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AZ CORP COMMISSION
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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

**BLACK MOUNTAIN SEWER CORPORATION'S
CLOSING BRIEF**

Arizona Corporation Commission

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**BLACK MOUNTAIN SEWER CORPORATION
PRE-FILED TESTIMONY**

Pre-Filed Testimony	Hearing Exhibit	Abbreviation
Direct Testimony of Thomas Bourassa	A-1	Bourassa DT
Rebuttal Testimony of Thomas Bourassa	A-2	Bourassa RB
Rejoinder Testimony of Thomas Bourassa	A-3	Bourassa RJ
Direct Testimony of Mike Weber	A-4	Weber DT
Rebuttal Testimony of Mike Weber	A-5	Weber RB
Redacted Rebuttal Testimony of Joel Wade	A-6	Wade RB
Redacted Rejoinder Testimony of Joel Wade	A-7	Wade RJ

TOWN OF CAREFREE PRE-FILED TESTIMONY

Pre-Filed Testimony	Hearing Exhibit	Abbreviation
Affidavit of Stan Francom	T-1	Francom AF
Surrebuttal Testimony of Stan Francom	T-2	Francom SB
Direct Testimony of Jonathan Pearson	T-4	Pearson DT
Surrebuttal Testimony of Jonathan Pearson	T-5	Pearson SB

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STAFF PRE-FILED TESTIMONY

Pre-Filed Testimony	Hearing Exhibit	Abbreviation
Direct Testimony of Marlin Scott, Jr.	S-1	Scott DT
Surrebuttal Testimony of Marlin Scott, Jr.	S-2	Scott SB
Direct Testimony of Pedro Chavez	S-4	Chavez DT
Surrebuttal Testimony of Pedro Chavez	S-5	Chavez SB
Direct Testimony of Crystal Brown	S-9	Brown DT
Surrebuttal Testimony of Crystal Brown	S-10	Brown SB

RUCO PRE-FILED TESTIMONY

Pre-Filed Testimony	Hearing Exhibit	Abbreviation
Direct Testimony of Marylee Diaz Cortez	R-11	Diaz Cortez DT
Surrebuttal Testimony of Marylee Diaz Cortez	R-12	Diaz Cortez SB
Direct Testimony of Bill Rigsby	R-13	Rigsby DT
Direct Testimony of Bill Rigsby (Cost of Capital)	R-14	Rigsby DT Cost
Surrebuttal Testimony of Bill Rigsby	R-15	Rigsby SB

1 **I. INTRODUCTION.**

2 **A. Overview of Black Mountain and its Rate Application.**

3 Black Mountain Sewer Corporation (“BMSC” or “the Company”) is an Arizona
4 corporation engaged in the provision of sewer utility service to customers located in and
5 around Carefree, Arizona.¹ At the end of the test year, December 31, 2004, the Company
6 served approximately 1,850 customers, more than 90% of which were residential
7 customers. Bourassa RJ, Rejoinder Schedule H-2. BMSC operates one 120,000 gallon
8 per day wastewater treatment facility and all other wastewater flows are delivered by
9 BMSC into the City of Scottsdale’s wastewater treatment system. Weber DT (Ex. A-4)
10 at 3.

11 BMSC’s most recent rate increase was approved by the Arizona Corporation
12 Commission (“the Commission”) in Decision No. 59944 (December 26, 1996) based on a
13 test year ending June 30, 2004. Bourassa DT (Ex. A-1) at 3. Thus, it will be ten years
14 between rate increases. At the time Decision No. 59944 was issued, the Company was
15 known as Boulders Carefree Sewer Corporation and was a wholly-owned subsidiary of
16 Boulders Joint Venture, then the owner of the Boulders Resort. Decision No. 59944 at 7.
17 In 2001, the common stock of Boulders Carefree was acquired by Algonquin Water
18 Resources of America (“AWRA”). Weber DT (Ex. A-4) at 3. AWRA is an indirect
19 wholly-owned subsidiary of the publicly traded entity Algonquin Power Income Fund
20 (ticker symbol APF.UN on the Toronto Stock Exchange) (“APIF”). *Id.*

21 APIF owns energy, water and wastewater and related assets in the United States
22

23 ¹ Citations to the record are made as follows: Citations to a witness’ pre-filed testimony
24 are abbreviated using the format on pages iii and iv, above, following the Table of
25 Contents, which also lists the hearing exhibit number. Other hearing exhibits are cited by
26 the hearing exhibit number and, where applicable, by page number, e.g., A-15 at 2. The
hearing transcript is cited by page number, e.g., TR. at 1, followed by the name of the
testifying witness.

1 and Canada. Since its inception in 1997, APIF has grown to hold approximately
2 \$800 million in such assets. *Id.* Those assets now include seven water and wastewater
3 providers in Arizona serving roughly 50,000 customers. APIF also owns 10 other water
4 and wastewater utilities in Texas, Illinois and Missouri. Weber RB (Ex. A-5) at 2-3.

5 In the instant application, BMSC is seeking an increase in revenues of \$256,063,
6 which is an increase of approximately 21%. *See* Final Schedules, attached hereto as Brief
7 Exhibit 1, Final Schedule A-1. The Company's proposed increase in revenues will
8 produce an 11% rate of return on the Company's fair value rate base. *Id.* This increase is
9 based on the Company's financial data for calendar year 2004, which the Company
10 proposes to use as the test year in this case. The Company has also made appropriate
11 adjustments to actual test year results and balances to obtain a normal or more realistic
12 relationship between revenues, expenses and rate base during the period in which new
13 rates will be in effect. *See* A.A.C. R14-2-103(A)(3) (definitions of "test year" and "pro
14 forma adjustments"). The requested increase also accounts for immediate investment by
15 BMSC and the issuance of refunds to customers consistent with the joint
16 recommendation by Staff and BMSC to discontinue the Company's hook-up fee.
17 Bourassa RB (Ex. A-2) at 77-78.

18 Staff is proposing an increase in revenue of \$250,195, which would produce a
19 20.76% return on the Company's fair value rate base. Staff Brief Schedule CSB-0a. The
20 Residential Utility Consumer Office ("RUCO") is proposing a very small increase in
21 revenue, \$5,470 or .45%. Rigsby DT at 7 and Direct Schedule WAR-1. Both RUCO and
22 Staff recommend very low returns on equity, 9.49% and 9.60% based on subjective and
23 biased financial models that have depressed equity rates despite dramatic increases in
24 interest rates over the past 12 months. Bourassa RJ at 26. Intervenors, the Town of
25 Carefree ("Town") and The Boulders Homeowners Association ("HOA"), assert that no
26 rate increase should be granted to BMSC until allegations regarding excessive odors are

1 resolved to the satisfaction of customers.

2 **B. Procedural History.**

3 BMSC's application for the determination of the current fair value of its utility
4 plant and property, and for increases in its rates and charges for utility service based on
5 such determination was filed on September 16, 2005. On November 1, 2005, Staff filed a
6 letter in the Commission's docket stating that the Company's application met the
7 sufficiency requirements set forth in A.A.C. R14-2-103, and classifying the Company as
8 a Class B wastewater utility.

9 RUCO filed an application to intervene in this matter, which was granted by
10 Procedural Order dated October 7, 2005. Intervention was later granted to Robert E.
11 Williams on behalf of the HOA, the Town, and M. M. Shirtzinger by Procedural Order
12 dated March 8, 2006.

13 BMSC caused a notice of the rate application to be published. Notice of
14 Publication was filed on January 24, 2006. The Company's notice was also mailed to
15 every customer.

16 By Procedural Order of November 2, 2005, a public comment session was
17 scheduled at the Commission's Phoenix offices on June 7, 2006. A number of customers
18 made public comment. TR at 44-80. Evidentiary hearings were conducted in Phoenix on
19 June 7, 8, 9 and 20, 2006. The parties have been ordered to file closing briefs on
20 August 21, 2006 and September 5, 2006.

21 **II. THERE IS NO BASIS TO POSTPONE RATE RELIEF.**

22 The record before the Commission clearly supports increases in BMSC's rates and
23 charges for wastewater utility service. The parties presenting evidence concerning the
24 determination of a revenue requirement for BMSC all recommend a rate increase, albeit a
25 small increase in the case of RUCO. The other parties, the Town and the HOA, did not
26 present any evidence concerning the revenue requirement, rate base, operating expenses

1 or cost of capital. Nor did either party present evidence to contradict or challenge the
2 evidence supporting rate increases introduced by the other parties. Instead, both the
3 Town and the HOA oppose any rate increase for BMSC. As explained by the Town's
4 "policy" witness, the Town opposes any rate increase until the "odor problems are
5 resolved." TR at 355-56 (Pearson). *See also* TR at 30, 42 (Williams Public Comment).

6 Neither the Town nor the HOA presented evidence that BMSC is in violation of
7 any law, rule, regulation or standard governing the Company's operations. TR 322-23
8 (Francom), 354 (Pearson). BMSC is in full compliance with the standards that govern its
9 operations, including the requirements of the Maricopa County Environmental Services
10 Department ("MCESD"), the agency with primary jurisdiction over odor and noise
11 control. *See* Scott DT (Ex. S-1), Exhibit MSJ at 4; Wade RB (Ex. A-6) at 6; TR at 480
12 (Dodds). *See also* TR at 620 (Scott) (regarding MCESD authority). In fact, following a
13 number of recent odor and noise related improvements, measured levels of noise and
14 odors from BMSC's system were well below the maximum allowable standards. *See,*
15 *e.g.*, Ex. A-14.

16 The recommendations of the Town and the HOA are impossibly vague. Neither
17 presented technical or scientific data concerning the Company's *current* operations, nor
18 referred to any objective standard to define the Company's alleged "odor problem". The
19 HOA asserts that BMSC must "satisfy customers reasonable needs and expectations"
20 before it can get any increase in its rates. TR at 42 (Williams Public Comment). The
21 Town suggests that the Commission adopt a "reasonable standard" to determine when the
22 odor problem is resolved. TR at 358-59 (Pearson). BMSC certainly agrees that it has a
23 duty to make reasonable efforts to satisfy the needs of its customers. TR at 469-70
24 (Dodds). But, BMSC must not be left guessing at what is "reasonable". It is not possible
25 to set a standard that would satisfy everyone. TR at 480 (Dodds). Nor is it possible to
26 eliminate odors from a wastewater collection and treatment system. TR at 346

1 (Francom), 638 (Scott). BMSC agrees with the Staff engineer, when it comes to setting a
2 standard for odors, the Commission should defer to MCESD. TR at 639. MCESD sets
3 the standard and BMSC meets it. There is no basis to deny rate increases to an entity
4 operating in full compliance.

5 The Company is not suggesting that the Commission should therefore ignore the
6 concerns of the Town, the HOA and customers. Certainly, the Company has not
7 disregarded the concerns that have been expressed over odor and noise. In the past 2-3
8 years, BMSC has commissioned a major study of odors and noises related to its
9 operations and made more than \$600,000 of "aesthetic" improvements. *See* Wade RB
10 (Ex. A-6) at Wade Rebuttal Exhibits 1, 2 and 3. More recently, BMSC began the process
11 of removing the CIE lift station, the principal target of the majority of the odor
12 complaints. TR at 466-68, 477-79 (Dodds).² Meanwhile, the Company's representatives
13 meet frequently with representatives from the Town, HOA and with customers in an
14 effort to provide information and address customer concerns. TR at 331-32 (Francom),
15 357 (Pearson), 482-83 (Dodds). In short, BMSC has and continues to make reasonable
16 efforts to satisfy the needs of customers and there is no basis for the Town's claim that,
17 absent the Commission denying rate increases, the Company will fail to reasonably
18 address customer complaints. TR at 357-58 (Pearson).

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² Subsequent to the hearings in this docket, BMSC commissioned McBride Engineering to remove the CIE lift station. *See* Brief Exhibit 2. That project is expected to be completed by year-end.

1 **III. RATE BASE ISSUES IN DISPUTE.**

2 The parties' respective rate bases following the hearing are as follows:

3

	<u>OCRB</u>	<u>FVRB</u>
4 Staff	\$ 1,549,650	\$ 1,549,650 ³
5 RUCO	\$ 1,815,683	\$ 1,815,683
6 Company	\$ 1,568,502	\$ 1,568,502 ⁴

7 Staff and the Company disagree solely on whether capitalized affiliate profit
8 associated with plant construction projects should be excluded from rate base. That issue
9 is addressed in Section V, *infra*. There are three rate base issues in dispute with RUCO:
10 (1) treatment of Scottsdale Capacity; (2) deferred income taxes; and (3) working capital.
11 In each of these instances, RUCO recommends adjustments that lower the revenue
12 requirement. A fourth issue, also a rate design issue in dispute with RUCO, involves
13 termination of the Company's hook-up fee and refunds to customers. That issue is
14 addressed in Section VII, *infra*.

15 **A. A Deferred Tax Calculation for BMSC Results in a Deferred Tax**
Asset, an Increase in Rate Base.

16 Deferred income taxes result from differences between when income taxes are
17 actually paid and when books and records show they are paid. TR at 109-110 (Bourassa).
18 *See also* Brown SB (Ex. S-10) at 19. Deferred tax liabilities result in a deduction from
19 rate base and deferred tax assets result in additions to rate base. TR at 110 (Bourassa).
20 At the time the rate application in this case was prepared, BMSC's deferred income taxes
21 were not reflected on BMSC's books and records. *Id.*; *see also* TR at 118 (Bourassa),
22

23 ³ *See* Staff Brief Schedule CSB-0a.

24 ⁴ *See* BMSC Final Schedules, attached hereto as BMSC Brief Exhibit 1, at Schedule B-1.
25 Notably, BMSC's final rate base schedules reflect the post-hearing resolution of disputed
26 issues with Staff, which resolution has resulted in a lower rate base than in the
Company's rejoinder filing. *See* Bourassa RJ (Ex. A-3) at 2.

1 408-09 (Diaz-Cortez); Bourassa RB (Ex. A-2) at 9-10. Instead, because BMSC is part of
2 a consolidated entity, the deferred income taxes for the individual consolidated entities
3 are accumulated and recorded on the parent company's consolidated financial statements.

4 *Id.*

5 During the discovery phase of this proceeding, Staff and RUCO sought
6 information regarding BMSC's deferred income taxes. *See* RUCO Ex. R-6; Brown DT
7 (Ex. S-9) at 20; and Bourassa RB (Ex. A-2) at 10. Such information was available and
8 was provided to Staff and RUCO. *See* Bourassa RB (Ex. A-2) at 10; TR at 216
9 (Bourassa). When Staff and the Company reviewed the Company-specific information
10 provided in the data request responses, both parties concluded that a deferred tax asset
11 should be reflected in BMSC's books and records in this case, with an appropriate
12 adjustment to increase rate base. *See* Brown DT (Ex. S-9) at 21; Bourassa RB (Ex. A-2)
13 at 9-10. *See also* TR at 123.

14 In contrast, RUCO rejected the Company-specific information and calculated a
15 deferred tax liability, a deduction from rate base, based on the financial data of the
16 consolidated parent. Diaz-Cortez DT (Ex. R-11) at 11. The deferred income taxes
17 reflected in APIF's books are the net of many individual entities' specific financial data,
18 some of which have deferred tax assets and some deferred tax liabilities. TR at 114, 117-
19 18 (Bourassa). RUCO witness Diaz-Cortez created a tax liability by allocating a portion
20 of that net deferred income tax liability to BMSC, based solely on the ratio of the price
21 paid by the parent for the Company's stock to APIF's total capitalization. TR at 417-18
22 (Diaz-Cortez). No connection between deferred income taxes and the ratio of the
23 Company's stock price to APIF's capitalization was identified; RUCO could have used
24 the Company's revenues, assets or customers as compared to the parent's and come up
25 with an equally arbitrary allocation ratio. TR at 418-19 (Diaz-Cortez). *See also* TR at
26 213-214 (Bourassa).

1 RUCO was also unable to identify any precedent or support for its unusual
2 allocation methodology. TR at 418 (Diaz Cortez). In fact, the only authority called into
3 question appears to contradict RUCO's calculation. See Bourassa RJ (Ex. A-3) at
4 Bourassa Rejoinder Exhibit 1 (Statement of Financial Accounting ("FAS") 109). See
5 also Bourassa RB (Ex. A-2) at 11; Bourassa RJ (Ex. A-3) at 4-5. FAS 109 does not
6 dictate a specific methodology for determining deferred income taxes; however, it does
7 require the use of methodologies that are "systematic, rationale and consistent with the
8 broad principles established by this Statement." *Id.* See also TR at 420. RUCO's
9 methodology is based on the purchase price of BMSC's stock, a method clearly at odds
10 with the principles established by FAS 109. Bourassa RJ (Ex. A-3) at 4-5, Bourassa
11 rejoinder Exhibit 1. A methodology that fails to account in any way for the entity's own
12 specific data is also irrational.

13 **B. BMSC's Working Capital Allowance Should be Zero.**

14 In its rebuttal filing, BMSC accepted Staff's adjustment to reduce working capital
15 allowance to zero. Bourassa RB (Ex. A-2) at 11 *citing* Brown DT (Ex. S-9) at 24. As
16 explained during the hearing, Mr. Bourassa was unaware of the Company practice of
17 billing in advance at the time he prepared the initial filing, practices that made his
18 recommendation of a working capital allowance inappropriate. TR at 126-27, 218
19 (Bourassa).

20 RUCO recommends a negative working capital allowance. See Diaz-Cortez DT
21 (Ex. R-11) at 14. RUCO's recommendation is not supported by the formula method or a
22 lead/lag study, instead, RUCO witness Diaz-Cortez made a series of assumptions to
23 determine the hypothetical revenue and expense leads and lags. See Bourassa RB (Ex. A-
24 2) at 11; Bourassa RJ (Ex. A-3) at 5. See also TR at 225-228 (Bourassa), 426-34 (Diaz-
25 Cortez). Ms. Diaz-Cortez admitted during cross-examination that she does not actually
26 know where the Company's expense lag lies and that her assumption of a 45 day lag may

1 be overstated. TR at 432-33. Ms. Diaz-Cortez also admitted that her own
2 recommendation may be overstated and that the Company's actual working capital
3 allowance is probably somewhere between the zero recommended by Staff and BMSC
4 and the negative allowance she actually created. *Id.*

5 Ultimately, without a lead/lag study, a working capital allowance cannot be
6 precisely determined. Bourassa RJ (Ex. A-3) at 5. Certainly, RUCO's assumed leads
7 and lags are insufficient to support its recommendation. For example, reducing RUCO's
8 assumed expense lag by 10 days would result in a negative working capital allowance of
9 roughly \$30,000, not the \$87,253 negative allowance RUCO is recommending. TR at
10 225-28 (Bourassa). Similarly, if RUCO's assumed revenue days are adjusted from 12 to
11 8 days, the negative working capital allowance would decrease to approximately \$18,000.
12 *Id.* In short, RUCO's calculation of a negative working capital allowance in this case is
13 too speculative and RUCO has not met its burden of proof. Accordingly, Staff's
14 recommended zero working capital allowance should be adopted.

15 **C. Purchased Wastewater Treatment.**

16 BMSC has a contract allowing it to purchase up to 1 million gallons of wastewater
17 treatment per day from the City of Scottsdale ("Scottsdale"). Ex. A-15. The majority of
18 the wastewater flows generated by BMSC's customers are delivered to Scottsdale's
19 wastewater treatment system under this agreement. Weber DT (Ex. A-4) at 3. However,
20 BMSC has no ownership rights, title or interest in Scottsdale's wastewater facilities or
21 system. Ex. A-15. As of the test year, BMSC had purchased approximately 320,000 gpd
22 of treatment at a cost of approximately \$1.9 million. *See* Decision No. 60240 (June 12,
23 1997) at 1-2 and Decision No. 59944 at 2-3. That amount was financed by BMSC in
24 transactions approved by the Commission in these two decisions.

25 The Company and RUCO had proposed that the amounts paid under the contract
26 be treated as plant and included in rate base. Decision No. 59944 at 4-5. Staff proposed

1 that the costs for treatment by Scottsdale not be afforded rate base treatment. Because the
2 Company was paying to use capacity in the Scottsdale system but acquired no ownership
3 or control, Staff recommended that the costs be treated as a long-term lease. *Id.* at 5.
4 Staff's recommendation and the Commission's approval of the income statement
5 treatment resulted in lower rates and lower revenues for the Company than if rate base
6 treatment had been approved. Bourassa RB (Ex. A-2) at 25-27.

7 In this case, treating the amounts paid to Scottsdale as rate base would result in
8 lower rates and less revenues, and RUCO is resurrecting the position the Commission
9 rejected 10 years ago. TR at 400 (Diaz-Cortez). According to RUCO, the Company's
10 income statement treatment of the wastewater treatment purchased from Scottsdale is a
11 "fallacy" that "robs ratepayers". Diaz-Cortez DT (Ex. R-11) at 5, 7. Despite the harsh
12 rhetoric, RUCO witness Diaz-Cortez admitted that the Company's treatment of the cost
13 as an operating expense is consistent with the Commission's approved treatment in
14 Decision No. 59944. TR at 394 (Diaz-Cortez).

15 Nevertheless, RUCO argues, BMSC is a "different" company. TR at 406 (Diaz-
16 Cortez). This claim is without merit. The stock of the Company was sold in 2001 and
17 the name was changed from Boulders Carefree Sewer to Black Mountain Sewer. No
18 Commission proceedings were required and the utility, its assets and capitalization did
19 not change. TR at 407 (Diaz-Cortez); Bourassa RJ (Ex. A-3) at 15. BMSC is the same
20 entity in this case as it was 10 years ago when Decision No. 59944 was issued. TR at 94-
21 96 (Bourassa). RUCO's claim is hardly justification for changing ratemaking treatment
22 to the detriment of the Company, and the amounts already paid to Scottsdale for
23 treatment should continue to be treated in the income statement in the manner ordered by
24 the Commission in Decision No. 59944.

25

26

1 **IV. INCOME STATEMENT.**

2 **A. Adjustment to Property Tax Expense.**

3 Because the Arizona Department of Revenue (“ADOR”) determines the value of
4 utility property for tax purposes using a formula that is based on the utility’s revenues,
5 the Commission has repeatedly utilized proposed revenue in the determination of an
6 appropriate level of property tax expense to be recovered through rates. *E.g., Chaparral*
7 *City Water Company*, Decision No. 68176 (September 30, 2006); *Rio Rico Utilities*,
8 Decision No. 67279 (October 5, 2004) at 8 (use of only historic revenues understates the
9 expense level); *Arizona Water Company*, Decision No. 68302 (November 14, 2005),
10 Decision No. 66849 (March 22, 2004), Decision No. 64282 (December 28, 2002) at
11 12-13; and *Bella Vista Water Company*, Decision No. 65350 (November 1, 2002) at 16
12 (Commission concluded that “the most logical approach is to use the two most recent
13 historic years’ revenues, and the projected revenues under the newly approved rates.”).
14 *See also Arizona-American Water Company*, Decision No. 67093 (June 30, 2004) at
15 9-10. In this case, both Staff and the Company have followed this well established
16 Commission precedent. TR at 594 (Rigsby).

17 As it did in each of the decisions cited above, RUCO argues for using only
18 historical revenues to determine the level of property tax expense. Ex. A-17; TR at 588-
19 594. RUCO’s position has been uniformly rejected. *Id.* It is unfortunate that RUCO will
20 not honor this wealth or precedent or pursue its available legal remedies. TR at 589-90
21 (Rigsby). Instead, RUCO chooses to take up the resources of the parties and increase rate
22 case expense addressing its seemingly infinite request for reconsideration. Meanwhile,
23 the Commission must again say “No”.

24 **B. Rate Case Expense Should Be \$150,000 Amortized Over Four Years.**

25 In its direct filing, BMSC estimated \$120,000 of rate case expense and indicated it
26 would continue to evaluate its estimate based on the expenses actually being incurred and

1 “true-up” its request as the case progressed. Bourassa DT (Ex. A-1) at 10-12. In its
2 rebuttal filing, the Company adjusted its estimate upward to \$150,000 citing the
3 intervention of the Town and the introduction of significant new issues and more
4 extensive discovery by Staff and RUCO than expected. Bourassa RB (Ex. A-2) at 31-32.
5 Through July 31, 2006, the Company had incurred rate case expense of just over
6 \$194,000. *See* Itemization of Rate Case Expense attached hereto as Brief Exhibit 3. The
7 Company has, however, elected to cap its request at \$150,000.

8 Staff recommends rate case expense of \$124,800 amortized over four years.
9 Brown SB (Ex. S-10) at 17-18. According to Staff, \$4,800 was adequate to account for
10 the additional expenses associated with the Town’s intervention, in large part, it would
11 appear, because Staff’s accounting witness felt that the Company’s third-party
12 consultants needed minimal effort with respect to the issues raised by the Town. *See* TR
13 at 808-810 (Brown). Staff gave no consideration of the Company’s assertion that
14 discovery costs were higher than anticipated. *See* Brown SB (Ex. S-10) at 16-18.

15 RUCO recommends rate case expense of \$120,000 amortized over 4 years.
16 Rigsby SB (Ex. R-15) at 8-9. RUCO’s only basis for this is that the Company should be
17 held to its original estimate. *Id.* *See also* TR at 596-98 (Rigsby). Obviously, the
18 Company cannot know the amount of rate case expense it will incur before it is incurred.
19 *Id.* Under RUCO’s reasoning, a utility would be forced to overestimate its rate case
20 expense. *Id.* For this reason alone, RUCO’s recommendation is fatally flawed.

21 The Company’s request is entirely reasonable. As the Company asserted, the
22 impact of the Town (and HOA) and the issues they raised increased both the complexity
23 and expenditure of resources in this case. TR at 363-64 (Pearson), 806-07 (Brown);
24 Bourassa RB (Ex. A-2) at 31-33. This can also be seen in the costs of the Company’s
25 rebuttal filing and costs of preparing for and participating in the hearings. *See* Brief
26 Exhibit 3. The costs incurred by BMSC in responding to data requests was also

1 substantial, nearly 1/3 of the amounts being recommended by Staff and RUCO and more
2 than 10 times the costs the Company incurred to conduct its own discovery. *Id.* Notably,
3 the Company will spend roughly 1/6 of the rate case expense recommended by Staff and
4 RUCO on copies and transcripts. *Id.*

5 All of which supports what the Company has asserted throughout: rate cases are
6 expensive, much of the process and cost is outside the Company's control and the best
7 evidence of rate case expense is the amount actually incurred. *See, e.g.,* Bourassa DT
8 (Ex. A-1) at 10-12; Bourassa RJ (Ex. A-3) at 17-19. Moreover, the Company's
9 shareholder will absorb a substantial amount of rate case expense. *Id.; See also* Brief
10 Exhibit 3. Rate case expense of \$150,000 amortized over 4 years is fair and reasonable in
11 this case.

12 **V. THE COMMISSION SHOULD REJECT STAFF'S RECOMMENDED**
13 **ADJUSTMENTS TO THE COSTS OF AFFILIATED SERVICES.**

14 Operational, engineering and construction, financial and accounting,
15 administrative, management and customer relations services are provided to BMSC by
16 affiliates, primarily Algonquin Water Services, Inc. ("AWS"), a wholly owned subsidiary
17 of APIF. Weber RB (Ex. A-5) at 2. TR at 163 (Bourassa). AWS was formed to provide
18 these types of critical services to water and wastewater utilities, including primarily, but
19 not limited to, affiliated public service corporations. Weber RB (Ex. A-5) at 2; TR at
20 459, 532 (Dodds). Nevertheless, AWS is a separate and distinct legal entity, investing
21 capital in pursuit of a return and facing a risk of loss. TR at 269 (Bourassa), 781, 793
22 (Brown). APIF created a similar entity, Algonquin Power Services, to provide similar
23 management, engineering/construction and operational services to the power generation
24 industry, including a number of energy assets owned by APIF. TR at 459 (Dodds).

25 The business model created by APIF to provide essential services to water and
26 wastewater utilities has a number of benefits. By creating a "combined pool" of services,

1 economies of scale are achieved lowering the cost of service. TR at 464-465 (Dodds).
2 *See also* TR at 169, 176 (Bourassa). As a result, BMSC is able to provide a broader
3 range of benefits to its ratepayers, at prices, including profit, equal to or less than market
4 rates. TR at 475-77. For example, on its own, BMSC might not be able to justify the full
5 cost of a construction manager, business manager or controller because they are used
6 part-time. TR at 169 (Bourassa), 523-24 (Dodds).⁵ However, because the costs of these
7 services are “shared”, customers and the utilities obtain the benefits when they are
8 needed. Additionally, this business model provides far better control over health, safety
9 and environmental concerns that would be the case if third-party contractors were used.
10 TR at 465 (Dodds).

11 BMSC recognizes the business model under which it operates must be subject to
12 Commission scrutiny. TR at 465. *See also* Bourassa RB (Ex. A-2) at 17; TR at 161
13 (Bourassa). The Commission serves as a safeguard to ensure first, that adequate services
14 are being provided, and second, that the costs a public service corporation recovers
15 through rates are reasonable. TR at 178 (Bourassa), 781-82 (Brown). In the case of
16 affiliate transactions, the level of scrutiny will often be greater. TR at 161-62, 251
17 (Bourassa); Bourassa RB (Ex. A-2) at 17. There is no dispute that affiliate transactions
18 carry the potential for manipulation or inflation of costs because they are, by definition,
19 not at arms-length. *See* Rigsby DT (Ex. R-13) at 3; Brown DT (Ex. S-9) at 13. BMSC
20 has invited such scrutiny in this case and has presented evidence to meet its burden of
21 showing that the costs incurred in affiliated transactions are reasonable.

22 As discussed above, BMSC presented evidence concerning the nature and extent
23 of the services provided by affiliates. Neither Staff nor RUCO challenged this evidence
24

25 ⁵ It must be remembered that the costs of hiring such an employee to BMSC would
26 include not only salary and wages, but payroll expenses plus certain benefits.

1 nor questioned the necessity or adequacy of the wastewater utility services being
2 provided by BMSC.⁶ In fact, in this case Staff described APIF's affiliated business
3 model as "very economically efficient" (TR at 771) and, in another matter, Staff
4 supported and the Commission approved the extension of this business model in order to
5 resolve the now-infamous McLain mess. *See generally*, Decision No. 68826 (June 29,
6 2006).⁷

7 The evidence presented included a comparison of the costs that would be incurred
8 by BMSC to hire the requisite employees directly instead of utilizing a shared-services
9 model. Bourassa RB (Ex. A-2) at 35 and Bourassa Rebuttal Exhibit 2; Weber RB (Ex.
10 A-5) at 2. According to this analysis, BMSC saves more than \$200,000 annually as a
11 result of the affiliated services business model employed. *Id.*

12 BMSC also provided evidence regarding comparable services from third-parties.
13 For example, BMSC witness Dodds testified that there are no providers that can provide
14 the range of services that AWS and the other affiliates can provide. TR at 474-75. *See*
15 *also* Weber RB (Ex. A-5) at 5. BMSC's accounting witness, who represents many water
16 and wastewater utilities in Arizona, was equally unaware of any comparable entities from
17 which BMSC could obtain the same services. Bourassa RJ (Ex. A-3) at 11-12).
18 However, Mr. Bourassa did testify to the costs of obtaining more limited operations and
19 administrative services from a local utility management company, costs that were
20 comparable to those charged by BMSC's affiliates for a far wider range of services.
21 Bourassa RB (Ex. A-2) at 34. Additionally, Mr. Bourassa compared the costs incurred by

22 ⁶ Certainly the Town and HOA challenged the adequacy of BMSC's provision of service
23 as it related to odor control and the handling of complaints about odors, an issue
24 addressed in Section II, *supra*. Those concerns do not, however, relate to the use of
affiliated service providers.

25 ⁷ It is noteworthy that in the McLain matters, Staff accepted the utilities' proposed
26 operating expenses, which included affiliate costs, without adjustment. TR at 257-59.

1 BMSC for services by affiliates to the costs incurred by another local utility provider for
2 similar services, and found the costs incurred with BMSC's affiliates to be lower. TR at
3 171-72, 255-56 (Bourassa). BMSC also supplied Staff and RUCO with quotes from local
4 engineers to AWS and LPSCO (another affiliate) for similar services and positions, and
5 in each case the third party rates were equal to or greater than the rates charged by AWS
6 to BMSC. Bourassa RB (Ex. A-2) at 17-18.

7 Thus, BMSC met its burden of showing that the costs to be recovered through
8 rates were reasonably incurred in the provision of service to ratepayers. The evidence
9 presented by BMSC regarding the reasonableness of the costs incurred shows that BMSC
10 paid no more, and likely much less, for services provided by affiliates than it would have
11 paid for the same services from non-affiliates. Bourassa RB (Ex. A-2) at 18. Moreover,
12 no other evidence of comparable costs or evidence to contradict the Company's evidence
13 was presented.

14 This is largely true because Staff failed to actually conduct an analysis of the
15 reasonableness of the costs incurred by BMSC in transactions with affiliates. Instead,
16 Staff made two related adjustments. First, \$20,926 was removed from the Company's
17 rate base because such amounts represented affiliate "profits" on project costs of more
18 than \$258,000.⁸ Bourassa RB (Ex. A-2) at 15. Second, Staff reduced operating expenses
19 by \$21,761, which amount represented affiliate profit on services provided to BMSC
20 during the test year at a cost of \$480,192, a profit of 4.5%. Bourassa RB (Ex. A-2) at 33.
21 Staff presented no evidence that these amounts were imprudently incurred, except for the
22 testimony of its accounting witness declaring all affiliate profit inherently
23

24 ⁸ Among other flaws, Staff's adjustment fails to recognize that \$15,256 of this amount
25 represents capitalized affiliate profit on CIAC related plant projects. Bourassa RJ (Ex. A-
26 3) at 9. As a result, even if Staff's adjustment for affiliate costs was adopted, CIAC
would also have to be reduced by \$15,256 or rate base would be understated.

1 “unreasonable”. See, e.g., TR at 776-779 (Brown); Bourassa RB (Ex. A-2) at 16-17. In
2 fact, Staff witness Brown admitted that Staff would not have made the same adjustments
3 if the same services had been provided to BMSC at the same cost by non-affiliates. TR at
4 777 (Brown). In short, Staff failed to conduct any meaningful analysis of the
5 reasonableness of the costs incurred, opting instead to suggest a black-line, one-size fits
6 all approach. This is not proper ratemaking, nor has Staff met its burden of
7 demonstrating that the amounts it recommends be removed from rate base and the
8 income statement were unreasonable or imprudent.

9 Ironically, Staff not only took the position that BMSC could not pay an affiliate
10 the same amount it would pay a third-party, Staff went further and asserted that BMSC
11 and its affiliates must continue to operate in this manner because to do so now, after
12 “profit” was eliminated, would be “wasteful”. TR at 789-92 (Brown). In other words,
13 Staff seeks to penalize BMSC, its parent and its affiliates for operating efficiently by
14 having the Commission hold the parent’s resources captive and denying it the opportunity
15 to earn a reasonable profit on its investment of capital and resources. APIF and its
16 operating subsidiaries are not charities, and adoption of Staff’s recommended
17 adjustments to remove a portion of the cost of affiliate transactions incurred by BMSC
18 would serve to discourage the consolidation of services in a manner that benefits
19 ratepayers. See Bourassa RJ (Ex. A-3) at 12, 14.

20 **VI. CAPITAL STRUCTURE AND COST OF CAPITAL**

21 **A. Brief Overview of Cost of Capital Standards.**

22 A regulated utility is entitled to earn a return on equity that is sufficient to allow
23 the utility to attract capital on reasonable terms, and is commensurate with returns on
24 investments in other enterprises having comparable risks. *Bluefield Water Works &*
25 *Improvement Co. v. Public Serv. Comm’n of West Virginia*, 262 U.S. 679, 692-93 (1923);
26 *Fed. Power Comm’n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944); *Duquesne*

1 *Light Co. v. Barasch*, 488 U.S. 299, 314-15 (1989). In Arizona, in particular, the capital
2 attraction and comparable earnings standards established by the Court in *Bluefield*
3 *Waterworks* remain applicable in determining whether the rate of return is too low and,
4 therefore, confiscatory, because the Arizona Constitution mandates that the Commission
5 find and use the fair value of BMSC's utility plant and property in setting rates. "Rates
6 which are not sufficient to yield *a reasonable return on the value of the property used at*
7 *the time it is being used to render the service* are unjust, unreasonable and confiscatory,
8 and their enforcement deprives the public utility company of its property in violation of
9 the Fourteenth Amendment." *Bluefield Waterworks*, 262 U.S. at 690 (emphasis
10 supplied).

11 In setting the appropriate return, consideration must also be given to the specific
12 risks created by the nature and degree of regulation to which the utility is subject.
13 *Duquesne Light*, 488 U.S. at 314-15. Consequently, the Commission's particular rate-
14 setting system, which, for a utility like BMSC, takes more than one year to complete and
15 includes, among other things, the use historic test year with limited out-of-period
16 adjustments, the lack of balancing accounts and adjustment mechanisms, the exclusion of
17 construction work in progress from rate base, creates additional business risk and requires
18 a higher return on equity. See Roger A. Morin, *Regulatory Finance: Utilities' Cost of*
19 *Capital* 38-40 (1994); Bourassa DT (Ex. A-1) at 25-28 (identifying specific risks faced
20 by BMSC, which require a higher return on equity).

21 **B. Capital Structure.**

22 The plant in the Company's rate base is financed entirely by equity. Bourassa RJ
23 (Ex. A-3) at 31. There is long-term debt on the Company's books associated with the
24 purchase of wastewater treatment from Scottsdale; however, under the operating lease
25 methodology approved by the Commission in Decision No. 59944 and Decision No.
26 60240, there is no plant associated with that debt included in rate base. Accordingly,

1 BMSC and Staff propose a capital structure comprised of 100% equity. Bourassa RJ
2 (Ex. A-3) at 31; Chavez DT (Ex. S-4) at 6. As noted, however, this debt impacts
3 BMSC's financial risk and should therefore be considered in the analysis of the cost of
4 equity. Bourassa DT (A-1) at 15. Chavez DT (Ex. S-4) at 33.

5 RUCO, in contrast, recommends two alternative capital structures. If the
6 Commission adopts RUCO's recommended change in the treatment of the Scottsdale
7 wastewater treatment cost, RUCO recommends a capital structure comprised of 43
8 percent debt and 57 percent equity. Rigsby SB (R-15) at 11. BMSC agrees that this
9 capital structure would be appropriate if RUCO's recommendation were adopted.
10 Bourassa RB (Ex. A-2) at 40-41. If the Commission rejects RUCO's proposal to treat the
11 costs of wastewater treatment by Scottsdale as plant, which it should for the reasons
12 explained earlier, RUCO proposes a hypothetical capital structure comprised of 44
13 percent debt and 56 percent equity. Rigsby SB (R-15) at 11.

14 RUCO's second alternative recommendation was based on the capital structure of
15 the Company's parent and was intended to bring the Company's capital structure in line
16 with the sample companies used in its cost of capital analysis. *Id. See also* TR at 552-53.
17 This is true, despite the fact that APIF's capital structure could have included debt
18 financing of a waste reclamation company in Toronto, a hydroelectric plant in New
19 Hampshire and a sewer company in Texas. TR at 553-554. Absent this hypothetical
20 capital structure, RUCO's cost of capital witness explained, he would have had to make a
21 further downward adjustment to his recommended return on equity. TR at 562-63. The
22 Company's capital structure should be based on the plant being financed by, not on a
23 hypothetical used by RUCO hide the downward manipulation of the Company's equity
24 return.

25

26

1 **C. Cost of Equity Analysis.**

2 **1. Summary of Evidence.**

3 The Company recommends a return on equity (“ROE”) equal to 11.0%. Bourassa
4 RJ (Ex. A-3) at 21. The Company’s cost of equity estimates are based on the discounted
5 cash flow (“DCF”) model; however, a risk premium analysis, comparable earnings
6 analysis (the current, authorized, and analysis of projected equity returns for the sample
7 group of publicly traded utilities), and the economic conditions expected to prevail during
8 the period in which new rates will be in effect, served as a check of the reasonableness of
9 the DCF results and ensure meaningful and realistic results. Bourassa DT (Ex. A-1) at
10 13-14; Bourassa RJ (Ex. A-3) at 21-25.

11 The updated equity cost estimates using the DCF models presented in
12 Mr. Bourassa’s rejoinder testimony range from 8.5% to 11.0% based on the six publicly-
13 traded water utilities included in his sample group. Bourassa RJ (Ex. A-3) at 22.
14 Mr. Bourassa considered the updated risk premium method returns on equity ranging
15 from 10.2% to 11.0%. In addition, Mr. Bourassa considered the actual and authorized
16 returns on equity for the water utilities in the sample group, which range from 7.8% to
17 12.7%. *Id.* Finally, *Value Line*, a reputable source of financial data on which all of the
18 parties have relied, projects returns on common equity of 10.0%, 10.5% and 11.5% for
19 2006, 2007 and 2009, respectively, for the water utility industry. *Id.* These measures of
20 the cost of equity plainly support Mr. Bourassa’s recommended 11% cost of equity when
21 the totality of BMSC’s risks and investors’ expectations are considered.

22 Staff and RUCO also used financials models to arrive at their recommendations of
23 9.6% and 9.49%, respectively, including the DCF and the Capital Asset Pricing Model
24 (“CAPM”). *See, e.g.*, Chavez SB (Ex. S-5) at 2; Rigsby DT (Ex. R-14) at 5. However,
25 the results of these models are blindly applied to the Company by Staff and RUCO
26

1 without regard to whether the results, which are based on an analysis of publicly traded
2 utilities, are actually comparable in terms of investment risk. *E.g.*, Bourassa RB (Ex. A-
3 2) at 54.

4 To illustrate this blind application of the results sought by Staff and RUCO's cost
5 of capital analyses, the Commission need only compare the results today with those a
6 mere three years ago. Interest rates and the estimated betas of the water utility sample
7 have increased significantly, indicating the cost of equity has increased; however, the
8 estimates of Staff and RUCO have not increased to the extent one would logically
9 expect). *See* TR at 578-582 (Rigsby), 707-711 (Chavez). In short, three years ago Staff
10 and RUCO were justifying low ROEs due to historically low interest rates. *See* Exs. A-
11 16 and A-21. Today, those rates and other critical measures of the cost of equity have
12 increased substantially, yet Staff and RUCO's ROEs have stayed roughly the same. This
13 is true, because the methods and inputs used by Staff and RUCO are biased and produce
14 unreasonably low equity costs.

15 Staff and RUCO also used financial models to arrive at their recommendations of
16 9.6% and 9.49%, respectively, including the DCF and the Capital Asset Pricing Model
17 ("CAPM"). *See, e.g.*, Chavez SB (Ex. S-5) at 2; Rigsby DT (Ex. R-14) at 5. However,
18 the results of these models are blindly applied to the Company by Staff and RUCO
19 without regard to whether the results, which are based on an analysis of publicly traded
20 utilities, are actually comparable in terms of investment risk. *E.g.*, Bourassa RB (Ex. A-
21 2) at 54.

22 **2. The Deficiencies in the Methods Used by Staff and RUCO**
23 **Render the Results Unreasonable.**

24 **a. Factors Influencing Investment Risk.**

25 There are two basic approaches to evaluating a stock's investment risk: (1) firm-
26 specific risk and (2) portfolio risk. Roger A. Morin, *Regulatory Finance: Utilities' Cost*

1 of *Capital* 45 (1994) (“Morin”). Staff and RUCO ignore firm-specific risk, claiming that
2 under modern finance theory, all risk (except risk relating to a firm’s capital structure) is
3 reflected in a stock’s beta, which estimates risk by comparing a stock’s volatility relative
4 to the market in which it is traded. Chavez DT (Ex. S-4) at 28, Rigsby DT (Ex. R-14) at
5 30. Thus, according to Staff and RUCO, the average of the betas published by Value
6 Line for the publicly traded water utilities in their sample groups measures the Arizona
7 utility’s beta. Chavez DT (Ex. S-4) at 29, Rigsby DT (Ex. R-14) at 33. This assumption
8 (which is unsupported by any evidence) ignores a variety of factors, including the
9 following:

- 10 • Firm size. Factors such as the size and growth rate of the utility’s customer
11 base, as well as revenues, impact investment risk.
- 12 • Diversification. The nature of the utility’s operations and their location(s)
13 affect risk.
- 14 • Regulatory risk—as discussed, the particular regulation such as historical
15 vs. projected test years or the time for obtaining new rates impacts risk.
- 16 • Liquidity risk. Liquidity risk is the risk associated with converting an asset
17 into cash. Investors prefer high to low liquidity investments, and require
18 higher returns from less liquid investments.

19 Bourassa RB (Ex. A-2) at 48.

20 In addition, Staff and RUCO’s approach implicitly assumes that the average beta
21 of the sample water utilities represents the risk associated with an investment in the entire
22 industry. Bourassa RB (Ex. A-2) at 71. There is no evidence that the sample utilities
23 used by any of the cost of capital witnesses represents the entire water and wastewater
24 industry, which contains thousands of investor-owned companies. In fact, the utilities
25 consist of the largest publicly traded water utilities in the United States. This leads an
26 additional series of problems:

- The sample utilities primarily provide water utility service, as opposed to
wastewater service.

- 1 • Only one of the publicly traded water utilities considered, American States
2 Water, has operations in Arizona. Thus, they operate under different
3 regulatory regimes.⁹
4 • The sample utilities' stock is traded on a national exchange.
5 • All but one of the utilities has at least one credit rating published by
6 Moody's and S&P.

6 Bourassa DT (Ex. A-1) Schedule D-4.1.

7 **b. The Inputs Chosen by Staff Depress the Results Produced**
8 **by the DCF Models.**

9 Under the *constant growth* version of the DCF model, a company is assumed to
10 have a constant earnings retention rate and its earnings (and therefore dividends) are
11 expected to grow at a constant rate. Bourassa DT (Ex. A-1) at 31. *Multi-stage* models, in
12 contrast, assume that earnings and dividend growth will occur in multiple stages, as
13 opposed to being constant. *Id.* at 31. The multi-stage DCF model that Staff uses contains
14 two growth stages. Chavez DT (Ex. S-4) at 24. Historical stock price, book value,
15 dividends per share, and earnings per share have grown at different rates. Bourassa DT
16 (Ex. A-1) at 28-29. From the standpoint of an investor, a true market rate of return would
17 take into account both anticipated dividends and capital appreciation from future changes
18 in the stock price. Five year historical total market returns have exceeded 13%. Again,
19 unless checks for reasonableness of the inputs and outputs of the cost of capital analysis
20 are made, the DCF model may produce unrealistic results. Bourassa RB (Ex. A-2) at 62.

21 BMSC relies on forward-looking estimates of growth, while Staff gives a 50%
22 weight to historic growth (data from 1995 to 2005). *See* Chavez DT (Ex. S-4) at 16.

23

24 ⁹ The particular rate-setting system in Arizona creates significant risks that the sample
25 water utilities do not face. The United States Supreme Court has stated that the particular
26 rate-setting system to which a utility is subject affects investment risk. *Duquesne Light*
Co., 488 U.S. at 314-15. *See also* Morin at 38-39 ("Regulation can increase business risk
if it does not provide adequate returns and/or if it does not provide the utility with the
opportunity to earn a fair rate of return.").

1 Staff's historic growth rates produce unrealistic results and depress the equity cost
2 estimate. Staff uses three different measures of growth (DPS, EPS, and intrinsic
3 (sustainable) growth) on both an historic and projected basis. It gives equal weight to
4 historic and projected growth, and computes an average dividend growth rate. This
5 average is then added to the average dividend yield based on "spot" stock prices. *Id.*
6 This approach hides the fact that Staff's historic dividend growth rates are extraordinarily
7 low, and produces results that are below the cost of debt.¹⁰ Bourassa RB (Ex. A-2) at 62.

8 The FERC, in contrast, eliminates from consideration any individual utility equity
9 cost estimate that is not at least 40 basis points above the cost of investment grade bonds.
10 FERC Opinion No. 445 at 21 ("Because investors generally cannot be expected to
11 purchase stock if debt, which has less risk than stock, yields essentially the same return,
12 this low end-return cannot be considered reliable in this case.").

13 The use of future growth rates is consistent with the efficient market hypothesis.
14 According to Staff, current stock price includes investors' expectations of future returns.
15 Chavez DT (Ex. S-4) at 16. In other words, in an efficient market, stock prices fully
16 reflect all relevant information available at that time. Morin at 136. Thus, historical
17 information regarding the company's performance is already embedded in the stock
18 prices used to compute the dividend yield. Similarly, financial institutions and analysts
19 would have considered the historic information, as well as other, more recent
20 information, in making their forecasts. Giving a 50% weight to historic growth rates
21 effectively double counts what has happened in the past. Bourassa DT (Ex. A-1) at 31

22 Staff also determines growth in its multi-stage (two-stage) DCF model in a way
23 that reduces the usefulness of the model. Note that in Staff's schedule showing this

24 ¹⁰ Staff also uses the *geometric* average growth rates, rather than the conceptually correct
25 *arithmetic* average growth rates, which further lowers the average growth rate and the
26 resulting equity cost estimate.

1 estimate, the actual dividend yield and growth rates are not shown, in contrast to its
2 constant growth model. Chavez DT (Ex. S-4) Schedule PMC-2. Staff's growth rate for
3 its initial growth stage is based on the same average growth rate used in the constant
4 growth model. Consequently, it has the same flaws as discussed above.

5 Staff also uses an unrealistic, four-year period for its initial growth stage, which
6 lowers the equity cost produced by the model. In effect, the first-stage growth rate is
7 meaningless. The combined growth rate will be skewed towards the terminal growth.
8 Bourassa RB (Ex A-2) at 67.

9 **c. The Risk Premium Method and the Staff CAPM.**

10 (1) Overview of the CAPM.

11 The CAPM is theoretically interesting, but difficult to implement in practice,
12 especially if applied to a small, closely-held firm which does not have publicly traded
13 stock. Empirical studies have shown the model is incomplete and does not account for all
14 factors affecting the cost of equity, including size and other firm-specific risks. Bourassa
15 DT (Ex. A-1) at 31. The CAPM requires three basic inputs: (1) beta ("β"), which
16 measures a security's volatility in relation to that of the market (i.e., the security's market
17 risk); (2) the risk-free rate ("R_f"), which is the return an investor expects to earn on a
18 theoretical "riskless" investment; and (3) the average market return ("R_m"), from which
19 the market risk premium (R_m - R_f) is calculated. *See, e.g.*, Morin at 301-304 (conceptual
20 background) and 307-315 (CAPM application).

21 (2) Selection of Beta.

22 Staff uses the betas estimated by Value Line for the six publicly traded water
23 utilities in its sample group to compute an average beta of 0.74. Chavez DT (Ex. S-4) at
24 29. Staff then assumes the utility, which is *not* publicly traded and has *no* estimated beta,
25 has the same estimated beta as the average of the sample group's betas. *Id.* Staff does
26 not provide a credible basis for this assumption.

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(3) Risk-Free Rate.

Staff uses the average yield on 5, 7 and 10-year Treasury securities for its risk-free rate. *Id.* at 28. This choice is theoretically unsound and, under normal conditions, reduces the equity cost estimate. A corporation has an indefinite life. Therefore, in valuing the stock of a corporation, the investor's holding period is irrelevant. Ibbotson Associates, *SBBI Valuation Edition, 2005 Yearbook* 57. The use of an intermediate-term Treasury security implicitly assumes that the corporation will dissolve after the investor's holding period has ended, rendering the stock worthless. This is not a realistic assumption.

(4) Impact of Flawed Methods.

The inputs Staff uses in implementing the CAPM produce results that run counter to CAPM theory. Staff witnesses consistently testify that, according to the CAPM, *the cost of equity moves in the same direction as interest rates*. Chaves DT (Ex. S-4) at 7. Staff witnesses also contend that beta measures a stock's market or systematic risk, and that a company's unique risk is irrelevant to investors. *Id.* at 10, 12. Finally, investors require greater returns when the risk is greater. *See id.* at 7. Thus, according to the CAPM, as interest rates and the estimated beta increase, the cost of equity increases. Staff's CAPM estimates, however, move in the opposite direction of both interest rates and beta risk.

Three years ago, in Arizona Water's Eastern Group rate case, Staff presented CAPM equity cost estimates using the same methods based on the same publicly traded water utilities, and on a sample group of 10 publicly traded gas companies. *See* Decision No. 66849 at 21. Staff's risk-free rate, average beta estimated by Value Line and resulting CAPM estimates were as follows:

	<u>Risk-Free Rate</u>	<u>Value Line Beta</u>	<u>CAPM Estimate</u>
1 Sample Water Utilities	3.3%	0.59	9.2%
2 Sample Gas Utilities	3.3%	0.69	10.3%

3 See Ex. A-21 at Schedules JMR-7 and JMR-18. At that time, Mr. Reiker maintained “the
4 cost of equity to the sample gas companies is approximately 100 basis points higher than
5 the cost of equity to the sample water companies based on the difference in risk.” *Id.* at
6 26. See also Decision No. 66849 at 21.

7
8 By comparison, in this case, the average beta of the water utilities sample group
9 increased to 0.74 – higher than gas companies’ sample in the Eastern Group case - and
10 the risk-free rate used by Staff increased by 120 basis points. Comparing current interest
11 rates, Value Line’s estimated betas, and the result produced by Staff’s CAPM model in
12 the Eastern Group case with the data in this case, one would logically expect the
13 indicated equity cost to increase by at least 120 basis points.

14 Putting aside the foregoing application problems, empirical studies show that the
15 value for the risk-free rate in the standard CAPM model is higher than Treasury rates.
16 This research is summarized in an article published last year by Drs. Eugene Fama and
17 Kenneth French, who have studied the CAPM for a number of years and have written
18 extensively about its shortcomings. Eugene F. Fama and Kenneth R. French, “*The*
19 *Capital Asset Pricing Model: Theory and Evidence,*” 18 *Journal of Economic*
20 *Perspectives* 25-46 (Summer 2004). They conclude:

21 [F]inance textbooks often recommend using the Sharpe-
22 Linter CAPM risk-return relation to estimate the cost of
23 equity capital. The prescription is to estimate a stock’s
24 market beta and combine it with the risk-free interest rate and
25 the average market risk premium to produce an estimate of
26 the cost of equity. . . . But empirical work, old and new, tells
us the relation between beta and average return is flatter than
predicted by the Sharpe-Linter version of the CAPM. As a
result, CAPM estimates of the cost of equity for high beta
stocks are too high (relative to historical average returns) and

1 estimates for low beta stocks are too low (Friend and Blume
2 1970). . . .

3 We continue to teach the CAPM as an introduction to the
4 fundamental concepts of portfolio theory and asset pricing, to
5 be built on by more complicated models like Merton's (1973)
6 ICAPM. But we also warn students that despite its seductive
7 simplicity, the CAPM's empirical problems probably
8 invalidate its use in applications.

9 *Id.* at 43-44. *See also* Morin at 321-334 (discussing conceptual and empirical problems
10 with the CAPM, and recommending the addition of company-specific risk, including the
11 utility's size, to provide more accurate equity cost estimates); Richard A. Brealey &
12 Stewart C. Myers, *Principles of Corporate Finance* 210 (2003) ("Stocks of small
13 companies, and stocks with high book values relative to market prices, appear to have
14 risks not captured by the CAPM.").

15 (5) The Risk Premium Method Is Preferable to the CAPM.

16 Under the Risk Premium method, the risk premium is directly estimated by
17 comparing authorized and actual returns on equity with the current yield of investment
18 grade bonds or other debt instruments. Morin at 269. The Risk Premium approach is
19 simpler and easier to implement than the CAPM. For example, there is no need to
20 estimate betas or market risk premiums, and there is no reason to determine if "beta risk"
21 is the only risk of relevance to investors holding shares of water utilities.

22 **d. RUCO's Witness Substitutes His Own Subjective Views for
23 Market Data in Its DCF Model, Reducing the Estimate.**

24 RUCO uses the sustainable growth method to estimate dividend growth. This
25 method combines expected growth from a company's future retained earnings and
26 expected future growth from sales of common stock above book value. Rigsby DT (Ex.
R-14) at 14-18. The basic formula used to derive the sustainable growth rate is: $g = br + sv$, where "b" is the company's earnings retention ratio, "r" is the expected return on common equity, "s" is the percent of common equity expected to be issued annually as

1 new common stock, and “v” is the equity accretion rate, e.g., the portion of the new stock
2 financing that will inure to the benefit of the company’s shareholders. *Id.*; *see also* Morin
3 at 157-61 (explaining the sustainable growth method). Unfortunately, RUCO’s cost of
4 capital witness fails to use the information reported in his schedules, and substitutes his
5 own subjective views for that information in estimating dividend growth, resulting in an
6 unreasonably low equity cost estimate.

7 The primary problem with RUCO’s dividend growth estimate is found in Mr.
8 Rigsby’s external “sv” growth rate. First, RUCO’s average estimate of the stock
9 financing rate, “s,” (i.e., growth in the number of shares), is substantially understated
10 when compared to the recent and forecasted stock financing rates reported in RUCO’s
11 schedules. *See* Ex. R-14 at Schedules WAR-4 and WAR-5. Although Mr. Rigsby
12 generally discusses the approach he used in his testimony, he does not provided any basis
13 for using his subjective judgment and ignoring the actual and forecasted stock financing
14 rates reported in his own schedules.

15 In addition, in estimating the “v” in “sv” growth, RUCO’s cost of capital witness
16 also substitutes his subjective view for market data, opining that the market prices of a
17 utility’s common stock will tend to move toward book value, or a market-to-book ratio of
18 1.0, if regulators allow a rate of return that is equal to the cost of capital. Rigsby DT (Ex.
19 R-14) at 17. However, there is no evidence that the market prices of the utilities’ stock
20 will move toward book value. In fact, the stock prices of the water utilities in RUCO’s
21 sample have continued to increase during 2005 and 2006, and have been above book
22 value for over a decade. *See* Bourassa RB (Ex. A-2) at 70.

23 **VII. RATE DESIGN—TERMINATION OF HOOK-UP FEE.**

24 In its direct filing, Staff recommended termination of the Company’s hook-up fee.
25 Brown DT (Ex. S-9) at 36. Staff’s recommendation was premised on its conclusion that
26 BMSC’s parent has access to capital and that the Company had misspent some of the

1 funds. *Id.* at 36-37. Without agreeing with the bases for Staff's position, BMSC
2 accepted Staff's recommendation and recommend further adjustments necessary to
3 account for the refund, an amount that would be made up partially of paid in capital and
4 partially of collected but unspent hook-up fees. Bourassa RB (Ex. A-2) at 18-22. BMSC
5 has estimated the refund to be \$447.33 per customer. BMSC is prepared to refund to
6 ratepayers immediately upon issuance of an order in this case. *See* Bourassa RB (Ex. A-
7 2) at 77-78. Staff agrees with this proposal. *See* Brown SB (Ex. S-10) at 18-19.¹¹
8 Neither the Town nor the HOA objected to the termination of the hook-up fee and
9 proposed refunds.

10 Only RUCO opposes termination of the Company's hook-up fee and the issuance
11 of refunds. TR at 388-390. Although RUCO failed to address the issue in its prefiled
12 testimony, at the hearing RUCO witness Diaz-Cortez asserted that the hook-up fee should
13 be retained to help defray costs. *Id.* RUCO offered no evidence to support this position.
14 Therefore, Staff's recommendation, as modified by BMSC should be adopted.

15 RESPECTFULLY SUBMITTED this 21st day of August, 2006.

16 FENNEMORE CRAIG, P.C.

17
18 By _____

19 Jay L. Shapiro
20 Patrick J. Black
21 3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012
Attorneys for Black Mountain Sewer Corporation

22
23
24 _____
25 ¹¹ In its surrebuttal filing Staff objected to the Company's proposal to allocate the refunds
26 on a equal basis to all customers, opting instead to base refund son class. Brown DT (Ex.
S-11) at 18. However, that information is not available. Bourassa RJ (Ex. A-3) at 9.

1 ORIGINAL and thirteen (13) copies of the
2 foregoing were delivered
3 this 21st day of August, 2006 to:

4 Docket Control
5 Arizona Corporation Commission
6 1200 W. Washington St.
7 Phoenix, AZ 85007

8 COPIES hand delivered
9 this 21st day of August, 2006 to:

10 Dwight D. Nodes
11 Administrative Law Judge
12 Arizona Corporation Commission
13 1200 W. Washington St.
14 Phoenix, AZ 85007

15 Keith Layton
16 Staff Counsel
17 Legal Division
18 Arizona Corporation Commission
19 1200 W. Washington St.
20 Phoenix, AZ 85007

21 Daniel Pozefsky, Attorney
22 Residential Utility Consumer Office
23 1110 W. Washington, Suite 220
24 Phoenix, AZ 85007

25 And COPIES mailed
26 this 21st day of August, 2006 to:

Boulders Homeowners Association
Mr. Robert E. Williams
P. O. Box 2037
Carefree, AZ 85377

M. M. Shirtzinger
34773 N. Indian Camp Trail
Scottsdale, AZ 85262

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Scottsdale, AZ 85254

By: *Maria San Jose*

1824724

BRIEF EXHIBIT 1

Black Mountain Sewer Company
Test Year Ended December 31, 2004
STANDARD RATE FILING
DRAFT 18-Aug-06

Witness1 Witness: Bourassa
Witness2 Witness: Kozoman

TestYearDate	12/31/2004
YearDatePrior1	12/31/2003
YearDatePrior2	12/31/2002
YearDatePrior3	12/31/2001
YearDatePrior4	12/31/2000
YearDatePlus1	12/31/2005

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

Exhibit
Final Schedule B-1
 Page 1
 Witness: Bourassa

Line No.		<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1			
2	Gross Utility Plant in Service	\$ 8,648,640	\$ 8,648,640
3	Less: Accumulated Depreciation	4,331,131	4,331,131
4			
5	Net Utility Plant in Service	\$ 4,317,509	\$ 4,317,509
6			
7	<u>Less:</u>		
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	(3,256,134)	(3,256,134)
13			
14	Customer Meter Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
16	Deferred Assets	-	-
17			
18			
19	<u>Plus:</u>		
20	Unamortized Finance		
21	Charges	-	-
22	Prepays	-	-
23	Deferred Assets	163,841	163,841
24	Allowance for Working Capital	-	-
25			
26			
27	Total Rate Base	<u>\$ 1,568,502</u>	<u>\$ 1,568,502</u>
28			
29			
30			
31	<u>SUPPORTING SCHEDULES:</u>		
32	Final B-2		
33	Final B-5		
34			
35			
36			

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

Exhibit
Final Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Adjusted at End of <u>Test Year</u>	<u>Adjustments</u>	Final Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 8,464,745	183,895	\$ 8,648,640
3				
4	Less:			
5	Accumulated			
6	Depreciation	4,366,379	(35,248)	4,331,131
7				
8				
9	Net Utility Plant			
10	in Service	\$ 4,098,366	\$ 219,143	\$ 4,317,509
11				
12	Less:			
13	Advances in Aid of			
14	Construction	1,315,900	(4,551)	1,311,349
15				
16	Contributions in Aid of			
17	Construction (CIAC)	5,346,615	(488,983)	4,857,632
18				
19				
20	Accum. Amortization of CIAC	(3,308,578)	52,445	(3,256,134)
21				
22				
23	Customer Meter Deposits	(3,000)	3,000	-
24	Deferred Income Taxes	-	-	-
25	Investment Tax Credits	-	-	-
26				
27				
28	Plus:			
29	Unamortized Finance			
30	Charges	-	-	-
31	Prepays	9,512	(9,512)	-
32	Deferred Tax Asset	-	163,841	163,841
33	Allowance for Working Capital	130,508	(130,508)	-
34				
35	Total	<u>\$ 887,449</u>	<u>\$ 681,054</u>	<u>\$ 1,568,502</u>

41 SUPPORTING SCHEDULES:
 42 Final B-2, page 2

43
 44
 45
 46

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

Line No.	ADJUSTMENT LABEL-->	1	2	3	4	5	6	7	8	9	10	Final Adjusted at end of Test Year
	As Filed Adjusted at End of Test Year	PTY Plant and Related Retirements	Allocated Computer Eq.	Expensed Plant	Unrecorded CIAC/AIAC Plant	Customer Deposits	DIT	Working Capital	Prepays	Land & Unexpended CIAC	Accumulated Amortization CIAC	
1	Gross Utility Plant in Service	\$ 8,464,745	(28,134)	17,348	339,833	-	-	-	-	-	-	\$ 8,648,640
2	Less:											
3	Accumulated Depreciation	4,366,379	(19,537)	-	-	-	-	-	-	-	-	4,331,131
4	Net Utility Plant in Service	\$ 4,098,366	\$ (8,597)	\$ 17,348	\$ 339,833	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,317,509
5	Less:											
6	Advances in Aid of Construction	1,315,900	-	-	(4,551)	-	-	-	-	-	-	1,311,349
7	Contributions in Aid of Construction (CIAC)	5,346,615	-	-	344,384	-	-	-	-	(833,367)	-	4,857,632
8	Accum. Amortization of CIAC	(3,308,578)	-	-	-	-	-	-	-	-	52,445	(3,256,134)
9	Customer Meter Deposits	(3,000)	-	-	-	3,000	-	-	-	-	-	-
10	Deferred Income Taxes	-	-	-	-	-	-	-	-	-	-	-
11	Investment Tax Credits	-	-	-	-	-	-	-	-	-	-	-
12	Plus:											
13	Unamortized Finance Charges	-	-	-	-	-	-	-	-	-	-	-
14	Prepays	9,512	-	-	-	-	-	-	(9,512)	-	-	-
15	Deferred Tax Asset	-	-	-	-	-	163,841	-	-	-	-	163,841
16	Allowance for Working Capital	130,508	-	-	-	-	-	(130,508)	-	-	-	-
17	Total	\$ 887,449	\$ (8,597)	\$ (129,441)	\$ 17,348	\$ (3,000)	\$ 163,841	\$ (130,508)	\$ (9,512)	\$ 833,367	\$ (52,445)	\$ 1,568,502

SUPPORTING SCHEDULES:
Final B-2, pages 3

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Original Cost Rate Base Proforma Adjustments
Adjustment 1

Exhibit
Final Schedule B-2
Page 3
Witness: Bourassa

Line

No.

1	<u>Post Test Year Plant</u>		
2			
3	Post Test Year Plant Per Direct Filing	\$ 94,296	
4	Rebuttal Post Test Year Plant	85,699	
5	Increase (Decrease) to Plant-in-service (RUCO Adjustment # 2)		\$ (8,597)
6			
7	<u>Retire Replaced Chlorinator</u>		
8			
9	Retirement adjustment for chlorinator installed in 1984	\$	(19,537)
10	Total Adjustment to Plant-in-service		(28,134)
11			
12			
13	Increase (Decrease) to Plant-in-service	\$	(28,134)
14			
15			
16	<u>Retire Replaced Chlorinator (Accumulated Depreciation)</u>		
17			
18	Retirement adjustment for chlorinator installed in 1984	\$	(19,537)
19			
20			
21	Increase (Decrease) to Accumulated Depreciation	\$	(19,537)
22			
23	<u>SUPPORTING SCHEDULES</u>		
24	Rebuttal Schedule B-2, page 3		
25	Rejoinder Schedule B-2, page 4		

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

Exhibit
Final Schedule B-2
Page 4
Witness: Bourassa

Line

No.

1	<u>Allocated Computer Equipment - Adjustment to Plant-in-Service and Accumulated Depreciation</u>		
2			
3	Staff Adjustment #2 for allocated computer equipment (Account 390)	\$	(145,152)
4			
5			
6	Increase (Decrease) to Plant-in-Service	\$	<u>(145,152)</u>
7			
8	Staff Adjustment #2 for allocated computer equipment	\$	(15,711)
9			
10			
11	Increase (Decrease) to Accumulated Depreciation	\$	<u>(15,711)</u>
12			
13			
14	<u>SUPPORTING SCHEDULES</u>		
15	Rebuttal Schedule B-2, page 4		
16			
17			
18			
19			
20			

Black Mountain Sewer Company
 Test Year Ended December 31, 2004
 Original Cost Rate Base Proforma Adjustments
 Adjustment 3

Exhibit
 Final Schedule B-2
 Page 5
 Witness: Bourassa

Line

No.

1 Expensed Plant Capitalized to Plant-in-Service

2

<u>Acct No.</u>	<u>Description</u>	<u>Amount</u>
4	353 Land and Land Rights	\$ -
5	354 Structures and Improvements	-
6	355 Power Generation Equipment	-
7	360 Collection Sewers - Force	-
8	361 Collection Sewers - Gravity	7,286
9	362 Special Collecting Structures	-
10	363 Services to Customers	-
11	364 Flow Measuring Devices	-
12	365 Flow Measuring Installations	-
13	370 Receiving Wells	-
14	371 Effluent Pumping Equipment	2,213
15	381 Plant Sewers	2,790
16	389 Other Plant and Misc. Equipment	5,059
17	390 Office Furniture and Equipment	-
18	391 Transportation Equipment	-
19	394 Laboratory Equipment	-

20

21 Total \$ 17,348

22

23

24

25 Increase (Decrease) to Plant-in-Service \$ 17,348

26

27

28

29 SUPPORTING SCHEDULES

30 Rebuttal Schedule B-2, page 5

31

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Black Mountain Sewer Company
 Test Year Ended December 31, 2004
 Original Cost Rate Base Proforma Adjustments
 Adjustment 4
 Computed CIAC and AIAC Balances per Company

Exhibit
 Final Schedule B-2
 Page 6
 Witness: Bourassa

Line No.	<u>Plant</u>	<u>CIAC</u>	<u>Ref</u>	<u>AIAC</u>	<u>Ref</u>
1	Balance Reported by Company - Direct	\$ 8,464,745		\$ (5,800,321)	
2	Less: Scottsdale Capacity CIAC			453,706.00	
3	Unrecorded Carefree Ironwood Assets	103,997.00		(103,997.00)	A
4	Unrecorded TCC Carefree - Condos at Carefree Inn Ass	235,836.00		(90,291.21)	B
5	Subtotal (CIAC = Staff Corrected CIAC)[See Note 1]	\$ 8,804,578		\$ (5,540,903)	
6	Reclass pre-1994 AIAC agreements			(150,095.64)	D
7	Adjusted Balances per Company	<u>\$ 8,804,578</u>		<u>\$ (5,690,999)</u>	<u>E</u>
8					
9	<u>Record Unrecorded Plant</u>				
10	Reference item [A]		\$ 103,997		
11	Reference item [B]		90,291		
12	Reference item [C]		145,545		
13	Increase (decrease) to Plant-in-Service		<u>\$ 339,833</u>		4a
14					
15	<u>Record Unrecorded CIAC</u>				
16	Reference item [A]		\$ 103,997		
17	Reference item [B]		90,291		
18					
19	Increase (decrease) to CIAC		<u>\$ 194,288</u>		4b
20					
21	<u>Record Unrecorded AIAC</u>				
22	Reference item [C]		145,545		
23					
24	Increase (decrease) to AIAC		<u>\$ 145,545</u>		4c
25					
26	<u>Record Expired AIAC Contracts</u>				
27	Reference item [D]		150,096		
28					
29	Increase (decrease) to CIAC		<u>\$ 150,096</u>		4d
30					
31	<u>Record Expired AIAC Contracts</u>				
32	Reference item [E]		(150,096)		
33					
34	Increase (decrease) to AIAC		<u>\$ (150,096)</u>		4e
35					
36					
37	Adjustment to plant-in-service (4a)		\$ 339,833		
38	Adjustment to CIAC (4b plus 4d)		\$ 344,384		
39	Adjustment to AIAC (4c plus 4e)		\$ (4,551)		
40					
41					
42	<u>Note 1</u>				
43	CIAC Balance per Staff CSB-8		\$ (5,642,748)		
44	(Schedule CSB-8, Page 1, Column G, Line 19)				
45	Hook-up Fees Jan 94 to June 94			101,845.00	
46	erroneously included in Staff's CIAC Balance				
47	Staff Corrected CIAC Balance		<u>\$ (5,540,903)</u>		
48					
49	<u>SUPPORTING SCHEDULES</u>				
50	Rebuttal Schedule B-2, page 6				
51					

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Original Cost Rate Base Proforma Adjustments
Adjustment #5

Exhibit
Final Schedule B-2
Page 7
Witness: Bourassa

Line

No.

1	<u>Customer Deposits</u>		
2			
3	Remove amounts erroneously identified as customer deposits	\$	3,000
4			
5			
6			
7			
8			
9	Decrease (Increase) to Customer Deposits	<u>\$</u>	<u>3,000</u>
10			

11

12

SUPPORTING SCHEDULES

13

Rebuttal Schedule B-2, page 7

14

15

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Black Mountain Sewer Company
 Test Year Ended December 31, 2004
 Original Cost Rate Base Proforma Adjustments
 Adjustment 6
 Deferred Income Taxes

Exhibit
 Final Schedule B-2
 Page 8
 Witness: Bourassa

Line
 No.

1	Deferred Tax Analysis	
2	December 31, 2004	
3		
4		
5	Accounting Basis at end of year (Note 1)	\$ 3,632,095
6		
7	Tax basis of capital assets at end of year (Note 1)	<u>2,727,656</u>
8		
9	Timing Difference	\$ (904,439)
10		
11	Tax rate	39.82%
12		
13	Defered tax liability (1)	\$ (360,142)
14		
15		
16		
17	AIAC End of Year (Accounting Basis)	\$ (1,315,900)
18		
19	AIAC End of Year (Tax Basis)	-
20		
21	Timing Difference	<u>1,315,900</u>
22		
23	Tax rate	39.82%
24		
25	Defered tax Asset (2)	\$ 523,983
26		
27		
28	Net Deferred Tax Asset [(1) plus (2)]	\$ 163,841
29		
30	Deferred Income Tax Asset Direct	<u>\$ -</u>
31		
32	Increase (Decrease) in Deferred tax Asset	<u>\$ 163,841</u>
33		
34		

35 Note 1 - Calculation of Plant Book and Tax Basis

	<u>Tax</u>		<u>Book</u>
38 Plant in Service		\$	8,370,448
39 WIP			103,804
40 Scottsdale Plant			1,913,706
41 CIAC			(5,800,321)
42 Amort on CIAC			3,486,218
43 Asset Cost	\$ 5,768,359	\$	8,073,855
44 Accum	(3,040,703)	(4,441,760)	
45 NBV	<u>\$ 2,727,656</u>	<u>\$</u>	<u>3,632,095</u>

46
 47 **SUPPORTING SCHEDULES**
 48 Rebuttal Schedule B-2, page 8
 49
 50

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Original Cost Rate Base Proforma Adjustments
Adjustment #7

Exhibit
Final Schedule B-2
Page 9
Witness: Bourassa

Line

No.

1	<u>Remove Working Capital Allowance</u>	
2		
3		
4	Requested Working Capital	\$ -
5	Working Capital per Direct Filing	<u>130,508</u>
6	Increase (decrease)	(130,508)
7		
8		
9	Increase (Decrease) to Plant-in-service	<u>\$ (130,508)</u>
10		
11		
12	<u>SUPPORTING SCHEDULES</u>	
13	Rebuttal Schedule B-2, page 9	
14		
15		
16		
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20		

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Original Cost Rate Base Proforma Adjustments
Adjustment #8

Exhibit
Final Schedule B-2
Page 10
Witness: Bourassa

Line

No.

1	<u>Remove Prepays</u>		
2			
3	Prepays proposed per Direct Filing	\$	9,512
4			
5			
6			
7			
8			
9	Increase (Decrease) to Prepays	\$	<u>(9,512)</u>
10			
11			
12			
13			
14	<u>SUPPORTING SCHEDULES</u>		
15	Rebuttal Schedule B-2, page 10		
16			
17			
18			
19			
20			

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Original Cost Rate Base Proforma Adjustments
Adjustment #9

Exhibit
Final Schedule B-2
Page 11
Witness: Bourassa

Line

No.

1	<u>Remove Land and Unexpended CIAC Funds from CIAC - Amounts to be refunded to ratepayers</u>		
2			
3			
4	Land purchased with CIAC funds in 2001	\$	452,467
5	Unexpended CIAC Funds at end of Test Year		
6	8100-2-0000-10-1020-0162 Bank One - Capacity - BMSC	\$	26,853
7	8100-2-0000-10-1060-0000 Restricted Cash - BMSC		<u>354,047</u>
8			<u>380,900</u>
9	Total	\$	<u>833,367</u>
10			
11			
12			
13	Increase (Decrease) to CIAC	\$	<u>(833,367)</u>
14			
15			
16	<u>SUPPORTING SCHEDULES</u>		
17	Rebuttal Schedule B-2, page 11		
18			
19			
20			

Black Mountain Sewer Company
 Test Year Ended December 31, 2004
 Original Cost Rate Base Proforma Adjustments
 Adjustment 10
 CIAC and Accumulated Amortization

Exhibit
Final Schedule B-2
 Page 12
 Witness: Bourassa

Line No.		CIAC	Amortization Rate	Amortization	Accumulated Amortization
1	Balance at 6/30/1994	\$ 3,127,264			\$ 1,121,838
2	July-Dec Amortization		2.50%	78,182	1,200,020
3	July-Dec Additions	116,507	2.50%	2,913	1,202,932
4					1,202,932
5	Balance at 12/31/1994	\$ 3,243,771			1,202,932
6	Jan-Dec Amortization		5.00%	162,189	1,365,121
7	1995 Additions	115,813	2.50%	2,895	1,368,016
8					1,368,016
9	Balance at 12/31/1995	\$ 3,359,584			1,368,016
10	Scottsdale Capacity	(300,000)			1,368,016
11	Adjusted 1995 Balance	\$ 3,059,584			1,368,016
12	Jan-Dec Amortization		5.00%	152,979	1,520,995
13	1996 Additions	167,896	2.50%	4,197	1,525,193
14					1,525,193
15	Balance at 12/31/1996	\$ 3,227,480			1,525,193
16	Scottsdale Capacity	(153,706)			1,525,193
17	Adjusted 1996 Balance	3,073,774			1,525,193
18	Jan-Dec Amortization		5.00%	153,689	1,678,881
19	1997 Additions	172,749	2.50%	4,319	1,683,200
20					1,683,200
21	Balance at 12/31/1997	\$ 3,246,523			1,683,200
22	Jan-Dec Amortization		5.00%	162,326	1,845,526
23	1998 Additions	571,001	2.50%	14,275	1,859,801
24					1,859,801
25	Balance at 12/31/1998	\$ 3,817,524			1,859,801
26	Jan-Dec Amortization		5.00%	190,876	2,050,678
27	Expired AIAC Contracts	150,096	2.50%	3,752	2,054,430
28	1999 Additions	319,182	2.50%	7,980	2,062,409
29					2,062,409
30	Balance at 12/31/1999	\$ 4,286,802			2,062,409
31	Jan-Dec Amortization		5.00%	214,340	2,276,750
32	2000 Additions	405,077	2.50%	10,127	2,286,876
33					2,286,876
34	Balance at 12/31/2000	\$ 4,691,879			2,286,876
35	Jan-Dec Amortization		5.00%	234,594	2,521,470
36	2001 Additions	489,269	2.50%	12,232	2,533,702
37					2,533,702
38	Balance at 12/31/2001	\$ 5,181,148			2,533,702
39	Land	(452,467)			2,533,702
40	Adjusted 2001 Balance	4,728,681			2,533,702
41	Jan-Dec Amortization		5.00%	236,434	2,770,136
42	2002 Additions	110,490	2.50%	2,762	2,772,898
43					2,772,898
44	Balance at 12/31/2002	\$ 4,839,171			2,772,898
45	Jan-Dec Amortization		5.00%	241,959	3,014,857
46	2003 Additions	167,582	2.50%	4,190	3,019,046
47					3,019,046
48	Balance at 12/31/2003	\$ 5,006,752			3,019,046
49	Unexpended CIAC	\$ (380,900)			3,019,046
50	Adjusted 2003 Balance	4,625,852			3,019,046
51	Jan-Dec Amortization		5.00%	231,293	3,250,339
52	2004 Additions	231,780	2.50%	5,794	3,256,134
53					3,256,134
54	Balance at 12/31/2004	\$ 4,857,632			\$ 3,256,134
55					
56	Adjusted Balance as Filed				\$ 3,308,578
57					
58	Decrease(Increase) in Accumulated Amortization				\$ 52,445

NOTE: Company removed CIAC related to Land in year of purchase (2001) and Unexpended CIAC (2003) instead of 2004. The Company also corrected a computation error.

62
63
64

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

Exhibit
Final Schedule B-5
Page 1
Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	99,787
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	<u>\$</u>	<u>108,529</u>
10			
11			
12	Working Capital Requested	<u>\$</u>	<u>-</u>
13			

14
15 SUPPORTING SCHEDULES:

RECAP SCHEDULES:

16
17

Final B-1

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

Exhibit
Final Schedule C-1
Page 1
Witness: Bourassa

Line No.		As Filed Adjusted Results	Adjustments	Final Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues					
2	Flat Rate Revenues	\$ 1,191,268	\$ (2,288)	\$ 1,188,980	\$ 256,067	\$ 1,445,047
3	Measured Revenues	-	-	-		-
4	Other Wastewater Revenues	16,472	-	16,472		16,472
5		<u>\$ 1,207,740</u>	<u>\$ (2,288)</u>	<u>\$ 1,205,452</u>	<u>\$ 256,067</u>	<u>\$ 1,461,519</u>
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	30,420	(1,860)	28,560		28,560
14	Contractual Services - Professional	171,683	(28,144)	143,539		143,539
15	Contractual Services - Testing	11,000	-	11,000		11,000
16	Contractual Services - Other	226,595	(12,201)	214,394		214,394
17	Rents	10,825	(566)	10,259		10,259
18	Transportation Expenses	4,870	(2,200)	2,670		2,670
19	Insurance - General Liability	16,204	-	16,204		16,204
20	Regulatory Commission Expense	30,000	7,500	37,500		37,500
21	Miscellaneous Expense	77,401	(10,446)	66,955		66,955
22	Scottsdale Capacity- Lease	189,622	-	189,622		189,622
23	Depreciation	126,749	5,363	132,113		132,113
24	Taxes Other Than Income	-	-	-		-
25	Property Taxes	45,745	1,041	46,786		46,786
26	Income Tax	(6,544)	13,397	6,853	95,126	101,979
27						
28	Total Operating Expenses	<u>\$ 1,221,973</u>	<u>\$ (28,116)</u>	<u>\$ 1,193,857</u>	<u>\$ 95,126</u>	<u>\$ 1,288,983</u>
29	Operating Income	<u>\$ (14,233)</u>	<u>\$ 25,828</u>	<u>\$ 11,595</u>	<u>\$ 160,941</u>	<u>\$ 172,536</u>
30	Other Income (Expense)					
31	Interest Income	-	-	-		-
32	Other income	-	-	-		-
33	Interest Expense	-	-	-		-
34	Other Expense	-	-	-		-
35						
36	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
37	Net Profit (Loss)	<u>\$ (14,233)</u>	<u>\$ 25,828</u>	<u>\$ 11,595</u>	<u>\$ 160,941</u>	<u>\$ 172,536</u>
38						
39						
40						
41	<u>SUPPORTING SCHEDULES:</u>				<u>RECAP SCHEDULES:</u>	
42	Final C-1, Page 2				Final A-1	
43	Final C-2					

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

Line No.	ADJUSTMENT LABEL-->	1	2	3	4	5	6	7	8	9	10	11	Final Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
	As Filed Adjusted Book Results	Capitalized Expenses	Non-recurring Truck Expenses	Rate Case Expense	Food Beverages	ACC Assess	Normalize Mgmt Fee	Long Distance	Depreciation Expense	Property Tax	Bad Debt Expense	Income Tax			
1	Revenues														
2	Flat Rate Revenues	\$ 1,191,268											\$ 1,188,980	\$ 256,067	\$ 1,445,047
3	Measured Revenues														
4	Other Wastewater Revenues	16,472											16,472		16,472
5	Operating Expenses	\$ 1,207,740											\$ 1,205,452	\$ 256,067	\$ 1,461,519
6	Salaries and Wages														
7	Purchased Wastewater Treatment	162,082											162,082		162,082
8	Sludge Removal Expense	981											981		981
9	Purchased Power	47,727											47,727		47,727
10	Fuel for Power Production														
11	Chemicals														
12	Materials and Supplies	76,612											76,612		76,612
13	Contractual Services - Professional	30,420			(186)								28,560		28,560
14	Contractual Services - Testing	171,683					(28,144)						143,539		143,539
15	Contractual Services - Other	11,000											11,000		11,000
16	Rents	226,595			(478)								214,394		214,394
17	Transportation Expenses	10,825											10,259		10,259
18	Insurance - General Liability	4,870	(2,200)										2,670		2,670
19	Regulatory Commission Expense	16,204		7,500									16,204		16,204
20	Miscellaneous Expense	30,000											37,500		37,500
21	Scottsdale Capacity- Lease	77,401				(2,288)		(520)			(4,253)		66,955		66,955
22	Depreciation	189,622							5,363				189,622		189,622
23	Taxes Other Than Income	126,749											132,113		132,113
24	Property Taxes	45,745								1,041			46,786		46,786
25	Income Tax	(6,544)										13,397	95,126		101,979
26															
27															
28	Total Operating Expenses	\$ 1,221,973	(2,200)	7,500	(664)	(2,288)	(28,144)	(520)	5,363	1,041	(4,253)	13,397	\$ 1,193,857	\$ 95,126	\$ 1,288,983
29	Operating Income	\$ (14,233)	2,200	(7,500)	664		28,144	520	(5,363)	(1,041)	4,253	(13,397)	\$ 11,595	\$ 160,941	\$ 172,536
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)	\$ (14,233)	\$ 17,348	\$ (7,500)	\$ 664	\$ -	\$ 28,144	\$ 520	\$ (5,363)	\$ (1,041)	\$ 4,253	\$ (13,397)	\$ 11,595	\$ 160,941	\$ 172,536

RECAP SCHEDULES:
Final A-1

SUPPORTING SCHEDULES:
Final C-2

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

Exhibit
Final Schedule C-2
Page 2
Witness: Bourassa

Line
No.

1 Remove Expensed Plant

2

3

4 Materials and Supplies

(1,674) 1a

5 Contractual Services - Other

(11,723) 1b

6 Rents

(566) 1c

7 Miscellaneous Expense

(3,385) 1d

8 Total

\$ (17,348)

9

10

11

12 Adjustment to Revenues/Expenses

\$ (17,348)

13

14

15 SUPPORTING SCHEDULE

16 Rebuttal B-2, Page 2

17

18

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20

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

Exhibit
Final Schedule C-2
Page 3
Witness: Bourassa

<u>Line</u> <u>No.</u>			
1	<u>Remove Transportation Expense</u>		
2			
3			
4	Non-recurring Transportation Expense per Staff Adj #5 CSB -18	\$	(2,200)
5			
6			
7			
8	Adjustment to Revenues/Expenses	<u>\$</u>	<u>(2,200)</u>
9			
10			
11			
12	<u>SUPPORTING SCHEDULE</u>		
13	Rebuttal B-2, Page 3		
14			
15			
16			
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18			
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Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Final Schedule C-2
Page 4
Witness: Bourassa

<u>Line</u> <u>No.</u>			
1	<u>Increase in Estimated Rate Case Expense</u>		
2			
3			
4	Revised rate Case Expense	\$	150,000
5	Rate Case Expense per Direct Filing		<u>120,000</u>
6			
7	Increase (Decrease) in Total Rate Case Expense	\$	30,000
8			
9	Amorization Period (years)		4
10			
11	Increase (Decrease) in Rate Case Expense	\$	<u>7,500</u>
12			
13	Adjustment to Revenues/Expenses	\$	<u>7,500</u>
14			
15			
16	<u>SUPPORTING SCHEDULE</u>		
17	Rebuttal B-2, Page 4		
18			
19			
20			

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Final Schedule C-2
Page 5
Witness: Bourassa

<u>Line</u> <u>No.</u>			
1	<u>Remove Food and Beverages Expense</u>		
2			
3	Contractual Services - Other (per Staff Adj. # 7, CSB-20)	\$	(478)
4	Materials and Supplies (per Staff Adj. #7, CSB-20)		<u>(186)</u>
5			
6	Total	\$	<u><u>(664)</u></u>
7			
8			
9			
10			
11	Adjustment to Revenues/Expenses	\$	<u><u>(664)</u></u>
12			
13			
14	<u>SUPPORTING SCHEDULE</u>		
15	Rebuttal B-2, Page 5		
16			
17			
18			
19			
20			

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Final Schedule C-2
Page 6
Witness: Bourassa

Line
No.

1 Remove ACC Assessment

2

3 Miscellaneous Expense (per Staff Adj #10, CSB -13)(1)

\$ (2,288)

4

5

6

7

8 Adjustment to Revenues/Expenses

\$ (2,288)

9

10

11 (1) Note removed from both expense and revenues because it is a pass through to customers.

12

13

14 SUPPORTING SCHEDULE

15 Rebuttal B-2, Page 6

16

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Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Final Schedule C-2
Page 7
Witness: Bourassa

<u>Line</u> <u>No.</u>			
1	<u>Normalise Management Fee</u>		
2			
3	Normalized Management Fee (per RUCO Adj. #3, WAR 4)	\$	18,000
4	Amount per Direct Filing		<u>42,500</u>
5			
6	Increase (Decrease) in Management Fee	\$	(24,500)
7			
8	Other Affiliate Costs from Staff Adj. #2		(3,644)
9			
10			
11	Adjustment to Revenues/Expenses	\$	<u>(28,144)</u>
12			
13			
14	<u>SUPPORTING SCHEDULE</u>		
15	Rebuttal B-2, Page 7		
16			
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18			
19			
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Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Final Schedule C-2
Page 8
Witness: Bourassa

Line <u>No.</u>			
1	<u>Remove Long Distance Charges</u>		
2			
3	Miscellaneous Expense (per RUCO Adj #4, WAR-5)	\$	(520)
4			
5			
6			
7			
8			
9	Adjustment to Revenues/Expenses	<u>\$</u>	<u>(520)</u>
10			
11			
12			
13	<u>SUPPORTING SCHEDULE</u>		
14	Rebuttal B-2, Page 8		
15			
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Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 9

Final Schedule C-2
Page 10
Witness: Bourassa

<u>Line</u> <u>No.</u>			
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>		
2			
3	Adjusted Revenues in year ended 12/31/04	\$	1,205,452
4	Adjusted Revenues in year ended 12/31/04		1,205,452
5	Proposed Revenues		<u>1,461,519</u>
6	Average of three year's of revenue	\$	1,290,808
7	Average of three year's of revenue, times 2	\$	2,581,615
8	Add:		
9	Construction Work in Progress at 10%	\$	-
10	Deduct:		
11	Book Value of Transportation Equipment		<u>7,279</u>
12			
13	Full Cash Value	\$	2,574,336
14	Assessment Ratio		<u>24%</u>
15	Assessed Value		617,841
16	Property Tax Rate		7.5725%
17			
18	Property Tax		46,786
19	Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	\$	<u>46,786</u>
22	Property Taxes per Direct Filing		<u>45,745</u>
23	Change in Property Taxes	\$	<u><u>1,041</u></u>
24			
25			
26	Adjustment to Revenues and/or Expenses	\$	<u><u>1,041</u></u>
27			
28			

Black Mountain Sewer Company
Test Year Ended December 31, 2004
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Final Schedule C-2
Page 11
Witness: Bourassa

Line No.			
1	<u>Bad Debt Expense</u>		
2			
3	Bad Debt Written off in 2005 related to 2004 Receivables	\$	1,673
4	Bad Debt Expense per Direct Filing		<u>5,926</u>
5		\$	(4,253)
6	Increase (Decrease) in Bad Debt Expense		
7			
8			
9			
10			
11			
12	Adjustment to Revenues/Expenses	\$	<u>(4,253)</u>
13			
14			
15	<u>SUPPORTING SCHEDULE</u>		
16	Rebuttal B-2, Page 11		
17			
18			
18			
19			
19			
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Black Mountain Sewer Company
Test Year Ended December 31, 2004
Computation of Gross Revenue Conversion Factor

Exhibit
Final Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	30.18%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	<u>0.00%</u>
6		
7		
8	Total Tax Percentage	37.15%
9		
10	Operating Income % = 100% - Tax Percentage	62.85%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.5911
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Final A-1
20		

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

Exhibit
 Final Schedule D-1
 Page 1
 Witness: Bourassa

Line No.	Item of Capital	End of Test Year			Adjusted End of Test Year				
		Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost
1	Long-Term Debt		0.00%	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									

SUPPORTING SCHEDULES:

Rejoinder D-1

RECAP SCHEDULES:

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Black Mountain Sewer Company
 Test Year Ended December 31, 2004
 Witness: Bourassa
 Witness: Bourassa
 3/31/2000

Months Jan-04 Feb-04 Mar-04 Apr-04 May-04 Jun-04 Jul-04 Aug-04 Sep-04 Oct-04 Nov-04 Dec-04

Usage From:	Usage To:
-	1,000
1,001	2,000
2,001	3,000
3,001	4,000
4,001	5,000
5,001	6,000
6,001	7,000
7,001	8,000
8,001	9,000
9,001	10,000
10,001	11,000
11,001	12,000
12,001	13,000
13,001	14,000
14,001	15,000
15,001	16,000
16,001	17,000
17,001	18,000
18,001	19,000
19,001	20,000
20,001	21,000
21,001	22,000
22,001	23,000
23,001	24,000
24,001	25,000
25,001	26,000
26,001	27,000
27,001	28,000
28,001	29,000
29,001	30,000
30,001	31,000
31,001	32,000
32,001	33,000
33,001	34,000
34,001	35,000
35,001	36,000
36,001	37,000
37,001	38,000
38,001	39,000
39,001	40,000
40,001	41,000
41,001	42,000
42,001	43,000
43,001	44,000
44,001	45,000
45,001	46,000
46,001	47,000
47,001	48,000
48,001	49,000
49,001	50,000
50,001	51,000
51,001	52,000
52,001	53,000
53,001	54,000
54,001	55,000
55,001	56,000
56,001	57,000
57,001	58,000
58,001	59,000
59,001	60,000
60,001	61,000
61,001	62,000
62,001	63,000

63,001	64,000
64,001	65,000
65,001	66,000
66,001	67,000
67,001	68,000
68,001	69,000
69,001	70,000
70,001	71,000
71,001	72,000
72,001	73,000
73,001	74,000
74,001	75,000
75,001	76,000
76,001	77,000
77,001	78,000
78,001	79,000
79,001	80,000
80,001	81,000
81,001	82,000
82,001	83,000
83,001	84,000
84,001	85,000
85,001	86,000
86,001	87,000
87,001	88,000
88,001	89,000
89,001	90,000
90,001	91,000
91,001	92,000
92,001	93,000
93,001	94,000
94,001	95,000
95,001	96,000
96,001	97,000
97,001	98,000
98,001	99,000
99,001	100,000

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

Exhibit
Final Schedule H1
 Witness: Bourassa

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	933,504	164,688	21.42%	64.66%	64.60%
2	Residential customer revenue	17,328	21,040	3,712	21.42%	1.46%	1.46%
3	annualized to end of year, based on						
4	year end number of customers	(2,288)	(2,288)	-			
5	ACC Assessment	(4,066)	(4,066)	-			
6	Book to Bill Count Difference	312,725	379,720	66,995	21.42%	26.30%	26.28%
7	Commercial (Standard Rate)	81,967	99,528	17,561	21.43%	6.89%	6.89%
8	Commercial (Special Rate)	14,498	17,604	3,106	21.42%	1.22%	1.22%
9	Effluent Sales	1,188,980	1,445,043	256,063	21.54%	100.53%	100.44%
10	Subtotals	16,472	16,472				
11	Misc Revenues	1,205,452	1,461,515	256,063	21.24%	100.53%	100.44%
12	Totals						

Line No.		GL Revenues	Bill Count Revenues at Present Rates	Bill Count Revenues at Proposed Rates
1	Residential Customers	\$ 764,993	\$ 768,816	\$ 933,504
2	Commercial Customers - Standard Rate(1)	312,943	312,725	379,720
3				
4	<u>Special Rate Customers (1)</u>			
5	B-H Enterprises	1,963	1,963	2,384
6	B-H Enterprises	-	-	-
7	Barb's Per Grooming	41,703	41,703	50,638
8	Boulders Resort	-	-	-
9	Carefree Dental	640	638	775
10	Ridgecrest Realty	11,432	11,432	13,881
11	Desert Forest	1,364	1,364	1,656
12	Desert Hills Pharmacy	22,136	22,136	26,879
13	EI Pedregal	518	518	630
14	Lemon Tree	1,745	1,745	2,119
15	Body Shop	-	-	-
16	Spanish Village	-	-	-
17	Boulders Club	-	-	-
18	Anthony Vuitaggio	468	468	568
19	Subtotal Special Rate Customers	81,969	81,967	99,528
20				
21	Effluent Sales	14,035	14,498	17,604
22	Subtotal	\$ 1,173,940	\$ 1,178,006	\$ 1,430,357
23				
24	Misc Revenues (2)			
25	Residential	\$ 14,145	\$ 14,145	\$ 14,145
26	Commercial	2,327	2,327	2,327
27	Subtotal Misc Revenues	16,472	16,472	16,472
28				
29	Total Test Year Revenues	\$ 1,190,412	\$ 1,194,478	\$ 1,446,829
30				
31	Revenue annualization		\$ 17,328	\$ 21,040
32				
33	Total Adjusted Test Year Revenues	\$ 1,211,806	\$ 1,211,806	\$ 1,467,869
34				
35				
36				
37				
38	(1) See supporting detail on page 2-4			
39	(2) Allocation of Misc Revenues			
40	New Billings			
41	Residential	456	85.88%	
42	Commercial	75	14.12%	
43	Total	531		
44				

Black Mountain Sewer Company
 Commercial and Special Rate Customers
 Annualized Revenue Detail

Exhibit
 Schedule H1 - Detail

SPECIAL RATE CUSTOMERS

<u>ACCOUNT</u>	<u>CLASS</u>		<u>RATE</u>	<u>BASE FLOW</u>	<u># BILLS</u>	<u>REVENUE</u>
124668	COMSPEC	B-H Enterprises	0.11685	1,400	12	1,963
124677	COMSPEC	Boulder's Resort	0.11843	29,345	12	41,703
124692	COMSPEC	Desert Forest	0.13609	7,000	12	11,432
124693	COMSPEC	Desert Hills Pharm	0.14206	800	12	1,364
124695	COMSPEC	El Pedegral	0.11685	15,787	12	22,136
124697	COMSPEC	Ridgecrest Realty	0.11818	451	12	640
124705	COMSPEC	Lemon Tree	0.14400	300	12	518
124718	COMSPEC	Body Shop	0.14544	1,000	12	1,745
124735	COMSPEC	Antony Vuitaggio	0.12987	300	12	468
SUBTOTAL					108	81,969

STANDARD COMMERCIAL CUSTOMERS

123772	COMSTD		0.15236	8,231	12	15,048
123829	COMSTD		0.15236	2,993	12	5,472
123830	COMSTD		0.15236	2,744	12	5,016
124665	COMSTD		0.15236	17,025	12	31,127
124666	COMSTD		0.15236	3,000	12	5,485
124667	COMSTD		0.15236	750	12	1,371
124669	COMSTD		0.15236	900	12	1,645
124670	COMSTD		0.15236	700	12	1,280
124671	COMSTD		0.15236	200	12	366
124672	COMSTD		0.15236	2,025	12	3,702
124673	COMSTD		0.15236	150	12	274
124674	COMSTD		0.15236	150	12	274
124675	COMSTD		0.15236	50	12	91
124676	COMSTD		0.15236	800	12	1,463
124678	COMSTD		0.15236	55	12	101
124679	COMSTD		0.15236	1,347	12	2,463
124680	COMSTD		0.15236	200	12	366
124682	COMSTD		0.15236	2,000	12	3,657
124683	COMSTD		0.15236	200	12	366
124684	COMSTD		0.15236	100	12	183
124685	COMSTD		0.15236	125	12	229
124686	COMSTD		0.15236	1,000	12	1,828
124687	COMSTD		0.15236	2,000	12	3,657
124688	COMSTD		0.15236	105	12	192
124689	COMSTD		0.15236	500	12	914
124690	COMSTD		0.15236	500	12	914
124691	COMSTD		0.15236	1,150	1	175
124694	COMSTD		0.15236	1,850	12	3,382
124696	COMSTD		0.15236	3,700	12	6,765
124699	COMSTD		0.15236	200	12	366

Black Mountain Sewer Company
 Commercial and Special Rate Customers
 Annualized Revenue Detail

Exhibit
Schedule H1 - Detail

124700	COMSTD	0.15236	105	12	192
124701	COMSTD	0.15236	50	12	91
124702	COMSTD	0.15236	1,140	12	2,084
124703	COMSTD	0.15236	1,800	12	3,291
124704	COMSTD	0.15236	50	12	91
124706	COMSTD	0.15236	842	12	1,540
124707	COMSTD	0.15236	50	12	91
124708	COMSTD	0.15236	2,288	12	4,183
124709	COMSTD	0.15236	1,620	12	2,962
124710	COMSTD	0.15236	61	12	112
124711	COMSTD	0.15236	50	12	91
124712	COMSTD	0.15236	600	12	1,097
124713	COMSTD	0.15236	140	12	256
124714	COMSTD	0.15236	4,500	12	8,227
124715	COMSTD	0.15236	100	12	183
124716	COMSTD	0.15236	400	12	731
124717	COMSTD	0.15236	600	12	1,097
124719	COMSTD	0.15236	105	12	192
124720	COMSTD	0.15236	200	12	366
124721	COMSTD	0.15236	200	12	366
124722	COMSTD	0.15236	600	12	1,027
124723	COMSTD	0.15236	7,530	12	12,262
124724	COMSTD	0.15236	450	12	2,176
124725	COMSTD	0.15236	250	12	457
124726	COMSTD	0.15236	1,560	12	2,852
124727	COMSTD	0.15236	307	12	561
124728	COMSTD	0.15236	307	12	561
124729	COMSTD	0.15236	307	12	561
124730	COMSTD	0.15236	98	12	178
124731	COMSTD	0.15236	125	12	229
124732	COMSTD	0.15236	150	12	274
124733	COMSTD	0.15236	200	12	366
124734	COMSTD	0.15236	150	12	274
124736	COMSTD	0.15236	1,500	12	2,742
124737	COMSTD	0.15236	50	12	91
124738	COMSTD	0.15236	75	1	11
124739	COMSTD	0.15236	400	12	731
124740	COMSTD	0.15236	500	12	914
124741	COMSTD	0.15236	132	12	241
124742	COMSTD	0.15236	44,490	12	81,342
124743	COMSTD	0.15236	2,600	12	4,754
124744	COMSTD	0.15236	105	12	192
124745	COMSTD	0.15236	158	12	289
124746	COMSTD	0.15236	77	12	141
124747	COMSTD	0.15236	105	12	192
124748	COMSTD	0.15236	50	12	91

Black Mountain Sewer Company
Commercial and Special Rate Customers
Annualized Revenue Detail

Exhibit
Schedule H1 - Detail

124749	COMSTD	0.15236	141	12	259
124750	COMSTD	0.15236	479	12	876
124751	COMSTD	0.15236	479	12	876
124752	COMSTD	0.15236	1,750	12	3,200
124753	COMSTD	0.15236	50	12	91
124754	COMSTD	0.15236	200	12	366
124755	COMSTD	0.15236	50	12	91
124756	COMSTD	0.15236	1,527	12	2,791
124757	COMSTD	0.15236	1,527	12	2,791
124758	COMSTD	0.15236	1,527	12	2,791
124759	COMSTD	0.15236	450	12	823
124760	COMSTD	0.15236	250	12	457
124761	COMSTD	0.15236	166	12	303
124762	COMSTD	0.15236	8,851	12	16,183
124763	COMSTD	0.15236	250	12	457
124764	COMSTD	0.15236	6,950	12	12,707
124765	COMSTD	0.15236	800	12	1,463
124766	COMSTD	0.15236	1,425	12	2,605
124767	COMSTD	0.15236	479	12	876
124768	COMSTD	0.15236	50	12	187
124769	COMSTD	0.15236	1,500	9	2,057
124770	COMSTD	0.15236	2,000	12	3,657
124772	COMSTD	0.15236	150	12	274
124773	COMSTD	0.15236	50	10	76
124774	COMSTD	0.15236	50	12	91
124776	COMSTD	0.15236	506	12	925
124777	COMSTD	0.15236	1,422	12	2,601
124778	COMSTD	0.15236	150	4	91
140851	COMSTD	0.15236	1,150	10	1,752
140864	COMSTD	0.15236	75	6	69
140929	COMSTD	0.15236	203	7	1,108
141033	COMSTD	0.15236	241	9	341
141139	COMSTD	0.15236	135	1	21
141185	COMSTD	0.15236	258	8	305
141188	COMSTD	0.15236	258	8	305
141200	COMSTD	0.15236	258	8	305
141209	COMSTD	0.15236	258	8	305
141210	COMSTD	0.15236	258	8	305
141223	COMSTD	0.15236	258	8	305
141260	COMSTD	0.15236	258	8	305
141269	COMSTD	0.15236	258	8	305
141306	COMSTD	0.15236	279	5	219
141314	COMSTD	0.15236	258	8	305
141315	COMSTD	0.15236	258	8	305
141317	COMSTD	0.15236	258	8	305
141318	COMSTD	0.15236	258	8	305

Black Mountain Sewer Company
 Commercial and Special Rate Customers
 Annualized Revenue Detail

Exhibit
 Schedule H1 - Detail

141319	COMSTD	0.15236	258	8	305
141340	COMSTD	0.15236	258	8	305
141346	COMSTD	0.15236	258	8	305
141365	COMSTD	0.15236	258	1	39
141366	COMSTD	0.15236	258	2	77
141367	COMSTD	0.15236	258	4	153
141368	COMSTD	0.15236	258	2	77
141391	COMSTD	0.15236	1,140	7	1,216
141392	COMSTD	0.15236	900	7	960
141673	COMSTD	0.15236	258	1	39
141826	COMSTD	0.15236	241	5	189
141827	COMSTD	0.15236	241	5	189
141828	COMSTD	0.15236	241	5	189
141829	COMSTD	0.15236	241	5	189
141830	COMSTD	0.15236	241	5	189
141831	COMSTD	0.15236	241	5	189
141832	COMSTD	0.15236	241	5	189
141837	COMSTD	0.15236	241	5	189
141874	COMSTD	0.15236	241	5	189
141958	COMSTD	0.15236	256	5	195
141959	COMSTD	0.15236	241	1	37
141960	COMSTD	0.15236	241	5	189
141961	COMSTD	0.15236	241	5	189
141962	COMSTD	0.15236	241	5	189
141964	COMSTD	0.15236	241	5	189
141965	COMSTD	0.15236	241	5	189
141966	COMSTD	0.15236	241	5	189
142027	COMSTD	0.15236	241	4	151
142037	COMSTD	0.15236	241	5	189
			<hr/>		
			1,485		312,943

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

Exhibit
 Final Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Customer Classification	Average Number of Customers at 12/31/2004	Average Effluent	Revenues		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1	Residential	1,724	N/A	\$ 38.00	\$ 46.14	\$ 8.14	21.421%
2	Commercial (Standard Rate)	130	N/A	0.15236	0.18500	0.03264	21.423%
3	Commercial (Special Rate)						
4	B-H Enterprises (West)	-	N/A	\$ 0.11685	\$ 0.14189	\$ 0.02504	21.429%
5	B-H Enterprises (East)	1	N/A	0.11685	0.14189	0.02504	21.429%
6	Barb's Per Grooming	-	N/A	0.11685	0.14189	0.02504	21.429%
7	Boulders Resort	1	N/A	0.11843	0.14380	0.02537	21.425%
8	Carefree Dental	-	N/A	0.11685	0.14189	0.02504	21.429%
9	Ridgecrest Realty	1	N/A	0.11818	0.14350	0.02532	21.425%
10	Desert Forest	1	N/A	0.13609	0.16525	0.02916	21.427%
11	Desert Hills Pharmacy	1	N/A	0.14206	0.17250	0.03044	21.428%
12	El Pedregal	1	N/A	0.11685	0.14189	0.02504	21.429%
13	Lemon Tree	1	N/A	0.14400	0.17485	0.03085	21.424%
14	Body Shop	1	N/A	0.14544	0.17660	0.03116	21.425%
15	Spanish Village	-	N/A	0.11685	0.14189	0.02504	21.429%
16	Boulders Club	-	N/A	0.11685	0.14189	0.02504	21.429%
17	Anthony Vuitaggio	1	N/A	0.12987	0.15769	0.02782	21.421%
18							
19	Effluent	1	3,226,904	\$ 0.37440	\$ 0.45462	\$ 0.08022	21.425%
20							
21	Total	<u>1,864</u>					
22							
23							
24							
25							

Black Mountain Sewer Company
Customer Count Summary

Meter Classification	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total	Change from Beginning of Year to Year End
Residential	1,625	1,650	1,652	1,675	1,667	1,693	1,677	1,702	1,719	1,714	1,734	1,724	20,232	99
Commercial (Standard Rate)	124	124	125	105	125	111	137	127	128	134	115	130	1,485	6
Commercial (Special Rate)	9	9	9	9	9	9	9	9	9	9	9	9	108	-
Effluent Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Totals	1,758	1,783	1,786	1,789	1,801	1,813	1,823	1,838	1,856	1,857	1,858	1,863	21,825	105

1,584.00
1,620.00
1,682.00
1,728.00
1,760.00
1,793.00
1,862.00
1,925.00
1,958.00
1,982.00
2,045.00
2,094.00
22,033.00

13062
7.01

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

Exhibit
Final Schedule H3
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size	Present Rates	Present Rates	Proposed Rates	Proposed Rates	Percent Change	
1							
2							
3							
4							
5	Monthly Charge for:						
6	Residential		\$ 38.00		\$ 46.14	21.4211%	
7	Commercial (Standard Rate), per gallon per day[1]		0.15236		0.18500	21.4229%	
8	Effluent Sales (per 1,000 gallons)	\$122 per a.f.	0.37440	\$148.14 per a.f.	0.45462	21.4249%	
9							
10	Commercial (Special Rate), per gallon per day[1]						
11							
12	<u>Customer</u>	<u>Gallons Per Day[1]</u>	<u>Monthly Billing</u>	<u>Rate per Gallon</u>	<u>Monthly Billing</u>	<u>Rate per Gallon</u>	<u>Percent Change</u>
13	B-H Enterprises	2,525	\$ 295.05	0.11685	\$ 358.26	\$ 0.14189	21.4292%
14	B-H Enterprises	1,400	\$ 163.59	0.11685	\$ 198.64	0.14189	21.4292%
15	Barb's Per Grooming	250	\$ 29.21	0.11685	\$ 35.47	0.14189	21.4292%
16	Boulders Resort	29,345	\$ 3,475.23	0.11843	\$ 4,219.80	0.14380	21.4250%
17	Carefree Dental	1,625	\$ 189.98	0.11685	\$ 230.68	0.14189	21.4292%
18	Ridgecrest Realty	450	\$ 53.18	0.11818	\$ 64.57	0.14350	21.4249%
19	Desert Forest	7,000	\$ 952.63	0.13609	\$ 1,156.73	0.16525	21.4270%
20	Desert Hills Pharmacy	800	\$ 113.65	0.14206	\$ 138.00	0.17250	21.4276%
21	EI Pedregal	15,787	\$ 1,844.69	0.11685	\$ 2,239.91	0.14189	21.4292%
22	Lemon Tree	300	\$ 43.20	0.14400	\$ 52.46	0.17485	21.4236%
23	Body Shop	1,000	\$ 145.44	0.14544	\$ 176.60	0.17660	21.4246%
24	Spanish Village	4,985	\$ 582.50	0.11685	\$ 707.30	0.14189	21.4292%
25	Boulders Club	1,200	\$ 140.22	0.11685	\$ 170.26	0.14189	21.4292%
26	Anthony Vuitaggio	300	\$ 38.96	0.12987	\$ 47.31	0.15769	21.4214%

[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
Final Schedule H3
Page 2
Witness: Bourassa

Line No.	<u>Other Service Charges</u>	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
14			
15	(a) <u>Residential</u> - two times the average bill. <u>Non-residential</u> - two and one-half times the average bill.		
16	(b) Minimum charge times number of full months disconnected.		
17	(c) Actual cost of physical disconnection and reconnection (if same customer) and there shall be no		
18	charge if there is no physical work performed.		
19			
20			
21			
22	[2] Wastewater flows are based on Engineering Bulletin No. 12, Table 1.		
23			
24	IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM		
25	ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE		
26	TAX. PER COMMISSION RULE (14-2-409.D 5).		
27	ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,		
28	AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES.		
29	COST TO INCLUDE LABOR, MATERIALS AND PARTS, OVERHEADS AND ALL APPLICABLE TAXES.		
30			
31			
32			
33			
34			

Black Mountain Sewer Company
Bill Comparison
Customer Classification
Residential

Exhibit
Brief Schedule H4
Page 1
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
\$ 38.00	\$ 46.14	\$ 8.14	21.42%

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

Exhibit
Brief Schedule H4
Page 2
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
\$ 295.05	\$ 358.26	\$ 63.21	21.42%

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

Exhibit
Brief Schedule H4
Page 3
Witness: Bourassa

Present	Proposed	Dollar	Percent
<u>Bill</u>	<u>Bill</u>	<u>Increase</u>	<u>Increase</u>
\$ 163.59	\$ 198.64	\$ 35.05	21.43%

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

Exhibit
Brief Schedule H4
Page 4
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
\$ 29.21	\$ 35.47	\$ 6.26	21.43%

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

Exhibit
Brief Schedule H4
Page 5
Witness: Bourassa

Present	Proposed	Dollar	Percent
<u>Bill</u>	<u>Bill</u>	<u>Increase</u>	<u>Increase</u>
\$ 3,475.23	\$ 4,219.80	\$ 744.57	21.43%

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

Exhibit
Brief Schedule H4
Page 6
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
\$ 189.98	\$ 230.68	\$ 40.70	21.42%

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

Exhibit
Brief Schedule H4
Page 7
Witness: Bourassa

Present	Proposed	Dollar	Percent
<u>Bill</u>	<u>Bill</u>	<u>Increase</u>	<u>Increase</u>
\$ 53.18	\$ 64.57	\$ 11.39	21.42%

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

Exhibit
Brief Schedule H4
Page 8
Witness: Bourassa

Present	Proposed	Dollar	Percent
<u>Bill</u>	<u>Bill</u>	<u>Increase</u>	<u>Increase</u>
\$ 952.63	\$ 1,156.73	\$ 204.10	21.42%

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

Exhibit
Brief Schedule H4
Page 9
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Dollar Increase	Percent Increase
\$ 113.65	\$ 138.00	\$ 24.35	\$ 24.35	21.43%

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

Exhibit
Brief Schedule H4
Page 10
Witness: Bourassa

Present	Proposed	Dollar	Percent
<u>Bill</u>	<u>Bill</u>	<u>Increase</u>	<u>Increase</u>
\$ 1,844.69	\$ 2,239.91	\$ 395.22	21.42%

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

Exhibit
Brief Schedule H4
Page 11
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
\$ 43.20	\$ 52.46	\$ 9.26	21.44%

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

Exhibit
Brief Schedule H4
Page 12
Witness: Bourassa

Present	Proposed	Dollar	Percent
<u>Bill</u>	<u>Bill</u>	<u>Increase</u>	<u>Increase</u>
\$ 145.44	\$ 176.60	\$ 31.16	21.42%

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

Exhibit
Brief Schedule H4
Page 13
Witness: Bourassa

Present	Proposed	Dollar	Percent
<u>Bill</u>	<u>Bill</u>	<u>Increase</u>	<u>Increase</u>
\$ 582.50	\$ 707.30	\$ 124.80	21.42%

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

Exhibit
Brief Schedule H4
Page 14
Witness: Bourassa

Present <u>Bill</u>	Proposed <u>Bill</u>	Dollar <u>Increase</u>	Percent <u>Increase</u>
\$ 140.22	\$ 170.26	\$ 30.04	21.42%

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

Exhibit
Brief Schedule H4
Page 15
Witness: Bourassa

Present Bill	Proposed Bill	Dollar Increase	Percent Increase
\$ 38.96	\$ 47.31	\$ 8.35	21.43%

Black Mountain Sewer Company
 Bill Comparison
 Customer Classification
 Commercial

gpd	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ -	\$ -	\$ -	0.00%
50	7.62	9.25	1.63	21.42%
100	15.24	18.50	3.26	21.42%
150	22.85	27.75	4.90	21.42%
200	30.47	37.00	6.53	21.42%
250	38.09	46.25	8.16	21.42%
300	45.71	55.50	9.79	21.42%
350	53.33	64.75	11.42	21.42%
400	60.94	74.00	13.06	21.42%
1,000	152.36	185.00	32.64	21.42%
2,000	304.72	370.00	65.28	21.42%
3,000	457.08	555.00	97.92	21.42%
4,000	609.44	740.00	130.56	21.42%
5,000	761.80	925.00	163.20	21.42%

Present Rates:
 Charge Per Gallon **\$0.152360**

Proposed Rates:
 Charge Per Gallon **\$0.185000**

Average Usage	86.91	105.53	\$ 18.62	21.42%
570				
Median Usage	16.00	19.43	\$ 3.43	21.42%
105				

Black Mountain Sewer Company
 Bill Comparison
 Customer Classification
 Effluent Sales

MidPoint Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1,000	0.37	0.45	0	21.42%
2,000	0.75	0.91	0	21.42%
3,000	1.12	1.36	0	21.42%
4,000	1.50	1.82	0	21.42%
5,000	1.87	2.27	0	21.42%
6,000	2.25	2.73	0	21.42%
7,000	2.62	3.18	1	21.42%
8,000	3.00	3.64	1	21.42%
9,000	3.37	4.09	1	21.42%
10,000	3.74	4.55	1	21.42%
12,000	4.49	5.46	1	21.42%
14,000	5.24	6.36	1	21.42%
16,000	5.99	7.27	1	21.42%
18,000	6.74	8.18	1	21.42%
20,000	7.49	9.09	2	21.42%
25,000	9.36	11.37	2	21.42%
30,000	11.23	13.64	2	21.42%
35,000	13.10	15.91	3	21.42%
40,000	14.98	18.18	3	21.42%
45,000	16.85	20.46	4	21.42%
50,000	18.72	22.73	4	21.42%
60,000	22.46	27.28	5	21.42%
70,000	26.21	31.82	6	21.42%
80,000	29.95	36.37	6	21.42%
90,000	33.70	40.92	7	21.42%
100,000	37.44	45.46	8	21.42%
125,000	46.80	56.83	10	21.42%
150,000	56.16	68.19	12	21.42%
175,000	65.52	79.56	14	21.42%
200,000	74.88	90.92	16	21.42%
450,000	168.48	204.58	36	21.42%
700,000	262.08	318.23	56	21.42%
950,000	355.68	431.89	76	21.42%
1,200,000	449.29	545.54	96	21.42%

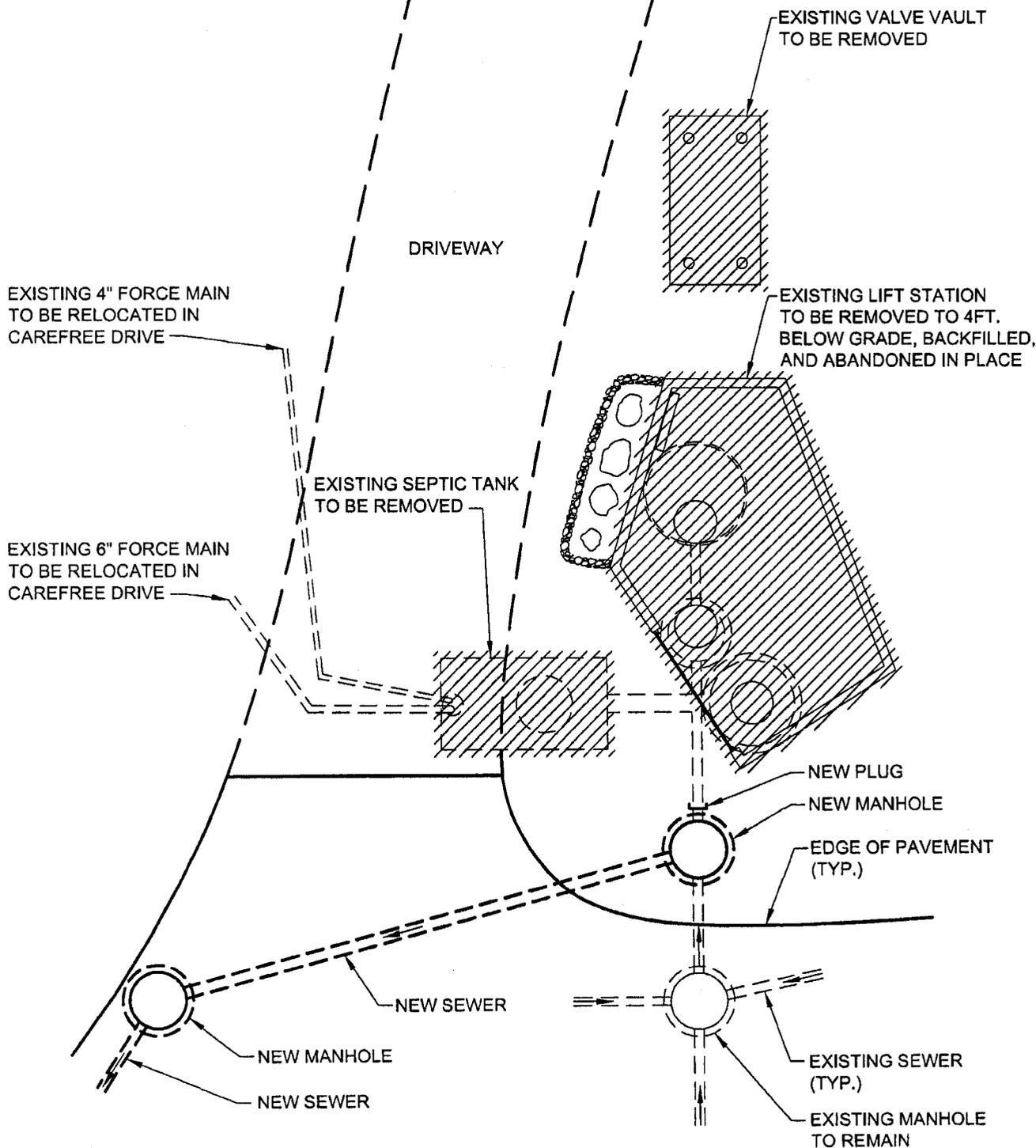
Average Usage 3,226,904 \$ 1,208.17 \$ 1,467.02 \$ 258.85 21.42%

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 \$0.45462
 2 \$0.45462
 3 \$0.45462
 4

BRIEF EXHIBIT 2

← DIRECTION OF FLOW ARROW



PLAN

SCALE: NONE



McBride Engineering Solutions, Inc.
 7305 West Boston Street
 Chandler, AZ. 85226
 Phone: (480) 759-9608

PLAN FOR ELIMINATING CIE LIFT STATION

DRAWN	PPS	CHECKED	DCM
DATE	08-04-08		
DWG. NO.	FIG. 1		

AGREEMENT BETWEEN
Algonquin Water Services, L.L.C.
AND
McBride Engineering Solutions, Inc.

This *General Services Agreement* made and entered into on August 9, 2006 by and between **Algonquin Water Services, L.L.C.**, hereinafter referred to as **Owner**, and **McBride Engineering Solutions, Inc.**, hereinafter referred to as **Engineer**:

WHEREAS, Owner and Engineer wish to enter into an Agreement, hereinafter referred to as the Agreement, for the furnishing of services in connection with Engineering Consulting or Construction Administration Services; and

WHEREAS, Engineer possesses the qualifications to perform the necessary services for Owner,

THEREFORE, In consideration of the mutual promises and covenants of the parties hereto, it is agreed as follows:

SECTION 1 - GENERAL

- 1.1 The services herein required, shall be set forth in Task Orders referencing this Agreement. In performance of these services, Engineer shall provide qualified and, where required, licensed personnel. Engineer shall promptly notify Owner of any changes in his initial organization.
- 1.2 It is intended that each additional Task Order setting forth Engineer's Services, Time of Performance, Payment, and any other conditions, shall become a supplement to and a part of this Agreement.
- 1.3 Services performed by the Engineer under this Agreement will be conducted in a manner consistent with that level of care and skill ordinarily exercised by members of the profession currently practicing under similar conditions; and, as to the portion of work set forth in the Task Orders, shall comply with the terms and conditions set forth in the Prime Contract between the Owner and Owner, which shall be attached to each Task Order. In the event of conflict between the terms of this Agreement and the Prime Contract, this Agreement shall be controlling.

SECTION 2 - PAYMENT

- 2.1 Consideration for providing services referred to in Section 1 shall be agreed upon and paid at the rates determined for each Task Order. For Task Orders using a time-and-materials payment basis, all Engineer services related to the specific Task Order shall be billed at the rates specified unless otherwise modified and approved in writing prior to the start of such services. For lump sum Task Orders, all Engineer services related to the specific Task Order shall be billed on a percent-complete basis.
- 2.2 Expenses incurred by the Engineer related to normal business operations, such as telephone, local traveling, copying, etc., shall be the responsibility of the Engineer and not subject to

reimbursement by the Owner unless otherwise stipulated in the Task Order. Direct expenses associated with approved project-related travel shall be submitted with documentation for reimbursement by Engineer with the monthly Progress Payment Requests as per paragraph 2.3.

- 2.3 Engineer may submit Progress Payment Requests to Owner once per month, which shall be identified with project identification and Consultant project number. For Task Orders using a time-and-materials payment basis, Request shall provide details including work description, labor hours, direct expenses with documentation, total due, and total project costs to date. For lump sum Task Orders, Requests shall provide percent complete by project subtask and overall percent of project completeness. Monthly Progress Payment Requests from the previous month shall be forwarded by Engineer to Owner by the 2nd day of the succeeding month.
- 2.4 Payment will be made to Engineer within 7 days of receiving payment from Owner for those projects Engineer has submitted Progress Payment Requests.
- 2.5 Final payment of any balance will be made upon completion of Engineer's services within 14 days of receiving final payment from Owner for those projects Engineer has submitted Progress Payment Requests, and acceptance of work by Owner.

SECTION 3 - TIME OF PERFORMANCE

- 3.1 Time of Performance for services under this Agreement shall be defined on a project-by-project basis.
- 3.2 Engineer shall report its progress under this Agreement upon request by Owner. Engineer shall plan its performance of services to accomplish timely completion, and shall promptly notify Owner of any anticipated delay that may affect Engineer's Time of Performance.

SECTION 4 - LEGAL RELATIONS

- 4.1 Engineer is for all purposes an independent contractor. In no event shall Engineer or any personnel retained by Engineer be deemed an agent or employee of Owner or engaged by the Owner for the account of or on behalf of Owner. Engineer shall maintain full control and responsibility of the means and methods of Engineer's services.
- 4.2 Indemnification, Consequential Damages, and Force Majeure:
- 4.2.1 Engineer agrees to indemnify and hold harmless Owner from any claims, damages, losses, and costs, including but not limited to, attorney's fees and litigation costs, arising out of claims caused in whole or in part by the negligent or intentional act, error or omission of Engineer, Engineer's employees, affiliated corporations, officers, and subcontractors.
- 4.2.2 Owner agrees to indemnify and hold harmless Engineer from any claims, damages, losses, and costs, including but not limited to, attorney's fees and litigation costs, arising out of claims caused in whole or in part by the negligent or intentional act, error or omission of Owner, Owner's employees, affiliated corporations, officers, and subcontractors
- 4.2.3 Force Majeure: Engineer shall not be responsible for damages or delays in performance caused by force majeure, acts of God, or other events beyond its control.
- 4.3 In the event legal action or arbitration is brought by either party against the other to enforce any of the obligations hereunder or arising out of any dispute concerning the terms and conditions hereby created, the losing party shall pay the prevailing party such reasonable amount for fees, costs and expenses, including attorney's fees, as may be set by arbitrator(s) or the court at trial and on appeal.
- 4.4 Should Engineer sublet or assign any of the services covered by this Agreement, all such assignments shall be in compliance with the terms, provisions and conditions of this agreement.
- 4.5 Engineer shall make freely available to Owner all directly pertinent books, documents, papers and records including electronic data of Engineer involving transactions related to this Agreement.
- 4.6 All of Engineer's written or verbal communications with or to Clients or with federal, state or local agencies relative to work under this Agreement must be conducted through or with the knowledge of Owner.
- 4.7 Changes: Owner may make or approve changes within the general Scope of Services in this Agreement. If such changes affect Engineer's cost of or time required for performance of the services, an equitable adjustment will be made through an amendment to this Agreement.

- 4.8 Reuse of Documents: All reports, drawings, specifications, documents, and other deliverables of Engineer, whether in hard copy or electronic form, are instruments of service under this agreement. Reuse on another project, change, or alteration by Owner or by others acting through or on their behalf of any such instruments of service without the written permission of Engineer will be at Owner's sole risk.

SECTION 5 - INSURANCE

- 5.1 Engineer shall maintain in effect at all times during performance of the services described in this Agreement, and for two (2) years thereafter, insurance coverage provided by a carrier satisfactory to Owner, and in the minimum coverage limits set forth in Exhibit A. Any lapse of required insurance coverage is cause for immediate termination of this Agreement.

SECTION 6 - INDEPENDENT INVESTIGATIONS

- 6.1 Owner shall provide Engineer with information, in writing, as to all project requirements that could affect Engineer's services being provided under this Agreement.

SECTION 7 - TERMINATION, SUSPENSION OR ABANDONMENT OF AGREEMENT

- 7.1 This Agreement may be terminated by Owner, in whole or in part, at any time without cause prior to its completion by sending to Engineer written notice of such termination. If the project is suspended by Owner or Owner for more than 90 consecutive days, Engineer shall be compensated for services performed and accepted prior to notice of suspension. When the Project is resumed, Owner agrees to use best efforts to negotiate with the Owner an equitable adjustment for both Owner's and Engineer's delay expenses and wage and salary increases caused by suspension; however, Engineer shall be compensated only for adjustments actually made by the Owner.

SECTION 8 - ENTIRE AGREEMENT

- 8.1 This Agreement, including attachments incorporated herein by reference, represents the entire Agreement and understanding between the parties and any negotiations, proposals or oral agreements are integrated herein and are superseded by this written Agreement. Any supplement or amendment to this Agreement shall be in writing and signed by the parties.

SECTION 9 - REQUIRED PROVISION

- 9.1 Engineer shall in the performance of this Agreement comply with all applicable federal, state and local laws and all applicable regulations and orders issued under any applicable law.
- 9.2 The Engineer shall not subcontract to a second-tier Engineer its work under this Agreement, in whole or in part, without the written approval of the Owner. The Engineer shall

require any approved second-tier Engineer to agree, as to the portion subcontracted, to fulfill all obligations of the Engineer as specified in this Agreement.

SECTION 10 - GOVERNING LAW

10.1 This Agreement is to be governed and construed in accordance with the laws of the State of Arizona.

IN WITNESS WHEREOF duly authorized representatives of the parties have signed this Agreement with the effective date, the year and day first written above.

Algonquin Water Services, L.L.C.

By: 
Thomas D. Nichols, P.E.
Manager of Engineering and Construction

McBride Engineering Solutions, Inc.,

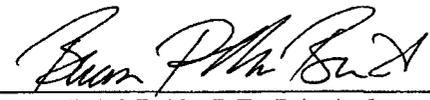
By: 
Brian P. McBride, P.E., Principal

Exhibit A

INSURANCE

1. Without in any way limiting the Engineer's liability, the Engineer shall maintain in force, during the full term of the Agreement, insurance in the following amounts and coverage:

Worker's Compensation and Employers' Liability:	
Workers' Compensation	Statutory
Employers' Liability:	
Each Accident	\$ 500,000
Disease-Policy Limit	\$ 500,000
Disease-Each Employee	\$ 500,000

2. Commercial General Liability Insurance-Occurrence Form
(Form CG 0001, ed. 10/93 or any replacements or equivalent thereof)

General Aggregate	\$ 2,000,000
Products-completed Operations Aggregate	\$ 1,000,000
Personal & Advertising Injury	\$ 1,000,000
Each Occurrence	\$ 1,000,000
Fire Damage (any one fire)	\$ 50,000
3. Automobile Liability-Any Auto or Owned, Hired and Non-Owned Vehicles
(Form CA 0001, ed. 12/93 or any replacement thereof)

Combined Single Limit Per Accident	\$ 1,000,000
For bodily Injury and Property Damage	
4. Professional Liability Insurance with not less than \$1,000,000 each claim and annual aggregate.
5. Commercial General Liability and Automobile Liability Insurance policies shall be endorsed to provide the following:
 - a. Named as additional insured: the Owner and the Owner, their officers, agents, employees and volunteers.
 - b. That such policies are primary insurance to any other insurance available to the additional insureds, with respect to any claims arising out of this Agreement, and that insurance applies separately to each insured against whom claim is made or suit is brought.
6. All policies shall be endorsed to provide: Thirty (30) days advance written notice of cancellation and non-renewal of coverage, mailed to the Owner. Algonquin Water Services L.L.C shall be added as additional insured with respect to Consultants General Liability coverage.
7. Certificates of insurance, in form and with insurers satisfactory to the Owner, evidencing all coverages above, shall be furnished before commencing services under this contract. Engineer agrees to provide or obtain certified copies of any policy or endorsement on Owner's request.
8. This Agreement shall terminate immediately upon any lapse of required insurance coverage.

BRIEF EXHIBIT 3

FEES				
Code	Task	FC	Bourassa	Combined
115	General Consultation with Client on Rate Case Matters	\$2,483.80	\$1,887.00	\$4,370.80
130	Miscellaneous	\$6,787.50		\$6,787.50
215	Preparation/Review of Company Application (Direct Testimony/Schedules)	\$12,842.00	\$24,013.85	\$36,855.85
230	Preparation/Review of Rebuttal Testimony and Schedules	\$19,122.50	\$8,820.80	\$27,943.30
245	Preparation/Review of Rejoinder Testimony and Schedules	\$6,468.50	\$10,200.90	\$16,669.40
315	Preparation/Review of Responses to Data Requests	\$27,334.50	\$7,160.70	\$36,995.20
330	Preparation/Review of Data Requests to Opposing Parties	\$2,726.00	\$2500.00	\$2,726.00
415	Preparation for Open Meeting			\$0.00
430	Attendance - Open Meeting			\$0.00
515	Preparation for Hearing	\$21,890.50	\$1,589.15	\$23,479.65
530	Attendance – Hearing	\$13,000.00	\$3,609.35	\$16,609.35
545	Preparation/Review of Post Hearing Filings	\$5,490.00		\$5,490.00
615	Preparation/Filing of Notices	\$328.20		\$328.20
	Total Fees	\$118,473.50	\$59,781.75	\$178,255.25

COSTS				
Code	Task	FC	Bourassa	Combined
900	Copying, printing, and CD duplication	\$12,143.85		\$12,143.85
915	Messenger services and postage	\$495.15		\$495.15
930	Meals, Travel, Parking	\$2.84	\$1,665.60	\$1,668.44
945	Transcripts	\$2,227.50		\$2,227.50
960	Publication of Notices			\$0.00
975	Telephone (long distance and conferencing)	\$21.89		\$21.89
985	Facsimile			
	Total Costs	\$14,891.23	\$1,665.60	\$16,556.83

Total Fees and Costs	\$133,364.73	\$61,447.35	\$194,812.08
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