOES STAFF MAINTAIN ITS POSITION THAT AFFILIATE PROFIT MUST BE REMOVED FROM PLANT-IN-SERVICE?

A. Yes. *See* Brown SB at 10. Putting aside for the moment that the Company disagrees with Staff's position on affiliated profit conceptually, I pointed out in rebuttal that approximately $15,256 of the $20,926 of capitalized affiliate profit was CIAC related. *See* Bourassa RB at 18. Staff continues to leave CIAC unadjusted for this affiliate profit, and, as a result, Staff's rate base would still be understated if Staff's proposal to remove affiliate profit were adopted.

Q. WHAT ADDITIONAL ARGUMENTS DOES STAFF PROVIDE TO SUPPORT ITS POSITION TO REMOVE AFFILIATE PROFIT?

A. None. In response to the Company's rebuttal testimony, Staff argues that reasonableness of the amounts charged is not sufficient to determine whether an expense should be allowed. Staff asserts that other important factors need to be considered, including: (1) whether or not the cost was needed for the provision of service; (2) the used and usefulness; (3) the prudency of the expense; and (4) whether the affiliate had to forgo other profitable opportunities in order to provide service to the utility. *See* Brown SB at 10.

Q. HOW DOES THE COMPANY RESPOND?

A. Let me start with factor 4, which is easily dispensed with in this case. As Mr. Weber testified, Algonquin Water Services ("AWS") was specifically created for the purpose of providing operation and maintenance, engineering and construction, financial and accounting, administration and management and customer relation services to the 15 water and sewer utilities owned by Algonquin. *See* Rebuttal Testimony of Michael D. Weber ("Weber RB") at 2-6. This arrangement provides each of the respective affiliated utilities a full range of services at a fraction of the cost that would be incurred if these services were directly supported by hiring workers directly.

Factors 1 through 3 are not new and all of these factors should be part of analyzing whether costs are reasonable. *See* Bourassa RB at 35. The evidence in this case shows that the costs, including amounts labeled "affiliate profit," are very reasonable and the impact on the Company and ratepayers is positive. *See* Weber RB at 2-6; Bourassa RB at 34-35. Unfortunately, Staff's analysis boils down to "affiliate" or "non-affiliate". The latter is entitled to earn a profit on essential services.

Q. **HASN'T THE COMPANY SHOWN THAT OBTAINING COMPARABLE SERVICES DIRECTLY WOULD BE FAR EXPENSIVE?**

A. Yes, by over $220,000 annually. *See* Bourassa RB at 35. Staff dismisses the Company's analysis as unsupported. *See* Brown SB at 8. However, Staff has not provided any analysis of its own and has not identified any problems or deficiencies in the Company's analysis. Nor has Staff used its own experience and judgment to determine the reasonableness of the components employed in the Company's analysis. Ms. Brown is an experienced Staff member with years of experience auditing and reviewing both water and wastewater utilities in Arizona. In every case I have been involved, Staff requests employee salary and wage information. In my opinion, Staff's unsupported rejection of the Company's analysis should be given no weight or credibility whatsoever.

Q. **HAS THE COMPANY PROVIDED OTHER SUPPORTING INFORMATION?**

A. Yes. Not only have cost savings compared to having all employees and services provided directly been demonstrated in this case, the Company has provided costs from non-affiliates performing similar services. The comparables were shown to be at or below the affiliate costs at issue in this case. *See* Bourassa RB at 18 and 34.

Q. **DID THE COMPANY OBTAIN COMPETITIVE BIDS FROM NON-AFFILIATES?**

A. No, obtaining competitive bids is difficult, if not impossible. As I testified, the Company is not aware of any local firms that provide or even have the ability to provide the same range of services as BMSC's affiliates. *See* Bourassa RB at 34. The fact that there are no "competitive" bids does not mean there is no meaningful information from which the reasonableness of the costs can be tested. While the comparison is not an apples-to-apples comparison, as the known non-affiliates provide a more narrow range of service, the information can be used to show that the overall cost of the affiliated services is reasonable.

Q. WHAT ABOUT MS. BROWN'S CONTENTION THAT AFFILIATE PROFIT IS "NOT NEEDED" TO PROVIDE SERVICE?

A. Under this standard, the profits earned by non-affiliates should also be removed as they are no more or less necessary than the affiliated profits. The fact is, the affiliate profit is "necessary" if the services are going to be provided by the affiliated companies. They are not charities. This is why we have repeatedly questioned Staff's refusal to analyze the reasonableness of the use of affiliated companies to provide essential services. In that analysis, the choice is spend another $220,000 for BMSC (and additional amounts for BMSC's other affiliates) to serve customers or allow Algonquin to manage and operate its utilities in the manner it has because the results are reasonable and beneficial to ratepayers.

Q. WHAT ABOUT THE "OTHER COMPANIES" THAT ALLEGEDLY REMOVE PROFIT?

A. In her testimony, Ms. Brown states that "companies remove affiliate profit from the cost of service because they recognize it is not needed and that inclusion of profit wastes the customers' valuable resources". *See* Brown SB at 7. Yet, when asked to support this statement, Staff could not. *See* Staff Response to Company Data Request 4.13, copy attached hereto as Bourassa Rejoinder Exhibit 2. Again, however, the issue is whether what BMSC is doing is reasonable. Only the Company has presented evidence and met its burden of proof on this issue.

Q. HAS THE COMPANY CREATED BARRIERS TO ENTRY FOR NON-AFFILIATES?

A. No. Neither BMSC nor its affiliates control the market place. Non-affiliates can enter the market and offer the same services the Company's affiliates provide. The fact is, the Company is not aware of any local non-affiliates who have done so. This may be because they cannot offer the same level of service at the same price or less than the Company's affiliates. If BMSC and its affiliates controlled the market, the affiliates could and would charge excessive rates, which is clearly not the case. Remember, Staff claims one cent is "excessive". In reality, the Company and its affiliates are kept in check by the effect of regulation employing reasonableness and prudency standards on allowed costs in the cost of service, if Staff would conduct such an analysis rather than simply removing legitimately incurred and obviously necessary costs. The fact is, even with affiliate profit included, the Company, and ultimately ratepayers, are paying no more and likely far less than if non-affiliates provided the same services.

Q. WHY DID THE COMPANY'S AFFILIATE INCREASE FEES BY $5,562 FROM 2003 TO 2004?

A. The increase reflected an increase in allocated portion of costs of providing service, not an increase in the intended profit of the affiliate. Also, in 2003, the Company was charged $7,500 as a monthly "Operating Fee" and an additional $7,500 as a monthly "Repair and Maintenance Fee" (see Company response to CSB 1.52), for a total monthly charge of $15,000. The two fees were consolidated into one monthly charge in 2004 in the amount of $13,062 per month. At the same time, other management fees were reduced from $5,000 per month to $1,500 per month. As I have testified, the Company has accepted RUCO's proposal to reduce management fees by $24,500 to the annualized amount based on these lower fees.

Q. IS THE EXAMPLE PROVIDED BY MS. BROWN ON PAGE 8 OF HER SURREBUTTAL TESTIMONY VALID?

A. No. Ms. Brown's example is misleading. First, the Company was only charged for actual services performed by affiliates. Ms. Brown assumes 100 percent of the General Manager's time is billed to its affiliates. Second, the General Manager billing, as listed in the Company's supporting documentation, is for work order activity related activities, costs that are capitalized, not included in operating expenses. Affiliate profit identified with the Company's capital projects was less than $21,000. Third, the General Manager rate is at or below market.

Q. **DO YOU HAVE ANY FINAL COMMENT ON THE AFFILIATED SERVICES ISSUE, MR. BOURASSA?**

A. Yes. The manner in which BMSC and its affiliates are operated and managed should be welcomed by the Commission. This type of service-consolidation benefits customers, utilities, and regulators. BMSC and its affiliates are achieving economies of scale on planning, construction, operation and maintenance, administration and management. Staff has recently recognized the significant benefits of Algonquin's organization. *See* Staff Report dated May 17, 2006, Docket Nos. W-20453A-06-02, et al. (consolidated). Algonquin is saving 50,000 water and sewer customers across the State a significant amount of money. BMSC saves its ratepayers hundreds of thousands of dollars of additional costs. Frankly, this should not even be an issue in dispute this case.

G. <u>RUCO Adjustment for Scottsdale Capacity</u>.

Q. **DOES RUCO CONTINUE TO PROPOSE THAT THE SCOTTSDALE TREATMENT CAPACITY BE GIVEN RATE BASED TREATMENT RATHER THAN TREATMENT AS AN OPERATING LEASE?**

A. Yes, but the only basis RUCO offers is that BMSC is an entirely different company with different ownership and an entirely different capitalization. *See* Diaz-Cortez SB at 2. On this basis, RUCO argues that the Commission can arbitrarily change the ratemaking methodology to benefit ratepayers at the Company's expense. The fact is, there are no changes in circumstances to justify reversing the ratemaking treatment.

Q. DID THE CORPORATE ENTITY CHANGE AS A RESULT OT THE STOCK PURCHASE BY ALGONQUIN IN 2001?

A. No. Algonquin purchased the stock of Boulder's Carefree Sewer Company in 2001. While the name was changed to Black Mountain Sewer Corporation, it is the same corporate entity. There is no new stock and the capitalization before and after the purchase of the stock remain the same. RUCO just chooses to ignore the facts. *See* RUCO Response to Company Data Request 3.2 and 3.3, copies attached hereto as Bourassa Rejoinder Exhibit 3. A change in ownership of stock does not change the entity. The stock of the publicly held companies like Pinnacle West, Southwest Gas, QWEST, American States, Aqua American, and California Water change daily, but that does not make them different entities.

H. <u>Miscellaneous Rate Base Issues</u>.

Q. IS THERE DISAGREEMENT WITH RUCO AND STAFF ON CERTAIN ADJUSTMENTS TO PLANT IN SERVICE FOR CAPITALIZED EXPENSES?

A. Yes. RUCO continues to propose to capitalize $3,485 of legal expense. Staff proposes to capitalize $3,228 of legal costs. The Company continues to disagree. While RUCO proposes to capitalize legal expenses, they have not proposed any recovery in operating expenses.

RUCO also proposes to capitalize $1,280 of safety training costs. Training costs are typically a "period expense" as there is no definable time period to amortize the costs incurred. If someone is trained, and they leave the next month, that training cost must be re-incurred. Thus, safety training costs are normal and recurring expenses that benefit both the Company and rate payers and should be encouraged, not discouraged by denying recovery in operating expenses.

III. INCOME STATEMENT.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S REJOINDER ADJUSTMENTS TO REVENUES AND EXPENSES?

A. The rejoinder income statement with adjustments is shown on Rejoinder Schedule C-1. The Company's rejoinder adjustments are detailed on Rejoinder Schedule C-2, page 2-5.

Rejoinder adjustment number 1 removes $2,200 of non-recurring truck expenses. The Company concurs with Staff.

Rejoinder adjustment number 2 annualizes depreciation based on the rejoinder proposed test year plant, including the new chlorinator and the retirement of the chlorinator it replaced.

Rejoinder adjustment number 3 reflects the adjustment to income taxes using the Company's rejoinder proposed revenues and expenses.

Q. ARE THERE ANY OTHER ADJUSTMENTS TO REVENUES AND/OR EXPENSES?

A. No.

A. Scottsdale Lease Expense and Income Taxes.

Q. DOES THE COMPANY STILL PROPOSE TO INCLUDE THE GROSS-UP FOR INCOME TAXES IN OPERATING EXPENSES?

A. Yes. Staff proposed to remove the gross-up for income taxes from the Scottsdale lease expense. *See* Bourassa RB at 38. In an attempt to simplify the computation of income taxes and still allow the Company to recover the income taxes on the non-deductible principle payments, Staff adds back to taxable income the principle and interest of the lease payments and deducts interest synchronized interest expense to compute income taxes. The Company still finds that Staff's method of computing income taxes results in an overstatement income taxes. *See* Bourassa RB at 38 and 39. While the higher computed income taxes of Staff benefit the Company, it translates to higher costs to ratepayers.

Q. **DID STAFF PROVIDE ANY RESPONSE TO YOUR TESTIMONY REGARDING THE HIGHER INCOME TAX RESULT USING STAFF'S METHOD OF COMPUTING INCOME TAXES?**

A. No.

B. Rate Case Expense.

Q. **HOW HAS STAFF RESPONDED TO THE COMPANY'S PROPOSAL TO INCREASE RATE CASE EXPENSE BY $30,000, OR $7,500 ANNUALLY?**

A. Staff has proposed to increase rate case expense by $4,800 or $1,200 annually. *See* Brown SB at 17. This amount is 50 percent of Staff's estimate of the additional costs Staff expects the Company to incur as the result of intervention by the Town of Carefree. This is unrealistic. The Town has introduced a significant new issue, three additional witnesses whose testimony, which in this case includes a substantial amount of scientific and other technical data, must be analyzed. These witnesses also have to be cross-examined at hearing and the Company's witnesses prepared on the issues raised by the Town. Then, the issues have to be addressed in the post-hearing briefing. Obviously, $4800 is an inadequate amount to cover the cost of these legitimate tasks. Perhaps more importantly, this shows why the amount actually incurred in this case is the best evidence of reasonable rate case expense.

Q. **SO THE COMPANY SHOULD RECOVER EVERYTHING IT INCURS?**

A. No, and in this case my estimates assumes BMSC will absorb roughly 25% or nearly $50,000 of rate case expense. This means, even if Staff were right (and Staff is wrong) that other additional costs should be born by the Company because

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PHOENIX

it was late on a few data request responses, the Company is absorbing such costs.

Furthermore, as I explained in my rebuttal testimony, the significant numbers of data requests served on the Company by Staff are not the result of the Company's actions, but rather, primarily due to the fact that Staff has replaced the on-site audit with a process that relies exclusively on data requests. In my experience, utilities find it very difficult to respond to all requests within 10 calendar days. What Staff did not tell the Commission is that the Company was timely on the vast majority of the hundreds of data requests served by the other parties in this proceeding.

Q. **DID THE COMPANY WITHHOLD SOME ANSWERS TO DATA REQUESTS DUE TO OBJECTIONS LATER WITHDRAWN?**

A. Yes, but Staff's portrayal of this as improper is a bit overzealous. *See* Brown SB at 17. The Company did challenge certain requests from both Staff and RUCO, which is neither uncommon nor improper. In this case, the parties resolved their disagreement without hearing intervention and no harm was done, much as Staff and the Company did when Staff delayed sufficiency on grounds the Company questioned. Nor is there any evidence regarding a significant impact on rate case expense from these circumstances.

Q. **WHAT IS RUCO'S POSITION ON RATE CASE EXPENSE?**

A. RUCO does not agree to the Company's proposed rate case expense. RUCO is willing to accept the Company's initial request of $120,000 as the maximum amount that should be authorized claiming it lacks a "template" upon which to make a comparison with prior Commission decisions for this Company under new ownership. *See* Surrebuttal Testimony of William A. Rigsby ("Rigsby SB") at 9. As I testified above, and throughout this case, the best evidence of rate case expense is the amount actually and reasonably incurred. A before-the-fact estimate hardly compares.

Q. WHAT IS THE LEVEL OF ACTUAL RATE CASE EXPENSE THROUGH REBUTTAL?

A. Approximately $115,000 through **April 2006**. With the cost of rejoinder, hearings, briefing and open meeting in front of us, I think the Company's estimates are on track. The Company will "true-up" its rate case expense to the greatest extent possible in its final brief and continues to accept that it will not recover every dollar actually incurred.

C. <u>Affiliate Profits</u>.

Q. DOES THE COMPANY CONTINUE TO DISAGREE WITH THE REMOVAL OF AFFILIATE PROFITS FROM OPERATING EXPENSES?

A. Yes. The Company disagrees with Staff's proposal to remove affiliate profit of $21,761 from operating expenses for the reasons discussed in my testimony above and in my rebuttal testimony.

Q. DID STAFF ACCEPT RUCO'S AND THE COMPANY'S PROPOSAL TO REDUCE MANAGEMENT FEES BY $24,500?

A. No. As you will recall, certain contractual rates between BMSC and its affiliates were reduced from $5,000 per month to $1,500 per month during the test year. *See* Bourassa RB at 33. The annualized reduction is $24,500.

Q. THE REDUCTION IN MANAGEMENT FEES IS IN THE SAME RANGE OF AFFILIATE PROFIT STAFF PROPOSES TO REMOVE. DOES STAFF ALSO RECOMMEND REDUCING THE MANAGEMENT FEES?

A. No.

Q. IS THIS WHY STAFF HAS NOT ADOPTED RUCO AND THE COMPANY'S PROPOSAL?

A. I do not know. In my opinion, all affiliate profit in operating expenses for the test year has effectively been eliminated as the result of the Company's adoption of this adjustment. The evidence shows that the Company's affiliates have passed through their lower costs to the Company despite the "profit". Nevertheless, the position Staff takes is problematic for the reasons the Company has identified.

D. <u>Miscellaneous Income Statement Issues</u>.

Q. IS THERE STILL DISAGREEMENT BETWEEN THE PARTIES ON HOW PROPERTY TAXES ARE COMPUTED?

A. Not between Staff and the Company. RUCO now argues because of a property tax bill moving through the Arizona legislature (Senate Bill 1432) and yet to be enacted, utility companies will have "windfall" profits. *See* Rigsby SB at 6. An expense cannot be eliminated on speculation that it might be eliminated in the future by the Legislature and RUCO admits that right now all we have is speculation. *See* RUCO Response to Company Data Request 3.14, copy attached hereto as Bourassa Rejoinder Exhibit 3. RUCO's concern does not lead to a known and measurable adjustment at this time in this case. Therefore, the Commission should reject RUCO's position on property tax expense as it has numerous times in the last few years.

Q. HAS STAFF AGREED TO THE COMPANY'S PROPOSAL TO INCLUDE $1,693 OF BAD DEBT EXPENSE IN OPERATING EXPENSES?

A. Yes. *See* Brown SB at 15.

Q. HAS THE COMPANY ACCEPTED STAFF'S ADJUSTMENT TO REMOVE $3,228 LEGAL EXPENSE FROM OPERATING EXPENSES?

A. No. For the reasons stated previously.

Q. HAS THE COMPANY ACCEPTED STAFF'S ADJUSTMENT TO REMOVE $2,200 OF NON-RECURRING TRUCK RENTAL EXPENSE FROM OPERATING EXPENSES?

A. Yes. Rejoinder adjustment 1 reflects this adjustment.

IV. COST OF CAPITAL.

A. Introduction and Summary of BMSC's Position.

Q. PLEASE SUMMARIZE THE COMPANY'S REJOINDER POSITION REGARDING APPROPRIATE COST OF CAPITAL AND RATE OF RETURN ON RATE BASE.

A. The Company continues to request 11.0% as its cost of capital and rate of return on original cost rate base, which BMSC accepts as the fair value of its utility property for purposes of this rate case. The 11.0% rate of return is based on a capital structure consisting of 100% common equity. Thus, in determining the revenue requirement, I have used a capital structure consisting of 100% equity.

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL SCHEDULES?

A. Yes. I have updated my cost of capital analysis using more recent data. My updated schedules are attached to this testimony as Rejoinder Schedules D. In my direct filing, I applied two versions of the constant growth discounted cash flow ("DCF") model and a two-stage DCF model to the six water utilities in my sample group. The rejoinder DCF analyses appear on Rejoinder Schedules D-4.9, D-4.10, and D-4.11. Using current data, these DCF models produce an indicated equity cost in the range of 8.7% to 11.5%.

I also updated and reviewed cost of equity estimates based on my bond-yield plus risk premium method. The risk premium results appear on Rejoinder Schedules D-4.12 and D-4.13. The rejoinder risk premium analysis based on actual and authorized returns on equity indicates an equity cost in the range of

10.2% to 11.3%.

In the third part of my analysis, I compared the actual and authorized returns reported in AUS Utility Reports (May 2006) to my updated DCF and risk premium estimates. The updated authorized and actual returns appear on Rejoinder Schedule D-4.14. The range of actual returns is from 7.8% to 11.5%. The range of authorized returns is from 9.9% to 12.7%.

Finally, I also considered Value Line's most current forecasts of the composite equity return for the water utility industry, published on April 28, 2006. Value Line forecasts a composite return of 10% for 2006, 10.5% for 2007, and 11.5% for the 2009-11 period.

Q. PLEASE SUMMARIZE YOUR REJOINDER RESULTS.

A. The following table summarizes the results of the updated estimates and updated comparable earnings data I used as a check on my updated estimates:

DCF Analysis	Range	Midpoint
Constant Growth (earnings growth)	8.7% - 11.0%	9.5%
Constant Growth (sustainable growth)	8.9% - 11.2%	10.1%
Two-Stage Growth Model	8.9% - 10.2%	9.6%
Risk Premium Analysis		
Actual Returns	10.2% - 10.2%	10.2%
Authorized Returns	10.9% - 11.3%	11.2%
Comparable Earnings		
Actual Returns	7.8% - 11.5%	9.7%
Authorized Returns	9.9% - 12.7%	11.3%
Value Line Industry Composite (2006)		10.0%
Value Line Industry Composite (2007)		10.5%
Value Line Industry Composite (2009)		11.5%

Based on these results and data, I believe that 11.0% is a reasonable rate of return for BMSC.

Q. HOW DOES THE RETURN OF 11.0% YOU ARE RECOMMENDING COMPARE TO STAFF AND RUCO?

A. The rates of return on equity ("ROE") recommended by Staff and RUCO are 9.60% and 9.49%, respectively. Staff and RUCO's recommended ROEs are simply too low given the Company's extremely small size and other firm specific risks.

Q. HAS THE INDICATED COST OF EQUITY PRODUCED BY YOUR DCF MODELS FOR THE SAMPLE UTILITIES DECREASED SINCE YOU PREPARED THE COST OF CAPITAL IN THE INITIAL FILING?

A. Yes. The primary reason is that analysts' projections of earnings growth have decreased by nearly 140 basis points since the initial filing. *See* Rejoinder Schedule D-4.6. The earnings growth rate I employ in the DCF model is now 6.54%, compared with a growth rate of 7.96% in the initial filing. The lower growth rate is most likely a reaction to lower than expected earnings results in 2005, in turn caused by several factors, including poor weather conditions, unfavorable and delayed rate relief, and escalating costs. *See* Value Line (April 28, 2006) (water industry summary), copy attached hereto as Bourassa Rejoinder Exhibit 4.

Q. WHY HAVEN'T YOU CHANGED YOUR RECOMMENDED EQUITY RETURN FOR BMSC?

A. As I previously testified, a return on equity of 11.0% is conservative when the small size and other business risks related to BMSC operations are considered. *See* Bourassa DT at 14, 26-28 and Bourassa RB at 40, 46-48. This remains true. An

11.0% return is still within the ranges of my equity cost estimates and is conservative given those additional risks.

Q. ARE STAFF AND RUCO'S RECOMMENDATIONS LESS THAN THE AUTHORIZED RETURNS OF THE COMPANIES IN THEIR SAMPLE GROUP?

A. Yes, substantially lower. Rejoinder Schedule D-4.14 reports the authorized returns for the six utilities in Staff's water utilities sample. Three of the water utilities RUCO relies on to determine its cost of equity estimates are included in that sample. Rejoinder Schedule D-4.14 shows that the utilities in Staff's sample have authorized returns ranging from 9.9% to 12.7%. The average is 10.5% – 90 basis points higher than Staff's recommendation and 100 basis points above RUCO's recommendation. As discussed, a 11.0% ROE understates the cost of equity for the Company because it is more risky. The authorized ROE's are expected to provide a conservative measure of the current cost of equity for the water utility sample. Since 2003 and 2004, when some of those ROE's were set by regulators, interest rates have increased and thus the cost of equity has increased. Some of the authorized ROE's may have been the result of settlements with the parties agreeing to a lower ROE in exchange for the utility prevailing on an issue. Thus, to some extent the ROE's reported in Rejoinder Schedule D-4.14 are conservative and may understate the cost of equity.

Q. HOW DOES THIS IMPACT THE ANALYSIS?

A. On average, actual ROE's should provide an indicator of what is a fair ROE. The water utilities sample companies have been unable to earn their costs of equity. Rejoinder Schedule D-4.14 shows the utilities in Staff's sample group have an actual ROE ranging 7.8% to 11.5%, and an average of 9.8%. Because interest rates have increased since 2003 and 2004, the water utilities have not earned, on average, their authorized ROE's. Thus, a 9.8% ROE understates the fair rate of return for the Company. Staff's recommended ROE is 20 basis points below the sample group's average ROE. RUCO's recommended ROE is 30 basis points lower than that average.

Q. WHAT DO YOU CONCLUDE FROM THESE DIFFERENCES?

A. Both Staff's and RUCO's recommended ROE's are well below what the sample utilities are authorized to earn as well as what they have actually earned. Their respective recommendations fail one of the three critical tests of a fair ROE established by the U.S. Supreme Court: The return should be commensurate with returns on investments in other enterprise with corresponding risks. *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923) and *Federal Power Commission v. Hope Natural Gas*, 320 U.S. 591, 603 (1944).

B. Response to Staff's Criticisms of the Risk Premium Analysis.

Q. PLEASE COMMENT ON STAFF'S CRITICISM OF YOUR RISK PREMIUM ANALYSIS.

A. Mr. Chaves's first criticism is that the risk premium analysis methods are not reliable indicators of the cost of equity. *See* Surrebuttal Testimony of Pedro M. Chaves ("Chaves SB") at 3. The risk premium approach is a market-based approach that utilizes the same basic concept as the capital asset pricing model ("CAPM"). As I have testified, the risk premium method is less subjective than the CAPM and are easier to implement. Bourassa DT at 30. The risk premium method does not require estimates of beta or market risk premiums, for example, or depend on what interest rate is chosen as the proxy for the risk free rate. The California Public Utility Commission Staff ("CPUC Staff") has used risk premium methods for many years to make risk premium equity cost estimates for water utilities. Risk premium estimates are transparent and straightforward, and they do not depend on the many choices and assumptions like the CAPM.

Q. HAS MR. CHAVES PROVIDED ANY SUPPORT FOR HIS ASSERTION THAT THIS RISK PREMIUM APPROACH IS NOT RELIABLE?

A. No.

Q. PLEASE CONTINUE.

A. Mr. Chaves' second criticism of my risk premium is that I rely on forecasted interest rates and that the forecasts are unreliable. *See* Chaves SB at 4. Forecasts of interest rates or "forward rates" should be used so that the interest rate used is relevant to the period of time in which BMSC rates will be in effect. *See* Bourassa DT at 38. Relying on market interest rates for 12 months or more before rates will go into effect does not solve the uncertainty about what interest rates will be when rates will be in effect.

Q. WHAT HAS BEEN THE TREND IN INTEREST RATES?

Q. As I have testified, interest rates have risen significantly since about mid-2004. *See* Bourassa DT at 20. In fact, the Federal Reserve has increased the federal funds rate over 16 times since June of 2004. Since the Company's initial filing over eight months ago, the Federal Reserve has raised the federal funds rate by 150 basis points from 3.50% to 5.00%. The 10-year Treasury has followed suit, rising from 4.2% to 5.1%. Investment grade bonds have also followed suit rising from 6.0% to 6.8%. Amazingly, none of this has impacted Staff's or RUCO's cost of capital analysis.

Q. WHAT IS THE FORECASTED INTEREST RATE FOR THE 10 YEAR TREASURY FOR 2007-2008 USED IN YOUR UPDATED RISK PREMIUM ANALYSIS?

A. The Blue Chip Financial Forecasts (December 2005) of the 10 year Treasury for 2007-2008 is 5.2%. The forecasted rate is very nearly at the current rate of about 5.1%. Using the current 10 year Treasury rate does not appreciably alter my risk premium results, nor does it alter my conclusions regarding the cost of equity for BMSC.

Q. ARE INTEREST RATES EXPECTED TO CONTINUE TO RISE?

A. There is some debate about that; however, recent inflation data has raised fears of further rate hikes by the Federal Reserve. *See* "Inflation Data For April Spark Market Tumble", Wall Street Journal, May 18, 2006.

C. <u>Response to Mr. Chaves' and Mr. Rigsby's Comments of the Estimates of Growth</u>.

Q. CAN YOU COMMENT ON MR. CHAVES' SURREBUTTAL TESTIMONY CONCERNING STAFF'S EQUAL WEIGHTING OF HISTORICAL GROWTH RATES AND PROJECTED GROWTH RATES TO ESTIMATE THE GROWTH RATE USED IN STAFF'S DCF MODELS?

A. Mr. Chaves defends the equal weighting of historical growth rates with projected growth rates by asserting that this provides a balanced and reasonable outcome whereas my analysis is less balanced. Mr. Chaves goes on to testify that if the low growth rates were to be excluded from Staff growth estimate then it would also be appropriate for me or Staff to exclude the highest growth estimates. *See* Chaves SB at 4. The difference is that there is a sound basis for excluding the historical growth rates, but not the projected growth rates. As I previously testified, the indicated costs of equity using historical growth estimates are below the cost of debt. This was the reason why I excluded the historical growth rates from my analysis. *See* Bourassa DT at 36 and Bourassa RB at 62-63.

The highest growth rates by either Staff or BMSC actually produce results within the ranges of my risk premium approaches and my comparable earnings approaches. It is therefore logical to conclude that Staff's growth estimates are distorted by the historical data and should not be used.

Q. PLEASE EXPLAIN.

A. In Rejoinder Schedule D-4.6, the highest projected average EPS growth estimates are from Value Line at 7.85%. The average dividend yield of the water utilities sample is 2.80%. The indicated cost of equity using the constant growth DCF model is 10.65%, as shown below.

(1) Constant Growth DCF using Value Line Projected Growth

$\underline{D_1/P_0}$	+	$\underline{G}$	=	$\underline{K}$
2.80%		7.85%		10.65%

This result compares favorably with my risk premium approaches and my comparable earning approaches.

Looking at it from Staff's perspective, Staff's average projected growth is 7.95%[1]. Staff's average dividend yield is 2.9%. The indicated cost of equity using the constant growth DCF model is 10.85%, as shown below.

(1) Constant Growth DCF using Value Line Projected Growth

$\underline{D_1/P_0}$	+	$\underline{G}$	=	$\underline{K}$
2.9%		7.95%		10.85%

[1] Staff's projected DPS is 3.8% and projected EPS growth is 12.1%. See Surrebuttal PMC-4.

This result also compares favorably with my risk premium approaches and my comparable earning approaches.

I have also shown that the total market returns for the water utilities sample during the past 5 years has been 13.3%. *See* Bourassa SB at 56. Mr. Chaves agrees that the cost of equity is equal to the compensation that investors expect for bearing the risk of ownership of stock. *See* Staff Response to Company Data Request 5.4, copy attached hereto as Bourassa Rejoinder Exhibit 2. Staff also concludes that historical information is relevant to investors. *See* Chaves SB at 4. Historically investors have received returns far greater than Staff's recommend 9.6% and greater than my recommendation for BMSC of 11%. As the evidence shows, the highest growth rates should not be excluded because there is no rational basis to do so.

Q. PLEASE CONTINUE.

A. Mr. Rigsby asserts that my methods are overly reliant on analyst projections and are upwardly biased. *See* Rigsby SB at 24. On page 20 through 23, Mr. Rigsby discusses the current market conditions for water utilities to support this assertion. However, what Mr. Rigsby fails to explain is why analysts, who also have access to this information, would not already have taken this information into account in making their projections.

D. <u>Response to Mr. Chaves' and Mr. Rigsby's Comments on Firm Specific Risk.</u>

Q. ON PAGE 7 OF MR. CHAVES' SURREBUTTAL HE ARGUES THAT THE RISKS FACED BY BMSC (FIRM SPECIFIC RISKS) DO NOT AFFECT THE COST OF EQUITY. IS THAT TRUE?

A. No. I have testified that the market data of large publicly traded water companies

FENNEMORE CRAIG
PROFESSIONAL CORPORATION
PHOENIX

does not capture all of the market risks faced by small utilities such as BMSC. *See* Bourassa DT at 25-28; Bourassa RB at 61 and 71. There simply is no market data available for analyzing companies like BMSC, who are very small in comparison, have limited growth potential, and are not diversified. Neither Staff nor RUCO have provided any evidence to suggest BMSC has the same risk as their respective water utilities sample companies.

Apparently, the only characteristic evaluated by Staff and relied upon to be comparable to BMSC was whether the companies in their sample were regulated monopolies providing utility services. *See* Staff Response to Company Data Request 5.1, copy attached hereto as Bourassa Rejoinder Exhibit 2.

Q. WHAT ABOUT RUCO?

A. RUCO witness Rigsby asserts that BMSC is no different than the companies in his utility sample and apparently bases this on the fact that it is owned by a large investor. *See* Rigsby SB at 26. What Mr. Rigsby fails to acknowledge is that, like any investor who owns a stock, the characteristics of the investor do not determine the riskiness of the investment. Algonquin is akin to a large mutual fund which Mr. Rigsby acknowledges. *See* Rigsby DT at 2. A mutual fund is like any other investor and investors make investment choices among investment alternatives with returns commensurate with the perceived risk of those investments.

E. Response to RUCO's Proposed Capital Structures and Proposed Costs of Debt.

Q. PLEASE COMMENT ON THE CAPITAL STRUCTURES PROPOSED BY MR. RIGSBY?

A. RUCO proposes two alternative capital structures. The first capital structure is to be used if the Commission adopts RUCO's proposed rate base treatment of the

Scottsdale operating lease. In this case, RUCO proposes a capital structure consisting of 44% debt and 56% equity. The capital structure is based upon the outstanding amount of debt used to finance the Scottsdale treatment capacity and equity at the end of the test year. The cost of debt is equal to the authorized rate of 9.4%.

The second capital structure is to be used if the Commission continues with income statement treatment of the Scottsdale operating lease. In this case, RUCO proposes a capital structure consisting of 43% debt and 57% equity. This capital structure is based upon BMSC parent's capital structure and the cost of debt is equal to RUCO's computation of the average debt cost of BMSC's parent of 8.16%.

Putting aside that the Company disagrees with RUCO's proposed rate base treatment of the Scottsdale operating lease, the Company does not disagree that if the Scottsdale operating lease is given rate base treatment, RUCO's proposed capital structure would be appropriate. For one thing, RUCO's cost of debt is approximately equal to RUCO's recommended cost of equity. Thus, Company disagrees with RUCO second alternative capital structure. The operating lease is not rate based, there is no debt financing any portion of the BMSC's rate base and the capital structure of BMSC's parent is irrelevant.

F. <u>Response to RUCO's Response to Desired Effects of Regulation – Market-to-Book Value of 1.0.G</u>.

Q. MR. RIGSBY ARGUES IN SUPPORT HIS CONTENTION THAT ONE OF THE DESIRED EFFECTS OF REGULATION IS TO ACHIEVE A MARKET-TO-BOOK VALUE OF 1.0 AND REFERENCES DR. ROGER A. MORIN. DOES DR. MORIN CONTRADICT YOUR POSITION WITH

RESPECT TO THIS AS SET FORTH IN YOUR REBUTTAL TESTIMONY?

A. No, in fact in Dr. Morin's textbook, Roger A. Morin, *Regulatory Finance: Utilities' Cost of Capital* (1994)(hereinafter "*Morin*"), Dr. Morin counters the argument made by Mr. Rigsby and provides a number of reasons why market-to-book ratios are not relevant. These reasons include:

- Depressed or inflated market-to-book ratios are to a considerable degree a function of forces outside the control of regulators, such as the general state of the economy and general economic or financial circumstances that may affect the yields on securities of non-regulated as well as regulated firms.
- Because the market determines market-to-book ratios, and utilities cannot be expected to attract capital in an environment where industrials are commanding market-to-book ratios well in excess of 1.0.
- The fundamental goal of regulation should be to set the expected economic profit for a public utility equal to the level of profits expected to be earned by firms of comparable risk, i.e., to emulate the competitive result.
- A fair and reasonable price for a public utility's common stock is one that produces equality between the market price of its common equity and the replacement cost of its physical assets. This is unlikely to occur when the market-to-book ratio is 1.0.

Morin at 265-266.

Ignoring the fact that a substantial number of firms have stock trading at several multiples of book value while, at the same time claiming that publicly traded utilities are earning "more" than their cost of equity because their stock is trading at about two times book value, is inconsistent with the comparable earnings standard. Under Mr. Rigsby's approach, if the desired effect of a market-to-book ratio of 1.0 is achieved, a utility's stock is transformed into a quasi-bond, with a return barely above the cost of debt. This would violate both the comparable earnings and the attraction-of-capital standards.

Mr. Rigby states that a ratio of 1.0 may never be achieved and many investors may not even care as long as investors receive their required rate of return. *See* Rigsby SB at 20. If this is so, then why employ methods which lower the recommended rate of return based on that goal?

V. RATE DESIGN.

Q. PLEASE SUMMARIZE THE POSITIONS OF THE PARTIES WITH RESPECT TO THE RATE DESIGN.

A. Both Staff and RUCO continue to propose the same rate design as the Company. Like the Company, Staff and RUCO apply their respective recommended rate increase equally across all classes of customers to produce their respective revenue requirements.

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

A. The proposed rates are:

Residential Charge:	$46.40
Commercial – Std. Rate (Per gallon)[2]:	$0.18605
Commercial – Special Rate (Per gallon)[3]:	
B-H Enterprises (7518 Elbow Bend West)	$0.14269
B-H Enterprises (7518 Elbow Bend East)	$0.14269
Barb's Pet Grooming	$0.14269
Boulders Resort	$0.14461
Carefree Dental	$0.14269
Ridgecrest Realty	$0.14431

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

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

Desert Forest	$0.16618
Desert Hills Pharmacy	$0.17347
El Pedegral	$0.14269
Lemon Tree	$0.17584
Body Shop	$0.17760
Spanish Village	$0.14269
Boulders Club	$0.14269
Anthony Vuitaggio	$0.15858

In addition, the price for reclaimed (non-potable) water is $148.98 per acre-foot. The rejoinder rates and charges are shown on the Rejoinder Schedules H.

Q. **HAS THE COMPANY CHANGED ITS PROPOSAL REGARDING THE AMOUNT, METHOD, AND TIMING OF THE REFUNDS OF HOOK-UP FEES?**

A. No. *See* Bourassa RB at 77.

Q. **DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes.

BOURASSA EXHIBITS

BOURASSA REJOINDER

EXHIBIT 1

Statement of Financial Accounting Standards No. 109

FAS109 Status Page
FAS109 Summary

Accounting for Income Taxes

February 1992

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

those circumstances, the procedures to allocate the remaining amount to items other than continuing operations are as follows:

a. Determine the effect on income tax expense or benefit for the year of the total net loss for all net loss items
b. Apportion the tax benefit determined in (a) ratably to each net loss item
c. Determine the amount that remains, that is, the difference between (1) the amount to be allocated to all items other than continuing operations and (2) the amount allocated to all net loss items
d. Apportion the tax expense determined in (c) ratably to each net gain item.

Refer to paragraphs 273-276 for additional guidance.

Certain Quasi Reorganizations

39. The tax benefits of deductible temporary differences and carryforwards as of the date of a quasi reorganization as defined and contemplated in ARB No. 43, Chapter 7, "Capital Accounts," ordinarily are reported as a direct addition to contributed capital if the tax benefits are recognized in subsequent years. The only exception is for enterprises that have previously both adopted Statement 96 and effected a quasi reorganization that involves only the elimination of a deficit in retained earnings by a concurrent reduction in contributed capital prior to adopting this Statement. For those enterprises, subsequent recognition of the tax benefit of prior deductible temporary differences and carryforwards is included in income and reported as required by paragraph 37 (without regard to the referenced exceptions) and then reclassified from retained earnings to contributed capital. Those enterprises should disclose (a) the date of the quasi reorganization, (b) the manner of reporting the tax benefits and that it differs from present accounting requirements for other enterprises and (c) the effect of those tax benefits on income from continuing operations, income before extraordinary items, and on net income (and on related per share amounts).

Separate Financial Statements of a Subsidiary

40. The consolidated amount of current and deferred tax expense for a group that files a consolidated tax return shall be allocated among the members of the group when those members issue separate financial statements. This Statement does not require a single allocation method. The method adopted, however, shall be systematic, rational, and consistent with the broad principles established by this Statement. A method that allocates current and deferred taxes to members of the group by applying this Statement to each member as if it were a separate taxpayer [10] meets those criteria. Examples of methods that are not consistent with the broad principles established by this Statement include:

a. A method that allocates only current taxes payable to a member of the group that has taxable temporary differences

b. A method that allocates deferred taxes to a member of the group using a method fundamentally different from the asset and liability method described in this Statement (for example, the Opinion 11 deferred method)
c. A method that allocates no current or deferred tax expense to a member of the group that has taxable income because the consolidated group has no current or deferred tax expense.

Certain disclosures are also required (paragraph 49).

Financial Statement Presentation

41. In a classified statement of financial position, an enterprise shall separate deferred tax liabilities and assets into a current amount and a noncurrent amount. Deferred tax liabilities and assets shall be classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. A deferred tax liability or asset that is not related to an asset or liability for financial reporting (paragraph 15), including deferred tax assets related to carryforwards, shall be classified according to the expected reversal date of the temporary difference pursuant to FASB Statement No. 37, *Balance Sheet Classification of Deferred Income Taxes*. The valuation allowance for a particular tax jurisdiction shall be allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis.

42. For a particular tax-paying component of an enterprise and within a particular tax jurisdiction, (a) all current deferred tax liabilities and assets shall be offset and presented as a single amount and (b) all noncurrent deferred tax liabilities and assets shall be offset and presented as a single amount. However, an enterprise shall not offset deferred tax liabilities and assets attributable to different tax-paying components of the enterprise or to different tax jurisdictions.

Financial Statement Disclosure

43. The components of the net deferred tax liability or asset recognized in an enterprise's statement of financial position shall be disclosed as follows:

a. The total of all deferred tax liabilities measured in procedure (b) of paragraph 17
b. The total of all deferred tax assets measured in procedures (c) and (d) of paragraph 17
c. The total valuation allowance recognized for deferred tax assets determined in procedure (e) of paragraph 17.

The net change during the year in the total valuation allowance also shall be disclosed. A public enterprise shall disclose the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before allocation of valuation allowances). A nonpublic enterprise shall disclose the types of significant temporary differences and carryforwards but may omit disclosure of the tax effects of each type. A public enterprise that is not subject to income taxes because its income is

BOURASSA REJOINDER

EXHIBIT 2

ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES TO BLACK MOUNTAIN SEWER CORPORATION'S FOURTH SET OF DATA REQUESTS DOCKET NO. SW-02361A-05-0657 MAY 19, 2006

4.13 Ms. Brown testifies (SB at 7) that "Companies remove affiliate profit from the cost of service. . ." Please provide citations with specificity to support Ms. Brown's "Companies" allegedly removing profit from the cost of the services provided.

Answer: Staff is continuing to prepare its response and expects to send this response to you in the very near future. Much of the information was gathered through data requests that Staff may no longer have.

ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES TO BLACK MOUNTAIN SEWER CORPORATION'S FIFTH SET OF DATA REQUESTS DOCKET NO. SW-02361A-05-0657 MAY 23, 2006

5.1 Does Staff maintain that the six sample water utilities selected by Mr. Chaves are comparable to the Company in terms of investment risk? Explain the basis for your response, including each factor or characteristic Staff considered in its selection process.

Answer: Yes, the sample companies are used as a proxy for Black Mountain Sewer Corporation ("Black Mountain") since they are regulated monopolies that provide utility services. Selection of the sample companies is discussed in Pedro M. Chaves' direct testimony (page 13).

ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES TO BLACK MOUNTAIN SEWER CORPORATION'S FIFTH SET OF DATA REQUESTS DOCKET NO. SW-02361A-05-0657 MAY 23, 2006

5.4 Is the return that investors expect for a given stock equal to the level of return that other firms with equivalent levels of risk also yield? Explain the basis for your answer.

Answer: No. Yield is not synonymous with expected return.

ARIZONA CORPORATION COMMISSION STAFF'S RESPONSES TO BLACK MOUNTAIN SEWER CORPORATION'S FIFTH SET OF DATA REQUESTS DOCKET NO. SW-02361A-05-0657 MAY 23, 2006

5.22 Please specify the source documentation referred to by Ms. Brown in her surrebuttal testimony on page 11 that the Company has not provided to support the $339,833 for unrecorded plant financed by CIAC.

Answer: Invoices, timesheets, and all other supporting documentation.

BOURASSA REJOINDER

EXHIBIT 3

THIRD SET OF DATA REQUESTS
FROM BLACK MOUNTAIN SEWER CORPORATION
TO THE RESIDENTIAL UTILITY CONSUMER OFFICE
(Docket No. SW-02361A-05-0657)

3.2 Was any new stock issued as a result of the acquisition of BMSC's stock by Algonquin?

Response: Marylee Diaz Cortez

No.

THIRD SET OF DATA REQUESTS
FROM BLACK MOUNTAIN SEWER CORPORATION
TO THE RESIDENTIAL UTILITY CONSUMER OFFICE
(Docket No. SW-02361A-05-0657)

3.3 How does BMSC's capitalization differ under current ownership as compared to prior ownership?

Response: Marylee Diaz Cortez

See attached pages from the 2000 Boulders Carefree Sewer Company Annual Report and the 2001 Black Mountain Sewer Company Annual Report.

THIRD SET OF DATA REQUESTS
FROM BLACK MOUNTAIN SEWER CORPORATION
TO THE RESIDENTIAL UTILITY CONSUMER OFFICE
(Docket No. SW-02361A-05-0657)

3.14 Admit that there is currently now law in Arizona that exempts BMSC from paying property taxes or that would allow them to pay a flat amount (i.e., $500 or $32).

Response: William A. Rigby

Deny. To my knowledge, S.B. 1432 is still in committee and has not been signed into law. I am not an attorney and am unaware of any other law that would exempt BMSC from paying property taxes.

BOURASSA REJOINDER

EXHIBIT 4

INDUSTRY TIMELINESS: 81 (of 98)

As usual, the Water Utility Industry ranks near the bottom of the *Value Line Investment Survey* for Timeliness. Earnings for the companies in this industry continued to lag those of most industrial companies in 2005, reflecting the effects of rainy weather and rising infrastructure costs. Although recent changes in the makeup of regulatory bodies and improved weather conditions paint a more favorable backdrop, we still have some concerns about the industry's earnings potential going forward. At the heart of our concerns are the rapidly increasing infrastructure costs. With that in mind, not one of the water utility stocks that are covered in the next few pages offers decent capital-gains appeal.

Nevertheless, a few of the stocks here may be of interest to those looking for current income.

Regulating The Industry

Regulatory authorities were appointed to keep a balance of power between consumers and providers. However, water utility providers have been coming out on the short end of the stick in recent years. Indeed, rate relief case decisions have been put on the back burner (and long-awaited outcomes have generally been unfavorable.) However, there appears to be a better story unfolding for water utilities, particularly those with operations in the state of California. With urging from Governor Schwarzenegger, the California Public Utilities Commission (CPUC), which is responsible for ruling on general rate case requests in the Golden State, things appear to have reversed course. Members of the board thought to be antagonists of rate relief have been replaced with more-business-friendly members. And, the changes appear to already be paying off. Case decisions have been coming in with more favorable decisions in recent months, auguring well for the future business of *American States Water Co.* and *California Water Service Group.*

Expenses

Despite these changes, already stringent regulatory laws on pipeline and well infrastructure are likely to increase as we head forward. Much of the current infrastructure is more than 100 years old and is in desperate need of maintenance and, in some cases, massive renovations and rebuilding. Making matters worse, is the heightened threat of bioterrorism on U.S. water pipelines and reservoirs. These costs are likely to continue to rise, as companies strive to comply with EPA water purification standards. In all, infrastructure repair costs are expected to climb to the hundreds of millions of dollars over the next two decades, putting many smaller water companies at a distinct disadvantage. In fact, many companies without the capital to pay for these initiatives are being forced to sell, resulting in massive consolidation within the industry. As a result, the rich have been getting richer. Larger, more flexible companies with the money to meet the higher costs have been using the weakness to add to their customer base. *Aqua America*, the largest water utility in our Survey, is the prime example. It has made nearly 100 acquisitions over the past five years, doubling its revenue base during that time. And, with no end to its aggressive buying in sight, we think that *Aqua* will continue to deliver the highest return on equity of any of the companies in this industry.

Investment Advice

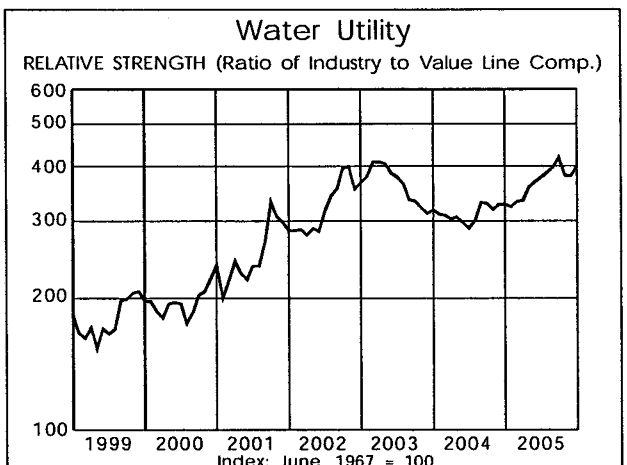
The stocks in this industry do not stand out for their capital-gains potential. Not a single one of the issues here is ranked above 3 (Average) for Timeliness and none hold better than modest 3- to 5- year appreciation potential. Despite the necessity for water, the capital-intensive nature of the industry strips away growth appeal. As a result, we think that growth-oriented investors will want to take a pass and look elsewhere.

However, we believe that income-minded investors may have a somewhat different point of view. Water utility stocks have long generated a steady stream of income, a trend that we do not envision changing anytime soon. In fact, *American States Water* and *California Water* both offer above-average dividend yields and, according to our projections, should continue to do so over the long haul. Even still, there may be better income vehicles available to investors at this time. *California Water* offers some additional appeal, though, given its Above Average (2) Safety rank. As is always the case, though, we recommend that potential investors take a careful look at the individual reports on the following pages before making any future financial commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2001	2002	2003	2004	2005	2006		08-10
751.8	794.4	857.0	985.6	*1250*	*1350*	Revenues ($mill)	*1750*
95.4	106.6	98.6	122.4	*155*	*170*	Net Profit ($mill)	*250*
40.2%	38.8%	40.0%	39.4%	*39.0%*	*39.0%*	Income Tax Rate	*39.0%*
--	--	--	--	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
52.4%	53.9%	51.2%	50.0%	*52.0%*	*51.0%*	Long-Term Debt Ratio	*48.0%*
47.2%	45.9%	48.6%	50.0%	*48.0%*	*49.0%*	Common Equity Ratio	*52.0%*
1840.7	1973.6	2296.4	2543.6	*3000*	*3500*	Total Capital ($mill)	*4475*
2532.2	2751.1	3186.1	3532.5	*4000*	*4125*	Net Plant ($mill)	*5850*
6.8%	7.0%	5.9%	6.7%	*7.0%*	*7.5%*	Return on Total Cap'l	*7.0%*
10.6%	11.2%	8.8%	10.7%	*11.0%*	*10.0%*	Return on Shr. Equity	*11.0%*
10.7%	11.2%	8.8%	10.7%	*11.0%*	*10.0%*	Return on Com Equity	*11.0%*
3.3%	3.8%	2.5%	4.6%	*5.0%*	*5.0%*	Retained to Com Eq	*3.0%*
69%	66%	72%	57%	*60%*	*55%*	All Div'ds to Net Prof	*45%*
22.6	21.5	26.0	25.5			Avg Ann'l P/E Ratio	*18.0*
1.16	1.17	1.48	1.36	*Bold figures are Value Line estimates*		Relative P/E Ratio	*1.20*
3.1%	3.1%	2.8%	2.2%			Avg Ann'l Div'd Yield	*3.4%*



BOURASSA SCHEDULES

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

Exhibit
Rejoinder Schedule A-1
Page 1
Witness: Bourassa

Fair Value Rate Base	$	1,642,271
Adjusted Operating Income		12,676
Current Rate of Return		0.77%
Required Operating Income	$	180,650
Required Rate of Return on Fair Value Rate Base		11.00%
Operating Income Deficiency	$	167,974
Gross Revenue Conversion Factor		1.5987
Increase in Gross Revenue Requirement	$	268,547
% Increase		22.28%

Customer Classification (Residential Commercial, Irrigation)	**Present Rates**	**Proposed Rates**	**Dollar Increase**	**Percent Increase**
Residential	$ 768,816	$ 938,765	$ 169,949	22.11%
Commercial (Standard Rate)	312,725	381,875	69,150	22.11%
Commercial (Special Rate)	81,967	100,090	18,123	22.11%
Effluent Sales	14,498	17,704	3,206	22.11%
Annualization	17,328	21,158	3,830	22.11%
ACC Assessment	(2,288)	(2,288)	-	0.00%
Subtotal	$ 1,193,046	$ 1,457,304	$ 264,258	22.15%
Other Wastewater Revenues	16,472	16,472	-	0.00%
			-	0.00%
			-	0.00%
Total of Water Revenues	$ 1,209,518	$ 1,473,776	$ 264,258	21.85%

SUPPORTING SCHEDULES:
Rejoinder B-1
Rejoinder C-1
Rejoinder C-3
Rejoinder H-1

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

Exhibit
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 8,648,640	$ 8,648,640
3	Less: Accumulated Depreciation	4,331,129	4,331,129
4			
5	Net Utility Plant in Service	$ 4,317,511	$ 4,317,511
6			
7	Less:		
8	Advances in Aid of		
9	Construction	1,311,349	1,311,349
10	Contributions in Aid of		
11	Construction	4,857,632	4,857,632
12	Accumulated Amortization of CIAC	(3,329,900)	(3,329,900)
13			
14	Customer Meter Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
16	Deferred Assets	-	-
17			
18			
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Prepaids	-	-
23	Deferred Assets	163,841	163,841
24	Allowance for Working Capital	-	-
25			
26			
27	Total Rate Base	$ 1,642,271	$ 1,642,271
28			
29			
30			
31	SUPPORTING SCHEDULES:		
32	Rejoinder B-2		
33	Rejoinder B-5		
34			
35			
36			

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

Exhibit
Rejoinder Schedule I
Page 1
Witness: Bourassa

Line No.		Rebuttal Adjusted at End of Test Year	Adjustments	Rejoinder Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 8,668,177	(19,537)	$ 8,648,640
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	4,350,668	(19,539)	4,331,129
7				
8				
9	Net Utility Plant			
10	in Service	$ 4,317,509	$ 2	$ 4,317,511
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	1,311,349	-	1,311,349
15				
16	Contributions in Aid of			
17	Construction (CIAC)	4,857,632	-	4,857,632
18				
19				
20	Accum. Amortization of CIAC	(3,329,900)	-	(3,329,900)
21				
22				
23	Customer Meter Deposits	(6,000)	6,000	-
24	Deferred Income Taxes	-	-	-
25	Investment Tax Credits	-	-	-
26				
27				
28	**Plus:**			
29	Unamortized Finance			
30	Charges	-	-	-
31	Prepaids	-	-	-
32	Deferred Tax Asset	163,841	-	163,841
33	Allowance for Working Capital	-	-	-
34				
35	Total	$ 1,648,269	$ (5,998)	$ 1,642,271
36				
37				
38				
39				
40				
41	SUPPORTING SCHEDULES:			
42	Rejoinder B-2, page 2			
43				
44				
45				
46				

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

Exhibit
Rejoinder Schedule B-2
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Rebuttal Adjusted at End of Test Year	1 Customer Deposits	2 Retirement of Chlorinator	3 Intentionally Left Blank	4 Intentionally Left Blank	5 Intentionally Left Blank	6 Intentionally Left Blank	7 Intentionally Left Blank	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	Rejoinder Adjusted at end of Test Year
1	Gross Utility												
2	Plant in Service	$ 8,668,177		(19,537)									$ 8,648,640
3													
4	**Less:**												
5	Accumulated												
6	Depreciation	4,350,668		(19,539)									4,331,129
7													
8													
9	Net Utility Plant												
10	in Service	$ 4,317,509	$ -	$ 2	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,317,511
11													
12	**Less:**												
13	Advances in Aid of												
14	Construction	1,311,349											1,311,349
15													
16	Contributions in Aid of												
17	Construction (CIAC)	4,857,632											4,857,632
18													
19													
20	Accum. Amortization of CIAC	(3,329,900)											(3,329,900)
21													
22													
23	Customer Meter Deposits	(6,000)	6,000										-
24	Deferred Income Taxes	-											-
25	Investment Tax Credits	-											-
26													
27													
28	**Plus:**												
29	Unamortized Finance												
30	Charges	-											-
31	Prepaids	-											-
32	Deferred Tax Asset	163,841											163,841
33	Allowance for Working Capital	-											-
34													
35	Total	$ 1,648,269	$ (6,000)	$ 2	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,642,271
36													
37													
38													
39													
40													
41	SUPPORTING SCHEDULES:												
42	Rejoinder B-2, pages 3-4												
43													
44													
45													
46													

Black Mountain Sewer Company	Exhibit
Test Year Ended December 31, 2004	Rejoinder Schedule B-2
Original Cost Rate Base Proforma Adjustments	Page 3
Adjustment #1	Witness: Bourassa

Line No.			
1	Remove Prepaids		
2			
3	Prepaids proposed per Rebuttal Filing	$	6,000
4			
5			
6			
7			
8			
9	Increase (Decrease) to Prepaids	$	6,000
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

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

Exhibit
Rejoinder Schedule B-2
Page 4
Witness: Bourassa

Line No.			
1	Retire Replaced Chlorinator		
2			
3	Retirement adjustment for chlorinator installed in 1984	$	(19,537)
4			
5			
6			
7			
8			
9	Increase (Decrease) to Plant-in-service	$	(19,537)
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

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

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	117,201
3	Pumping Power (1/24 of Pumping Power)		1,989
4	Purchased Water Treatment (1/24 of Purch. Water Treat)		6,753
5			
6			
7			
8			
9	Total Working Capital Allowance	$	125,943
10			
11			
12	Working Capital Requested	$	-
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16		Rejoinder B-1	
17			

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

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.		Rebuttal Adjusted Results	Adjustments	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Flat Rate Revenues	$ 1,188,980	$ -	$ 1,188,980	$ 268,547	$ 1,457,527
3	Measured Revenues	-	-	-		-
4	Other Wastewater Revenues	16,472	-	16,472		16,472
5		$ 1,205,452	$ -	$ 1,205,452	$ 268,547	$ 1,473,999
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Wastewater Treatment	162,082	-	162,082		162,082
9	Sludge Removal Expense	981	-	981		981
10	Purchased Power	47,727	-	47,727		47,727
11	Fuel for Power Production	-	-	-		-
12	Chemicals	76,612	-	76,612		76,612
13	Materials and Supplies	28,560	-	28,560		28,560
14	Contractual Services - Professional	143,539	-	143,539		143,539
15	Contractual Services - Testing	11,000	-	11,000		11,000
16	Contractual Services - Other	214,394	-	214,394		214,394
17	Rents	10,259	-	10,259		10,259
18	Transportation Expenses	2,670	-	2,670		2,670
19	Insurance - General Liability	16,204	-	16,204		16,204
20	Regulatory Commission Expense	37,500	-	37,500		37,500
21	Miscellaneous Expense	66,955	(2,200)	64,755		64,755
22	Scottsdale Capacity- Lease	189,622	-	189,622		189,622
23	Depreciation	133,243	(979)	132,264		132,264
24	Taxes Other Than Income	-	-	-		-
25	Property Taxes	47,017	-	47,017		47,017
26	Income Tax	6,403	1,187	7,590	100,573	108,163
27						
28	**Total Operating Expenses**	$ 1,194,769	$ (1,992)	$ 1,192,776	$ 100,573	$ 1,293,349
29	**Operating Income**	$ 10,683	$ 1,992	$ 12,676	$ 167,974	$ 180,650
30	**Other Income (Expense)**					
31	Interest Income	-		-		-
32	Other income	-		-		-
33	Interest Expense	-		-		-
34	Other Expense	-		-		-
35						
36	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
37	**Net Profit (Loss)**	$ 10,683	$ 1,992	$ 12,676	$ 167,974	$ 180,650
38						
39						
40						
41	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
42	Rejoinder C-1, Page 2				Rejonder A-1	
43	Rejoinder C-2					

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

Exhibit
Rejoinder Schedule C-1
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Rebuttal Adjusted Book Results	1 Non-Recurring Truck Rental	2 Depreciation Expense	3 Income Tax	4 Intentionally Left Blank	5 Intentionally Left Blank	6 Intentionally Left Blank	7 Intentionally Left Blank	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**														
2	Flat Rate Revenues	$ 1,188,980											$ 1,188,980	$ 268,547	$ 1,457,527
3	Measured Revenues	-											-		-
4	Other Wastewater Revenues	16,472											16,472		16,472
5		$ 1,205,452	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		$ 1,205,452	$ 268,547	$ 1,473,999
6	**Operating Expenses**														
7	Salaries and Wages	$ -											$ -		$ -
8	Purchased Wastewater Treatment	162,082											162,082		162,082
9	Sludge Removal Expense	981											981		981
10	Purchased Power	47,727											47,727		47,727
11	Fuel for Power Production	-											-		-
12	Chemicals	76,612											76,612		76,612
13	Materials and Supplies	28,560											28,560		28,560
14	Contractual Services - Professional	143,539											143,539		143,539
15	Contractual Services - Testing	11,000											11,000		11,000
16	Contractual Services - Other	214,394											214,394		214,394
17	Rents	10,259											10,259		10,259
18	Transportation Expenses	2,670											2,670		2,670
19	Insurance - General Liability	16,204											16,204		16,204
20	Regulatory Commission Expense	37,500											37,500		37,500
21	Miscellaneous Expense	66,955	(2,200)										64,755		64,755
22	Scottsdale Capacity- Lease	189,622											189,622		189,622
23	Depreciation	133,243		(979)									132,264		132,264
24	Taxes Other Than Income	-											-		-
25	Property Taxes	47,017											47,017		47,017
26	Income Tax	6,403			1,187								7,590	100,573	108,163
27		-											-		-
28	**Total Operating Expenses**	$ 1,194,769	$ (2,200)	$ (979)	$ 1,187	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,192,776	$ 100,573	$ 1,293,349
29	**Operating Income**	$ 10,683	$ 2,200	$ 979	$ (1,187)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,676	$ 167,974	$ 180,650
30	**Other Income (Expense)**														
31	Interest Income	-											-		-
32	Other income	-											-		-
33	Interest Expense	-											-		-
34	Other Expense	-											-		-
35		-											-		-
36	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
37	**Net Profit (Loss)**	$ 10,683	$ 2,200	$ 979	$ (1,187)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,676	$ 167,974	$ 180,650
38															
39															
40															
41	SUPPORTING SCHEDULES:														
42	Rejoinder C-2														
43															

RECAP SCHEDULES:
Rejoinder A-1

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

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	
1		Income	Depreciation	Income	Intentionally	Intentionally	Intentionally	
2		Tax	Expense	Tax	Left Blank	Left Blank	Left Blank	Subtotal
3	Revenues					-		-
4								
5	Expenses	(2,200)	(979)	1,187	-	-	-	(1,992)
6								
7	Operating							
8	Income	2,200	979	(1,187)	-	-	-	1,992
9								
10	Interest							-
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	2,200	979	(1,187)	-	-	-	1,992
17								
18								

Line No.		Adjustments to Revenues and Expenses						
19								
20		7	8	9	10	11	12	
21		Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	
22		Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Subtotal
23	Revenues							-
24								
25	Expenses	-	-	-	-	-		(1,992)
26								
27	Operating							
28	Income	-	-	-	-	-	-	1,992
29								
30	Interest							
31	Expense							-
32	Other							
33	Income /							-
34	Expense							
35								
36	Net Income	-	-	-	-	-	-	1,992
37								
38								

Line No.		Adjustments to Revenues and Expenses						
39								
40		13	14	15	16	17	18	
41		Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	
42		Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Total
43	Revenues							-
44								
45	Expenses							(1,992)
46								
47	Operating							
48	Income	-	-	-	-	-	-	1,992
49								
50	Interest							
51	Expense							-
52	Other							
53	Income /							-
54	Expense							
55								
56	Net Income	-	-	-	-	-	-	1,992

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

Exhibit
Rejoinder Schedule C-2
Page 2
Witness: Bourassa

Line No.			
1	Remove Non-recurring truck expenses		
2			
3	Non-recurring truck expense per Staff	$	2,200
4			
5			
6			
7			
8	Adjustment to Revenues/Expenses	$	(2,200)
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

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

Exhibit
Rejoinder Schedule C-2
Page 3
Witness: Bourassa

Line No.	Account No.	Description	Rebuttal Adjusted Original Cost	From B-2 Adj. #2 PTY Plant	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Rejoinder Adjusted Original Cost	Proposed Rates	Depreciation Expense
1		Depreciation Expense									
2											
3											
4											
5	351	Organization	-						-	0.00%	-
6	352	Franchises	-						-	0.00%	-
7	353	Land and Land Rights	461,446						461,446	0.00%	-
8	354	Structures and Improvements	1,245,292						1,245,292	3.33%	41,468
9	355	Power Generation Equipment	-						-	5.00%	-
10	360	Collection Sewers - Force	568,618						568,618	2.00%	11,372
11	361	Collection Sewers - Gravity	3,615,905						3,615,905	2.00%	72,318
12	362	Special Collecting Structures	-						-	2.00%	-
13	363	Services to Customers	158,802						158,802	2.00%	3,176
14	364	Flow Measuring Devices	39,878						39,878	10.00%	3,988
15	365	Flow Measuring Installations	158,358						158,358	10.00%	15,836
16	370	Receiving Wells	696,506						696,506	3.33%	23,194
17	371	Eff;uent Pumping Equipment	454,618						454,618	12.50%	56,827
18	380	Treatment and Disposal Equipment	-						-	5.00%	-
19	381	Plant Sewers	124,441						124,441	5.00%	6,222
20	382	Outfall Sewer Lines	-						-	3.33%	-
21	389	Other Plant and Misc. Equipment	745,863	(19,537)					726,326	6.67%	48,446
22	390	Office Furniture and Equipment	220,360						220,360	6.67%	14,698
23	391	Transportation Equipment	87,811						87,811	20.00%	17,562
24	393	Tools, Shop and Garage Equipment.	-						-	5.00%	-
25	394	Laboratory Equipment	7,279						7,279	10.00%	728
26	395	Power Operated Equipment	-						-	5.00%	-
27	398	Other TangiblePlant	-						-	10.00%	-
28											
29											
30		TOTALS	$ 8,585,177	$ (19,537)	$ -	$ -	$ -	$ -	$ 8,565,640		$ 315,835
31											
32		**Post Test Year Plant per B-2**									
33	361	Collection Sewers - Gravity	-	$ -					$ -	2.00%	-
34	389	Other Plant and Misc. Equipment	85,699	-					85,699	6.67%	5,716
35											-
36		Total PTY Plant	$ 85,699	$ -	$ -	$ -	$ -	$ -	$ 85,699		$ 5,716
37											
38		Less: Amortization of Contributions - Balance End of TY (net ·	$ 5,346,615				$ 344,384	$ (833,367)	$ 4,857,632	3.8967%	$ (189,287)
39											
40											
41		Total Depreciation Expense									$ 132,264
42											
43		Adjusted Test Year Depreciation Expense Rebuttal Filing									133,243
44											
45		Increase (decrease) in Depreciation Expense									(979)
46											
47		Adjustment to Revenues and/or Expenses									$ (979)
48											

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

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	30.48%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	37.45%
9		
10	Operating Income % = 100% - Tax Percentage	62.55%
11		
12		
13		
14		
15	1 / Operating Income % = Gross Revenue Conversion Factor	
16		1.5987
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rejoinder A-1
20		

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

Exhibit
Rejoinder Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	End of Test Year Percent of Total	End of Test Year (e) Cost Rate	End of Test Year Weighted Cost	Adjusted End of Test Year Dollar Amount	Adjusted End of Test Year Percent of Total	Adjusted End of Test Year (e) Cost Rate	Adjusted End of Test Year Weighted Cost
1	Long-Term Debt		0.00%	9.40%	0.00%	-	0.00%	9.40%	0.00%
2									
3	Stockholder's Equity	1,806,264	100.00%	11.00%	11.00%	1,806,264	100.00%	11.00%	11.00%
4									
5	Totals	1,806,264	100.00%		11.00%	1,806,264	100.00%		11.00%
6									
7									
8									
9									
10									
11	SUPPORTING SCHEDULES:						RECAP SCHEDULES:		
12	Rejoinder D-1								
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

Black Mountain Sewer Company
Selected Characteristics of Water Utilities

Exhibit
Rejoinder Schedule D-4.1
Witness: Bourassa

No.		% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1						
2						
3						
4	1. American States	87%	$ 231.8	$ 629.2	A-	A2
5	2. Aqua America	88%	$ 489.3	$ 1,977.4	AA-	NR
6	3. California Water	96%	$ 312.3	$ 756.8	NR	A2
7	4. Connecticut Water	91%	$ 51.8	$ 202.0	AA+	NR
8	5. Middlesex	89%	$ 73.5	$ 258.0	A	NR
9	6. SJW Corp.	97%	$ 164.3	$ 301.0	NR	NR
10						
11	Average	91%	$ 220.5	$ 687.4		
12						
13	Black Mountain Sewer Company	0%	$ 1.5	$ 4.3		
14						
15	Source: AUS Utility Reports (May 2006)					

Black Mountain Sewer Company
Selected Characteristics of Water Utilities

Exhibit
Rejoinder Schedule D-4.1
Witness: Bourassa

No.		% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1						
2						
3						
4	1. American States	87%	$ 231.8	$ 629.2	A-	A2
5	2. Aqua America	88%	$ 489.3	$ 1,977.4	AA-	NR
6	3. California Water	96%	$ 312.3	$ 756.8	NR	A2
7	4. Connecticut Water	91%	$ 51.8	$ 202.0	AA+	NR
8	5. Middlesex	89%	$ 73.5	$ 258.0	A	NR
9	6. SJW Corp.	97%	$ 164.3	$ 301.0	NR	NR
10						
11	Average	91%	$ 220.5	$ 687.4		
12						
13	Black Mountain Sewer Company	0%	$ 1.5	$ 4.3		
14						
15	Source: AUS Utility Reports (May 2006)					

Black Mountain Sewer Company
Capital Structures of Water Utilities December 2005

Exhibit
Rejoinder Schedule D-4.2
Witness: Bourassa

	Book Value		Market Value	
	Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1. American States	50.4%	49.6%	29.1%	70.9%
2. Aqua America	52.0%	48.0%	23.4%	76.6%
3. California Water	48.3%	51.7%	27.8%	72.2%
4. Connecticut Water	40.6%	59.4%	24.4%	75.6%
5. Middlesex	56.3%	43.7%	36.5%	63.5%
6. SJW Corp.	42.6%	57.4%	25.7%	74.3%
Average	48.3%	51.7%	27.8%	72.2%
Black Mountain Sewer Company	0.0%	100.0%	N/A	N/A

Sources:
Zacks Investment Research

Exhibit
Rejoinder Schedule D-4.3
Witness: Bourassa

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

Line No.		Company	Five-year historical average annual changes: Price	Five-year historical average annual changes: Book Value	Five-year historical average annual changes: DPS	Five-year historical average annual changes: EPS	Average Future Growth*
7	1.	American States	7.30%	4.42%	0.69%	0.46%	6.33%
8	2.	Aqua America	16.33%	9.25%	7.40%	8.95%	9.00%
9	3.	California Water	10.42%	4.85%	0.72%	4.30%	6.83%
10	4.	Connecticut Water	5.39%	4.94%	1.49%	-3.56%	
11	5.	Middlesex	4.31%	4.10%	2.20%	8.10%	4.00%
12	6.	SJW Corp.	7.17%	5.88%	5.27%	2.82%	
15		GROUP AVERAGE	8.49%	5.57%	2.96%	3.51%	6.54%
16		GROUP MEDIAN	7.23%	4.89%	1.84%	3.56%	6.58%

* See Schedule D-4.7

Sources:

Value Line Data

Yahoo Finance

Exhibit
Rejoinder Schedule D-4.4
Witness: Bourassa

Black Mountain Sewer Company

Comparisons of Past and Future Estimates of Growth

Line No.		Company	Price	Book Value	DPS	EPS	Average Future Growth*
1							
2							
3							
4			Ten-year historical average annual changes				
5							
6							
7	1.	American States	11.32%	4.29%	0.95%	3.49%	6.33%
8	2.	Aqua America	18.95%	8.89%	6.18%	9.61%	9.00%
9	3.	California Water	10.97%	3.34%	0.92%	4.21%	6.83%
10	4.	Connecticut Water	9.38%	3.84%	1.27%	-0.66%	
11	5.	Middlesex	9.50%	6.35%	2.34%	3.59%	4.00%
12	6.	SJW Corp.	12.59%	6.20%	3.95%	-2.89%	
13							
14							
15		GROUP AVERAGE	12.12%	5.48%	2.60%	2.89%	6.54%
16		GROUP MEDIAN	11.15%	5.24%	1.80%	3.54%	6.58%
17							
18	* See Schedule D-4.7						
19	Sources:						
20		Value Line Data					
21		Yahoo Finance					
22							

Black Mountain Sewer Company
Stock Price Comparision

Exhibit
Rejoinder Schedule D-4.5
Witness: Bourassa

Line No.		Company	Price at 5/19/2006	Spot Price 5/19/2006	Difference Spot Price	Percent Increase
1	1.	American States (AWR)	$ 27.28	$ 38.18	$ 10.90	39.96%
2	2.	Aqua America (WTR)	19.98	22.52	2.54	12.71%
3	3.	California Water (CWT)	33.18	38.42	5.24	15.79%
4	4.	Connecticut Water (CTWS)	22.82	24.61	1.79	7.84%
5	5.	Middlesex (MSEX)	17.17	19.24	2.07	12.06%
6	6.	SJW Corp. (SJW)	17.67	22.99	5.32	30.11%
7						
8					$ 4.64	19.74%
9						
10	Sources:					
11		Yahoo Finance				
12		Zacks Investment Research				
13						
14						
15						

Exhibit
Rejoinder Schedule D-4.6
Witness: Bourassa

Black Mountain Sewer Company
Analysts Forecasts of Earnings Per Share Growth

		(1)	(2)	(3)	(4)
		EPS GROWTH			Average
				Value	Growth (G)
	Company	Zacks	S&P	Line	(Cols 1-3)
1.	American States	6.00%	5.00%	8.00%	6.33%
2.	Aqua America	9.00%	7.00%	11.00%	9.00%
3.	California Water	9.00%	7.00%	4.50%	6.83%
4.	Connecticut Water				6.54%
5.	Middlesex*	4.00%	4.00%		4.00%
6.	SJW Corp.				6.54%
	GROUP AVERAGE	7.00%	5.75%	7.83%	6.54%
	GROUP MEDIAN				6.54%

Sources:
Value Line Investment Survey Dated April 28, 2006
Zacks Investment Research Site Dated May 19, 2006
S&P Earnings Guide May 2006

* Estimates for Middlesex excluded as estimates are 4.0% and DCF result is less than the cost of Baa bonds.

Black Mountain Sewer Company
Estimates of Sustainable Growth

Exhibit
Rejoinder Schedule D-4.7
Witness: Bourassa

		(1)	(2)	(3)	(4)	(5)
						Average Sustainable
	Company	Retention Ratio	Rate of Return	br Growth	sv Growth	Growth (Cols 3+4)
1.	American States	0.54	9.00%	4.89%	2.67%	7.56%
2.	Aqua America	0.45	13.00%	5.85%	1.11%	6.96%
3.	California Water	0.43	9.00%	3.89%	4.10%	7.99%
4.	Connecticut Water					
5.	Middlesex					
6.	SJW Corp.					
	GROUP AVERAGE	0.48	10.33%	4.88%	2.63%	7.50%
	GROUP MEDIAN	0.45	9.00%	4.89%	2.67%	7.56%

Sources:
Value Line Data Reported April 28, 2006

Exhibit
Rejoinder Schedule D-4.9
Witness: Bourassa

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

		(1)	(2)	(3)	(4)	(5)
						Indicated
						Cost of
			Next		(a)	Equity
		Spot	Year's	Dividend	EPS	k=Div Yld + g
	Company	Price (Po)	Div (D1)	Yield	Growth (g)	(Cols 3+4)
1.	American States	38.18	0.91	2.38%	6.33%	8.7%
2.	Aqua America	22.52	0.44	1.95%	9.00%	11.0%
3.	California Water	38.42	1.15	2.99%	6.83%	9.8%
4.	Connecticut Water	24.61	0.85	3.45%	6.54%	10.0%
5.	Middlesex	19.24	0.68	3.53%	4.00%	(b)
6.	SJW Corp.	22.99	0.57	2.48%	6.54%	9.0%
	GROUP AVERAGE					9.7%
	GROUP MEDIAN					9.8%

(a) See Schedules D-4.5
(b) Excluded. Indicated cost of equity only 40 basis points above projected cost of Baa investment grade bonds.

Sources:
Zacks Investment Research
Value Line Data April 28, 2006

Exhibit
Rejoinder Schedule D-4.8
Witness: Bourassa

Black Mountain Sewer Company
Estimates of sv Growth

Line No.		Company	(1) Stock Financing Rate	(2) Current Market to Book Ratio	(3) v	(4) sv Growth	
1							
2							
3							
4							
5							
6							
7	1.	American States	4.55%	2.43	0.59	2.67%	0.00
8	2.	Aqua America	1.54%	3.57	0.72	1.11%	0.00
9	3.	California Water	7.02%	2.40	0.58	4.10%	0.00
10	4.	Connecticut Water				na	
11	5.	Middlesex				na	
12	6.	SJW Corp.				na	
13							
14							
15		GROUP AVERAGE	4.37%	2.80	0.63	2.63%	
16		GROUP MEDIAN	4.55%	2.43	0.59	2.67%	
17							
18	Sources:						
19		Value Line data reported April 28, 2006					
20							
21							

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

Exhibit
Rejoinder Schedule D-4.10
Witness: Bourassa

		(1)	(2)	(3)	(4)	(5)	(6)	(7)
								Indicated
								Cost of
			Next		Sustainable Growth(a)			Equity
		Spot	Year's	Dividend			br+sv	k=Div Yld + g
	Company	Price (Po)	Div (D_1)	Yield	br	vs	Growth (g)	(Cols 3+6)
1.	American States	38.18	0.91	2.38%	4.89%	2.67%	7.56%	9.9%
2.	Aqua America	22.52	0.44	1.95%	5.85%	1.11%	6.96%	8.9%
3.	California Water	38.42	1.15	2.99%	3.89%	4.10%	7.99%	11.0%
4.	Connecticut Water	24.61	0.85	3.45%			7.50%	11.0%
5.	Middlesex	19.24	0.68	3.53%			7.50%	11.0%
6.	SJW Corp.	22.99	0.57	2.48%			7.50%	10.0%
	GROUP AVERAGE							10.3%
	GROUP MEDIAN							10.5%

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

Sources:
Zacks Investment Research
Value Line data April 28, 2006

Exhibit
Rejoinder Schedule D-4.11
Witness: Bourassa

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

		(1)	(2)	(3)	(4)	(5)	(6)	(7)
					Projected Growth Rates			
			Next					Indicated
		Spot	Year's	Yield	Near	Long		Cost of
	Company	Price(P_0)	Div (D_1)	(D_1/P_0)	Term (a)	Term (GDP)	Average (b)	Equity
1.	American States	38.18	0.91	2.38%	6.33%	6.80%	6.49%	8.9%
2.	Aqua America	22.52	0.44	1.95%	9.00%	6.80%	8.27%	10.2%
3.	California Water	38.42	1.15	2.99%	6.83%	6.80%	6.82%	9.8%
4.	Connecticut Water	24.61	0.85	3.45%	6.54%	6.80%	6.63%	10.1%
5.	Middlesex	19.24	0.68	3.53%	4.00%	6.80%	4.92%	8.5%
6.	SJW Corp.	22.99	0.57	2.48%	6.54%	6.80%	6.63%	9.1%
	GROUP AVERAGE							9.4%
	GROUP MEDIAN							9.5%

(a) See Schedule D-4.5
(b) Near term growth given weighting of .67

Sources:
Zacks Investment Research
Value Line data April 28, 2006

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

Exhibit
Rejoinder Schedule D-4.12
Witness: Bourassa

Line No.		Actual Returns on Equity	Annual Average 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	9.18%	4.34%	4.84%
2	2004	8.95%	4.27%	4.68%
3	2003	8.75%	4.01%	4.74%
4	2002	10.25%	4.61%	5.64%
5	2001	10.05%	5.02%	5.03%
6	2000	9.62%	6.03%	3.59%
7	1999	11.20%	5.65%	5.55%
8	1998	10.62%	5.26%	5.36%
9	1997	11.52%	6.35%	5.17%
10	1996	11.67%	6.44%	5.23%
11	1995	10.93%	6.57%	4.36%
12				
13				
14	10 Year Average Premium			4.98%
15	5 Year Average Premium			4.99%
16				
17				
18	Forecasted Interest Rates for 2007-2008(c)			5.20%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.2%
22	5 Year Average			10.2%
23				
24				
25	Sources:			
26	Value Line data reported April 28, 2006			
27	Ibbotson Associates SBBI Valuation Edition 2006 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. Dec, 2005			
29	Federal Reserve			
30				

Exhibit
Rejoinder Schedule D-4.13
Witness: Bourassa

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

Line No.		Authorized Returns on Equity	Average Annual 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	10.47%	4.34%	6.13%
2	2004	10.40%	4.27%	6.13%
3	2003	10.48%	4.01%	6.47%
4	2002	10.62%	4.61%	6.01%
5	2001	10.86%	5.02%	5.84%
6	2000	11.12%	6.03%	5.09%
7	1999	11.12%	5.65%	5.47%
8	1998	11.06%	5.26%	5.80%
9	1997	11.18%	6.35%	4.83%
10	1996	11.58%	6.44%	5.14%
11	1995	11.51%	6.57%	4.94%
12				
13				
14	10 Year Average Premium			5.69%
15	5 Year Average Premium			6.12%
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 2006 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. Dec, 2005			
29				

Exhibit
Rejoinder Schedule D-4.14
Witness: Bourassa

Test Year Ended December 31, 2004
Returns on Equity of Nationally Traded Water
Utilities as Reported in AUS Utility Reports
May 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%	8.9%
4	Connecticut Water Service	12.7%	7.8%
5	Middlesex Water Co.	10.0%	8.4%
6	SJW Corp.	9.9%	11.5%
7			
8			
9	Averages	10.5%	9.8%
10			
11			
12			
13			
14			
15			

Exhibit
Rejoinder Schedule H1
Witness: Bourassa

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

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Sewer Revenues	Percent of Proposed Sewer Revenues
1	Residential	768,816	938,765	169,949	22.11%	64.44%	64.42%
2	**Residential customer revenue**						
3	**annualized to end of year, based on**	17,328	21,158	3,830	22.11%	1.45%	1.45%
4	**year end number of customers**						
5	**ACC Assessment**	(2,288)	(2,288)	-			
6	Commercial (Standard Rate)	312,725	381,875	69,150	22.11%	26.21%	26.20%
7	Commercial (Special Rate)	81,967	100,090	18,123	22.11%	6.87%	6.87%
8	Effluent Sales	14,498	17,704	3,206	22.11%	1.22%	1.21%
9	Subtotals	1,193,046	1,457,304	264,258	22.15%	100.19%	100.16%
10	Misc Revenues	16,472	16,472				
11	Totals	1,209,518	1,473,776	264,258	21.85%	100.19%	100.16%

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

Rejoinder Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 3/31/2000	Average Effluent	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	Residential	1,724	N/A	$ 38.00	$ 46.40	$ 8.40	22.105%
2	Commercial (Standard Rate)	130	N/A	0.15236	0.18605	0.03369	22.112%
3	Commercial (Special Rate)						
4	B-H Enterprises (West)	-	N/A	$ 0.11685	$ 0.14269	$ 0.02584	22.114%
5	B-H Enterprises (East)	1	N/A	0.11685	0.14269	0.02584	22.114%
6	Barb's Per Grooming	-	N/A	0.11685	0.14269	0.02584	22.114%
7	Boulders Resort	1	N/A	0.11843	0.14461	0.02618	22.109%
8	Carefree Dental	-	N/A	0.11685	0.14269	0.02584	22.114%
9	Ridgecrest Realty	1	N/A	0.11818	0.14431	0.02613	22.110%
10	Desert Forest	1	N/A	0.13609	0.16618	0.03009	22.110%
11	Desert Hills Pharmacy	1	N/A	0.14206	0.17347	0.03141	22.110%
12	El Pedregal	1	N/A	0.11685	0.14269	0.02584	22.114%
13	Lemon Tree	1	N/A	0.14400	0.17584	0.03184	22.111%
14	Body Shop	1	N/A	0.14544	0.17760	0.03216	22.112%
15	Spanish Village	-	N/A	0.11685	0.14269	0.02584	22.114%
16	Boulders Club	-	N/A	0.11685	0.14269	0.02584	22.114%
17	Anthony Vuitaggio	1	N/A	0.12987	0.15858	0.02871	22.107%
18							
19	Effluent	1	3,226,904	$ 0.37440	$ 0.45719	$ 0.08279	22.111%
20							
21	Total	1,864					
22							
23							
24							
25							

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

Exhibit
Rejoinder Schedule H3
Page 1
Witness: Bourassa

Customer Classification and Meter Size		Present Rates	Present Rates	Proposed Rates	Proposed Rates	Percent Change
Monthly Charge for:						
Residential			$ 38.00		$ 46.40	22.1053%
Commercial (Standard Rate), per gallon per day[1]			0.15236		0.18605	22.1121%
Effluent Sales (per 1,000 gallons)		$122 per a.f.	0.37440	$148.98 per a.f.	0.45719	22.1113%
Commercial (Special Rate), per gallon per day[1]						
Customer	Gallons Per Day[1]	Monthly Billing	Rate per Gallon	Monthly Billing	Rate per Gallon	Percent Change
B-H Enterprises	2,525	$ 295.05	0.11685	$ 360.29	$ 0.14269	22.1138%
B-H Enterprises	1,400	$ 163.59	0.11685	$ 199.76	0.14269	22.1138%
Barb's Per Grooming	250	$ 29.21	0.11685	$ 35.67	0.14269	22.1138%
Boulders Resort	29,345	$ 3,475.23	0.11843	$ 4,243.60	0.14461	22.1090%
Carefree Dental	1,625	$ 189.98	0.11685	$ 231.98	0.14269	22.1138%
Ridgecrest Realty	450	$ 53.18	0.11818	$ 64.94	0.14431	22.1103%
Desert Forest	7,000	$ 952.63	0.13609	$ 1,163.26	0.16618	22.1104%
Desert Hills Pharmacy	800	$ 113.65	0.14206	$ 138.78	0.17347	22.1104%
El Pedregal	15,787	$ 1,844.69	0.11685	$ 2,252.55	0.14269	22.1138%
Lemon Tree	300	$ 43.20	0.14400	$ 52.75	0.17584	22.1111%
Body Shop	1,000	$ 145.44	0.14544	$ 177.60	0.17760	22.1122%
Spanish Village	4,985	$ 582.50	0.11685	$ 711.29	0.14269	22.1138%
Boulders Club	1,200	$ 140.22	0.11685	$ 171.22	0.14269	22.1138%
Anthony Vuitaggio	300	$ 38.96	0.12987	$ 47.57	0.15858	22.1067%

[1] Commercial wastewater flows are based on the average daily flows set forth in Engineering Bulletin 12, Table 1 published by the Arizona Department of Environmental Quality (June 1989)

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

Exhibit
Rejoinder Schedule H3
Page 2
Witness: Bourassa

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

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

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

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

Exhibit
Rejoinder Schedule H4
Page 1
Witness: Bourassa

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Residential

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 38.00	$ 46.40	$ 8.40	22.11%

Exhibit
Rejoinder Schedule H4
Page 2
Witness: Bourassa

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

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 295.05	$ 360.29	$ 65.24	22.11%

Exhibit
Rejoinder Schedule H4
Page 3
Witness: Bourassa

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

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 163.59	$ 199.76	$ 36.17	22.11%

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

Exhibit
Rejoinder Schedule H4
Page 4
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 29.21	$ 35.67	$ 6.46	22.12%

Exhibit
Rejoinder Schedule H4
Page 5
Witness: Bourassa

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

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 3,475.23	$ 4,243.60	$ 768.37	22.11%

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

Exhibit
Rejoinder Schedule H4
Page 6
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 189.98	$ 231.98	$ 42.00	22.11%

Exhibit
Rejoinder Schedule H4
Page 7
Witness: Bourassa

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

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 53.18	$ 64.94	$ 11.76	22.11%

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

Exhibit
Rejoinder Schedule H4
Page 8
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 952.63	$ 1,163.26	$ 210.63	22.11%

Exhibit
Rejoinder Schedule H4
Page 9
Witness: Bourassa

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

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 113.65	$ 138.78	$ 25.13	22.11%

Exhibit
Rejoinder Schedule H4
Page 10
Witness: Bourassa

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

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 1,844.69	$ 2,252.55	$ 407.86	22.11%

Exhibit
Rejoinder Schedule H4
Page 11
Witness: Bourassa

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

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 43.20	$ 52.75	$ 9.55	22.11%

Exhibit
Rejoinder Schedule H4
Page 12
Witness: Bourassa

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

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 145.44	$ 177.60	$ 32.16	22.11%

Exhibit
Rejoinder Schedule H4
Page 13
Witness: Bourassa

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

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 582.50	$ 711.29	$ 128.79	22.11%

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

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 140.22	$ 171.22	$ 31.00	22.11%

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

Exhibit
Rejoinder Schedule H4
Page 15
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
$ 38.96	$ 47.57	$ 8.61	22.10%

Exhibit
Rejoinder Schedule H4
Page 16
Witness: Bourassa

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Commercial

gpd	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	0.00%
50	7.62	9.30	1.68	22.11%
100	15.24	18.61	3.37	22.11%
150	22.85	27.91	5.05	22.11%
200	30.47	37.21	6.74	22.11%
250	38.09	46.51	8.42	22.11%
300	45.71	55.82	10.11	22.11%
350	53.33	65.12	11.79	22.11%
400	60.94	74.42	13.48	22.11%
1,000	152.36	186.05	33.69	22.11%
2,000	304.72	372.10	67.38	22.11%
3,000	457.08	558.15	101.07	22.11%
4,000	609.44	744.20	134.76	22.11%
5,000	761.80	930.25	168.45	22.11%
Average Usage				
570	86.91	106.13	$ 19.22	22.11%
Median Usage				
105	16.00	19.54	$ 3.54	22.11%

Present Rates:
Charge Per Gallon $ 0.152360

Proposed Rates:
Charge Per Gallon $ 0.186050

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Effluent Sales

MidPoint Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1,000	0.37	0.46	0	22.11%
2,000	0.75	0.91	0	22.11%
3,000	1.12	1.37	0	22.11%
4,000	1.50	1.83	0	22.11%
5,000	1.87	2.29	0	22.11%
6,000	2.25	2.74	0	22.11%
7,000	2.62	3.20	1	22.11%
8,000	3.00	3.66	1	22.11%
9,000	3.37	4.11	1	22.11%
10,000	3.74	4.57	1	22.11%
12,000	4.49	5.49	1	22.11%
14,000	5.24	6.40	1	22.11%
16,000	5.99	7.32	1	22.11%
18,000	6.74	8.23	1	22.11%
20,000	7.49	9.14	2	22.11%
25,000	9.36	11.43	2	22.11%
30,000	11.23	13.72	2	22.11%
35,000	13.10	16.00	3	22.11%
40,000	14.98	18.29	3	22.11%
45,000	16.85	20.57	4	22.11%
50,000	18.72	22.86	4	22.11%
60,000	22.46	27.43	5	22.11%
70,000	26.21	32.00	6	22.11%
80,000	29.95	36.58	7	22.11%
90,000	33.70	41.15	7	22.11%
100,000	37.44	45.72	8	22.11%
125,000	46.80	57.15	10	22.11%
150,000	56.16	68.58	12	22.11%
175,000	65.52	80.01	14	22.11%
200,000	74.88	91.44	17	22.11%
450,000	168.48	205.74	37	22.11%
700,000	262.08	320.03	58	22.11%
950,000	355.68	434.33	79	22.11%
1,200,000	449.29	548.63	99	22.11%
Average Usage				
3,226,904	$ 1,208.17	$ 1,475.31	$ 267.14	22.11%

Present Rates:

		$ -
		-
Charge Per 1,000 Gallons		
Up to	1	$ 0.37440
	2	$ 0.37440
	3	$ 0.37440
	4	

Proposed Rates:

		$ -
		-
Charge Per 1,000 Gallons		
	1	$ 0.45719
	2	$ 0.45719
	3	$ 0.45719
	4	