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BEFORE THE ARIZONA CORPORATION COMMISSION

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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

**STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY OF
CRYSTAL BROWN**

Staff of the Arizona Corporation Commission hereby files the Surrebuttal Testimony of
Crystal Brown of the Utilities Division in the above-referenced matter.

RESPECTFULLY SUBMITTED this 5th day of May, 2006.

Keith Layton, Attorney
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Original and thirteen copies filed
this 5th day of May, 2006 with:

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1 Copies of the foregoing were mailed
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**SURREBUTTAL
TESTIMONY
OF
CRYSTAL S. BROWN**

DOCKET NO. W-02361A-05-0657

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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.**

MAY 5, 2006

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. SW-02361A-05-0657
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.)
_____)

SURREBUTTAL
TESTIMONY
OF
CRYSTAL S. BROWN
PUBLIC UTILITIES ANALYST V
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

MAY 5, 2006

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EXECUTIVE SUMMARY
BLACK MOUNTAIN SEWER CORPORATION
DOCKET NO. SW-02361A-05-0657

Staff recommends total annual revenues of \$1,422,444 resulting in \$168,299 or 9.6 percent rate of return on a \$1,753,118 rate base. Staff recommends that the rates not go into effect until the first day of the month after (1) the Company refunds the CIAC in accordance to a signed Commission order and (2) provides documentation to Staff that the total refund has been made.

Staff's surrebuttal testimony responds to Black Mountain Water Company's rebuttal on the following issues:

1. Rate Base
 - a. Post-Test Year Plant
 - b. Capitalized Affiliate Profit
 - c. Expensed Plant
 - d. Accumulated Depreciation
 - e. Contributions in Aid of Construction
 - f. *Customer Deposits*

2. Operating Income
 - a. Nonrecurring Expenses
 - b. Scottsdale Capacity Operating Lease Expense
 - c. Bad Debt Expense
 - d. Expensed Plant
 - e. Affiliate Profit
 - f. Rate Case Expense

3. Contributions In Aid of Construction Refund

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona
4 Corporation Commission (“ACC” or “Commission”) in the Utilities Division (“Staff”).
5 My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Crystal S. Brown who filed direct testimony in this case?**

8 A. Yes.

9
10 **PURPOSE OF SURREBUTTAL TESTIMONY**

11 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

12 A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of
13 Staff to the rebuttal testimonies of Mr. Thomas J. Bourassa and Mr. Michael D. Webber,
14 who represent Black Mountain Sewer Company, Inc. (“Black Mountain” or “Company”).

15
16 **Q. Did you attempt to address every issue raised by the Company in its rebuttal
17 testimony?**

18 A. No. I limited my discussion to certain issues as outlined below. My silence on any
19 particular issue raised in the Company’s rebuttal testimony does not indicate that I agree
20 with the Company’s stated rebuttal position on the issue.

21
22 **Q. What issues will you address?**

23 A. I will address the issues listed below that are discussed in the rebuttal testimonies of Black
24 Mountain witnesses Mr. Thomas J. Bourassa and Mr. Michael D. Webber.

25 1. Rate Base

26 a. Post-Test Year Plant

- 1 b. Capitalized Affiliate Profit
- 2 c. Expensed Plant
- 3 d. Accumulated Depreciation
- 4 e. Contributions in Aid of Construction
- 5 f. Customer Deposits

6 2. Operating Income

- 7 a. Nonrecurring Expenses
- 8 b. Scottsdale Capacity Operating Lease Expense
- 9 c. Bad Debt Expense
- 10 d. Expensed Plant
- 11 e. Affiliate Profit
- 12 f. Rate Case Expense

13 3. Contributions In Aid of Construction Refund

14

15 **Q. What is Staff recommended revenue?**

16 A. Staff recommends total annual revenues of \$1,422,444 resulting in \$168,299 or 9.6
17 percent rate of return on a \$1,753,118 rate base.

18

19 **RATE BASE**

20 **Post-Test Year ("PTY") Plant**

21 **Q. Briefly describe the PTY plant that the Company has requested to recover.**

22 A. The Company has requested to recover a liquid chlorinator that was not in service during
23 the Test Year.

24

25 **Q. Does Staff agree that the liquid chlorinator should be included in rate base?**

26 A. Yes.

1 **Capitalized Affiliate Profit**

2 **Q. Please summarize Staff's recommendation concerning capitalized affiliate profit.**

3 A. Staff recommends removing the affiliate profit because it inflates rates allowing the
4 shareholders to effectively increase the return of equity invested in Black Mountain by
5 increasing the profit included in billings to Black Mountain from affiliates.

6
7 **Q. What are the Company's reasons for continuing to request recovery of its
8 unregulated affiliate's profit through rates?**

9 A. The Company reasons can be summarized into two arguments as follows:

10 a. Reasonableness: Staff should look at the reasonableness of the cost irrespective of
11 the source. Staff did not provide any evidence of inflated costs. Staff did not
12 perform any independent analysis. Staff would not have removed the profit if the
13 Company had engaged a non-affiliate.

14
15 b. Claimed Savings: Affiliate companies save Black Mountain approximately
16 \$222,000 annually. Operating expenses would have to increase because Black
17 Mountain would have to hire personnel to perform the duties that affiliates are now
18 performing.

19
20 **Q. Does Staff agree with any of the Company's arguments?**

21 A. No, Staff does not. Staff will first discuss the implications of the Company's related party
22 business arrangement with its affiliates, then address each of the Company's arguments
23 separately.

1 **Implications of the Related-Party Business Arrangement**

2 **Q. Please explain what constitutes a related party transaction?**

3 A. In general, a related party transaction refers to a company and any other party with which
4 the company may deal where one party has the ability to influence the other to the extent
5 that one party of the transaction may not pursue its own separate best interest. It is not an
6 arm's-length bargaining of parties of opposing interests.
7

8 **Q. Are related party transactions required to be disclosed under Generally Accepted
9 Accounting Principles ("GAAP")?**

10 A. Yes. Related party transactions are required to be disclosed under GAAP. One reason for
11 this disclosure requirement is that related party transactions not involving arm's-length
12 bargaining between buyer and seller, have sometimes been recorded at inflated amounts.
13

14 **Q. Did Black Mountain enter into a related party transaction with its unregulated
15 affiliate?**

16 A. Yes. Algonquin Water Resources of America owns both Algonquin Water Services and
17 Black Mountain. Black Mountain has no employees. The shareholders of Black
18 Mountain have turned the day to day operations and management of Black Mountain,
19 something most stand-alone utilities routinely perform, over to an unregulated affiliate.
20 The owners then charge the customers of Black Mountain a profit via the affiliate for
21 performing those services.

1 **Q. How much influence does Black Mountain have in negotiating the operations and**
2 **management cost with its affiliate?**

3 A. None. Black Mountain has no employees. The shareholders of Black Mountain and its
4 affiliate have created a self-serving business arrangement whereby the shareholders set the
5 profit that is guaranteed to be paid by Black Mountain's captive customers.

6
7 **Q. Does Black Mountain have a strong incentive to prefer its affiliate over a non-**
8 **affiliated company?**

9 A. Yes. If Black Mountain selects any company other than one of its affiliates to perform the
10 services, the parent company would not be able to keep approximately \$40,000¹ in profit
11 because it would have had to pay it to an independent third party. Consequently, the
12 owners would have \$40,000 less in their bank accounts.

13
14 **Q. What is a fundamental element of a monopoly?**

15 A. One fundamental element of a monopoly is a barrier to entry.

16
17 **Q. Have the shareholders of Black Mountain set up barriers for other non-affiliated**
18 **companies to enter the market of providing services for Black Mountain?**

19 A. Yes. The shareholders of Black Mountain discriminate against non-affiliates by
20 maintaining that only Black Mountain's affiliates can provide the range of services that
21 Black Mountain needs. It further indicates that it cannot obtain competitive bids because
22 it knows of no other individuals or companies from whom to request a bid. Moreover, the
23 shareholders claim that they will have to increase expenses if they cannot charge Black
24 Mountain's captive customers a profit for affiliate provided services.

¹ Combined plant and expense profit Staff was able to identify.

1 **Q. What is the effect of the barriers to entry established by Black Mountain's affiliate?**

2 A. Black Mountain's affiliate is, in substance, an unregulated monopoly. The shareholders
3 have set up barriers to entry; the shareholders discriminate in favor of its affiliate; the
4 shareholders fix the price and the profit that Black Mountain's captive customers must
5 pay.

6
7 **Q. How much did the shareholders through Black Mountain's affiliate increase monthly
8 management fees during the Test Year?**

9 A. The shareholders through the affiliate increased management fees by \$5,562 per month (or
10 74%) over a one year period from \$7,500 per month in 2003 to \$13,062 per month in
11 2004.

12 **Reasonableness**

13 **Q. Is "reasonableness" the only criteria staff should consider in evaluating whether or
14 not an expense should be recovered through rates?**

15 A. No. Other important factors such as: (1) whether or not the cost was needed for the
16 provision of service; (2) the used and usefulness; and (3) the prudence of the expense; and
17 (4) whether the affiliate had to forgo other profitable opportunities in order to provide
18 service to the utility should be considered in determining whether an expense should be
19 allowed for ratemaking purposes. Only in certain circumstances when the affiliate has to
20 forgo other profitable opportunities and the utility does not have a better alternative for the
21 services provided should an affiliate profit be allowed in the cost of service.

22
23 **Q. Is the affiliate profit needed for the provision of service?**

24 A. No. As long as Black Mountain's affiliate is reimbursed for the actual cost it incurs to
25 provide services to Black Mountain it will be made financially whole and can continue to
26 provide the services to Black Mountain in the same manner.

1 **Q. How does the affiliate profit benefit the shareholders?**

2 A. For Black Mountain's captive customers, the affiliate profit is a created cost that is not
3 needed for the provision of service and inflates the cost of service. Since the owners can
4 provide the same service in the same manner without charging a profit (i.e., because it can
5 recover, dollar for dollar, the actual cost of providing the service from the ratepayers), the
6 profit would only serve to increase the return on equity. As Staff stated earlier, if Black
7 Mountain were to select any vendor other than one of its affiliates to perform the services,
8 the owners would not be able to keep the profit because they would have had to pay it to
9 an independent third party.

10

11 **Q. What is the definition of "prudently invested"?**

12 A. Arizona Administrative Code R14-2-103A.3.1 defines "prudently invested" as follows:
13 "Prudently Invested" – Investments which under ordinary circumstances would be deemed
14 reasonable and not dishonest or obviously wasteful (emphasis added) . . ."

15

16 Companies remove affiliate profit from the cost of service because they recognize it is not
17 needed in the provision of service and that inclusion of the profit wastes customers'
18 valuable financial resources.

19

20 **Q. What utilities remove affiliate profit from the cost of service?**

21 A. Sierra Southwest, the unregulated affiliate of AEPCO and Southwest Transmission
22 provides employees for the two companies at actual cost (i.e., includes no profit). Also, it
23 is Staff's understanding that the affiliates of Arizona-American provide service at cost
24 (without profit). Additionally, Phelps Dodge Corporation, the parent company and
25 unregulated affiliate of Ajo Water and Sewer Company, removes profit from the cost of
26 service for ratemaking purposes.

1 **Q. How does Staff respond to Mr. Webber's rebuttal testimony that the 4.5% is**
2 **reasonable and is hardly an attempt to manipulate the bottom line?**

3 A. First, if Mr. Webber's comment about not manipulating the bottom line is the genuine
4 position of the Company, then it should have no objection to forgoing recovery. Second,
5 Staff has not audited Black Mountain's affiliates and has not verified the amount of the
6 profit claimed. Based on Staff's experience auditing Black Mountain's records, it is
7 reasonable to assume that Staff would also find adjustments to the affiliate's records.

8
9 **Q. Is there any information that leads Staff to believe that there may be more affiliate**
10 **profit in the operating expenses than that Staff was able to identify and remove?**

11 A. Yes. For example, the billing rate charged to Black Mountain by its affiliate was \$150 an
12 hour for a general manager. This equates to \$312,000 per year to perform routine
13 management functions of a sewer company.

14
15 **Claimed Savings**

16 **Q. Did the Company provide source documentation to support the claimed \$222,000**
17 **savings that Staff could audit and verify?**

18 A. No. The claimed savings are unsupported management assertions.

19
20 **Q. Even if the Company's claimed savings were verified, would the savings justify the**
21 **affiliate's profit?**

22 A. No.

1 **Q. Why wouldn't actual savings justify the affiliate profit?**

2 A. The savings would not justify the affiliate profit because the affiliate can provide the same
3 services in the same manner without charging a profit. It is only reasonable for the
4 affiliate to recover 100 percent of its actual cost from Black Mountain's customers.

5
6 **Q. What ultimate purpose does Black Mountain's business arrangement with its
7 affiliates serve for the shareholders of Black Mountain?**

8 A. Given that an investor-owned company's primary objective is to maximize profit, it will
9 choose a business form that it believes will best achieve that objective. Accordingly, the
10 parent company of Black Mountain has chosen a business arrangement that it believes will
11 result in maximized profit.

12
13 Apparently, for the ultimate shareholders of Black Mountain, it is more profitable to turn
14 over the duties to operate Black Mountain to its unregulated monopolistic affiliate than (1)
15 to employ workers directly because employing workers directly would eliminate an
16 opportunity to charge a profit or (2) to hire a non-affiliated third party because the
17 shareholders would have to pay the profit to that third party rather than keep the profit for
18 themselves.

19
20 **Q. Does Staff have a concern regarding the implication that Black Mountain and its
21 affiliates would choose to operate less efficiently resulting in increased cost of service
22 if affiliates can no longer pass through a profit?**

23 A. Yes. Mike Webber indicated in his rebuttal testimony that operating expenses will have to
24 increase because Black Mountain will have to hire personnel to perform the duties the
25 affiliates are now performing if affiliate profits are not recoverable from Black Mountain
26 ratepayers. A decision by Black Mountain and its affiliates to operate in a less efficient

1 manner that results in increased costs because affiliate profits cannot be recovered would
2 be subject to a review for prudence where the incremental costs could be challenged. In
3 circumstances where 100 percent of the actual cost to provide service is recoverable, any
4 choice to operate less efficiently would bring into question the incremental cost.

5
6 **Q. Please summarize Staff's position concerning capitalized affiliate profit.**

7 A. Staff has not changed from its original position. Reasonableness alone is not sufficient to
8 determine whether an expense should be allowed in the cost of service. Other important
9 factors such as: (1) whether or not the cost was needed for the provision of service; (2) the
10 used and usefulness; and (3) the prudence of the expense; and (4) whether the affiliate had
11 to forgo other profitable opportunities in order to provide service to the utility should be
12 considered in determining whether an expense should be allowed for ratemaking purposes.
13 Only when the affiliate has to forgo other profitable opportunities and the utility does not
14 have a better alternative for the services provided should an affiliate profit be allowed in
15 the cost of service.

16
17 The shareholders have created an unregulated affiliate monopoly that allows the
18 shareholders the power to set the price and profit that is guaranteed to be paid by Black
19 Mountain's captive customers. Other utilities remove the profit from their affiliates from
20 the cost of service. The profit is a created cost that is not needed to provide service, and
21 accordingly, is imprudent. The profit saves neither the Company nor ratepayers any
22 money because the affiliate can provide the same services to Black Mountain in the same
23 manner without charging a profit. The profit wastes customers' valuable financial
24 resources.

1 **Expensed Plant – Rate Base**

2 **Q. Is Staff's surrebuttal position for its Rate Base Adjustment No. 3 - Expensed Plant**
3 **different from its direct testimony position?**

4 A. Yes.

5
6 **Q. Please explain the Staff's modified position?**

7 A. The Company in the rebuttal testimony of Thomas Bourassa states that \$2,700 in costs
8 that Staff removed from operating expenses and capitalized had already been capitalized
9 by the Company. Since, the amount had already been capitalized, Staff's capitalization of
10 this amount resulted in a double count. Therefore, the capitalization portion of Staff's
11 adjustment should be reversed.

12
13 **Q. What adjustment is Staff's recommending?**

14 A. Staff's surrebuttal recommendation is shown in Surrebuttal Schedule CSB-7

15
16 **Contributions In Aid of Construction ("CIAC") Balance**

17 **Q. Has Staff reviewed the Company's rebuttal testimony concerning the CIAC balance?**

18 A. Yes.

19
20 **Q. Does Staff agree with the Company's proposal to increase plant in service by**
21 **\$339,833 for unrecorded plant financed with CIAC?**

22 A. No, the Company has not provided source documentation to support its assertion that the
23 plant was financed with CIAC.

24
25 **Q. Does Staff accept the Company's assertion that the cost of the land was \$452,467?**

26 A. Yes.

1 **Q. What other adjustment does Staff recommend concerning the land that was**
2 **purchased with CIAC?**

3 A. Staff recommends that the \$452,467 cost for the land purchased be recorded in the land
4 account in accordance with the Commission mandated NARUC Uniform System of
5 Accounts.

6
7 **Q. What is Staff's surrebuttal position for CIAC recommended changes to its direct**
8 **testimony?**

9 A. Staff's surrebuttal recommendation is shown in Surrebuttal Schedule CSB-8.

10

11 **Customer Deposits**

12 **Q. Has Staff reviewed the Company's rebuttal testimony concerning the Customer**
13 **Deposits balance?**

14 A. Yes.

15

16 **Q. Does Staff agree with the Company that the balance should be zero?**

17 A. Yes.

18

19 **Q. Does the Company's rebuttal testimony show a zero balance for Customer Deposits?**

20 A. No.

21

22 **Q. What Customer Deposits balance is shown in the Company's Rebuttal Testimony?**

23 A. The Company's rebuttal testimony shows a negative \$6,000 balance.

1 **Q. What effect does the negative \$6,000 balance have on rate base?**

2 A. It has the effect of increasing rate base by \$6,000 because the Company rate base formula
3 subtracts the negative number from rate base (i.e., subtracting a negative number has the
4 same effect as adding a positive number).

5
6 **Q. What is Staff's surrebuttal position for Customer Deposits?**

7 A. Staff surrebuttal position for Customer Deposits is shown on Surrebuttal Schedule CSB-9.
8 Staff further suggests that the Company correct its rate base schedule to show a Customer
9 Deposits balance of \$0 in order to be consistent with its rebuttal testimony.

10

11 **OPERATING INCOME**

12 **Expensed Plant**

13 **Q. Has Staff reviewed the Company's rebuttal testimony concerning Expense Plant in**
14 **operating expenses?**

15 A. Yes.

16

17 **Q. Does Staff agree with the Company's adjustments?**

18 A. Yes.

19

20 **Q. What is Staff's surrebuttal position for Expensed Plant?**

21 A. Staff's surrebuttal recommendation for Expensed Plant is shown in Surrebuttal Schedule
22 CSB-14

1 **Affiliate Profit Included In Operating Expenses**

2 **Q. Has Staff reviewed the Company's rebuttal testimony concerning affiliate profit**
3 **included in operating expenses?**

4 A. Yes.

5
6 **Q. Has Staff changed from its original position to remove affiliate profit from operating**
7 **expenses?**

8 A. No. Staff continues to recommend that the affiliate profit included in operating expense
9 be excluded from cost of service for the reasons set forth previously to remove capitalized
10 affiliate profit from rate base.

11
12 **Nonrecurring Expense**

13 **Q. Has Staff reviewed the Company's rebuttal testimony related to legal expenses for**
14 **the Town of Carefree Operating Agreement?**

15 A. Yes.

16
17 **Q. Has Staff changed from its original recommendation that the Company defer the**
18 **costs and amortize them over the life of the contract?**

19 A. No, however, Staff would like to make a clarification. Staff's intention was to recommend
20 that the costs be deferred until the Town of Carefree Operating Agreement is fully
21 executed. Once the contract is fully executed and in use, the legal expenses should be
22 capitalized and amortized over the useful life of the contract in accordance to the matching
23 principle.

1 **Scottsdale Operating Lease**

2 **Q. Has Staff reviewed the Company's rebuttal testimony related to legal expenses for**
3 **the Scottsdale Operating Lease?**

4 A. Yes.

5
6 **Q. Has Staff changed from its original recommendation of not deducting the loan**
7 **payments to determine the taxable income for rate-making purposes?**

8 A. No. Staff's calculation of the Company's federal and state tax is consistent with actual
9 federal and state income tax formulas. This results in a more realistic income tax expense.
10 The ratemaking treatment of the debt payments as an expense in the income statement
11 does not alter the statutory tax treatment of the interest expense nor preclude an alternate
12 ratemaking treatment for calculating income taxes for inclusion in cost of service.

13

14 **Bad Debt Expense**

15 **Q. Has Staff reviewed the Company's rebuttal testimony concerning the Bad Debt**
16 **Expense?**

17 A. Yes.

18

19 **Q. Does Staff agree with the Company's adjustments and resulting balance?**

20 A. Yes.

21

22 **Q. What is Staff's surrebuttal recommendation for Bad Debt Expense?**

23 A. Staff's surrebuttal recommendation for Bad Debt Expense is shown in Surrebuttal
24 Schedule CSB-16.

1 **Rate Case Expense**

2 **Q. Has Staff reviewed the Company's rebuttal testimony that proposes to increase rate**
3 **case expense by \$30,000 from \$120,000 to \$150,000?**

4 A. Yes.

5
6 **Q. What reasons did the Company give for the \$30,000 increase?**

7 A. The Company stated that an additional intervenor and numerous data requests have caused
8 the need for a \$30,000 increase.

9
10 **Q. Did the Company provide any detailed calculations to support its estimate for the**
11 **\$30,000 increase?**

12 A. No. Additionally, Staff requested that the Company provide a detailed budget showing
13 the individual components for its original \$120,000 rate case expense estimate. The
14 Company refused to provide the information agreeing only to provide invoices instead.

15
16 **Q. Did the Company argue that one reason that its original rate case expense of**
17 **\$120,000 was appropriate was because the Company anticipated that shareholders**
18 **would bear some of the cost?**

19 A. Yes.

20
21 **Q. Did the Company also indicate that if the Company does something improper that it**
22 **should "shoulder the burden of such actions"?**

23 A. Yes. Mr. Bourassa made this statement on page 12 beginning at line 14. He states, "I
24 would also agree that if the utility does something improper, or advances positions in bad
25 faith, it should shoulder the burden of such costs."

1 **Q. Does Staff agree with the Company that shareholders should share in the cost of rate**
2 **case expense and that the Company should “shoulder the burden” of improper**
3 **actions?**

4 A. Yes, Staff agrees.

5
6 **Q. Did the Company do anything that reduces efficiency of the rate case process?**

7 A. Yes. The procedural order set a data response time of ten days. The Company took
8 approximately 12 weeks² to respond to Staff’s data request CSB 1.52 (which pertained to
9 affiliate profit) and only provided the response after Staff advised the Company it would
10 seek the information through a procedural conference with the judge.

11
12 During the 12 week period, Staff sent additional data requests attempting to obtain the
13 information that the Company was refusing to provide. Some of the Company’s responses
14 provided conflicting information that, in turn, resulted in more data requests. The
15 Company’s untimely response time also impeded Staff’s ability to conduct certain audit
16 procedures in a timely manner. Staff is also aware that the Company was reluctant to
17 provide RUCO with certain of its data requests pertaining to the parent company’s capital
18 structure.

19
20 **Q. What amount of rate case expense increase is reasonable and appropriate?**

21 A. An increase of \$4,800 in rate case expense is reasonable and appropriate.

22
23 **Q. How did Staff calculate the \$4,800 increase to rate case expense?**

24 A. Staff used a \$400 hourly rate to represent the combined rate consultant, legal, and other
25 costs. Staff allotted 24 additional hours for the intervenor (for activities such as, but not

² Staff requested the information on November 21, 2005 and did not receive the response until February 14, 2006.

1 limited to, reading intervenor testimony, answering data requests cross examining the
2 intervenor, and addressing intervenor issues in the brief). Staff allocated no additional
3 hours for answering the data requests as the Company's responses for many of the data
4 requests required minimal effort such as answering in the negative, or objecting to the
5 question. Additionally, \$120,000 original rate case expense estimate was sufficient to
6 cover the cost. Staff then removed 50 percent of the total to reflect only the amount that
7 the customers should pay. This resulted in an increase of \$4,800 ($\$400 \times 24 \times 0.5$).

8
9 **Q. What is Staff's surrebuttal recommendation for Rate Case Expense?**

10 A. Staff's surrebuttal recommendation for Rate Case Expense is shown in Surrebuttal
11 Schedule CSB-24.

12
13 **CIAC REFUND**

14 **Q. Has Staff reviewed the Company's rebuttal testimony that adopts Staff's**
15 **recommendation to refund the \$833,367 in CIAC?**

16 A. Yes.

17
18 **Q. Does Staff agree with the Company's proposal?**

19 A. Yes, with the exception of how the individual refunds are to be calculated. The hook-up
20 fees vary by customer. Therefore, the refunds should be calculated based upon the
21 amount contributed by each customer class. Staff recommends that the Company propose
22 an equitable way to calculate the CIAC refunds in its rejoinder testimony.

1 **Q. Does Staff have any other recommendations?**

2 A. Yes. Staff recommends that the rates not go into effect until the first day of the month
3 after (1) the Company refunds the CIAC in accordance to a signed Commission order and
4 (2) provides documentation to Staff that the total refund has been made.

5

6 **Q. Does this conclude your surrebuttal testimony?**

7 A. Yes, it does.

REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY ORIGINAL COST</u>	<u>[B] STAFF ORIGINAL COST</u>
1	Adjusted Rate Base	\$ 887,449	\$ 1,753,118
2	Adjusted Operating Income (Loss)	\$ (14,232)	\$ 42,834
3	Current Rate of Return (L2 / L1)	-1.60%	2.44%
4	Required Rate of Return	10.00%	9.60%
5	Required Operating Income (L4 * L1)	\$ 88,745	\$ 168,299
6	Operating Income Deficiency (L5 - L2)	\$ 102,977	\$ 125,465
7	Gross Revenue Conversion Factor	1.73080	1.72948
8	Increase In Gross Revenue (L7 * L6)	\$ 178,232	\$ 216,990
9	Adjusted Test Year Revenue	\$ 1,207,740	\$ 1,205,452
10	Proposed Annual Revenue (L8 + L9)	\$ 1,385,972	\$ 1,422,442
11	Required Increase in Revenue (%) (L8/L9)	14.76%	18.00%

References:

Column [A]: Company Schedules A-1, C-1, C-3, & D-1

Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-7

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<i>Calculation of Gross Revenue Conversion Factor:</i>					
1	Billings	1.000000			
2	Uncollectible Factor	0.000000			
3	Revenues	1.000000			
4	Less: Combined Federal and State Tax Rate (Line 12)	0.421792			
5	Subtotal (L3 - L4)	0.5782			
6	Revenue Conversion Factor (L1 / L5)	1.72948			
 <i>Calculation of Effective Tax Rate:</i>					
7	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
8	Arizona State Income Tax Rate	6.9680%			
9	Federal Taxable Income (L7 - L8)	93.0320%			
10	Applicable Federal Income Tax Rate (Line 34)	37.8485%			
11	Effective Federal Income Tax Rate (L9 x L10)	35.2112%			
12	Combined Federal and State Income Tax Rate (L8 +L11)	42.1792%			

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED	
1	Plant in Service	\$ 8,464,745	\$ 212,415	\$ 8,677,160
2	Less: Accumulated Depreciation	4,366,379	-	4,366,379
3	Net Plant in Service	<u>\$ 4,098,366</u>	<u>\$ 212,415</u>	<u>\$ 4,310,781</u>
<u>LESS:</u>				
4	Advances in Aid of Construction (AIAC)	\$ 1,315,900	\$ -	\$ 1,315,900
5	Service Line and Meter Advances	\$ -	\$ -	\$ -
6	Contributions in Aid of Construction (CIAC)	\$ 5,346,615	\$ (639,079)	\$ 4,707,536
7	Less: Accumulated Amortization	3,308,578	(6,806)	3,301,772
8	Net CIAC	<u>\$ 2,038,037</u>	<u>(632,273)</u>	<u>\$ 1,405,764</u>
9	Total Advances and Contributions	\$ 3,353,937	\$ (632,273)	\$ 2,721,664
10	Customer Deposits	\$ (3,000)	\$ 3,000	\$ -
11	Accumulated Deferred Income Taxes	\$ -	\$ 164,000	\$ 164,000
<u>ADD:</u>				
12	Prepayments	\$ 9,512	\$ (9,512)	\$ -
13	Working Capital	\$ 130,508	\$ (130,508)	\$ -
14	Total Rate Base	<u>\$ 887,449</u>	<u>\$ 865,669</u>	<u>\$ 1,753,118</u>

References:

Column [A], Company Schedule B-1, Page 1
Column [B]: Schedule CSB-4
Column [C]: Column [A] + Column [B]

Black Mountain Sewer Company
Docket No. SW-02361A-05-0657
Test Year Ended December 31, 2004

Schedule CSB-5

RATE BASE ADJUSTMENT NO. 1 - POST-TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED (Sch E-5)	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	2004 Actual Plant	\$ 8,370,448	\$ -	\$ 8,370,448
2	Post Test Year Plant	\$ 94,297	\$ (94,297)	\$ -
3	Total	<u>\$ 8,464,745</u>	<u>\$ (94,297)</u>	<u>\$ 8,370,448</u>

References:

Column [A]: Company Schedule B-2, Pages 1 and 2

Column [B]: Testimony, CSB

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - AFFILIATE COSTS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		2001 to 2004 Plant Additions PER COMPANY	STAFF ADJUSTMENTS	STAFF AS ADJUSTED Col A - Col B
1	353 - Land and Land Rights	\$ 453,592	\$ 146	\$ 453,446
2	354 - Structures and Improvements	242,441	5,387	\$ 237,054
3	355 - Power Generation Equipment	-	-	\$ -
4	360 - Collection Services - Force	12,210	205	\$ 12,005
5	361 - Collection Services - Gravity	797,304	1,361	\$ 795,943
6	363 - Services to Customers	29,161	1,584	\$ 27,577
7	364 - Flow Measuring Devices	9,169	49	\$ 9,120
8	365 - Flow Measuring Installations	-	2,154	\$ (2,154)
9	370 - Receiving Wells	58,584	369	\$ 58,215
10	371 - Effluent Pumping Equipment	181,924	360	\$ 181,564
11	381 - Plant Sewers	198,712	1,152	\$ 197,560
12	389 - Other Plant and Miscellaneous Equip	699,247	5,185	\$ 694,062
13	390 - Office Furniture and Equipment	365,511	145,152	\$ 220,359
14	391 - Transportation Equipment	87,811	-	\$ 87,811
15	394 - Laboratory Equipment	5,079	-	\$ 5,079
16	Total	<u>\$ 3,140,745</u>	<u>\$ 163,103</u>	<u>\$ 2,977,642</u>

References:

Column [A]: Company Schedule B-2, Pages 3h through 3k

Column [B]: Testimony, CSB; Schedule CSB-6, Pages 2 through 4

Column [C]: Column [A] - Column [B]

RATE BASE ADJUSTMENT NO. 2 - AFFILIATE COSTS
Total Affiliate Costs To Be Removed

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		Affiliate Capitalized Profit	Plant Allocated to Affiliates	Total Staff Adjustments (Col A + Col B)
1	353 - Land and Land Rights	\$ 146	\$ -	\$ 146
2	354 - Structures and Improvements	\$ 5,387	-	\$ 5,387
3	355 - Power Generation Equipment	\$ -	-	\$ -
4	360 - Collection Services - Force	\$ 205	-	\$ 205
5	361 - Collection Services - Gravity	\$ 1,361	-	\$ 1,361
6	363 - Services to Customers	\$ 1,584	-	\$ 1,584
7	364 - Flow Measuring Devices	\$ 49	-	\$ 49
8	365 - Flow Measuring Installations	\$ 2,154	-	\$ 2,154
9	370 - Receiving Wells	\$ 369	-	\$ 369
10	371 - Effluent Pumping Equipment	\$ 360	-	\$ 360
11	381 - Plant Sewers	\$ 1,152	-	\$ 1,152
12	389 - Other Plant and Miscellaneous Equip	\$ 5,185	-	\$ 5,185
13	390 - Office Furniture and Equipment	\$ 2,920	142,232	\$ 145,152
14	391 - Transportation Equipment	\$ -	-	\$ -
15	394 - Laboratory Equipment	\$ -	-	\$ -
16	Total	\$ 20,871	\$ 142,232	\$ 163,103

References:

Column [A]: Schedule CSB-6, Page 3

Column [B]: Schedule CSB-6, Page 4; Data Request Response CSB 1.45

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - AFFILIATE COSTS
Affiliate Capitalized Profit

LINE NO.	DESCRIPTION	[A] 2001 to 2004 Plant Additions Per Company	[B] Plant Allocated to Affiliate Sch CSB-6, Page 2 (Col A - Col B)	[C] Total (Col A - Col B)	[D] Capitalized Profit 2001	[E] Capitalized Profit 2002	[F] Capitalized Profit 2003	[G] Capitalized Profit 2004	[H] Total Capitalized Profit (Col D+E+F+G)	[I] Plant Less Capitalized Profit (Col C - Col H)
1	353 - Land and Land Rights	\$ 453,592	\$ -	\$ 453,592	\$ -	\$ 146.25	\$ -	\$ -	\$ 146.25	\$ -453,446
2	354 - Structures and Improvements	242,441	-	242,441	673.37	2,975.09	350.64	1,388.06	5,387.16	237,054
3	355 - Power Generation Equipment	-	-	-	-	-	-	-	-	-
4	360 - Collection Services - Force	12,210	-	12,210	-	204.75	-	-	204.75	12,005
5	361 - Collection Services - Gravity	797,304	-	797,304	-	463.52	-	897.03	1,360.55	795,943
6	363 - Services to Customers	29,161	-	29,161	22.44	1,344.20	136.08	80.85	1,583.57	27,577
7	364 - Flow Measuring Devices	9,169	-	9,169	-	48.75	-	-	48.75	9,120
8	365 - Flow Measuring Installations	158,358	-	158,358	-	1,467.70	685.80	-	2,153.50	156,205
9	370 - Receiving Wells	58,584	-	58,584	-	369.20	-	-	369.20	58,215
10	371 - Effluent Pumping Equipment	181,924	-	181,924	333.07	27.30	-	-	360.37	181,564
11	381 - Plant Sewers	40,354	-	40,354	-	-	1,152.00	-	1,152.00	39,202
12	389 - Other Plant and Misc. Equip	699,247	-	699,247	134.66	4,348.43	178.82	523.22	5,185.13	694,062
13	390 - Office Furniture and Equipment	365,511	142,232	223,279	502.74	1,752.56	598.22	66.26	2,919.78	220,359
14	391 - Transportation Equipment	87,811	-	87,811	-	-	-	-	-	87,811
15	394 - Laboratory Equipment	5,079	-	5,079	-	-	-	-	-	5,079
16	Total	\$ 3,140,745	\$ 142,232	\$ 2,998,513	\$ 1,666.28	\$ 13,147.75	\$ 3,101.56	\$ 2,955.42	\$ 20,871.01	\$ 2,977,642

References:
Column [A]: Company Schedule B-2, Pages 3h through 3k
Column [B]: Schedule CSB-6, Page 4; Data Request Response CSB 1.45
Column [C]: Column [A] - Column [B]
Column [D]: Data Request Response CSB 10.1
Column [E]: Data Request Response CSB 10.1
Column [F]: Data Request Response CSB 10.1
Column [G]: Data Request Response CSB 10.1
Column [H]: Data Request Response CSB 10.1
Column [I]: Column [C] - Column [H]

**RATE BASE ADJUSTMENT NO. 2 - AFFILIATE PLANT COSTS
Computer and Computer Software**

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED (Col A - Col B)
1	Office Furniture & Equip	\$ 162,908	\$ -	\$ 162,908
2	Allocated Costs for Affiliates	-	72,505	(72,505)
3	Direct Costs for Bella Vista CSB 2.7	-	69,727	(69,727)
4	Total	\$ 162,908	\$ 142,232	\$ 20,676

[D] [E] [F] [G] [H] [I] ALLOCATED COSTS FOR AFFILIATED SEWER COMPANIES					
Costs to be Allocated (From Col P)	Percentage for Black Mountain (From Col R)	Costs to be Allocated to Black Mtn (Col D x Col E)	Percentage for Affiliates (Cols S+T+U)	Costs to be Allocated to Affiliates (Col D x Col G)	Total for Black Mountain & Affiliates (Col F + Col H)
5 \$ 48,800	22.19%	\$ 10,828	77.81%	\$ 37,972	\$ 48,800
6 \$ 8,017	22.19%	\$ 1,779	77.81%	\$ 6,238	\$ 8,017
7 \$ 11,076	22.19%	\$ 2,458	77.81%	\$ 8,618	\$ 11,076
8 \$ 10,307	22.19%	\$ 2,287	77.81%	\$ 8,020	\$ 10,307
9 \$ 8,459	22.19%	\$ 1,877	77.81%	\$ 6,582	\$ 8,459
10 \$ 6,522	22.19%	\$ 1,447	77.81%	\$ 5,075	\$ 6,522
11 \$ -	22.19%	\$ -	77.81%	\$ -	\$ -
12 \$ 93,181		\$ 20,676		\$ 72,505	\$ 93,181

[J] [K] [L] [M] [N] [O] [P] TOTAL COST TO BE ALLOCATED FOR FOUR AFFILIATED SEWER COMPANIES					
Year Added	Account Number	Description	Cost Per CSB 1.45 & CSB 2.7	Amount Included In Adj. No. 2 Acct. No. 390	Costs to be Allocated
13	2002	212	Software Upgrades	\$ 48,800	\$ - \$ 48,800
14	2003	257	Equipment/Automation	\$ 8,017	\$ - \$ 8,017
15	2003	261	Equipment/Automation	\$ 11,076	\$ - \$ 11,076
16	2003	270	Equipment/Automation	\$ 10,307	\$ - \$ 10,307
17	2003	273	System Migration	\$ 8,459	\$ - \$ 8,459
18	2003	298	Professional Services	\$ 6,522	\$ - \$ 6,522
19	2003	319	Data Conversion	\$ 14,044	\$ (14,044) \$ -
20			Total	\$ 107,225	\$ (14,044) \$ 93,181

[Q] [R] [S] [T] [U] [V] CALCULATION OF ALLOCATION PERCENTAGES FOR FOUR AFFILIATED SEWER COMPANIES						
		Black Mountain	Gold Canyon	Tall Timbers	Woodmark	Total
21	12/31/2005 Customer Counts ¹	1,798	4,491	978	836	8,103
22	Percentage of Total Customers	22.19%	55.42%	12.07%	10.32%	100.00%

23 Note 1: 2005 Customer counts were used as the 2002 and 2003 counts for Tall Timbers and Woodmark
24 were not provided to Staff for the calculation.

References:

- Column A: Company Schedule E-5
- Column B: Testimony, CSB, Company Data Request Responses CSB 1.45
- Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - EXPENSED PLANT

LINE NO.	Plant Account Number	Description	[A]	[B]	[C]
			COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED (Col A + Col B)
1	361	Collection Sewers, Gravity	\$ 3,608,619	\$ 7,286	\$ 3,615,905
2	371	Effluent Pumping Equipment	\$ 451,705	\$ 2,213	\$ 453,918
3	381	Plant Sewers	\$ 121,651	\$ 2,790	\$ 124,441
4	389	Other Plant & Misc Equip	\$ 738,804	\$ 5,059	\$ 743,863
5		Total	<u>\$ 4,920,779</u>	<u>\$ 17,348</u>	<u>\$ 4,938,127</u>

FROM CONTRACTUAL SERVICES , OTHER EXPENSE (CSB 1.37)

Acct. No.	Vendor Name	Description	Amount
6	361-Collection Sewers	Jensen System Engineering Algonquin Indian Basket Alarm	\$ 1,499.01
7	361-Collection Sewers	Keller Equipment Company Pull and Install Motors	\$ 1,947.71
8	361-Collection Sewers	Keller Equipment Company Rebuild Motor/Pump	\$ 1,119.65
9	361-Collection Sewers	KSK Electric Replace Meter Socket	\$ 1,315.00
10	361-Collection Sewers	LTC, Inc. Concrete Pad & Drain for Manhole	\$ 1,404.92
11		Subtotal	\$ 7,286.29
12	371-Effluent Pumping Plant	Keller Equipment Company Change out Pumps	\$ 551.62
13	371-Effluent Pumping Plant	Keller Equipment Company Pull Pump. Set New Pump	\$ 1,095.40
14		Subtotal	\$ 1,647.02
15	381-Plant Sewers	Foster Electric Motor Service Install Outlets in Vault	\$ 589.57
16	381-Plant Sewers	KSK Electric Boulder Facility Lighting Repair Proj.	\$ 2,200.00
17		Subtotal	\$ 2,789.57
18		Total	\$ 11,722.88

FROM RENTS EXPENSE (CSB 1.38)

Acct. No.	Vendor Name	Description	Amount
19	371-Effluent Pumping Plant	Pump Systems, Inc. Replace Pump	\$ 566.13
20		Total	\$ 566.13

References:

- Column A: Company Schedule E-5
- Column B: Testimony, CSB, Company Data Request Responses CSB 1.37, 1.38, 1.40, & 7.13
- Column C: Column [A] + Column [B]

**RATE BASE ADJUSTMENT NO. 3 - EXPENSED PLANT
CONTINUED**

FROM MISCELLANEOUS EXPENSE (CSB 1.40)				
Maricopa County Environ. Serv. Dept, Approval to Construct Expedited Fees				
LINE NO.	Acct. No	Project Title	Description	Amount
1	389-Other Plant & Misc Equip	Boulders West WWTP Bypass	Reclaimed Water Line	\$ 500.00
2	389-Other Plant & Misc Equip	Boulders West Effluent Pump	Addition of pumps	\$ 700.00
3	371-Effluent Pumping Plant	Indian Basket Lift Station	Replace Existing Lift Station	\$ -
4	389-Other Plant & Misc Equip	Boulders West WWTP Bypass	Add Structure and Manhole	\$ -
5			Subtotal	\$ 1,200.00
6	389-Other Plant & Misc Equip	Safety Equipment	Company Response to CSB 2.13b	\$ 2,184.75
7			Total	\$ 3,384.75

FROM MATERIALS AND SUPPLIES EXPENSE (CSB 7.13)				
	Acct. No.	Vendor Name	Description	Amount
8	389-Other Plant & Misc Equip	Arizona Pneumatic Systems	Blower	\$ 1,674.47
9			Total	\$ 1,674.47

RATE BASE ADJUSTMENT NO. 4 - CIAC & Amortization of CIAC

LINE NO.	Description	[A]	[B]	[C]
		COMPANY AS FILED	ADJUSTMENTS	STAFF AS ADJUSTED Col A - Col B
1	CIAC with \$101,845 removed	\$ 5,346,615	\$ 194,288	\$ 5,540,903
2	Less: Amortization of CIAC	\$ 3,308,578	\$ (6,806)	\$ 3,301,772
3	Net CIAC	\$ 2,038,037	\$ 201,094	\$ 2,239,131
	CIAC with \$101,845 removed	\$ 5,346,615	\$ 194,288	\$ 5,540,903
	CIAC to be Refunded	\$ -	\$ (833,367)	\$ (833,367)
		\$ 5,346,615	\$ (639,079)	\$ 4,707,536

CIAC Calculation

	[D]	[E]	[F]	[G]
	Year	CIAC Charges Per Company (RUCO 1.8)	Difference	CIAC Balance Staff Col. E - Col. F
4				
5				
6				
7	7/01/94 Opening Balance	\$ 3,127,264.00	\$ -	\$ 3,127,264.00
8	1994	\$ 116,507.00	\$ -	\$ 116,507.00
9	1995	\$ 112,578.00	\$ 3,235.00	\$ 115,813.00
10	1996	\$ 182,068.56	\$ (14,172.56)	\$ 167,896.00
	1996 Treatment Capacity	\$ -	\$ (300,000.00)	\$ (300,000.00)
11	1997	\$ 172,749.00	\$ -	\$ 172,749.00
	1997 Treatment Capacity	\$ -	\$ (153,706.00)	\$ (153,706.00)
12	1998	\$ 571,000.91	\$ -	\$ 571,000.91
13	1999	\$ 319,182.03	\$ -	\$ 319,182.03
14	2000	\$ 405,077.00	\$ -	\$ 405,077.00
15	2001	\$ 489,268.94	\$ -	\$ 489,268.94
16	2002	\$ 110,490.00	\$ -	\$ 110,490.00
17	2003	\$ 196,061.83	\$ (28,480.00)	\$ 167,581.83
18	2004	\$ (1,926.25)	\$ 233,705.75	\$ 231,779.50
19		\$ 5,800,321.02	\$ (259,417.81)	\$ 5,540,903.21

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB, Company Data Request Responses RUCO 1.8
- Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - CIAC & Amortization of CIAC Continued

Amortization of CIAC Calculation				
[A]	[B]	[C]	[D]	[E]
Year	CIAC Balance Per Staff	Amortization Rate	Amortization of CIAC Col. A - Col. B	Accumulated Amortization of CIAC
7/01/94 CIAC Balance Per Staff	\$ 3,127,264.00		\$ 1,121,838.00	\$ 1,121,838.00
994 July to December Amortization	\$ 3,127,264.00	2.50%	\$ 78,181.60	
Additions - Half Year Convention	\$ 116,507.00	2.50%	\$ 2,912.68	
	<u>\$ 3,243,771.00</u>		<u>\$ 81,094.28</u>	<u>\$ 81,094.28</u>
1994 Ending Accumulated Amortization of CIAC Balance:				\$ 1,202,932.28
1995 Beginning CIAC Balance	\$ 3,243,771.00	5.00%	\$ 162,188.55	\$ 1,202,932.28
Additions - Half Year Convention	\$ 115,813.00	2.50%	\$ 2,895.33	
	<u>\$ 3,359,584.00</u>		<u>\$ 165,083.88</u>	<u>\$ 165,083.88</u>
1995 Ending Accumulated Amortization of CIAC Balance:				\$ 1,368,016.15
1996 Beginning CIAC Balance	\$ 3,359,584.00			
Less: Scottsdale Capacity	<u>\$ (300,000.00)</u>			
	\$ 3,059,584.00	5.00%	\$ 152,979.20	\$ 1,368,016.15
Additions - Half Year Convention	\$ 167,896.00	2.50%	\$ 4,197.40	
	<u>\$ 3,227,480.00</u>		<u>\$ 157,176.60</u>	<u>\$ 157,176.60</u>
1996 Ending Accumulated Amortization of CIAC Balance:				\$ 1,525,192.75
1997 Beginning CIAC Balance	\$ 3,227,480.00			
Less: Scottsdale Capacity	<u>\$ (153,706.00)</u>			
	\$ 3,073,774.00	5.00%	\$ 153,688.70	\$ 1,525,192.75
Additions - Half Year Convention	\$ 172,749.00	2.50%	\$ 4,318.73	
	<u>\$ 3,246,523.00</u>		<u>\$ 158,007.43</u>	<u>\$ 158,007.43</u>
1997 Ending Accumulated Amortization of CIAC Balance:				\$ 1,683,200.18
1998 Beginning CIAC Balance	\$ 3,246,523.00	5.00%	\$ 162,326.15	\$ 1,683,200.18
Additions - Half Year Convention	\$ 571,000.91	2.50%	\$ 14,275.02	
	<u>\$ 3,817,523.91</u>		<u>\$ 176,601.17</u>	<u>\$ 176,601.17</u>
1998 Ending Accumulated Amortization of CIAC Balance:				1,859,801.35
1999 Beginning CIAC Balance	\$ 3,817,523.91	5.00%	\$ 190,876.20	\$ 1,859,801.35
Additions - Half Year Convention	\$ 319,182.03	2.50%	\$ 7,979.55	
	<u>\$ 4,136,705.94</u>		<u>\$ 198,855.75</u>	<u>\$ 198,855.75</u>
1999 Ending Accumulated Amortization of CIAC Balance:				2,058,657.09
2000 Beginning CIAC Balance	\$ 4,136,705.94	5.00%	\$ 206,835.30	\$ 2,058,657.09
Additions - Half Year Convention	\$ 405,077.00	2.50%	\$ 10,126.93	
	<u>\$ 4,541,782.94</u>		<u>\$ 216,962.22</u>	<u>\$ 216,962.22</u>
2000 Ending Accumulated Amortization of CIAC Balance:				2,275,619.32
2001 Beginning CIAC Balance	\$ 4,541,782.94	5.00%	\$ 227,089.15	\$ 2,275,619.32
Additions - Half Year Convention	\$ 489,268.94	2.50%	\$ 12,231.72	
	<u>\$ 5,031,051.88</u>		<u>\$ 239,320.87</u>	<u>\$ 239,320.87</u>
2001 Ending Accumulated Amortization of CIAC Balance:				2,514,940.19
2002 Beginning CIAC Balance	\$ 5,031,051.88	5.00%	\$ 251,552.59	\$ 2,514,940.19
Additions - Half Year Convention	\$ 110,490.00	2.50%	\$ 2,762.25	
	<u>\$ 5,141,541.88</u>		<u>\$ 254,314.84</u>	<u>\$ 254,314.84</u>
2002 Ending Accumulated Amortization of CIAC Balance:				2,769,255.03

RATE BASE ADJUSTMENT NO. 4 - CIAC & Amortization of CIAC Continued

Amortization of CIAC Calculation				
[A]	[B]	[C]	[D]	[E]
Year	CIAC Balance Per Staff	Amortization Rate	Amortization of CIAC Col. A - Col. B	Total Amortization of CIAC
2003 Beginning CIAC Balance	\$ 5,141,541.88	5.00%	\$ 257,077.09	\$ 2,769,255.03
Additions - Half Year Convention	\$ 167,581.83	2.50%	\$ 4,189.55	
	<u>\$ 5,309,123.71</u>		<u>\$ 261,266.64</u>	<u>\$ 261,266.64</u>
2003 Ending Accumulated Amortization of CIAC Balance:				3,030,521.67
2004 Beginning CIAC Balance	\$ 5,309,123.71	5.00%	\$ 265,456.19	\$ 3,030,521.67
Additions - Half Year Convention	\$ 231,779.50	2.50%	\$ 5,794.49	
	<u>\$ 5,540,903.21</u>		<u>\$ 271,250.67</u>	<u>\$ 271,250.67</u>
2004 Ending Accumulated Amortization of CIAC Balance:				3,301,772.34

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Surrebuttal Schedule CSB-9

RATE BASE ADJUSTMENT NO. 5 - CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Customer Deposits - To Remove Refund	\$ (3,000)	\$ 3,000	\$ -
2	Customer Deposits - To Reflect Year-End Balance	-	-	-
3	Total	<u>\$ (3,000)</u>	<u>\$ 3,000</u>	<u>\$ -</u>

References:

- Column A: Company Schedule B-2
- Column B: Testimony, CSB, Company Data Request Responses CSB 5.12
- Column C: Column [A] + Column [B]

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Schedule CSB-10

RATE BASE ADJUSTMENT NO. 6 - DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Deferred Income Tax Liability	\$ -	524,000	\$ 524,000
2	Deferred Income Tax Asset	-	(360,000)	(360,000)
		\$ -	\$ 164,000	\$ 164,000

References:

Column A: Company Schedule B-2, Page 1

Column B: Testimony, CSB, Company Data Request Responses to RUCO 2.7

Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 7 - WORKING CAPITAL

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Prepaid Expenses	\$ 9,512	\$ (9,512)	\$ -
2	Cash Working Capital Allowance	\$ 130,508	\$ (130,508)	\$ -
3	Total Working Capital	\$ 140,020	\$ (140,020)	\$ -

References:

- Column [A]: Company Schedule B-2
- Column [B]: Testimony, CSB
- Column [C]: Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
REVENUES:						
1	Flat Rate Revenues	\$ 1,191,268	\$ (2,288)	\$ 1,188,980	\$ 216,990	\$ 1,405,970
2	Other Wastewater Revenues	16,472	-	16,472	-	16,472
3	Total Operating Revenues	<u>\$ 1,207,740</u>	<u>\$ (2,288)</u>	<u>\$ 1,205,452</u>	<u>\$ 216,990</u>	<u>\$ 1,422,442</u>
EXPENSES:						
4	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
5	Purchased Wastewater Treatment	162,082	-	162,082	-	162,082
6	Sludge Removal Expense	981	-	981	-	981
7	Purchased Power	47,727	-	47,727	-	47,727
8	Fuel for Power Production	-	-	-	-	-
9	Chemicals	76,612	-	76,612	-	76,612
10	Materials and Supplies	30,420	(3,624)	26,796	-	26,796
11	Contractual Services - Professional	171,683	(12,433)	159,250	-	159,250
12	Contractual Services - Testing	11,000	-	11,000	-	11,000
13	Contractual Services - Other	226,595	(22,270)	204,325	-	204,325
14	Rental Expense	10,825	(566)	10,259	-	10,259
15	Transportation Expense	4,870	(2,327)	2,543	-	2,543
16	Insurance - General Liability	16,204	(596)	15,608	-	15,608
17	Regulatory Commission Expense	30,000	-	30,000	-	30,000
18	Miscellaneous Expense	77,401	(13,550)	63,851	-	63,851
19	Scottsdale Capacity Operating Lease	189,622	(27,801)	161,821	-	161,821
20	Depreciation	126,749	(50,053)	76,696	-	76,696
21	Taxes Other Than Income	-	-	-	-	-
22	Property Taxes	45,745	568	46,313	-	46,313
23	Income Taxes	(6,544)	73,299	66,755	91,525	158,280
24	Total Operating Expenses	<u>\$ 1,221,972</u>	<u>\$ (59,354)</u>	<u>\$ 1,162,618</u>	<u>\$ 91,525</u>	<u>\$ 1,254,143</u>
25	Operating Income (Loss)	<u>\$ (14,232)</u>	<u>\$ 57,066</u>	<u>\$ 42,834</u>	<u>\$ 125,465</u>	<u>\$ 168,299</u>

References:

- Column (A): Company Schedule C-1, Page 2
- Column (B): Schedule CSB-8
- Column (C): Column (A) + Column (B)
- Column (D): Schedules CSB-1 and CSB-2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Expensed Plant	[C] ADJ #2 Affiliate Expenses	[D] ADJ #3 Bad Debt Expense	[F] ADJ #4 Depreciation Expense	[G] ADJ #5 NonRecurring & Other Exp	[H] ADJ #6 Scottsdale Opera Lease	[I] ADJ #7 Food & Beverages	[J] ADJ #8 Property Taxes	[K] ADJ #9 Income Tax Expense	[L] ADJ #10 ACC Assessment	[M] ADJ #11 Rate Case Expense	[N] STAFF ADJUSTED
1	Flat Rate Revenues	\$ 1,191,268												\$ 1,186,980
2	Other Wastewater Revenues	16,472												16,472
3	Total Revenues	\$ 1,207,740												\$ 1,205,452
OPERATING EXPENSES:														
4	Salaries and Wages													\$ -
5	Purchased Wastewater Treatment	162,082												162,082
6	Sludge Removal Expense	981												981
7	Purchased Power	47,727												47,727
8	Fuel for Power Production													
9	Chemicals	76,612												76,612
10	Materials and Supplies	30,420	(1,674)											26,796
11	Contractual Services - Professional	171,883		(1,472)		(3,228)			(478)					159,250
12	Contractual Services - Testing	11,000		(9,205)										11,000
13	Contractual Services - Other	226,595	(11,723)	(10,361)					(186)					204,325
14	Rents Expense	10,825	(566)											10,259
15	Transportation Expense	4,870		(127)		(2,200)								2,543
16	Insurance - General Liability	16,204		(596)										15,608
17	Regulatory Commission Expense	30,000											1,200	31,200
18	Miscellaneous Expense	77,401	(3,385)	(3,644)	(4,233)							(2,288)		63,851
19	Scottsdale Capacity Operating Lease	189,622						(27,801)						161,821
20	Depreciation	126,749				(50,053)								76,696
21	Taxes Other Than Income													
22	Property Taxes	45,745								568				46,313
23	Income Taxes	(6,544)									73,299			66,755
24	Total Operating Expenses	\$ 1,221,972	\$ (17,348)	\$ (25,406)	\$ (4,233)	\$ (50,053)	\$ (5,428)	\$ (27,801)	\$ (664)	\$ 568	\$ 73,299	\$ (2,288)	\$ 1,200	\$ 1,163,818
25	Operating Income (Loss)	\$ (14,232)	\$ 17,348	\$ 25,406	\$ 4,233	\$ 50,053	\$ 5,428	\$ 27,801	\$ 664	\$ (568)	\$ (73,299)	\$ 0	\$ (1,200)	\$ 41,634

ADJ.No.	References:
1	Expensed Plant Schedule CSB-14
2	Affiliate Expenses Schedule CSB-15
3	Bad Debt Expense Schedule CSB-16
4	Depreciation Expense Schedule CSB-17
5	Normalized Expenses Schedule CSB-18
6	Scottsdale Operating Lease Payments Schedule CSB-19
7	Food and Beverages Schedule CSB-20
8	Property Tax Expense Schedule CSB-21
9	Income Tax Expense Schedule CSB-22
10	ACC Assessment Schedule CSB-23

OPERATING INCOME ADJUSTMENT NO. 1 - EXPENSED PLANT

LINE NO.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services, Other	\$ 226,595	\$ (11,723)	\$ 214,872
2	Rents Expense	\$ 10,825	\$ (566)	\$ 10,259
3	Miscellaneous Expense	\$ 77,401	\$ (3,385)	\$ 74,016
4	Material and Supplies Expense	\$ 30,420	\$ (1,674)	\$ 28,746
5	Total	\$ 345,241	\$ (17,348)	\$ 327,893

PLANT COST REMOVED FROM CONTRACTUAL SERVICES, OTHER EXPENSE (CSB 1.37)

Acct. No.	Vendor Name	Description	Amount
6	361-Collection Sewers Jensen Sys. Engineering	Algonquin Indian Basket Alarm	\$ 1,499.01
7	361-Collection Sewers Keller Equipment Co	Pull and Install Motors	\$ 1,947.71
8	361-Collection Sewers Keller Equipment Co	Rebuild Motor/Pump	\$ 1,119.65
9	361-Collection Sewers KSK Electric	Replace Meter Socket	\$ 1,315.00
10	361-Collection Sewers LTC, Inc.	Concrete Pad & Drain for Manhole	\$ 1,404.92
11		Subtotal	\$ 7,286.29
12	371-Effluent Pumping Plant Keller Equipment Co	Change out Pumps	\$ 551.62
13	371-Effluent Pumping Plant Keller Equipment Co	Pull Pump. Set New Pump	\$ 1,095.40
14		Subtotal	\$ 1,647.02
15	381-Plant Sewers Foster Elec. Motor Serv	Install Outlets in Vault	\$ 589.57
16	381-Plant Sewers KSK Electric	Boulder Facility Lighting Repair Proj.	\$ 2,200.00
17		Subtotal	\$ 2,789.57
18		Total	\$ 11,722.88

PLANT COSTS REMOVED FROM RENTS EXPENSE (CSB 1.38)

Acct. No.	Vendor Name	Description	Amount
21	371-Effluent Pumping Plant Pump Systems, Inc.	Replace Pump	\$ 566.13
22		Total	\$ 566.13

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB, Company Data Request Responses CSB 1.37, 1.38, 1.40 & 7.13
- Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 1 - EXPENSED PLANT
 CONTINUED**

PLANT COSTS REMOVED FROM MISCELLANEOUS EXPENSE (CSB 1.40)				
Maricopa County Environ. Serv. Dept, Approval to Construct Expedited Fees				
LINE NO.	Acct. No	Project Title	Description	Amount
1	389-Other Plant & Misc Ex	Boulders WWTP Bypass	Reclaimed Water Line	\$ 500.00
2	389-Other Plant & Misc Ex	Boulders Effluent Pump	Addition of pumps	\$ -
				Removed \$700
3	371-Effluent Pumping Pla	Indian Basket Lift Station	Replace Existing Lift Station	\$ 700.00
4	389-Other Plant & Misc Ex	Boulders WWTP Bypass	Add Stucture and Manhole	\$ -
				Removed \$1,200
5			Subtotal	\$ 1,200.00
6	389-Other Plant & Misc Ex	Safety Equipment	Company Response to CSB 2.13b	\$ 2,184.75
7			Total	\$ 3,384.75

PLANT COSTS REMOVED FROM MISC. EXP., MATERIALS & SUPPLIES (CSB 7.13)				
	Acct. No.	Vendor Name	Description	Amount
8	389-Other Plant & Misc Ex	Arizona Pneumatic Sys	Blower	\$ 1,674.47
9			Total	\$ 1,674.47

OPERATING INCOME ADJUSTMENT NO. 2 - AFFILIATE EXPENSES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Materials and Supplies Expense	\$ 30,420	\$ (1,472)	\$ 28,948
2	Contractual Services - Professional Expense	171,683	(9,205)	162,478
3	Contractual Services - Other Expense	226,595	(10,361)	216,234
4	Transportation Expense	4,870	(127)	4,743
5	Insurance - General Liability Expense	16,204	(596)	15,608
6	Miscellaneous Expense	30,420	(3,644)	26,776
7	Total	\$ 480,192	\$ (25,406)	\$ 454,786

Description	Affiliate Phone Charges Summary		
8 Miscellaneous Expense, AT&T Long Distance	\$ 2,186	\$ -	\$ 2,186
9 Misc Exp, Long Distance - Direct Charge to Gold Canyon	161	(161)	-
10 Miscellaneous Exp, AT&T Long Distance - Direct Charged to Texas		(514)	(514)
11 Misc Exp, Long Distance - Allocation to 3 Affiliated Companies	-	(1,254)	(1,254)
12 Total	\$ 2,346	\$ (1,928)	\$ 418

Description	Affiliate Paging Charges Summary		
13 Miscellaneous Expense, Teletouch Paging	\$ 2,651	\$ -	\$ 2,651
14 Misc Exp, Paging Services - Direct Charge to Texas Affiliates	-	(1,716)	(1,716)
15 Total	\$ 2,651	\$ (1,716)	\$ 935

	Profit Included In Affiliate Billings		
16 Materials and Supplies	\$ 22,639	6.50%	\$ 1,472
17 Contractual Services - Professional	141,623	6.50%	\$ 9,205
18 Contractual Services - Other	159,402	6.50%	\$ 10,361
19 Transportation Expense	1,952	6.50%	\$ 127
20 Insurance - General Liability	9,173	6.50%	\$ 596
21 Total	\$ 334,789		\$ 21,761

References:

- Column A: Company Data Request Response CSB 1.40
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

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Surrebuttal Schedule CSB-16

OPERATING INCOME ADJUSTMENT NO. 3 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Bad Debt Expense - Direct Testimony	\$ 5,926	\$ (5,926)	\$ -
2	To Accept Company's Rebuttal Adjustment		1,693	1,693
3	Bad Debt Expense - Surrebuttal Testimony	\$ 5,926	\$ (4,233)	\$ 1,693

References:

Column A: Company Data Request Response CSB 1.30 & 5.9

Column B: Testimony, CSB

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]
		PLANT In SERVICE Per Staff	NonDepreciable or Fully Depreciated PLANT	DEPRECIABLE PLANT (Col A - Col B)	DEPRECIATION RATE	DEPRECIATION EXPENSE (Col C x Col D)
1	351 - Organization	\$ -	\$ -	\$ -	0.00%	\$ -
2	352 - Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
3	353 - Land and Land Rights	\$ 913,767	\$ 913,767	\$ (0)	0.00%	\$ -
4	354 - Structures and Improvements	\$ 1,239,905	\$ -	\$ 1,239,905	3.33%	\$ 41,289
5	355 - Power Generation Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
6	360 - Collection Services - Force	\$ 228,580	\$ -	\$ 228,580	2.00%	\$ 4,572
7	361 - Collection Services - Gravity	\$ 3,614,545	\$ -	\$ 3,614,545	2.00%	\$ 72,291
8	362 - Special Collecting Structures	\$ -	\$ -	\$ -	2.00%	\$ -
9	363 - Services to Customers	\$ 157,218	\$ -	\$ 157,218	2.00%	\$ 3,144
10	364 - Flow Measuring Devices	\$ 39,829	\$ -	\$ 39,829	10.00%	\$ 3,983
11	365 - Flow Measuring Installations	\$ 156,205	\$ -	\$ 156,205	10.00%	\$ 15,620
12	370 - Receiving Wells	\$ 696,137	\$ -	\$ 696,137	3.33%	\$ 23,181
13	371 - Effluent Pumping Equipment	\$ 453,558	\$ -	\$ 453,558	12.50%	\$ 56,695
14	380 - Treatment and Disposal Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
15	381 - Plant Sewers	\$ 123,289	\$ -	\$ 123,289	5.00%	\$ 6,164
16	382 - Outfall Sewer Lines	\$ -	\$ -	\$ -	3.33%	\$ -
17	389 - Other Plant and Miscellaneous Equip	\$ 738,678	\$ -	\$ 738,678	6.67%	\$ 49,270
18	390 - Office Furniture and Equipment	\$ 220,360	\$ -	\$ 220,360	6.67%	\$ 14,698
19	391 - Transportation Equipment	\$ 87,811	\$ -	\$ 87,811	20.00%	\$ 17,562
20	393 - Tools, Shop and Garage Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
21	394 - Laboratory Equipment	\$ -	\$ -	\$ -	10.00%	\$ -
22	395 - Power Operated Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
23	398 - Other Tangible Equipment	\$ 7,279	\$ -	\$ 7,279	10.00%	\$ 728
24	Total Plant	\$ 8,677,160	\$ 913,767	\$ 7,763,393		\$ 267,909
25	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	3.45%				
26	CIAC:	\$ 5,540,903				
27	Amortization of CIAC (Line 25 x Line 26):	\$ 191,212				
28	Depreciation Expense Before Amortization of CIAC:	\$ 267,909				
29	Less Amortization of CIAC:	\$ 191,212				
30	Test Year Depreciation Expense - Staff:	\$ 76,696				
31	Depreciation Expense - Company:	\$ 126,749				
32	Staff's Total Adjustment:	\$ (50,053)				

References:

- Column [A]: Schedule CSB-4
- Column [B]: Staff Workpapers
- Column [C]: Column [A] - Column [B]
- Column [D]: Engineering Staff Report
- Column [E]: Column [C] x Column [D]

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Schedule CSB-18

OPERATING INCOME ADJUSTMENT NO. 5 - NONRECURRING & OTHER

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Transportation Expense	\$ 4,870	\$ (2,200)	\$ 2,670
2	Contractual Services, Professional	\$ 171,683	\$ (3,228)	\$ 168,455
		\$ 176,553	\$ (5,428)	\$ 171,125

References:

- Column A: Company Data Request Response CSB 5.8 and 9.2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6 - OPERATING LEASE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Treatment Capacity Costs Per Dec. 59944	\$ 1,260,000	\$ -	\$ 1,260,000
2	Less Amount Funded by CIAC	\$ (300,000)	\$ -	\$ (300,000)
3	Net Amount Funded by Debt	\$ 960,000	\$ -	\$ 960,000
4	2006 Principle	\$ 38,448	\$ -	\$ 38,448
5	Income Tax Factor	1.4805	(0.4805)	1.0000
6	2006 Principle Plus Taxes	\$ 56,922	\$ (18,474)	\$ 38,448
7	Add: 2006 Interest	\$ 67,952	\$ -	\$ 67,952
8	Annual "Lease" Expense	\$ 124,874	\$ (18,474)	\$ 106,400
9	Treatment Capacity Costs Per Dec. 60240	\$ 653,706	\$ -	\$ 653,706
10	Less Amount Funded by CIAC	\$ (153,706)	\$ -	\$ (153,706)
11	Net Amount Funded by Debt	\$ 500,000	\$ -	\$ 500,000
12	2006 Principle	\$ 19,411	\$ -	\$ 19,411
13	Income Tax Factor	1.4805	(0.4805)	1.0000
14	2006 Principle Plus Taxes	\$ 28,738	\$ (9,327)	\$ 19,411
15	Add: 2006 Interest	\$ 36,010	\$ -	\$ 36,010
16	Annual "Lease" Expense	\$ 64,748	\$ (9,327)	\$ 55,421
17	Total Annual "Lease" Expense	\$ 189,622	\$ (27,801)	\$ 161,821

References:

- Column A: Company Schedule C-2, Page 4
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 7 - FOOD AND BEVERAGES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services, Other	\$ 226,595	\$ (478)	\$ 226,117
2	Material and Supplies Expense	77,401	(186)	77,215
3		\$ 303,996	\$ (664)	\$ 303,332

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB, Company Data Request Responses CSB 1.43 and 7.15
- Column C: Column [A] + Column [B]

1

References:

- Column A: Company Data Request Response CSB 1-3 and 2-9
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	2004 Staff Adjusted Test Year Revenues			\$ 1,205,452
2	Weight Factor			\$ 2
3	Subtotal (Line 1 x Line 2)			\$ 2,410,904
4	Staff Recommended Revenue			\$ 1,422,442
5	Subtotal (Line 4 + Line 5)			\$ 3,833,346
6	Number of Years			\$ 3
7	Three Year Average (Line 5 / Line 6)			\$ 1,277,782
8	Department of Revenue Multiplier			2
9	Revenue Base Value (Line 7 x Line 8)			\$ 2,555,564
10	Plus: 10% of 2004 CWIP			\$ -
11	Less: Net Book Value of Licensed Vehicles			\$ 7,279
12	Full Cash Value (Line 9 + Line 10 - Line 11)			\$ 2,548,285
13	Assessment Ratio			0.24
14	Assessed Value (Line 12 x Line 13)			\$ 611,588
15	Composite Property Tax Rate			0.07573
16	Staff Proposed Property Tax Expense (Line 14 x Line 15)	\$ 45,745	\$ 568	\$ 46,313

References:

- Column A: Company Schedule C-1, Page 2
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 9 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	(A)	(B)
	<u>Calculation of Income Tax:</u>		
		<u>Test Year</u>	
1	Revenue (Schedule CSB-9, Line 9)	\$ 1,205,452	
2	Less: Operating Expenses - Excluding Income Taxes & Lease Expense	\$ 935,242	
3	Less: Synchronized Interest (L17)	\$ 77,137	
4	Arizona Taxable Income (L1- L2 - L3)	\$ 193,073	
5	Arizona State Income Tax Rate	6.968%	
6	Arizona Income Tax (L4 x L5)		\$ 13,453
7	Federal Taxable Income (L4 - L6)	\$ 179,619	
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500	
9	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 6,250	
10	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500	
11	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 31,052	
12	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -	
13	Total Federal Income Tax		\$ 53,302
14	Combined Federal and State Income Tax (L6 + L13)		<u>\$ 66,755</u>
	<u>Calculation of Interest Synchronization:</u>		
15	Rate Base (Schedule CSB-13, Col. (C), Line 16)	\$ 1,753,118	
16	Weighted Average Cost of Debt	4.40%	
17	Synchronized Interest (L16 x L17)	<u>\$ 77,137</u>	
18		Income Tax - Per Staff \$ 66,755	
19		Income Tax - Per Company \$ (6,544)	
20		Staff Adjustment \$ 73,299	

Black Mountain Sewer Company
Docket No. SW-02361A-05-0657
Test Year Ended December 31, 2004

Surrebuttal Schedule CSB-23

OPERATING INCOME ADJUSTMENT NO. 10 - ACC ASSESSMENT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	ACC Assessment	\$ 2,288	\$ (2,288)	\$ -

References:

- Column A: Company Data Request Response CSB 1.30
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 11 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Additional Rate Case Expense	\$ 30,000	\$ (25,200)	\$ 4,800
2	Number of Years Amortized	4	4	4
3	Additional Annual Rate Case Expense (L1 / L4)	\$ 7,500	\$ (6,300)	\$ 1,200

References:

Column A: Company Data Request Rebuttal Testimony

Column B: Testimony, CSB

Column C: Column [A] + Column [B]

RATE DESIGN

	Direct Present Rates	Direct Company Proposed	Surrebuttal Staff Recommended
Residential Service-Per Month	\$38.00	\$ 43.19	\$46.53
Commercial, Regular (c)	\$ 0.15236	\$ 0.01732	\$ 0.18658

Commercial - Special Rate Name of Business	Present Rates			Company Proposed			Staff Recommended		
	Gallons Per Day	Rate Per Gallon	Monthly Charge	Gallons Per Day	Rate Per Gallon	Monthly Charge	Gallons Per Day	Rate Per Gallon	Monthly Charge
BH Enterprises-West	2,525	\$0.11685	\$295.05	2,525	\$0.13280	\$335.32	2,525	\$0.14309	\$361.31
BH Enterprises-East	1,400	\$0.11685	\$163.59	1,400	\$0.13280	\$185.92	1,400	\$0.14309	\$200.33
Barb's Pet Grooming	250	\$0.11685	\$29.21	250	\$0.13280	\$33.20	250	\$0.14309	\$35.77
Boulder's Resort	29,345	\$0.11843	\$3,475.33	29,345	\$0.13459	\$3,949.54	29,345	\$0.14503	\$4,255.80
Carefree Dental	1,625	\$0.11685	\$189.88	1,625	\$0.13280	\$215.80	1,625	\$0.14309	\$232.52
Ridgecrest Realty	450	\$0.11818	\$53.18	450	\$0.13431	\$60.44	450	\$0.14472	\$65.12
Desert Forest	7,000	\$0.13609	\$952.63	7,000	\$0.15467	\$1,082.69	7,000	\$0.16665	\$1,166.57
Desert Hills Pharmacy	800	\$0.14206	\$113.65	800	\$0.16145	\$129.16	800	\$0.17396	\$139.17
El Pedregal	15,787	\$0.11685	\$1,844.71	15,787	\$0.13280	\$2,096.51	15,787	\$0.14309	\$2,258.99
Lemon Tree	300	\$0.11400	\$43.20	300	\$0.12956	\$43.20	300	\$0.13960	\$43.20
Body Shop	1,000	\$0.14544	\$145.44	1,000	\$0.16529	\$165.29	1,000	\$0.17810	\$178.10
Spanish Village	4,985	\$0.11685	\$582.50	4,985	\$0.13280	\$662.01	4,985	\$0.14309	\$713.31
Boulder's Club	1,200	\$0.11685	\$140.22	1,200	\$0.13280	\$159.36	1,200	\$0.14309	\$171.71
Anthony Vuitaggio	300	\$0.12987	\$38.96	300	\$0.14760	\$44.28	300	\$0.15904	\$47.71

Effluent Sales
Per thousand gallons \$0.374400

	Present Rates	Company Proposed	Staff Recommended
Service Charges:			
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Re-establishment	\$ 25.00	\$ 25.00	\$ 25.00
Re-connection	No Charge	No Charge	No Charge
Minimum Deposit (Residential)	(a)	(a)	(a)
Minimum Deposit (Non-Residential)	(a)	(a)	(a)
Deposit Interest	N/A	N/A	(a)
NSF Check Charge	\$ 10.00	\$ 10.00	\$ 10.00
Deferred Paymnt Finance Charge	1.50%	1.50%	1.50%
Late Charge	1.50%	1.50%	1.50%
Main Extension Tariff (b)	Cost	Cost	Cost
Hook-Up Fee for New Service (c)	\$ 6.47	\$ 6.47	Discontinue

(a) Per A.A.C. R14-2-603B: Residential - two times average bill, Non-residential - two and one-half times average bill
(b) Per A.A.C. R14-2-406B
(c) Per Gallon per Day. Wastewater flows are based on Engineering Bulletin 12, Table 1.
N/A Not included in current or proposed tariff.