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**BEFORE THE ARIZONA CORPORATION COMMISSION**

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| IN THE MATTER OF THE APPLICATION OF GOLD CANYON SEWER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON. | DOCKET NO: SW-02519A-06-0015 |

**GOLD CANYON SEWER COMPANY'S**

**CLOSING BRIEF**

Arizona Corporation Commission
DOCKETED
JAN 19 2007
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## INTRODUCTION

Algonquin Water Resources of America ("AWRA") acquired the stock of Gold Canyon Sewer Company ("GCSC" or "the Company") in July 2001. Under the prior ownership, GCSC faced countless operational, regulatory compliance and customer relations problems. Odors and noises from the Company's wastewater treatment plant (the "Plant") plagued customers and the community at large. Inadequate treatment and effluent disposal capacity threatened safety and welfare. Unlawful discharges of effluent into local washes were not infrequent and serious questions were being asked regarding the adequacy of the Company's operations. In Decision No. 64186 (October 30, 2001), GCSC's last rate case, the Commission approved a settlement agreement between the Company, Staff and the intervener, MountainBrook Village Homeowners Association represented by Roland Kelly ("MVHA"). The agreement was approved because it premised on the understanding that AWRA's acquisition would "lead to improved operation of the Company." *Id.* at 4. Even MVHA recognized that AWRA represented an opportunity to remedy the longstanding odor, noise and capacity problems.

AWRA took immediate steps to address the problems with sewer utility service in Gold Canyon. AWRA faced a substantial burden of resolving severe problems with the Plant. AWRA's task was burdened even further by a substantial lack of necessary permits for operation of the Plant. Algonquin Water Services (then known as NewSpring) ("AWS") was brought in under an operating agreement to administer and manage all of the Company's operations. Numerous community meetings were held with customers to hear their concerns and discuss plans for improved operations. Plans to renovate and expand treatment capacity commenced and the necessary approvals were sought. Construction on a major Plant renovation project began in mid-2004 and was completed and in operation by the end of the test year, October 31, 2005. The Plant renovation included installation of numerous odor and noise control features and the refurbishment and expansion of existing capacity to create improved and new treatment capacity. This rate case followed and was necessary to allow a fair return on and of the Company's substantial investment to resolve those pre-existing problems with the Plant.

This has been a difficult proceeding. The difficulty stems largely from the magnitude of the increase being requested. GCSC's rate base has increased by more than $12 million since the last rate case. Its customer numbers have also more than doubled in that time. This means operating expenses have also increased. The Company requests an increase in revenues of nearly $2.3 million, or 92%. *See* Final Schedules, attached hereto as Brief Exhibit 1. Staff and RUCO are recommending increases of 73% and 40%, respectively. Customers have expressed a great deal of uneasiness with the rate increase and the Commissioners have shown devoted interest in ensuring that the Company's sewer utility service warrants the requested increase. Prior ownership's lack of investment to remedy the longstanding odor, noise and capacity problems also resulted in customer expectations of artificially low sewer rates. No one expects a decision of this magnitude to be made lightly.

Yet, as difficult as the proceeding has been, the resolution of the case is relatively straight-forward. The record before the Commission clearly evidences: (1) that GCSC prudently invested the capital necessary to build plant to serve its customers; (2) that as a result of that investment (a) the odor and noise problems associated with the Plant have been resolved; (b) capacity is now sufficient to meet fluctuating demand, including high winter peaks; (c) the Plant is producing Class A+ effluent; (d) all of the effluent is either sold to local golf courses or properly disposed of by GCSC; and (3) that GCSC is operating in compliance with applicable regulations and providing safe and reliable sewer utility service. Consequently, the Company is entitled to recover a return on the fair value of the Plant and other utility property plant, along with recovery of reasonable and prudent operating expenses. This is what Arizona law requires, notwithstanding the magnitude of the increase or customer expectations to the contrary.

Respectfully, it would also be good regulatory policy to ensure GCSC gets the revenue to which it is entitled. Granted, it is counterintuitive in a regulatory environment to think of substantial revenue increases as good public policy. But, no one disputes that capital investment to enhance service and safeguard the public health and welfare is in the public interest. Here, Staff, RUCO and the Company all agree that GCSC made substantial and necessary investment to remedy the odor and noise problems with the Plant and the Commission is certainly well aware of the critical infrastructure needs of the water and sewer utilities it regulates.

Many existing, older utilities have neglected infrastructure needs and many such utilities are in crises. The industry faces new arsenic standards. It is becoming increasingly difficult to site wastewater treatment plants due to growing population and greater regulation. Wastewater treatment capacity costs have increased substantially--estimated in this case between $10-$19 per gallon. However, utilities like GCSC, and utility holding companies like Algonquin, are well-capitalized and willing to make investment in Arizona. In many cases, like this one, that investment is being made to correct the deficiencies left behind by prior owners. If the investment is prudent, and the plant is used and useful, it is good policy to provide the investor the return to which it is entitled. The need for capital to provide safe and reliable water and sewer utility to Arizona's utility consumers will only continue. Denial of GCSC's rate request here would provide a substantial disincentive for utilities to make capital investments for necessary plant renovations and upgrades.

## ANALYSIS AND ARGUMENT

The two most contentious issues in this case involve odor complaints from customers and communications to customers by the prior Company President, Trevor Hill. Ironically, neither of these issues invokes traditional concepts of ratemaking. The Company's position on the second, the prior communications, is addressed in the final section of this brief (section F, *infra*). The odor issue is addressed below along with the more traditional rate base, income statement and rate of return issues.

### A. GCSC Has Addressed And Successfully Resolved Its Odor Problem

No issue has been more persistent in this case than the question of odor complaints aimed at the Plant. The Company recognizes that these customer service issues will be considered in the context of a rate case. The Commission's desire to ensure that the utility is providing safe and reliable service without undue interference in the lives of ratepayers is readily apparent. Equally apparent, however, should be the Commission's acknowledgement when the utility takes the steps necessary to address customer service complaints and succeeds. This is such a case.

In July 2001, AWRA acquired a utility in "very bad repair by any standard." TR at 668-69 (Hill).[1] There was a "severe lack of permits" and nowhere to put excess effluent several months of the year. *Id.* at 669, 682. There was no billing system and hundreds of customers connected to the system had no account. *Id.* at 708. Additionally, customers were complaining about odors. *Id.* GCSC had "major odor and noise problems" with its treatment plant. *See* TR at 243, 291 (Hernandez); Hernandez RJ (Ex.

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[1] Citations to the record are made as follows: Citations to a witness' pre-filed testimony are abbreviated using the format on pages iii and iv, above, following the Table of Contents, which also lists the hearing exhibit number. Other hearing exhibits are cited by the hearing exhibit number and, where applicable, by page number, e.g., Ex. 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.

A-8) at 2. ADEQ logged numerous complaints regarding odors at the GCSC treatment facilities and conducted some 16 inspections between February 2002 and May 2006. TR at 100-101 (Hare); Ex. ACC-1.

Improvements began immediately after the acquisition. *E.g.*, TR at 669, 678, 707 (Hill). New management, operations and customer services staff were brought in to operate GCSC. *Id.* at 707-08. A great deal of time and energy was spent planning to upgrade the Plant to deal with the odor and capacity issues. *Id.* at 678. The complex process of obtaining all the permits needed to operate and improve the treatment facility was initiated. *Id.* at 669. Design of Plant improvements to address odors, noises, capacity and effluent disposal commenced. *Id.* at 725-27. The Plant renovation was completed and in operation by the end of the test-year, October 31, 2005.

Odor and noise control features were a critical component of the $11.2 million renovation project completed in October, 2005. Odor control features include:

> A wet chemical scrubber serving the headworks building, primary clarifiers and aeration basins. An activated carbon system serves the aerobic digesters, solids thickener, solids, belt press and final clarifiers. All present areas of the Plant through the final clarifiers are either total enclosed by a building, totally covered by flat aluminum covers or tank domes, or provided with exhaust hoods.

Ex. A-4. *See also* TR at 71-72 (Hare) (wherever possible, individual components of the facility are covered to prevent odors). The Company also processes and removes sludge in a manner that further controls odors. TR at 1047-48 (Scott). GCSC even chlorinates the effluent it provides to local golf courses to minimize odors and kill bacteria. TR at 252 (Hernandez).

Steven Davidson, an expert from Brown and Caldwell with more than 30 years of experience with utility systems, primarily odor issues associated with wastewater treatment facilities, testified that the Company has gone as far as it can go to control odors from the Plant. TR at 147-48, 202-04 (Davidson); Exs. A-3 and A-4. ADEQ's field inspector for the Plant, William Hare, testified that the Plant has more sophisticated odor control than most sewer plants he inspects. TR at 124 (Hare). Mr. Hare also testified that there was nothing else the Company could do to control odors from the treatment facility, except move the Plant to a new location. TR at 128 (Hare). Staff engineer Marlin Scott, Jr. agreed that there were no more odor control features that could be installed at the Plant. TR at 1051 (Scott).

The record before the Commission also contains clear and convincing evidence that the Company's odor control features are working. ADEQ has conducted three odor inspections since the Plant renovation project was completed in October, 2005. ADEQ has not found offensive odors coming from GCSC's treatment plant. *See* Exs. A-1 and A-2. *See also* Notice of Late Filed Exhibit dated January 5, 2007 *submitting* ADEQ Inspection Report dated December 21, 2006.[2] Staff engineer Marlin Scott, Jr. conducted five inspections of the treatment facilities during the course of this proceeding. *See* Scott SB (Ex. S-2) at 2-3; TR at 1034-35 (Scott). Mr. Scott testified that the only time he detected odors was on one visit when a vault was open for pump maintenance and some odors were discovered for a limited period in the immediate area of the vault. *Id.* Charlie Hernandez, AWS Regional Operations Manager, lives in Gold Canyon and has his office at the Plant. He testified that, since completing the renovation project, the Company's treatment facility is no longer a source of offensive odors. TR at 251, 1188-90 (Hernandez); Hernandez RJ (Ex. A-8) at 2-3.

Initially, customer complaints over odors decreased following completion of the

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[2] This recent inspection by ADEQ took place shortly after claims by Mr. Roland Kelly from MVHA that the Plant continues to be the source of offensive odors. *See* TR at 809-810 (Kelly). Mr. Kelly's continuing complaints, among others, seem to be the reason for the inspection and he was present during Mr. Hare's December 13, 2006 inspection. No offensive odors were found during the inspection. *See* ADEQ Inspection Report dated December 21, 2006 at 3.

Plant renovation. TR at 291-292, 1190-91 (Hernandez). Later, as notice of the pending rate case circulated, customer complaints, including odor complaints, increased. *Id. See also* Hernandez RJ (Ex. A-8) at 3. No witness could provide a certain explanation for the persistence of odor complaints since the odor control features were placed into service. There is evidence that Bashas and other businesses in the shopping center adjacent to the Plant have been the source of odors, problems that more recently appear to have been remedied. Hernandez RJ (Ex. A-8) at 2-4; TR at 74 (Hare); Ex. A-1 at 7. There is also evidence that turnover may cause effluent in the golf course ponds to emit odors. Hernandez RJ (Ex. A-8) at 3. There is even evidence that the increase in odor complaints is part of a concerted effort by the local homeowners associations to oppose the requested rate increase. *See* Ex. A-14; TR at 291-292 (Hernandez). *See also* Hernandez RJ (Ex. A-8) at 4.

In the face of persistent odor complaints, the Commission expressed a desire to have an independent expert survey the treatment facilities. In response to that request, GCSC hired the Brown and Caldwell engineering firm, and Brown and Caldwell assigned Mr. Davidson to the project. *See* TR at 145 (Davidson).[3] Brown and Caldwell is a well known and well respected engineering firm and Mr. Davidson's substantial experience and expertise in the field of wastewater treatment plant odors is well-established in this case. *See* Ex. A-3. *See also* TR at 141-44 (Davidson). Mr. Davidson inspected the Plant and surrounding areas and conducted several days of monitoring at and around the plant to determine if the facility still has an odor problem. Ex. A-4.

Brown and Caldwell's Odor Control Survey report concludes

> Our overall assessment of the odor control system design is

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[3] Notably, GCSC also volunteered not to increase its rate case expense request to recover any portion of the approximately $14,000 cost for Brown and Caldwell's inspection and report. TR at 1220-21 (Sorensen).

> that it is capable of achieving very high odor removal. The level of odor control was adequate to produce negligible fenceline odors during the odor surveys. Odor containment is virtually 100 percent effective because all odor producing sources are enclosed, covered or hooded, and connected to odor control devices. Scrubber performance is excellent. Our data reflect H2S concentrations were reduced from 5 ppm to approximately 0.04 in scrubber. Thus, 99.2 percent H2S removal efficiency was obtained when all scrubber operating parameters were within their recommended ranges.

Ex. A-4 at 3. *See also* TR at 158-59 (Davidson) (testifying that GCSC does not have a serious odor problem with the Plant). Brown and Caldwell also recommended that the Company install odor monitors to help evaluate the validity of odor complaints aimed at the Plant. TR at 159 (Davidson). GCSC acted upon Brown and Caldwell's recommendation and has installed odor monitoring equipment and obtained ongoing readings from the fence line perimeter and the scrubber inlet and outlet. *See* Notice of Late Filed Exhibit dated January 5, 2007 *submitting* Odalog monitoring reports. The Company's newly installed odor monitoring equipment continues to reflect that the Plant is not the source of an odor problem. *Id.*

AWRA did not create the conditions that left GCSC in need of enormous capital investment and a total overhaul of operations. It merely bought the stock, accepted its responsibility as owner and fixed the problems, including the odor problem. It did what had to be done and what was expected of it as the owner/operator of a regulated utility. Now it is the Commission's turn to do what must be done. No relief is warranted with respect to odors because the evidence overwhelmingly shows that the odor problems have been resolved to the greatest possible extent.[4] The Company should be commended for

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[4] During the hearing there was speculation that odors could be originating from the collection system. However, the evidence showed that all of the customer complaints pointed at the Plant as the source of the alleged odor problems. *See* TR at 136-37 (Hare); 257 (Hernandez) 836 (Kelly); 1049 (Scott). There is no evidence that the Company's collection system is the source of odors nor any basis for any remedy associated with the collection system.

its success and the odor issues raised in this rate case should not impact GCSC's recovery of needed rate relief.

**B. RUCO's Excess Capacity Adjustment**

The Company and Staff propose fair value rate bases of $15,742,719 and $15,725,787, respectively. Bourassa RJ (Ex. A-12) at Rejoinder Schedule A-1; Ex. S-20. The slight differences in rate base are due primarily to Staff's adjustment to capitalized costs of affiliate transactions, an issue addressed below (section C, *infra*). RUCO proposes a fair value rate base of $13,983,602. Ex. R-11 at Schedule SURR RLM-1. The primary difference between the Company's and Staff's rate bases and RUCO's is RUCO's $2,789,016 adjustment for "excess capacity". *Id.* at Schedule SURR RLM-5. RUCO's recommended confiscation of prudently constructed and used and useful plant is flawed on many levels.

The Company's Plant renovation project utilized and refurbished existing capacity facilities to increase total capacity from 1 million gallons per day ("MGD") to 1.9 MGD. TR at 250-51 (Hernandez); Hernandez RB (Ex. A-7) at 3, 5; Hernandez RJ (Ex. A-8) at 7. This approach allowed GCSC to get more out of existing equipment and lowered the cost of the overall project. *Id.* The smallest increment of additional capacity that could have been added to the Plant was 500,000, bringing the total capacity to 1.5 MGD. TR at 963 (Moore); Hernandez RB (Ex. A-6) at 5. The additional incremental cost to bring the Plant to its maximum capacity of 1.9 million gallons per day was under $1 million, or less than $2.50 per gallon for the 400,000 gpd of capacity. TR at 303-04 (Hernandez).[5]

The Plant was originally permitted by the Central Arizona Association of

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[5] RUCO's "quite conservative" adjustment is at least $1.8 million higher than the incremental costs of the .4 MGD of new capacity. TR at 988 (Moore). The adjustment was not based on any consideration of actual cost. *Id.* at 962. According to RUCO witness Rodney Moore, the actual costs of the Plant renovation are "irrelevant" to his recommended excess capacity adjustment. *Id.*

Governments and ADEQ to a maximum capacity of 1.9 MGD. TR at Hernandez DT (Ex. A-5) at 6. Had the Company not chosen to complete expansion of the Plant to 1.9 MGD, it would have cost "a lot more money" to add the .4 MGD later. TR at 963 (Moore). Thus, RUCO agrees it was a prudent financial decision to bring the Plant capacity to 1.9 million gpd if doing so resulted in cost savings. TR at 955, 957, 960 (Moore); Ex. A-17. In fact, RUCO emphatically argues that the decision to expand the Plant's capacity to 1.9 million gpd was both "prudent" and "appropriate". TR at 943 (Moore). *See also* TR at 303-304.

RUCO also agrees that deciding how much capacity to build comes down to a management decision. TR at 956 (Moore); Ex. A-18. There are no specific statutes or regulations on the required amount of treatment capacity for a sewer utility. Hernandez RB (Ex. A-6) at 5; TR at 270 (Hernandez); 947 (Moore). A number of factors impact this management decision. TR at 949 (Moore). Growth, over which the Company has little control, is one such factor. *Id.* at 959. RUCO witness Moore testified that failing to plan for growth in advance would create a logistical "nightmare" and possibly place a sewer utility in an Order to Show Cause Proceeding. *Id.* at 964.

RUCO also agrees that the Company faces substantial seasonal fluctuations in flows and that GCSC must plan for and treat peak flows, not just average daily flows. *Id.* at 951-53. RUCO further agrees that the public health and safety would be threatened if GCSC failed to build sufficient capacity to meet peak flows. *Id.* at 953-54. *See also* TR at 134-35 (Hare). ADEQ requires sewer utilities to ensure they have sufficient reserve capacity and the development of capacity is aggressively encouraged. TR at 133-34 (Hare).

With all this agreement, RUCO's argument that GCSC should be deprived of a return on and of $2.8 million of utility property is difficult to grasp. Part of the problem likely stems from RUCO's effort to second-guess engineering decisions from an unduly narrow ratemaking perspective. RUCO has no engineers and no expertise with sewer utility operations and appears to lack the expertise necessary to understand the engineering analysis that underlies major plant upgrade decisions. *See* TR at 945-46 (Moore). Therefore, unlike Staff, the ratemaking staff at RUCO cannot apply their ratemaking analyses to a qualified engineering analysis. TR at 1169 (Brown). Fortunately, Staff's engineer provided the necessary engineering explanation of when excess capacity exists.

Mr. Scott first explained that the Company had an ADEQ approved Aquifer Protection Permit for a 1.9 million gpd treatment facility. TR at 1039 (Scott). Staff further expressed that GCSC is expected to have sufficient capacity to meet the needs of the system. *Id.* From Staff's perspective, sufficient capacity includes enough capacity to meet peak demand over a five-year horizon. *Id.* Mr. Scott also explained the 80% rule, which appears to be a generally accepted industry standard. *Id.* at 1040-41. *See also* Hernandez RB (Ex. A-6) at 5. Under the 80 percent rule, a sewer utility is expected to submit plans for approval of new capacity when demand meets 80% of capacity. Additionally, capacity is to be under construction when demand meets 90% of existing capacity. *Id.* GCSC's capacity construction is consistent with this rule.

During the test year, the Company had a peak flow of 1.17 MGD in February 2005. Hernandez RB (Ex. A-6) at 4. Based on the Company's actual flow data, Staff determined that the Company would have a peak flow of 1.52 by mid-2007. Scott DT (Ex. S-1), Exhibit MSJ at 4. Several things are immediately apparent. First, test year peak demand was equal to 117% of the then available capacity. Second, peak demand during the test year would have been 78% of capacity had the Company stopped at 1.5 MGD. Therefore, under the 80% rule, as soon as the Plant renovation and expansion was complete, planning would have started on the additional .4 MGD that GCSC could have already built at a substantially reduced cost. *See* TR at 304-06 (Hernandez). This would have meant that, after that final phase was approved, customers and the Company could look forward to another year or more of disruptive construction at the Plant site. *Id.* at 301-03. Of course, in the meantime, GCSC also would face a peak demand of 1.52 MGD with only 1.5 MGD of treatment capacity.

The bottom line--GCSC's rate base includes 1.9 MGD of used and useful treatment capacity. The decision to renovate and expand the Plant to its maximum permitted capacity of 1.9 MGD was prudent and consistent with industry standards for capacity planning. GCSC made the most prudent engineering decision given the information available at the time new capacity decisions had to be made. RUCO does not have any engineering testimony in support of its arguments on "excess capacity." Yet, RUCO literally wants the Commission to penalize proactive and prudent financial, engineering and customer service planning by rejecting $2.8 million of appropriately built plant and depriving GCSC of more than $500,000 of annual revenue. This conflicts with both evidence and common sense. As discussed above, capital investment should be encouraged not punished by depriving investors of the benefit of their bargain.

**C. Affiliate Transactions**

**1. Affiliate Profit**

Besides cost of capital (section E, *infra*), the only issues in dispute between Staff and the Company involve the costs of affiliate transactions. Staff removed $67,499 from rate base and $78,607 from operating expenses because such amounts represented "profit" earned by affiliates on transactions with the Company. Ex. S-20 at Surrebuttal Schedules CSB-7 and CSB-19. Staff also made an adjustment to remove $40,347 of affiliate overhead and miscellaneous expense allocated to GCSC. *Id.* at Surrebuttal Schedule CSB-22. Staff does not challenge any other amount of operating expenses, including the remaining cost of all affiliated transactions included in rate base and operating expenses. *See* TR at 1174-75 (Brown). RUCO does not challenge any of the costs of affiliate transactions, including the amount of profit earned by affiliates providing services to GCSC.

Staff's adjustment to remove affiliate profit is not unique to this case. Staff made a similar adjustment in the recent rate case for Black Mountain Sewer Company ("BMSC") and the Commission adopted the adjustment to remove affiliate profit from rate base and operating expenses in Decision No. 69164 (December 5, 2006). BMSC and GCSC are affiliates, both owned by AWRA and both are operated and managed primarily by AWS. As a consequence, the Company has no intention of arguing that its affiliated transactions are distinguishable from those at issue in Decision No. 69164. GCSC does suggest, however, that the evidence in this case does not warrant the type of harsh criticism of the so-called "Algonquin business model" that seeped its way into Decision No. 69164.[6] *See* Decision No. 69164 at 17-19. GCSC does not believe it is in the public interest to permanently close the door on a business model that benefits ratepayers, as the BMSC order might be read to do. *Id.*

In the BMSC rate case, Staff witness Crystal Brown testified that "BMSC and its affiliate have a very economically efficient operation and management of BMSC and its affiliate utility companies." Ex. A-23. Staff merely disagreed with the profit component of the cost of affiliate transactions, not the transactions themselves or the cost without profit included. *Id. See also* TR at 1148-49 (Brown). Regrettably, Staff cannot visualize any scenario in which an affiliate can earn a profit on a transaction with a regulated utility

[6] Interestingly, Algonquin's business model appears to be very similar to the business model of the companies under Global Water Resources that the Commission has considered in a number of pending and recently approved dockets: W-01445A-06-0200, SW-20445A-06-0200, W-20446A-06-0200, W-03576A-06-0200, SW-30575A-06-0200, W-03576A-06-0155, W-20446A-06-0155, SW-03575A-06-0155, and SW-20445A-06-0155.

affiliate. TR at 1160 (Brown). *See also* TR at 1153-1159 (Brown). From Staff's point of view, requests for proposal, competitive bids and evidence of affiliates providing similar services to non-affiliated utilities would be irrelevant. *Id.* Staff does not even give weight to the level of the costs, even when those costs appear to be very reasonable on a per customer basis (TR at 403-405 (Sorenson)) well below the range Staff would expect on a per customer basis. TR at 1150-51 (Brown); Ex. A-24.

In contrast to Staff's total prohibition on affiliate profit, at the Open Meeting where Decision No. 69164 was approved, Judge Nodes, presiding over both cases, indicated that in the BMSC case:

> It seemed to me on balance that this just simply -- we just simply didn't have enough information, I guess, to rule out or to allow this kind of profit margin at a minimum in this case. I think as the Algonquin companies come in, we're going to have more chances to evaluate this entire structure. But based on the record evidence that we have in this case, it seemed to me that we should treat the affiliate company as if it were part of the integrated utility company and disallow the profit margin that is built in on top of what their otherwise allowed rate of return is being granted in this case.

November 22, 2006 Open Meeting Transcript at 12. Despite the potential for a less favorable reading, these comments are consistent with Decision No. 69164, in which the Commission made no finding as to the reasonableness of the Algonquin structure, but indicated that in future cases the costs of affiliate transactions would be carefully scrutinized. Decision No. 69164 at 19. GCSC has never asserted that transactions with affiliates should not be subject to strict Commission scrutiny, just that they should not be totally prohibited. *See, e.g.,* TR at 354-55 (Sorensen).

This position is consistent with applicable law. Arizona strongly supports the treatment of corporations as separate entities. *See, e.g., Arizona Public Service Co. v. Arizona Corp. Comm'n,* 155 Ariz. 263, 267, 746 P.2d 4, 8 (App. 1987) (Declining to pierce the corporate veil because the Commission offered no evidence of undercapitalization, fraud, misconduct or impropriety in the management of the affiliated companies.); *Deutsche Credit Corp. v. Case Power & Equipment Co.,* 179 Ariz. 155, 160, 876 P.2d 1190, 1195 (App. 1994) ("The concept of a corporation as a separate entity is a legal fact, not a fiction."). The general rule is that "corporate status will not be lightly disregarded." *Keams v. Tempe Technical Institute, Inc.,* 993 F.Supp. 714, 723 (D.Ariz 1997). No evidence of fraud, misconduct, injustice or impropriety in connection with the affiliated transactions has ever been presented.

Nor is profit by an affiliate some sort of unforgivable regulatory sin in the eyes of the law. A public service corporation's dealings with affiliates "require thorough investigation and close scrutiny." *See Turpen v. Oklahoma Corporation Commission*, 769 P. 2d 1309, 1320 (Okla. 1989). The utility seeking to recover costs incurred in transactions with affiliates bears the burden of proving that its transactions were reasonable. *Turpen*, at 1320-21. Once the utility makes an affirmative showing that its costs were reasonable, the burden shifts to the party seeking to disallow such costs to provide "evidence showing why the payments to affiliates were not reasonable and should not be allowed." *Id.* at 1323. *See also Central Louisiana Electric Co. v. Louisiana Public Service Comm'n*, 373 So.2d 123 at 127 (Before the regulatory body can make adjustments for unreasonably high charges "there must be . . . a factual finding, or at least a reasonable inference, that the charges are unreasonable.").

The Commission might decide that GCSC, like BMSC, failed to sustain this burden. GCSC, like BMSC, would disagree. But there is no legal basis for the Commission to determine in this case that GCSC might not show in another case that the inclusion of profit in affiliate transactions is reasonable and warranted. Nor should it. The Algonquin structure results in a very efficient operation. Ex. A-23 Every opportunity must be given for its utilities to show that affiliate charges are competitive, even with a reasonable profit included. If the door to profit on affiliated services is permanently closed, those efficient operations are placed at risk. AWRA and its affiliates are not charities. If the capital invested in entities like AWS does not realize a return, that capital can be diverted elsewhere leaving GCSC to return to a more traditional, and more costly, business model. TR at 405-06; Sorensen RJ (Ex. A-9) at 8-9.

**2. Central Overhead Allocations**

Staff's $40,000 adjustment to Central Office Overheads does not involve affiliate "profit", these are actual costs incurred by Algonquin entities that provide services and support to GCSC. TR at 579 (Bourassa). These costs include such things as human resources support, engineering and management support, strategic and capital planning and regulatory and environmental compliance. TR at 1207-09 (Sorensen). *See also* Bourassa RB (Ex. A-11) at 13-14. Staff does not contest the necessity of these types of services; rather, it appeared that Staff was unable to satisfy itself that the costs actually benefited GCSC. Instead of the evidence provided, Staff wishes to see evidence of "cost drivers", ledgers for all entities whose costs are included in the Central Overhead Allocation, a breakdown of regulated and unregulated costs, time cards and the like. TR at 1130-35 (Brown). Staff never claimed it asked for this additional back-up documentation or that GCSC failed to provide it. Meanwhile, given its stance, Staff essentially ignored all of the benefits GCSC obtains in exchange for an allocation from the "Central Office".

Such allocations are not unusual. Bourassa RB (Ex. A-10) at 14. A similar allocation was included in BMSC's operating expenses in its recent rate case. TR at 1136 (Brown). The allocation of Central Overhead Costs in the amount of $4000 per month should also be allowed in this case.

### D. RUCO's Positions On Property Tax Expense And Rate Case Expense Are Unreasonable And Should be Rejected

#### 1. RUCO's Position On Property Taxes Has Been Repeatedly Rejected

In Decision No. 69164, the Commission again rejected RUCO's challenge to the determination of property tax expense for ratemaking purposes. Decision No. 69164 at 10-11. On this issue, the Commission held that

> We once again disagree with RUCO's position. Consistent with numerous prior decisions, we do not believe RUCO's backward-looking methodology properly recognizes that, barring extraordinary circumstances, any increase granted in this case will increase the Company's property taxes. As we stated in the *Chaparral City* case cited above, "RUCO's calculation methodology, which uses only historical revenues, unfairly and unreasonably understates property tax expense, and is therefore inappropriate for ratemaking purposes" (Decision No. 68176, at 14). RUCO has not demonstrated a basis for departure from our prior determination on this issue and we will therefore adopt the recommendations of the Company and Staff to follow Commission precedent and use adjusted test year revenues in determining property tax expense.

*Id. See also Chaparral City Water Company*, Decision No. 68176 (September 30, 2005); *Rio Rico Utilities Co.*, Decision No. 67279 (October 5, 2004); *Arizona-American Water Company*, Decision No. 67093 (June 30, 2004); *Bella Vista Water Company*, Decision No. 65350 (November 1, 2002); *Arizona Water Company*, Decision No. 64282 (December 28, 2001). RUCO's position in this case is identical to that advanced and rejected in the BMSC case and each of the other cases cited above. TR at 938-39 (Moore).

It is getting increasingly difficult to understand why RUCO doesn't get the message. The ADOR formula does not change from rate case to rate case. The only thing that changes are the revenue inputs, which are unique to each water or sewer utility. *Id.* at 939-42. *See also* TR at 593-94 (Bourassa). Other than the revenue inputs, there are no other utility-specific factors that justify use of a different formula or in any way impact the determination of property tax expense from rate case to rate case. TR at 594 (Bourassa); 941 (Moore). Nor does RUCO assert that Staff and/or the utilities are engaged in some sort of improper ratemaking conduct.

The truth is, RUCO simply disagrees with the Commission's methodology for determining property taxes for ratemaking purposes. The Commission should reject RUCO's position on property taxes for the reasons set forth in the prior decisions.

**2. Rate Case Expense Of $160,000 Is Very Reasonable In This Case**

At the time this case was filed, the Company's witness, Thomas J. Bourassa, estimated rate case expense of $160,000. This estimate was based on Mr. Bourassa's previous experience in water and sewer utility rates cases before the Commission and his understanding of the issues and likely issues at that time. Bourassa DT (Ex. A-10) at 10-12. GCSC indicated its intent to true-up its request for rate case expense as the case progressed. *Id.*

A number of circumstances have impacted rate case expense since the application was filed. Odor complaints quickly became a critical issue. Later, issues surrounding comments made several years ago by Mr. Hill, then GCSC's President, were raised. These two unanticipated issues added legal briefing, a round of prefiled testimony in the middle of the hearings, four additional witnesses (Hare, Davidson, Hill and Kerr), an expert witness report, and somewhere between 2-3 days of additional hearing time to this rate case. Regardless of whether these issues should or shouldn't have been addressed in this rate case, these issues were addressed and there can be no legitimate dispute that the Company has incurred significant amounts of rate case expense as a result.

The nature and scope of these issues, and the impact on rate case expense was not foreseeable at the time Mr. Bourassa' made his estimate. Nevertheless, GCSC has expressly stated that under the unique circumstances of this case, it would not seek more than $160,000 of rate case expense, its initial estimate. TR at 450-51 (Bourassa); 1220-21 (Sorensen). As stated above, this includes not seeking any additional rate case expense for the odor inspection, report and testimony requested by the Commission.

As of September 30, 2006, the Company had rate case expense of $124,730. That was before any of the six days of hearings, before the odor inspection, report and expert witness testimony, before the round of prefiled "Trevor Hill" testimony, before any transcripts were purchased and reviewed, before either of the two required post-hearing briefs were filed, before a ROO is issued and exceptions filed, before any appearance before the Commission and before any post-decision filings and other compliance matters. Obviously, GCSC will incur substantially more than $160,000 in rate case expense in this case. This means GCSC's shareholder will absorb a substantial amount of this expense.

In this light, the Company's request for rate case expense of $160,000 is clearly reasonable. Staff agrees. TR at 1174-75 (Brown). RUCO does not. RUCO recommends rate case expense of only $70,000, less than half of the amount requested, and likely an insignificant fraction of the actual expense that will be incurred in this case. RUCO's recommended rate case expense is unreasonable and punitive. In fact, at the hearing, RUCO gave reason to believe it was seeking to punish the Company when its witness accused undersigned counsel of attempting to "game" the system to increase rate case expense and, presumably, to make more money. TR at 871 (Moore). Although Mr. Moore retracted his speculative and inflammatory testimony on cross-examination, RUCO's ulterior motives are readily apparent. *Id.* at 877. After all, RUCO failed to advance a single legitimate basis to support its recommendation.

For example, RUCO could have identified comparable cases where the Commission awarded a similar level of rate case expense of $70,000 under similar circumstances. RUCO didn't. TR at 929 (Moore). Instead, it extrapolated from large rate cases filed by utilities with multiple districts and in-houses legal and/or accounting staff. *See* Moore DT (Ex. R-9); Bourassa RB (Ex. A-11) at 15-16. *See also* TR at 891-98 (Moore). Unfortunately, RUCO ignores the embedded costs of any rate case in that analysis, as well as the impact in-house rate case staff have on rate case expense. *Id.*

RUCO also could have looked at the cases used by the Company as comparables. Bourassa RB (Ex. A-11) at 15 *citing Valley Utility Water Company*, Decision 68309 (awarding rate case expense of \$100,000 to a water utility about 1/5$^{th}$ the size of GCSC in a case where no party presented cost of capital analysis); *Chaparral City Water,* Decision 68176 (authorizing \$285,000 of rate case expense for utility roughly twice the size of GCSC); *Rio Rico Utilities*, Decision No. 67279 (authorizing \$175,000 for utility with combined water and sewer customers a bit larger than GCSC's customer number). These cases clearly evidence the reasonableness of \$160,000 of rate case expense in this case. But, when it comes to rate case expense, RUCO only looks at cases in which it was <u>both</u> a party <u>and</u> made a recommendation regarding rate case expense. TR at 916-18 (Moore). RUCO even failed to adequately reconcile its recommendation of \$70,000 in this case with its recommendation of \$120,000 in the recent case for BMSC. *See* TR at 885-87 (Moore) (speculating that RUCO position in BMSC rate case based on it being the first case under AWRA's ownership); Decision No. 69164 at 12 (awarding BMSC rate case expense of \$150,000).

RUCO could also have provided credible evidence to support its claims that some individual components of rate case expense were unreasonable. RUCO didn't. Indeed, RUCO only made cursory efforts to identify the items deemed unreasonable. For example, Mr. Moore offered little more than his feeling that legal charges for data request responses, some paralegal time, and the Company's copying charges were unreasonable. TR at 869, 909-16, 922-23 (Moore). To begin with, the copying costs in this case were the result of requirements imposed by the Commission and the need to respond to discovery. Those costs were also entirely in line with other recent rate cases, including BMSC's rate case. TR at 597-98 (Bourassa). Perhaps more importantly, Mr. Moore's speculation does not qualify as "evidence," and it is certainly not credible or persuasive.

In reality, what RUCO did was wait until the hearing and then attempt to rest its rate case expense recommendation almost exclusively on the fact that the Company provided RUCO with redacted invoices for legal services. *E.g.,* TR at 870-71(Moore). In other words, RUCO asserts that the Company must agree to waive the attorney-client privilege in order to recover rate case expense. *Id.* at 903. RUCO could have sought a confidentiality agreement so it could review privileged information. It didn't. RUCO could have challenged the Company's redacted responses to data requests by seeking the intervention of the Hearing Division. It didn't. RUCO could have made a similar argument in either of the recent cases in which it challenged rate case expense—Far West Sewer and BMSC. It didn't. TR at 573-74 (Bourassa).

Put bluntly, RUCO's argument is ridiculous. There is a wealth of evidence before RUCO, and this Commission regarding a reasonable level of rate case expense. As discussed, there are numerous comparable rate cases to consider. There was evidence that the rate case expense being incurred was obviously higher than the amount being requested. Mr. Bourassa's unredacted invoices were provided, as well as evidence of other costs that were incurred. There were also legal invoices, albeit <u>partially</u> redacted. These redacted invoices still provided substantial evidence that the amounts were incurred in connection with this rate case. It is unconscionable to place a utility in a position of having to either waive its attorney-client privilege or forego recovery of rate case expense, but this is exactly what RUCO advocates. Consequently, RUCO's recommendation should be rejected.

**E. Capital Structure And Cost of Capital**

In this case, three parties presented testimony on the applicable capital structure and a recommended rate of return on equity or ROE. The Company recommends a capital structure of 100% equity, consistent with the fact that GCSC's rate base is funded entirely by paid-in-capital, and a rate of return on equity equal to 10.5%. *E.g.*, Bourassa RJ (Ex. A-12) at 18-23. Staff also recommends a capital structure of 100% equity, but Staff then adjusts its 10.2% calculated rate of return downward by 100 basis points to a recommended ROE equal to 9.2% because the Company's has an all equity capital structure. TR at 1077-78 (Irvine). RUCO recommends a hypothetical capital structure comprised of 60 percent equity and 40 percent debt along with an ROE equal to 8.6%. TR at 609, 635 (Rigsby). For the reasons explained herein, the Commission should reject the recommendations of Staff and RUCO and adopt the Company's recommendations on capital structure and ROE. GCSC's recommendations are the only ones before the Commission that are consistent with economic reality.

During the hearing, Judge Nodes questioned GCSC's expert witness Thomas J. Bourassa about the wisdom of pursuing an approach to determining an ROE that has consistently been rejected. TR at 589-93 (Bourassa). It was a fair question. However, it is not accurate to compare a utility's cost of capital analysis with RUCO's position on property taxes. *Id.* at 591-92. As explained above, the formula for determining property taxes has not changed in five years. TR at 593 (Bourassa); 939-40 (Moore). Moreover, the only utility-specific factors in determining a level of property tax expense for ratemaking are the revenue levels. *Id.* In contrast, every utility faces some level of specific risk, even if the ROE methodologies Staff and RUCO employ ignore these risks. TR at 593-94 (Bourassa). Certainly economic reality and investor expectations undermine the concept that small utilities like GCSC face less risk than utility giants like Aqua-America and American States. Additionally, cost of capital determinations are inherently tied to economic conditions, which change day-to-day and from rate case-to-rate case. *Id.*

Another fair question is how can the Commission mechanically adopt Staff's ROE recommendation in rate case after rate case regardless of the evidence submitted by the utility? *See, e.g.,* Decision No. 69164 at 25-27; *Arizona Water Company-Eastern Group,* Decision No. 66849 (March 22, 2004) at 24 (approving 9.2% ROE), *Arizona-American Water Company,* Decision No. 67093 (June 30, 2004) at 31 (approving 9.0% ROE); *Chaparral City Water Company,* Decision No. 68176 (September 30, 2005) at 25 (approving 9.3% ROE); *Arizona Water Company-Western Group,* Decision No. 68302 (November 14, 2005) at 31 (approving 9.0% ROE). In each of these cases, all other evidence regarding the cost of equity was flatly rejected in favor of Staff's methodology and the results produced.

Staff cannot possibly be right in every case. Staff's ROE's have been largely unaffected by changing economic conditions:

**COMPARISON OF KEY COST OF CAPITAL DETERMINANTS AND STAFF COST OF EQUITY MODEL RESULTS**

| Testimony Date | Arizona Water Utility | Average Beta[7] | Risk-Free Rate[8] | Staff ROE[9] |
|---|---|---|---|---|
| 7/8/03 | Arizona. Water | 0.59 | 3.3% | 9.2% |
| 9/5/03 | Arizona-American | 0.59 | 3.3% | 9.2% |

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[7] The average Value Line beta of the six publicly traded water utilities in Staff's sample group used in Staff's CAPM. The sample group is the same in each case.

[8] Average of 10, 7 and 5-year Treasury notes used in Staff's CAPM in each case.

[9] The result produced by Staff's DCF and CAPM models in each case, unadjusted for risk.

| Testimony Date | Arizona Water Utility | Average Beta[7] | Risk-Free Rate[8] | Staff ROE[9] |
|---|---|---|---|---|
| 10/31/03 | Arizona-American | 0.60 | 3.6% | 8.5% |
| 3/11/04 | Rio Rico Utilities | 0.62 | 3.5% | 8.1% |
| 5/6/04 | Rio Rico Utilities | 0.63 | 3.9% | 8.6% |
| 3/22/05 | Chap. City Water | 0.68 | 4.0% | 8.9% |
| 4/18/05 | Arizona. Water | 0.68 | 4.5% | 9.1% |
| 5/5/05 | Chap. City Water | 0.68 | 4.0% | 9.3% |
| 5/25/05 | Arizona. Water | 0.68 | 4.0% | 9.1% |
| 1/16/06 | Arizona-American | 0.71 | 4.6% | 9.8% |
| 3/6/06 | Arizona-American | 0.74 | 4.5% | 9.5% |
| 4/11/06 | Far West Water | 0.74 | 4.6% | 9.2% |
| 6/13/06 | Black Mountain Sewer | 0.74 | 5.1% | 9.6% |
| 6/16/06 | Gold Canyon Sewer | 0.74 | 5.1% | 9.2% |
| 01/12/07 | Goodman Water Company | 0.82 | 4.7% | 9.3% |

Bourassa RB (Ex. A-11) at 35.

Staff is critical of the Company's use of this chart because GCSC has left out the other components of the CAPM model—the historic and current market risk premiums. TR at 556-58 (Bourassa); 1081-83 (Irvine). While that might be true, it misses the point. The purpose of the chart is to reflect Staff's recommended ROE's through changing market conditions. TR at 582-89 (Bourassa). As the data reflects, betas and risk free rates have significantly increased over the past 2-3 years. Over the same period of time, the federal funds rate has been increased 17 times, a change of over 4%. TR at 594-95

(Bourassa); 623 (Rigsby). Yet, Staff is recommending the same ROE for GCSC as it recommended for Arizona Water in July 2003, when interest rates were at "historic lows". Bourassa RB (Ex. A-11) at 35; *e.g.*, Direct Testimony of Joel M. Reiker, *Arizona Water Company-Eastern Group*, Docket No. W-01445A-02-0619, at 5-7. Staff's typical explanation—that the cost of capital moves with betas and interest rates only if "all other things being equal" is an insufficient explanation. It is Staff that is keeping "all other things" equal.

Staff uses the same cost of capital methodology from rate case to rate case and simply plugs a new witness into the approach as necessary. *See* TR at 1076-1077. *Compare* BMSC TR at 684 (Chavez). There are numerous components of and calculations required to implement the DCF and CAPM models and many of those components are objectively determined from publicly available information. TR at 582-84 (Bourassa); 1082-85 (Irvine). Wherever a subjective determination is required, however, Staff chooses the approach that results in the lowest ROE. TR at 1083-98 (Irvine). One way or another, Staff's ROE ends up in its preferred range.

In this case, Staff's DCF and CAPM models resulted in an ROE of 10.2%. Had Staff simply left its initial determination of a 10.2% ROE in place, instead of lowering it by 100 points, there would likely be little dispute between the two parties. This is what Staff has done in the pending rate case for Goodman Water. *Goodman Water Company,* Docket No. W-02500-A-06-0251 Like GCSC, Goodman Water has a capital structure comprised entirely of equity. Yet, In that case, Staff did not make a downward adjustment to financial risk because Goodman Water Company does not has access to capital. Direct Testimony of Steven P. Irvine at 31-32, *Goodman Water Company*, Docket No. W-02500-A-06-0251. Apparently, when it serves to lower the return, it is okay to consider firm-specific facts like access to capital. Meanwhile, relative to another pending rate case, Staff is punishing GCSC and its shareholder for having access to capital by taking away roughly $160,000 of operating income each year.

Obviously, acceptance of the Company's argument that Staff's ROE methodology is flawed places the Commission in a bit of quandary, given that the Commission has rejected the methodology employed by the Company's expert witness. Although, specific reasons for such untiring dismissal remain a mystery.

GCSC's cost of equity estimates were also based on the discounted cash flow DCF model used by Staff and RUCO. *E.g.,* Bourassa RJ (Ex. A-12) at 18-23. But the results of the DCF were not mechanically applied. The risk premium analysis, comparable earnings analysis (the current, authorized, and projected equity returns for the sample group of publicly traded utilities), and the economic conditions expected to prevail during the period in which new rates will be in effect, served as a check of the reasonableness of the DCF results and ensure meaningful and realistic results. As an additional check on the reasonableness of the Company's cost of capital recommendations, Mr. Bourassa prepared a separate market based bond risk premium analysis using an annual time series on bond returns compared returns for the water utility sample. *Id.* This additional analysis confirms the Company's recommended cost of capital is not only reasonable, but very conservative. Perhaps, in light of growing evidence that something is amiss with Staff's method and results, it is time for the Commission to once again consider the merits of other methodologies.

In theory, even RUCO's methodology might be seen to aid the Commission in its analysis. However, RUCO's recommendations in this case lack credibility. RUCO recommends an ROE equal to 8.6%, 100 basis points lower than GCSC's affiliate was authorized less than 60 days ago in Decision No. 69164, and 35 basis points lower than the current prime rate. In fact, RUCO's cost of capital witness William Rigsby testified this is probably the lowest ROE he had ever recommended. TR at 623 (Rigsby). RUCO's extremely low ROE results in part from its use of a hypothetical capital structure. This capital structure is really nothing more than an effort to hide the downward manipulation of the return on equity. *Id.* at 636-38 (testifying that without a hypothetical capital structure the results of RUCO's cost of capital analysis would have to have been adjusted downward). These downward adjustments to ROE seem to the only time Staff and RUCO look at the Company's specific information.

In summary, the Commission often reminds utilities that they understood the regulatory rules, process and precedent when they chose to invest. That is true. Utility investors also understood they were to get a fair and reasonable rate of return on rate base. The Commission's insistence on rejecting all methods and results for determining the cost of equity, except Staff's, is depriving utilities of achieving a fair return.

### F. The Prior Statements By Mr. Hill In 2002 Should Not Have Any Bearing On This Rate Case

In this docket, Commissioner Mayes and the parties have raised concerns regarding statements to customers in 2002-2003 by former GCSC employee Trevor Hill that GCSC did not intend to raise sewer rates or would not seek a rate increase for five years following the Plant renovation project. Commissioner Mayes first raised the issue in her August 9, 2006 letter. In response to that letter, GCSC filed a Legal Brief Regarding Prior Company Statements on September 13, 2006. GCSC incorporates the arguments and authority set forth in that brief by reference. Staff, RUCO and the intervenors did not file any briefs or testimony in response to the August 9, 2006 Mayes' Letter or to the Company's Legal Brief.

At the November 3, 2006 hearing, Judge Nodes and Staff requested that GCSC provide testimony from Mr. Hill. *See* TR at 496-98. Without waiving any of its many objections to the issue of Mr. Hill's prior comments or any testimony on the subject, GCSC docketed pre-filed testimony from Mr. Hill on November 13, 2006 and produced him as a witness at the December 4, 2006 hearing.[10] *See* Prefiled Testimony of Trevor Hill ("Hill PT") (Ex. ACC-2). RUCO did not file any testimony or produce any evidence in response to Mr. Hill's prefiled testimony. Instead, in response, RUCO docketed RUCO's Response to the Testimony of Trevor Hill ("RUCO Response") on November 22, 2006. Staff docketed the Direct Testimony of Steven M. Olea on November 22, 2006 setting forth Mr. Olea's offered opinions concerning Mr. Hill's prior written and oral statements. GCSC objected to Mr. Olea's testimony for lack of foundation, lack of relevance, improper hearsay and improper opinion testimony. TR at 740-741 (Olea). Despite GCSC's objections, Mr. Olea was allowed to testify at the December 4 hearing.

At the December 4 hearing, intervenor MVHA also requested that Roland Kelly be allowed to testify in response to Mr. Hill's testimony. Mr. Kelly is a resident of Gold Canyon and was involved in the 2001 rate case as intervener. *See* Decision No. 64186. GCSC filed its rate case on January 13, 2006, and MVHA was granted intervention on May 9, 2006. MVHA did not offer any witnesses, testimony or evidence in this case until the December 4, 2006 hearing. Further, MVHA did not offer any testimony or evidence in response to GCSC's September 12, 2006 Legal Brief or Mr. Hill's November 13, 2006 prefiled testimony. Nevertheless, at the December 4 hearing, Mr. Kelly was allowed to testify without any notice to the Company and over GCSC's objections. *See* TR at 789-850 (Kelly).

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[10] Mr. Hill is no longer affiliated with GCSC or AWRA. His employment was terminated in August 2003. Since then, Mr. Hill has been the President and CEO of Global Water Resources, a competing water utility in the state of Arizona. GCSC was forced to produce Mr. Hill as a witness to testify concerning issues that GCSC contend are not relevant to the pending rate case and even though the other parties didn't produce any evidence or testimony on those issues. GCSC objected to testimony from Mr. Hill for the reasons set forth in GCSC's Legal Brief and throughout the hearings in this docket. *See e.g.*, TR at 431-32.

### 1. Mr. Hill's Prior Statements To Customers In The Fall of 2002

Unfortunately, the parties have misconstrued Mr. Hill's actual comments to customers in 2002 and have taken his comments largely out of context. To a large extent, the parties have relied on inaccurate newspaper articles and public comments. In her August 9 letter, for example, Commissioner Mayes raised certain questions relating to the prior statements attributed to Mr. Hill based on a July 14, 2006 newspaper article from the East Valley Tribune. That newspaper article is inaccurate and did not correctly quote Mr. Hill.[11] When considered in proper context, it is evident that Mr. Hill's prior comments should not have any bearing on this rate case.

As discussed above, when AWRA acquired GCSC's stock in July 2001, the plant had substantial odor, sound, capacity and effluent disposal problems. These problems were remedied when the Plant renovation project was completed in October 2005. Had Algonquin not acquired GCSC in 2001, a major plant renovation would still have been necessary to resolve the odor, sound and capacity problems. Regardless of Mr. Hill's comments in 2002, customers would have faced rate increases after the renovation was complete. As Mr. Olea testified, shareholders do not just give up a return on capital invested in a utility company. TR at 755-756 (Olea). It is unreasonable to suggest that

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[11] At hearing, Mr. Hill testified that Commissioner Mayes' August 9, 2006 letter confuses several issues and the July 14, 2006 article entitled "Sewer, management of plant raise stink for some in Gold Canyon" was inaccurate and incorrect on several points. *See* TR at 678 (Hill) ("Well, this letter confuses several issues. And, to be clear, this letter in itself doesn't dissect the two or three issues of the day that are open"); *id.* at 680-681 ("Well, again, this particular statement or this particular paper confuses several things in my mind. I don't know where the $10 million came from. I have no knowledge of how much the Company spent on this or if, in fact, the odor problem is corrected today. I don't think the rate at Gold Canyon is $37. I think it's $35. And, at the day I didn't know how much it would cost to upgrade the facility. So this is a retrospective look upon a number of pieces of information out there that some are construed as facts and some aren't. So I think that – I think this particular paragraph in this particular newspaper article is cleverly written, but it's not a comment that I made").

GCSC would agree to fund $11.2 million in plant improvements without seeking a return on and of such investment.

### a. Mr. Hill Did Not Have Authority To Make Financial Decisions For GCSC Relating To Rate Increases For The Renovation Project

Mr. Hill was President of GCSC from 2001-2003. Hill PT (Ex. ACC-2) at 2-3. Mr. Hill further testified that he "ran the operations" for GCSC and was involved "in every way in all the utilities." TR at 668 (Hill). Mr. Hill also, testified that he "was purely the operations director for the water enterprises" of Algonquin (*Id.* at 695) but he did <u>not</u> provide any testimony on the scope of his authority to make financial decisions for GCSC relating to rate recovery and capitol investments. According to Dave Kerr, Executive Director for Algonquin Power Management, Inc., this is because Mr. Hill did not have authority to make financial and rate recovery decisions for GCSC. TR at 1244 (Kerr).

Algonquin Power Management, Inc., is the manager of utility assets owned by Algonquin Power Income Fund ("APIF"), an "open-ended mutual fund trust that trades publicly on the Toronto Stock Exchange." *Id.* APIF is the ultimate parent and holding company of GCSC, as well as AWRA and AWS, and provides capital and financing for its regulated utilities (like GCSC). *Id.* at 1247-48. As testified by Mr. Kerr, "all capital investments" for GCSC "would be approved by the Board of Trustees" for APIF. *Id.* at 1248. As President of GCSC, Mr. Hill reported directly to the three Executive Directors of APIF: Dave Kerr, Chris Jarratt and Ian Robertson. *Id.* at 1249.

With respect to Mr. Hill's statements in 2002, Mr. Kerr testified as follows:

> Q. Were you or any of the other managers aware that Mr. Hill had made representations to customers back in 2002 that the Company would either not seek a rate increase or would delay a rate increase for five years?
>
> A. No.

> Q. And was Mr. Hill authorized with his role in the Company to make such comments or representations to customers back in 2002 or 2003?
>
> A. No, absolutely not.
>
> Q. If you had known – well, did Mr. Hill ever advise you that he had made those promises and representations to the customers?
>
> A. No. I learned about that preparing for this rate case.[12]

*Id.* at 1249-50. Even as Executive Director, Mr. Kerr did not have authority to delay or waive a rate increase without approval of the Board of Trustees. *Id.* at 1251-52.

#### b. Mr. Hill's Comments To Customers In 2002 Must Be Considered In Proper Context

In 2001-2002, the bulk of the customer complaints revolved around longstanding odor and noise problems. TR at 669 (Hill). Essentially, customers did not want to pay for plant renovations without a guarantee that the odor problems would go away. *Id.* Mr. Hill confirmed GCSC's substantial good-faith efforts to resolve those pre-existing problems: "There was a myriad of problems associated with the Company, and it was in the middle of a rate case when we acquired it. From the day we took it over until the time I left Algonquin we were attempting to improve the situation with that company." *Id.* at 668-69. In turn, Mr. Hill conducted community forums to address the odor problems. *Id.* at 669-71. Mr. Hill made his 2002 comments, the comments at issue following Commissioner Mayes' letter, in the context of customer dissatisfaction with the ongoing odor problems:

> What I believed in the day was that the plant needed

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[12] At hearing, Mr. Hill testified that he reported regularly to the Executive Directors of Algonquin and that "they were certainly apprised of all of [Mr. Hill's] public relations activities." TR at 731 (Hill). But Mr. Hill did not specifically advise Mr. Kerr or any of the other Executive Directors of his statements to customers in 2002 about not seeking or delaying a rate increase for the Renovation Project. TR at 1249-50 (Kerr).

> significant capital improvements, which in my mind was a multimillion dollar number, and that the Company was growing rapidly based on my projections of the day. And my best guess as to the cost of the capital improvements and the operations of the facility on my watch, I did not believe that the Company would require a rate increase based solely on the upgrades that we were going to undertake. ... My recollection is that in the fall of 2002 time frame that I had said publicly to the customers that it wouldn't – we wouldn't consider a rate increase for a period of at least five years.

*Id.* at 671-72. In short, Mr. Hill believed that a rate increase would not be needed based on his growth "projections" and "best guess" of the capital costs for the Project. Further, Mr. Hill told customers in 2002 that GCSC would not seek a rate increase until the odor problems were resolved as part of a long and complicated process which Mr. Hill estimated would take five years.

As part of this informational campaign, Mr. Hill prepared a handout (Ex. R-3) and provided it to customers in the early fall of 2002. Hill PT (Ex. ACC-2) at 4. Mr. Hill sought to explain the Company's plans for financing the renovations:

> **Will the upgrade mean an increase in rates?**
>
> No. Gold Canyon is committed to providing the upgrade through a combination of paid-in-capital and new development hook-ups.

*See* Ex. R-3 at 2. Without any supporting evidence, RUCO and Staff, as well as Commissioner Mayes and the Presiding ALJ, surmise that some customers may have interpreted that statement as a promise or guarantee that GCSC would never raise rates as a result of the Plant renovation completed in October 2005. There is the clear suggestion that Mr. Hill misled customers.

At hearing, Mr. Hill acknowledged that his "statements with respect to the use of paid-in-capital and hook-up fee . . . are poorly worded." TR at 679 (Hill). Even so, Mr. Hill did not misrepresent any facts to customers and his choice of words should not impact this rate case. Mr. Hill told customers that GCSC "would not seek a rate increase for at least five years." *Id.* at 689. So, customers hearing such statements from Mr. Hill were aware that GCSC eventually would seek a rate increase due to the costs of the Plant renovation project. Moreover, Mr. Hill "didn't know how much it would cost to upgrade the facility" when he made his comments to customers in 2002. *Id.* at 681. "What [Mr. Hill] was attempting to communicate at that stage was that [he] wanted to absolutely fix this odor problems before [he] ever considered another or any rate action at all." *Id.* at 689. GCSC did resolve the odor problems before filing this rate case.

With respect to the handout, Mr. Hill explained that he answered "no" in reference to customer concerns about an ***immediate*** increase in rates despite ongoing odor problems. *Id.* at 689-90. His answer in the handout also explained "that the upgrades would be funded with equity and paid in capital – or equity and hook-up fees. And what that means is that the Company would be investing its own money in the upgrade." *Id.* at 690. Mr. Hill emphasized the Company's intent to earn a return on that investment:

> Well, I think that is – well, I think I can see how this question is being characterized and this particular statement, but what I was thinking when I said it, when people said, "Would this upgrade mean an immediate increase in rates, " which was the panic of the day, when I said no, I actually meant that no, it would not lead to an increase in rates. But I am also saying that when a company makes an investment, they have a right to earn a return on their investment.

*Id.* at 691-92. *See also id.* at 693-94 (Mr. Hill testified that Algonquin "absolutely" expected to recover its investment).

Mr. Hill didn't make any binding promises or guarantees to customers. Rather, in the "early fall" of 2002, Mr. Hill told customers that they wouldn't be impacted by a rate increase for an estimated five years. *Id.* at 722. Mr. Hill's "belief" that a rate increase would not be necessary in 2002 was based on his <u>projections</u> and <u>assumptions</u> about growth and construction costs. *Id.* at 724-25. In 2002, Mr. Hill projected the costs of the

Project to be $5-7 million. *Id.* at 727-28. In reality, GCSC spent $11,200,000 for the renovations. Under these circumstances, Mr. Hill did not make any false or misleading statements to customers. He believed that a rate increase may not be necessary if growth continued and if his cost estimates proved true. Further, he told customers that rates would stay constant for approximately five years because that's how long he expected it to take to construct the renovation project he was contemplating and to fix the odor problems. His written handout and statements to customers in 2002 clearly demonstrate GCSC's intent to earn a rate of return on the capital investment in the Plant renovation project. Unfortunately, growth was not sufficient to provide the necessary rate of return for the $11.2 million capital investment, and GCSC filed this rate case to obtain the return on its investment it "expected" and to which it is entitled under Arizona law.

**2. Mr. Hill's Prior Statements Did Not Harm, Damage Or Impact Customers In Any Way**

The record is undisputed that Mr. Hill's statements did not harm, damage, injure or impact GCSC's customers. Mr. Olea conceded that GCSC's rates did not increase as a result of the Renovation Project. TR at 756 (Olea). Mr. Olea also testified that Mr. Hill's statements did not impact rates or rate base and that Mr. Hill was not obligated to explain the ratemaking process to customers. *Id.* at 757-59. Finally, Mr. Olea agreed that GCSC customers were not harmed by Mr. Hill's statements:

> Q. Let's assume that Mr. Hill told customers in his handout back in 2002 that rates would essentially double as a result of the Renovation Project, Okay? Can you make that assumption?
>
> A. Okay.
>
> Q. How would customers be in any different position today as a result of that statement being included in the handout as compared to the statement that was actually made by Mr. Hill?
>
> A. It wouldn't affect their rates. I think that is what I said

> in my testimony, that the Company cannot guarantee anything with regard to their rates until they have an order from this Commission saying that is what their rates will be.
>
> Q. So from a rate case perspective, you would agree that customers would be in the exact same position if you made that hypothetical statement, correct?
>
> A. Ratewise, I would say they would be in the same position, but expectationwise they would be in a different position....

*Id.* at 758-59.

In his testimony, Gold Canyon resident and MVHA member Roland Kelly also acknowledged the lack of any evidence demonstrating harm to any customers of GCSC. TR at 808-09 (Kelly). Mr. Kelly testified that he has no "direct evidence" of detrimental reliance by customers on the statements of Mr. Hill:

> Q. Judge Nodes asked earlier today in the hearing whether you had any evidence of any party's reliance on Mr. Hill's comments. Do you recall that?
>
> A. Yes.
>
> Q. And I understood you to say that you don't have any direct evidence of anybody's reliance on Mr. Hill's comments; is that correct?
>
> A. That's right.

*Id.* at 815-816.[13] That testimony is dispositive here.

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[13] Without any supporting evidence, Mr. Kelly also testified that the $2 increase from the 2001 rate increase was intended to pay for the entire Plant renovation project. TR at 817-18 (Kelly). He believes that GCSC and customers had a deal in the 2001 rate case that the $2 increase would cover the cost of the renovation and that rates would not be increased. *Id.* In turn, Mr. Kelly interpreted the terms "paid in capital" from Exhibit R-3 to mean additional fees collected from customers of GCSC that were receiving service but not being billed. *Id.* Mr. Kelly's testimony is completely unsupported, as well as unsupportable. In 2001, GCSC had approximately 2000 customers. Thus, an increase of $2/month for 2000 customers would equate to an additional $4,000 per month or $48,000 per year. Mr. Kelly's suggestion that GCSC agreed that the $2 rate increase from the 2001 settlement would cover the costs of an $11.2 million renovation project is absurd. Mr. Kelly's testimony also is contradicted by the express terms of the 2001 Settlement Agreement. In the 2001 Settlement Agreement, the Company agreed "that it will not

Unfortunately, the parties have confused customer expectations with actual injury that might have been caused by Mr. Hill's prior statements. The evidence is undisputed that customers did not detrimentally rely on Mr. Hill's statements. That means that they were not actually harmed by his prior statements. Instead, customers had a "mere expectation" that rates would not increase, or that they would not increase for five years. As a matter of law, "no one has a vested right in any particular utility rate, but only a statutory right shared with others to have rates that are 'just and reasonable' as fixed by the appropriate regulatory body." *Entex v. Railroad Comm'n of Texas*, 18 S.W.3d 858, 866 (Tex. App. 2000). *See also Matter of Shrock's Estate,* 132 Ariz. 524, 526, 647 P.2d 655, 657 (App. 1982) (a vested right cannot be based on mere expectation); *Carrow Co. v. Lusby*, 167 Ariz. 18, 22, 804 P.2d 747 (1990) (mere knowledge or expectation is insufficient to support liability); *In Re Dos Cabezas Power Dist.*, 17 Ariz. App. 414, 418, 498 P.2d 488, 492 (1972) (right was not vested if subject to contingencies). Customer expectations that a rate increase would not result does not give rise to a legal right to sewer service at GCSC's existing rate.

### 3. RUCO And Staff Both Agree That Mr. Hill's Prior Statements Should Not Impact GCSC's Request For A Rate Increase

RUCO asserts that reducing GCSC's rate increase or rate base as a result of Mr. Hill's comments "is not appropriate in this case." *See* RUCO Response at 4. RUCO further asserts that "the denial of recovery of over $16 million of plant upgrades based on the company's misrepresentations would place the Company in financial distress, which

---

seek an increase in its rates and charges for sewer utility services within 24 months of the issuance of an order approving this Agreement..." *See* Decision No. 64186 (October 30, 2001) Settlement Agreement at 3, ¶ 12. The Company did not agree to forego rate relief for future plant expansions or agree that the $2 rate increase would cover the cost of the Plant renovation project.

in turn could affect service to GCSC's customers. Moreover, such action would likely act as a disincentive to this Company and others from making necessary upgrades and improvements in the future." *Id.* Finally, RUCO stated "regardless of what the Company promised, it is undisputed that the Company's customers had been complaining for a long time about odor problems that necessitated the improvements and the customers wanted the odor problem fixed. The Company did respond to the customers' complaints and, it appears, has solved the problem. It would be unfairly punitive to deny the Company recovery of its expenses associated with the improvements." *Id.*

At the December 4, 2006 hearing, RUCO's counsel explained that RUCO is "not making a recommendation of a fine or anything of that nature. We are making a recommendation that the Commission should consider a rulemaking process to address this sort of thing, since we couldn't find anything which would give the Commission any sort of penalty power." TR at 733-34. RUCO reiterated its position that reducing GCSC's rates or rate base as a result of Mr. Hill's prior comments would not be an "appropriate resolution" because "in fact, it would be punitive and the Company has done some things in good faith and that would warrant that that not be the option the Commission chose." *Id.* at 735.

Likewise, Staff has not made any recommendations that Mr. Hill's comments should result in a reduction of GCSC's rate base or requested rate increase:

> Q. Staff is not recommending that any amounts be deducted from Gold Canyon's rate base, correct?
>
> A. That's correct.
>
> Q. And Staff is also not suggesting that the Company – that the Commission deny or delay the rate increase as a result of Mr. Hill's statements, true?
>
> A. That's correct.
>
> Q. Okay. And you have already agreed that Mr. Hill's statements did not violate any applicable ACC rule,

regulation or statute, agreed?

A. Not that I could find, correct.

TR at 760-61 (Olea).

### 4. The Commission Does Not Have Authority To Deny Or Reduce The Rate Increase Based On Mr. Hill's Prior Statements

As a matter of law, the Commission does not have constitutional or statutory authority to deny or delay rate relief to GCSC based on Mr. Hill's prior comments. Arizona's constitutional framers established the Commission in Article 15 of our Constitution. In Article 15, § 3, the framers instructed the Commission to set rates. As a check on the Commission, the framers also established "fair value" in Article 15, § 14 as the standard for measuring utility rates. Under Article 15, § 3, the Commission then must use that fair value determination in setting rates. *Simms v. Round Valley Light & Power Co.*, 80 Ariz. 145, 151, 294 P.2d 378, 384 (1956). It is a well-established law that the Commission must determine "just and reasonable" utility rates based on the "fair value" of utility assets used and useful in providing service. *U S West Comm., Inc. v. Arizona Corp. Comm'n*, 201 Ariz. 242, 246, 34 P.3d 351, 355 (2003) (affirming the longstanding law in Arizona that the fair value rate of return method is properly employed in traditional markets); *Phelps Dodge Corp. v. Arizona Elec. Power Coop.*, 207 Ariz. 95, 105, 83 P.3d 573, 583 (App. 2004)(same).

In its rate application, GCSC has applied for an order establishing the fair value of its property used in providing utility service and, based on such finding, GCSC seeks permanent rates and charges designed to produce a fair return on such fair value. In this rate case, the Commission must determine "fair value" of the Company's utility assets and use it in setting rates. Under Arizona law, Mr. Hill's prior comments are not relevant to a determination of "fair value" for GCSC's utility assets. If the ACC were to deny, reject or delay GCSC's requested rate relief based on Mr. Hill's prior statements, then the ACC would exceed its jurisdiction and violate the Arizona Constitution by denying GCSC a just and reasonable rate of return on plant used and useful in providing service. *See* Ariz. Const. Art. 15, §§ 3, 14. Further, such action would constitute an unlawful taking of private property under Article 2, § 17 of the Arizona Constitution.

**5. Mr. Hill's Statements Are Not Legally Binding On GCSC As A Matter Of Contract Law**

As a matter of Arizona law, Mr. Hill's prior comments in 2002-2003 do not constitute a binding legal promise not to seek a rate increase following completion of the Plant renovation project. *See Tennent v. Leary,* 82 Ariz. 67, 308 P.2d 693 (1957) (unilateral promise is not binding unless "an executed consideration (or cash) is exchanged for it"); *Gates v. Arizona Brewing Co.*, 54 Ariz. 266, 95 P.2d 49 (1939) ("Mutuality of obligation is an essential element of every enforceable agreement. Mutuality is absent when one only of the contracting parties is bound to perform. . ."). Mr. Hill's statements or beliefs based on his projections are not legally binding on GCSC.

Mr. Hill's terminology has been characterized as confusing and misleading. As Mr. Hill explained, it was really nothing more than a poor choice of words. Moreover, as a matter of law, Mr. Hill didn't have any legal obligation to explain the rate setting process to customers or explain the meaning of the term "paid-in-capital" and the evidence is undisputed that GCSC customers did not detrimentally rely on Mr. Hill's handout or his oral statements. Further, customers easily could have inquired with Mr. Hill or the Commission as to what Mr. Hill meant by the term "paid-in-capital." In Arizona, customers are bound by the doctrine of inquiry notice which imposes a duty to inquire into available information. *Luke v. Smith,* 13 Ariz. 155, 162, 108 P. 494 (1910)("Where one has notice of a fact affecting property which he seeks to purchase, which puts him upon inquiry, he is chargeable with knowledge which the inquiry, if made would have revealed"). Mr. Olea testified that he would have called Mr. Hill to inquire as to the meaning of the handout – in essence, acknowledging the inquiry notice doctrine. TR at 769 (Olea).

Also, Mr. Hill's statements are not legally binding against GCSC for lack of consideration. *See, e.g., Jaramillo v. Champagne Pools of Arizona, Inc.*, 125 Ariz. 398, 609 P.2d 1098 (App. 1980); *Marley v. McLaughlin*, 32 Ariz. 552, 261 P. 33 (1927). Those statements were not made as part of a binding agreement with customers and the Company did not receive any consideration for such statements. Instead, Mr. Hill simply advised customers of the Company's business plans for the Plant renovation project. Such unilateral statement of intent is not legally binding against the Company. *See Johnson Intern., Inc. v. City of Phoenix*, 192 Ariz. 466, 967 P.2d 607 (App. 1998).

**6. Mr. Hill's Prior Statements Are Not Binding On GCSC Because He Did Not Have Authority To Make Those Statements**

The evidence is undisputed that no one, including anyone at APIF or AWRA gave Mr. Hill authority to make financial representations, commitments or decisions regarding rate increases for the Plant renovation project. As established by the testimony of Mr. Kerr, Mr. Hill did not have actual authority to make binding representation regarding GCSC's rates.

Mr. Hill also did not have "apparent authority" to make such commitments. "Apparent or ostensible authority may be defined as that authority which the principal knowingly or negligently holds his agent out as possessing, or permits him to assume, under such circumstances as to estop the principal from denying its existence." *Reed v. Gershweir*, 160 Ariz. 203, 205, 772 P.2d 26, 28 (App. 1989). "Apparent authority can never be derived from the acts of the agent alone." *Id.* Here, the record does <u>not</u> contain any evidence that Algonquin led customers to believe that Mr. Hill had authority to make financial commitments regarding rates for $11.2 in capital investment for the renovation project. As established by Mr. Kerr's testimony, the shareholders were not aware of Mr. Hill's statements until 2005. Under these circumstances, it is not reasonable to suggest that Mr. Hill had authority to waive or delay a return on $11.2 million invested by the shareholder, AWRA. It is equally untenable for customers to believe that a massive Plant renovation project would be funded by investors without an associated rate increase.

### 7. The Commission Has No Authority Or Jurisdiction To Resolve Contract Disputes Between GCSC And Customers

Under Arizona law, the Commission is not a court of general jurisdiction and the Commission does not have authority to decide contractual and quasi-contractual disputes. *See Trico Electric Cooperative v. Ralston*, 67 Ariz. 358, 196 P.2d 470 (1948)("no judicial power is vested in or can be exercised by the corporation commission unless that power is expressly granted by the constitution. None of the constitutional provisions set forth above confer upon the commission the jurisdiction to pass upon the construction and validity of contracts"); *General Cable Corp. v. Citizens Utilities Co.*, 27 Ariz. App. 381, 555 P.2d 350 (1976)("We agree with the trial court that the construction and interpretation to be given to legal rights under a contract reside solely with the Courts and not the Corporation Commission").

Here, the real focus of Mr. Hill's prior statements stems from customer claims that the Company had some sort of binding contractual or quasi-contractual obligation not to seek a rate increase. To the extent the Commission issues a decision raising rates, ratepayers may pursue those claims in Superior Court. In this rate case, however, the Commission doesn't have any authority or jurisdiction to decide disputes between GCSC and its customers based on breach of contract, promissory estoppel or any other legal theory.

In addition, the legal doctrines of waiver and/or promissory estoppel simply do not apply in this case. The Company did not intentionally relinquish its rights to seek a rate increase. *See, e.g., Morganteen v. Cowboy Adventures, Inc.*, 190 Ariz. 463, 949 P.2d 552 (App. 1997). Further, GCSC's customers cannot satisfy the necessary elements for promissory estoppel under Arizona law. In Arizona, "a promise which the promisor should reasonably expect to induce action or forbearance on the part of the promise or a third person and which does induce such action or forbearance is binding if injustice can be avoided only by enforcement of the promise." *Double AA Builders, Ltd. v. Grand State Construction, LLC*, 210 Ariz. 503, 114 P.3d 835 (App. 2005). Mr. Hill's statements did not induce action or forbearance by any customers and customers did not detrimentally rely on such statements by Mr. Hill.

Under these circumstances, Mr. Hill's statements do not give rise to a claim of promissory estoppel against GCSC. *See also Cassidy v. Old Lycoming Township*, 1974 WL 15857 (Pa. Com. Pl. 1974)(letter from Town stating that customers already being served by another sewer provider would continue to be charged existing rates does not estop Town from enacting a subsequent ordinance increasing rates); *Jamison v. Consolidated Utilities, Inc.*, 576 P.2d 97 (Alaska 1978)(utility not estopped from denying validity of contract based on prior statements before Commission). Also, any representation made to the party claiming estoppel "must have been based upon full knowledge of the facts." *Donaldson v. LeNore*, 112 Ariz. 199, 540 P.2d 671 (1975). When he made his statements in 2002, Mr. Hill didn't know exactly how much of the cost would be covered by hook-up fees, he didn't know how much the renovation project would cost and he didn't know whether customer growth would continue.

### 8. The Commission Should Disregard Mr. Hill's Comments In This Rate Case

Ultimately, the Commission should disregard Mr. Hill's prior comments in deciding this rate case. Mr. Hill did not mislead any customers and his comments did not violate any Commission rule, law, regulation or statute. As such, the Commission has no basis for taking action against GCSC based on Mr. Hill's comments. Mr. Hill acted on his own without authority. Perhaps even more importantly, Mr. Hill's comments did not cause any harm to GCSC's customers and didn't impact the pending request for a rate increase. Instead, Mr. Hill told customers that rates would not increase until the Plant renovation was complete and the odor problems were resolved, which he estimated would take five years. GCSC complied with Mr. Hill's representations to customers that the rate increase would not occur until after the renovation project and resolution of the odor problems and the slight discrepancy in the estimated time frame is of no consequence.[14]

If the Commission rejects, reduces or delays GCSC's requested rate increase based on the comments of Mr. Hill, GCSC would have no choice but to appeal such decision. In that event, GCSC customers would be subject to an additional future rate increase in the event GCSC prevails in such appeal. If the Commission is considering imposing a fine against GCSC for Mr. Hill's comments, it bears emphasis that GCSC, RUCO and Staff all agree that the Commission doesn't have any authority to fine GCSC for Mr. Hill's comments because GCSC has not violated any provision of the Arizona constitution, applicable statutes or rule as required by Ariz. Rev. Stat. § 40-425.

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[14] Mr. Hill made his comments in the early fall of 2002. As it turns out, GCSC completed the renovations in October 2005 and GCSC filed its rate case in January 2006. If the Commission issues a decision on the pending rate case in March or April 2007, the new rates would go into effect in May or June 2007 or nearly five years since Mr. Hill made his comments in 2002.

## CONCLUSION

Based on the foregoing, and the record before the Commission, GCSC is entitled to an increase in revenues equal to $2,298,383, and respectfully requests that the Commission order such relief.

RESPECTFULLY SUBMITTED this 19th day of January, 2007.

FENNEMORE CRAIG, P.C.

By ______________________________
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ORIGINAL and thirteen (13) copies of the foregoing were delivered this 19th day of January, 2007.

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# BRIEF EXHIBIT 1

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Final Schedule A-1
Page 1
Witness: Bourassa

| Line No. | | | | | |
|---|---|---|---|---|---|
| 1 | Fair Value Rate Base | | | $ 15,742,719 | |
| 2 | | | | | |
| 3 | Adjusted Operating Income | | | 241,752 | |
| 4 | | | | | |
| 5 | Current Rate of Return | | | 1.54% | |
| 6 | | | | | |
| 7 | Required Operating Income | | | $ 1,652,985 | |
| 8 | | | | | |
| 9 | Required Rate of Return on Fair Value Rate Base | | | 10.50% | |
| 10 | | | | | |
| 11 | Operating Income Deficiency | | | $ 1,411,233 | |
| 12 | | | | | |
| 13 | Gross Revenue Conversion Factor | | | 1.6286 | |
| 14 | | | | | |
| 15 | Increase in Gross Revenue | | | | |
| 16 | Requirement | | | $ 2,298,383 | |
| 17 | | | | | |
| 18 | % Increase | | | 92.07% | |
| 19 | | | | | |
| 20 | **Customer** | **Present** | **Proposed** | **Dollar** | **Percent** |
| 21 | **Classification** | **Rates** | **Rates** | **Increase** | **Increase** |
| 22 | **(Residential Commercial, Irrigation)** | | | | |
| 23 | | | | | |
| 24 | Residential | $ 2,055,375 | $ 3,980,968 | $ 1,925,593 | 93.69% |
| 25 | Residential (<700 SF) per dwelling | 86,535 | 167,585 | 81,050 | 93.66% |
| 26 | Residential (Homeowner's Association) | 75,732 | 146,679 | 70,948 | 93.68% |
| 27 | Commercial | 178,185 | 345,108 | 166,924 | 93.68% |
| 28 | Effluent Sales | 31,699 | 61,395 | 29,696 | |
| 29 | | | | - | 0.00% |
| 30 | Revenue Annualization | 25,531 | 49,466 | 23,936 | 93.75% |
| 31 | **Subtotal** | $ 2,453,056 | $ 4,751,202 | $ 2,298,146 | 93.68% |
| 32 | | | | | |
| 33 | Other Wastewater Revenues | 44,804 | 44,804 | - | 0.00% |
| 34 | | | | - | 0.00% |
| 35 | | | | - | 0.00% |
| 36 | **Total of Water Revenues (a)** | $ 2,497,860 | $ 4,796,006 | $ 2,298,146 | 92.00% |
| 37 | | | | | |
| 38 | | | | | |
| 39 | | | | | |
| 40 | | | | | |
| 41 | | | | | |
| 42 | | | | | |
| 43 | SUPPORTING SCHEDULES: | | | | |
| 44 | Final B-1 | | | | |
| 45 | Final C-1 | | | | |
| 46 | Final C-3 | | | | |
| 47 | Final H-1 | | | | |
| 48 | | | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Summary of Rate Base

Exhibit
Final Schedule B-1
Page 1
Witness: Bourassa

| Line No. | | Original Cost Rate base | | Fair Value Rate Base | |
|---|---|---|---|---|---|
| 1 | | | | | |
| 2 | Gross Utility Plant in Service | $ | 21,094,247 | $ | 21,094,247 |
| 3 | Less: Accumulated Depreciation | | 1,313,184 | | 1,313,184 |
| 4 | | | | | |
| 5 | Net Utility Plant in Service | $ | 19,781,063 | $ | 19,781,063 |
| 6 | | | | | |
| 7 | Less: | | | | |
| 8 | Advances in Aid of | | | | |
| 9 | Construction | | 2,064,125 | | 2,064,125 |
| 10 | Contributions in Aid of | | | | |
| 11 | Construction | | 1,827,557 | | 1,827,557 |
| 12 | Accumulated Amortization of CIAC | | (138,788) | | (138,788) |
| 13 | | | | | |
| 14 | Customer Meter Deposits | | 30,769 | | 30,769 |
| 15 | Deferred Income Taxes & Credits | | 254,681 | | 254,681 |
| 16 | Deferred Assets | | - | | - |
| 17 | | | | | |
| 18 | | | | | |
| 19 | Plus: | | | | |
| 20 | Unamortized Finance | | | | |
| 21 | Charges | | - | | - |
| 22 | Prepaids | | - | | - |
| 23 | Deferred Assets | | (0) | | (0) |
| 24 | Allowance for Working Capital | | - | | - |
| 25 | | | | | |
| 26 | | | | | |
| 27 | Total Rate Base | $ | 15,742,719 | $ | 15,742,719 |
| 28 | | | | | |
| 29 | | | | | |
| 30 | | | | | |
| 31 | SUPPORTING SCHEDULES: | | | | |
| 32 | Final B-2 | | | | |
| 33 | Final B-5 | | | | |
| 34 | | | | | |
| 35 | | | | | |
| 36 | | | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Original Cost Rate Base Proforma Adjustments

Exhibit
Final Schedule B-2
Page 1
Witness: Bourassa

| | Adjusted at End of Test Year | Adjustments | Rejoinder Adjusted at end of Test Year |
|---|---|---|---|
| Gross Utility Plant in Service | $ 21,359,393 | (265,146) | $ 21,094,247 |
| **Less:** | | | |
| Accumulated Depreciation | 1,608,290 | (295,106) | 1,313,184 |
| Net Utility Plant in Service | $ 19,751,103 | $ 29,960 | $ 19,781,063 |
| **Less:** | | | |
| Advances in Aid of Construction | 2,064,125 | - | 2,064,125 |
| Contributions in Aid of Construction (CIAC) | 1,827,557 | - | 1,827,557 |
| Accum. Amortization of CIAC | (145,364) | 6,576 | (138,788) |
| Customer Meter Deposits | 30,769 | 0 | 30,769 |
| Deferred Income Taxes | - | 254,681 | 254,681 |
| Investment Tax Credits | - | - | - |
| **Plus:** | | | |
| Unamortized Finance | 0 | | |
| Charges | - | 0 | - |
| Prepaids | - | - | - |
| Allowance for Working Capital | 134,672 | (134,672) | (0) |
| | - | | - |
| Total | $ 16,108,688 | $ (365,969) | $ 15,742,719 |

SUPPORTING SCHEDULES:
Final B-2, pages 2

Exhibit
Final Schedule B-2
Page 2
Witness: Bourassa

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Original Cost Rate Base Proforma Adjustments

| Line No. | | ADJUSTMENT LABEL->> Adjusted at End of Test Year | 1 Rebuttal Adj #1 Plant Retirements | 2 Rebuttal Adj #2 Deferred Income Tax | 3 Rebuttal Adj #3 Expensed Plant | 4 Rebuttal Adj #4 Rejoinder Adj. #1 Accumulated Depreciation | 5 Rebuttal Adj #5 Working Capital | 6 Rejoinder Adj. #2 CIAC Amortization | Final Adjusted End of Test Year |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Gross Utility | | | | | | | | |
| 2 | Plant in Service | $ 21,359,393 | (272,191) | | 7,045 | | | | $ 21,094,247 |
| 3 | | | | | | | | | |
| 4 | Less: | | | | | | | | |
| 5 | Accumulated | | | | | | | | |
| 6 | Depreciation | 1,608,290 | | | | (295,106) | | | 1,313,184 |
| 7 | | | | | | | | | |
| 8 | | | | | | | | | |
| 9 | Net Utility Plant | | | | | | | | |
| 10 | in Service | $ 19,751,103 | $ (272,191) | $ - | $ 7,045 | $ 295,106 | $ - | $ - | $ 19,781,063 |
| 11 | | | | | | | | | |
| 12 | Less: | | | | | | | | |
| 13 | Advances in Aid of | | | | | | | | |
| 14 | Construction | 2,064,125 | | | | | | | 2,064,125 |
| 15 | | | | | | | | | |
| 16 | Contributions in Aid of | | | | | | | | |
| 17 | Construction (CIAC) | 1,827,557 | | | | | | | 1,827,557 |
| 18 | | | | | | | | | |
| 19 | | | | | | | | | |
| 20 | Accum. Amortization of CIAC | (145,364) | | | | | | 6,576 | (138,788) |
| 21 | | | | | | | | | |
| 22 | | | | | | | | | |
| 23 | Customer Meter Deposits | 30,769 | | | | | | | 30,769 |
| 24 | Deferred Income Taxes | - | | 254,681 | | | | | 254,681 |
| 25 | Investment Tax Credits | - | | | | | | | - |
| 26 | | | | | | | | | |
| 27 | | | | | | | | | |
| 28 | Plus: | | | | | | | | |
| 29 | Unamortized Finance | | | | | | | | |
| 30 | Charges | - | | | | | | | - |
| 31 | | - | | | | | | | - |
| 32 | Allowance for Working Capital | 134,672 | | | | | (134,672) | | (0) |
| 33 | | | | | | | | | |
| 34 | | | | | | | | | |
| 35 | Total | $ 16,108,688 | $ (272,191) | $ (254,681) | $ 7,045 | $ 295,106 | $ (134,672) | $ (6,576) | $ 15,742,719 |
| 36 | | | | | | | | | |
| 37 | | | | | | | | | |
| 38 | | | | | | | | | |
| 39 | | | | | | | | | |
| 40 | | | | | | | | | |
| 41 | SUPPORTING SCHEDULES: | | | | | | | | |
| 42 | Final B-2, pages 3-8 | | | | | | | | |
| 43 | | | | | | | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1
(Reference Rebuttal Adjustment Number 1)

Exhibit
Final Schedule B-2
Page 3
Witness: Bourassa

| Line No. | | | |
|---|---|---|---|
| 1 | Retirement of Water Treatment Equipment - Adjustment to Plant-in-Service and Accumulated Depreciation | | |
| 2 | | | |
| 3 | Staff Adjustment #3 (CSB-6) for water treatment equipment (Account 380) | $ | (272,191) |
| 4 | | | |
| 5 | | | |
| 6 | Increase (Decrease) to Plant-in-Service | $ | (272,191) |
| 7 | | | |
| 8 | | | |
| 9 | | | |
| 10 | | | |
| 11 | | | |
| 12 | REFERENCE SCHEDULES | | |
| 13 | Rebuttal Schedule B-2, Page 3, Adjustment 1 | | |
| 14 | | | |
| 15 | | | |
| 16 | | | |
| 17 | | | |
| 18 | | | |
| 19 | | | |
| 20 | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2
(Reference Rebuttal Adjustment Number 2)

Exhibit
Final Schedule B-2
Page 4
Witness: Bourassa

| | | |
|---|---|---|
| Accumulated Deferred Income Tax | | |
| Staff Adjustment #6 (CSB-10) Accumulated Deferred Income Tax | $ | 254,681 |
| Adjustment to Deferred Income Tax | $ | 254,681 |

REFERENCE SCHEDULES
Rebuttal Schedule B-2, Page 4, Adjustment Number 2

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment Number 3
(Reference Rebuttal Adjustment Number 3)

Exhibit
Final Schedule B-2
Page 5
Witness: Bourassa

| Line No. | | | | |
|---|---|---|---|---|
| 1 | Expensed Plant | | | |
| 2 | | | | |
| 3 | Adjustment per RUCO Adj.#5 | | | |
| 4 | | | | |
| 5 | 354 | Structure and Improvements | $ | - |
| 6 | 380 | Treatment and Disposal | | 5,397 |
| 7 | 394 | Laboratory Equipment | | 1,648 |
| 8 | | | | |
| 9 | Total | | $ | 7,045 |
| 10 | | | | |
| 11 | | | | |
| 12 | Increase (Decrease) to Plant-in-Service | | $ | 7,045 |
| 13 | | | | |
| 14 | | | | |
| 15 | | | | |
| 16 | REFERENCE SCHEDULES | | | |
| 17 | Rebuttal Schedule B-2, Page 5, Adjustment Number 3 | | | |
| 18 | | | | |
| 19 | | | | |
| 20 | | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment Number 4

Exhibit
Final Schedule B-2
Page 6
Witness: Bourassa

| Line No. | | | |
|---|---|---|---|
| 1 | Accumulated Depreciation | | |
| 2 | | | |
| 3 | | | |
| 4 | Accumulated Depreciation per Final Filing | $ | 1,313,184 |
| 5 | Adjusted Accumulated Depreciation per Direct Filing | | 1,608,290 |
| 6 | | | |
| 7 | Difference | $ | (295,106) |
| 8 | | | |
| 9 | | | |
| 10 | Increase (Decrease) to Accumulated Dpreciation | $ | (295,106) |
| 11 | | | |
| 12 | | | |
| 13 | REFERENCE SCHEDULES | | |
| 14 | Rebuttal Schedule B-2, Page 6, Adjustment Number 4 | | |
| 15 | Rejoinder Schedule B-2, Page 3, Adjustment Number 1 | | |
| 16 | | | |
| 17 | | | |
| 18 | | | |
| 19 | | | |
| 20 | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment Number 5
(Reference Rebuttal Adjustment Number 5)

Exhibit
Final Schedule B-2
Page 7
Witness: Bourassa

| Line No. | | | |
|---|---|---|---|
| 1 | Working Capital | | |
| 2 | | | |
| 3 | Staff Adjustment #7 (CSB-11) for Working Capital | $ | (134,672) |
| 4 | | | |
| 5 | | | |
| 6 | | | |
| 7 | Increase (Decrease) to Working Capital | $ | (134,672) |
| 8 | | | |
| 9 | | | |
| 10 | | | |
| 11 | | | |
| 12 | | | |
| 13 | | | |
| 14 | | | |
| 15 | REFERENCE SCHEDULES | | |
| 16 | Rebuttal Schedule B-2, Page 7, Adjustment Number 5 | | |
| 17 | | | |
| 18 | | | |
| 19 | | | |
| 20 | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment Number 6
(Reference Rejoinder Adjustment Number 2)

Exhibit
Final Schedule B-2
Page 8
Witness: Bourassa

| Line No. | | | | |
|---|---|---|---|---|
| 1 | Accumulated Amortization of CIAC | | | |
| 2 | | | | |
| 3 | **Gross Contributions** | | | |
| 4 | Balance at 3/31/2000 | | $ | - |
| 5 | Additions | | | - |
| 6 | Balance at 12/31/2000 | | $ | - |
| 7 | Additions | | | 810,000 |
| 8 | Balance at 12/31/2001 | | $ | 810,000 |
| 9 | Additions | | | 334,500 |
| 10 | Balance at 12/31/2002 | | $ | 1,144,500 |
| 11 | Additions | | | 244,310 |
| 12 | Balance at 12/31/2003 | | $ | 1,388,810 |
| 13 | Additions | | | 189,447 |
| 14 | Balance at 12/31/2004 | | $ | 1,578,257 |
| 15 | Additions | | | 249,300 |
| 16 | Balance at 10/31/2005 | | $ | 1,827,557 |
| 17 | | | | |
| 18 | | | | |
| 19 | **Accumulated Amortization** | | | |
| 20 | Balance at 3/31/2000 | | $ | - |
| 21 | Amortization (1/2 yr convention) | 2.50% | | - |
| 22 | Balance at 12/31/2000 | | $ | - |
| 23 | Amortization (1/2 yr convention) | 2.50% | | 10,125 |
| 24 | Balance at 12/31/2001 | | $ | 10,125 |
| 25 | Amortization (1/2 yr convention) | 2.50% | | 24,431 |
| 26 | Balance at 12/31/2002 | | $ | 34,556 |
| 27 | Amortization (1/2 yr convention) | 2.50% | | 31,666 |
| 28 | Balance at 12/31/2003 | | $ | 66,223 |
| 29 | Amortization (1/2 yr convention) | 2.50% | | 37,088 |
| 30 | Balance at 12/31/2004 | | $ | 103,311 |
| 31 | Amortization (1/2 yr convention) | 2.50% | | 35,477 |
| 32 | Balance at 10/31/2005 | | $ | 138,788 |
| 33 | | | | |
| 34 | Accumulated Amortization Per Rebuttal at 10/31/2005 | | $ | 145,364 |
| 35 | | | | |
| 36 | Increase (Decrease) to Accumulated Amortization | | $ | (6,576) |
| 37 | | | | |
| 38 | REFERENCE SCHEDULES | | | |
| 39 | Rejoinder Schedule B-2, Page 4, Adjustment Number 2 | | | |
| 40 | | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
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) | $ | 103,796 |
| 3 | Pumping Power (1/24 of Pumping Power) | | 4,460 |
| 4 | Purchased Water Treatment (1/24 of Purchased Water) | | 257 |
| 5 | | | |
| 6 | | | |
| 7 | | | |
| 8 | | | |
| 9 | Total Working Capital Allowance | $ | 108,512 |
| 10 | | | |
| 11 | | | |
| 12 | Working Capital Requested | $ | - |
| 13 | | | |
| 14 | | | |
| 15 | SUPPORTING SCHEDULES: | RECAP SCHEDULES: | |
| 16 | | Final B-1 | |
| 17 | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Income Statement

Exhibit
Final Schedule C-1
Page 1
Witness: Bourassa

| Line No. | | Adjusted Book Results | Adjustments | Rejoinder Adjusted Results | Proposed Rate Increase | Adjusted with Rate Increase |
|---|---|---|---|---|---|---|
| 1 | **Revenues** | | | | | |
| 2 | Flat Rate Revenues | $ 2,451,576 | $ - | $ 2,451,576 | $ 2,298,383 | $ 4,749,959 |
| 3 | Measured Revenues | - | - | - | | - |
| 4 | Other Wastewater Revenues | 44,804 | - | 44,804 | | 44,804 |
| 5 | | $ 2,496,380 | $ - | $ 2,496,380 | $ 2,298,383 | $ 4,794,763 |
| 6 | **Operating Expenses** | | | | | |
| 7 | Salaries and Wages | $ - | - | $ - | | $ - |
| 8 | Purchased Wastewater Treatment | 6,159 | - | 6,159 | | 6,159 |
| 9 | Sludge Removal Expense | 44,737 | - | 44,737 | | 44,737 |
| 10 | Purchased Power | 107,040 | - | 107,040 | | 107,040 |
| 11 | Fuel for Power Production | - | - | - | | - |
| 12 | Chemicals | 63,590 | - | 63,590 | | 63,590 |
| 13 | Materials and Supplies | 13,042 | (1,747) | 11,295 | | 11,295 |
| 14 | Contractual Services - Professional | 22,068 | - | 22,068 | | 22,068 |
| 15 | Contractual Services - Testing | 11,655 | - | 11,655 | | 11,655 |
| 16 | Contractual Services - Other | 599,919 | (71,955) | 527,964 | | 527,964 |
| 17 | Rents | - | - | - | | - |
| 18 | Transportation Expenses | 35,925 | (22,000) | 13,925 | | 13,925 |
| 19 | Insurance - General Liability | 6,293 | - | 6,293 | | 6,293 |
| 20 | Regulatory Commission Expense | 18,680 | - | 18,680 | | 18,680 |
| 21 | Miscellaneous Expense | 40,000 | - | 40,000 | | 40,000 |
| 22 | Scottsdale Capacity- Lease | 75,936 | (5,778) | 70,158 | | 70,158 |
| 23 | Depreciation | 917,428 | (13,472) | 903,956 | | 903,956 |
| 24 | Taxes Other Than Income | - | - | - | | - |
| 25 | Property Taxes | 253,982 | 1,151 | 255,133 | | 255,133 |
| 26 | Income Tax | 108,048 | 43,926 | 151,974 | 887,150 | 1,039,124 |
| 27 | | | | | | |
| 28 | **Total Operating Expenses** | $ 2,324,502 | $ (69,875) | $ 2,254,628 | $ 887,150 | $ 3,141,778 |
| 29 | **Operating Income** | $ 171,878 | $ 69,875 | $ 241,752 | $ 1,411,233 | $ 1,652,985 |
| 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)** | $ 171,878 | $ 69,875 | $ 241,752 | $ 1,411,233 | $ 1,652,985 |
| 38 | | | | | | |
| 39 | | | | | | |
| 40 | | | | | | |
| 41 | SUPPORTING SCHEDULES: | | | | RECAP SCHEDULES: | |
| 42 | Final C-1, Page 2 | | | | Final A-1 | |
| 43 | Final C-2, pages 1-9 | | | | | |

Gold Canyon Sewer Company
Test Year Ended October 31, 2005
Income Statement

Exhibit
Final Schedule C-1
Page 2
Witness: Bourassa

| Line No. | ADJUSTMENT LABEL->> | Adjusted Book Results | 1 Rebuttal Adj. #1 Expensed Plant | 2 Rebuttal Adj. #2 Materials and Supplies | 3 Rebuttal Adj. #3 Non-recurring Expenses | 4 Rebuttal Adj. #4 'Unnecessary' Expenses | 5 Rebuttal Adj. #5 ACC Assessment | 6 Rebuttal Adj. #7 Depreciation Expense | 7 Property Taxes | 8 Income Tax | Final Adjusted Results | Proposed Rate Increase | Final Adjusted with Rate Increase |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **Revenues** | | | | | | | | | | | | |
| 2 | Flat Rate Revenues | $ 2,451,576 | | | | | | | | | $ 2,451,576 | $ 2,298,383 | $ 4,749,959 |
| 3 | Measured Revenues | - | | | | | | | | | - | | - |
| 4 | Other Wastewater Revenues | 44,804 | | | | | | | | | 44,804 | | 44,804 |
| 5 | | $ 2,496,380 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 2,496,380 | $ 2,298,383 | $ 4,794,763 |
| 6 | **Operating Expenses** | | | | | | | | | | | | |
| 7 | Salaries and Wages | $ - | | | | | | | | | $ - | | $ - |
| 8 | Purchased Wastewater Treatment | 6,159 | | | | | | | | | 6,159 | | 6,159 |
| 9 | Sludge Removal Expense | 44,737 | | | | | | | | | 44,737 | | 44,737 |
| 10 | Purchased Power | 107,040 | | | | | | | | | 107,040 | | 107,040 |
| 11 | Fuel for Power Production | - | | | | | | | | | - | | - |
| 12 | Chemicals | 63,590 | | | | | | | | | 63,590 | | 63,590 |
| 13 | Materials and Supplies | 13,042 | (1,648) | (99) | | | | | | | 11,295 | | 11,295 |
| 14 | Contractual Services - Professional | 22,068 | | | | | | | | | 22,068 | | 22,068 |
| 15 | Contractual Services - Testing | 11,655 | | | | | | | | | 11,655 | | 11,655 |
| 16 | Contractual Services - Other | 599,919 | (5,397) | | (65,727) | (831) | | | | | 527,964 | | 527,964 |
| 17 | Repairs and Maintenance | - | | | | | | | | | - | | - |
| 18 | Rents | 35,925 | | | (22,000) | | | | | | 13,925 | | 13,925 |
| 19 | Transportation Expenses | 6,293 | | | | | | | | | 6,293 | | 6,293 |
| 20 | Insurance | 18,680 | | | | | | | | | 18,680 | | 18,680 |
| 21 | Regulatory Commission Expense - Rate Case | 40,000 | | | | | | | | | 40,000 | | 40,000 |
| 22 | Miscellaneous Expense | 75,936 | | | (239) | (503) | (5,036) | | | | 70,158 | | 70,158 |
| 23 | Depreciation Expense | 917,428 | | | | | | (13,472) | | | 903,956 | | 903,956 |
| 24 | Taxes Other Than Income | - | | | | | | | | | - | | - |
| 25 | Property Taxes | 253,982 | | | | | | | 1,151 | | 255,133 | | 255,133 |
| 26 | Income Tax | 108,048 | | | | | | | | 43,926 | 151,974 | 887,150 | 1,039,124 |
| 27 | | - | | | | | | | | | - | | - |
| 28 | **Total Operating Expenses** | $ 2,324,502 | $ (7,045) | $ (99) | $ (87,966) | $ (1,334) | $ (5,036) | $ (13,472) | $ 1,151 | $ 43,926 | $ 2,254,628 | $ 887,150 | $ 3,141,778 |
| 29 | **Operating Income** | $ 171,878 | $ 7,045 | $ 99 | $ 87,966 | $ 1,334 | $ 5,036 | $ 13,472 | $ (1,151) | $ (43,926) | $ 241,752 | $ 1,411,233 | $ 1,652,985 |
| 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)** | $ 171,878 | $ 7,045 | $ 99 | $ 87,966 | $ 1,334 | $ 5,036 | $ 13,472 | $ (1,151) | $ (43,926) | $ 241,752 | $ 1,411,233 | $ 1,652,985 |
| 38 | | | | | | | | | | | | | |
| 39 | | | | | | | | | | | | | |
| 40 | | | | | | | | | | | | | |
| 41 | SUPPORTING SCHEDULES: | | | | | | | | | | RECAP SCHEDULES: | | |
| 42 | Final C-2, pages 1-9 | | | | | | | | | | Final A-1 | | |
| 43 | | | | | | | | | | | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Adjustments to Revenues and Expenses

Exhibit
Final Schedule C-2
Page 1
Witness: Bourassa

| Line No. | | Adjustments to Revenues and Expenses | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | |
| 1 | | Expensed | Materials and | Non-recurring | 'Unnecessary' | ACC | Depreciation | |
| 2 | | Plant | Supplies | Expenses | Expenses | Assessment | Expense | Subtotal |
| 3 | Revenues | | | | | - | | - |
| 4 | | | | | | | | |
| 5 | Expenses | (7,045) | (99) | (87,966) | (1,334) | (5,036) | (13,472) | (114,952) |
| 6 | | | | | | | | |
| 7 | Operating | | | | | | | |
| 8 | Income | 7,045 | 99 | 87,966 | 1,334 | 5,036 | 13,472 | 114,952 |
| 9 | | | | | | | | |
| 10 | Interest | | | | | | | - |
| 11 | Expense | | | | | | | - |
| 12 | Other | | | | | | | |
| 13 | Income / | | | | | | | - |
| 14 | Expense | | | | | | | |
| 15 | | | | | | | | |
| 16 | Net Income | 7,045 | 99 | 87,966 | 1,334 | 5,036 | 13,472 | 114,952 |
| 17 | | | | | | | | |
| 18 | | | | | | | | |

| Line No. | | Adjustments to Revenues and Expenses | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 19 | | | | | | | | |
| 20 | | 7 | 8 | 9 | 10 | 11 | 12 | |
| 21 | | Property | Income | | | | | |
| 22 | | Taxes | Tax | Blank | Blank | Blank | Blank | Subtotal |
| 23 | Revenues | | | | | | | - |
| 24 | | | | | | | | |
| 25 | Expenses | 1,151 | 43,926 | | | | | (69,875) |
| 26 | | | | | | | | |
| 27 | Operating | | | | | | | |
| 28 | Income | (1,151) | (43,926) | - | - | - | - | 69,875 |
| 29 | | | | | | | | |
| 30 | Interest | | | | | | | |
| 31 | Expense | | | | | | | - |
| 32 | Other | | | | | | | |
| 33 | Income / | | | | | | | - |
| 34 | Expense | | | | | | | |
| 35 | | | | | | | | |
| 36 | Net Income | (1,151) | (43,926) | - | - | - | - | 69,875 |
| 37 | | | | | | | | |
| 38 | | | | | | | | |

| Line No. | | Adjustments to Revenues and Expenses | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 39 | | | | | | | | |
| 40 | | 13 | 14 | 15 | 16 | 17 | 18 | |
| 41 | | | | | | | | |
| 42 | | Blank | Blank | Blank | Blank | Blank | Blank | Total |
| 43 | Revenues | | | | | | | - |
| 44 | | | | | | | | |
| 45 | Expenses | | | | | | | (69,875) |
| 46 | | | | | | | | |
| 47 | Operating | | | | | | | |
| 48 | Income | - | - | - | - | - | - | 69,875 |
| 49 | | | | | | | | |
| 50 | Interest | | | | | | | |
| 51 | Expense | | | | | | | - |
| 52 | Other | | | | | | | |
| 53 | Income / | | | | | | | - |
| 54 | Expense | | | | | | | |
| 55 | | | | | | | | |
| 56 | Net Income | - | - | - | - | - | - | 69,875 |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 1
(Reference Rebuttal Adjustment Number 1)

Exhibit
Final Schedule C-2
Page 2
Witness: Bourassa

| | | | |
|---|---|---|---|
| Remove Expensed Plant | | | |
| | | Label | |
| Materials and Supplies (per RUCO Adj.#5) | (1,648) | 1a | |
| Contractual Services - Other (per RUCO Adj.#5) | (5,397) | 1b | |
| Total | | | $ (7,045) |
| Adjustment to Revenues/Expenses | | | $ (7,045) |

REFERENCE SCHEDULES
Rebuttal Schedule C-2, page 2, Adjustment Number 1

| | | | |
|---|---|---|---|
| | **Gold Canyon Sewer Company**<br>Test Year Ended October 31, 2005<br>Adjustment to Revenues and Expenses<br>Rebuttal Adjustment Number 2<br>(Reference Rebuttal Adjustment Number 2) | | Exhibit<br>Final Schedule C-2<br>Page 3<br>Witness: Bourassa |

| Line No. | | | |
|---|---|---|---|
| 1 | Remove Materials and Supplies Expenses | | |
| 2 | | | |
| 3 | | | |
| 4 | Late Fees (per Staff Adj. # 2 CSB-15) | $ | (60) |
| 5 | Duplicate Expense (per Staff Adj. # 2 CSB-15) | | (39) |
| 6 | | | |
| 7 | | | |
| 8 | Total | $ | (99) |
| 9 | | | |
| 10 | | | |
| 11 | Adjustment to Revenues/Expenses | $ | (99) |
| 12 | | | |
| 13 | | | |
| 14 | | | |
| 15 | REFERENCE SCHEDULES | | |
| 16 | Rebuttal Schedule C-2, page 3, Adjustment Number 2 | | |
| 17 | | | |
| 18 | | | |
| 19 | | | |
| 20 | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 3
(Reference Rebuttal Adjustment Number 3)

Exhibit
Final Schedule C-2
Page 4
Witness: Bourassa

| Line No. | | | | |
|---|---|---|---|---|
| 1 | Remove Non-recurring Expenses | | | |
| 2 | | | | |
| 3 | Backhoe Rental (per Staff Adj. #3 CSB-16 and RUCO Adj. #12 RLM-12) | $ | (22,000) | Rents |
| 4 | Effluent hauling (per Staff Adj. #5 CSB-18 and RUCO Adj. #12 RLM-12) | | (41,820) | Contract Services-Other |
| 5 | Catch-up Expense (per Staff Adj. #5 CSB-18) | | (10,235) | Contract Services-Other |
| 6 | CC&N Expenses (per RUCO Adj. #12 RLM-12) | | (13,672) | Contract Services-Other |
| 7 | Moving Equipment (per RUCO Adj. #12 RLM-12) | | (239) | Misc. Expense |
| 8 | Total | $ | (87,966) | |
| 9 | | | | |
| 10 | | | | |
| 11 | Adjustment to Revenues/Expenses | $ | (87,966) | |
| 12 | | | | |
| 13 | | | | |
| 14 | | | | |
| 15 | | | | |
| 16 | | | | |
| 17 | | | | |
| 18 | | | | |
| 19 | | | | |
| 20 | REFERENCE SCHEDULES | | | |
| 21 | Rebuttal Schedule C-2, page 4, Adjustment Number 3 | | | |
| 22 | | | | |
| 23 | | | | |
| 24 | | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 4
(Reference Rebuttal Adjustment Number 4)

Exhibit
Final Schedule C-2
Page 5
Witness: Bourassa

| Line No. | | | | |
|---|---|---|---|---|
| 1 | Remove 'Unnecessary' Expenses | | | |
| 2 | | | | |
| 3 | Gold Canyon Gold Resort - Fish restocking (per Staff Adj.#9 CSB-22 and RUCO Adj.#10 RLM-10) | $ | (503) | Misc. Expense |
| 4 | Beverages (per RUCO Adj.#10 RLM-10) | | (831) | Contract Services - Other |
| 5 | | | | |
| 6 | Total | $ | (1,334) | |
| 7 | | | | |
| 8 | | | | |
| 9 | | | | |
| 10 | | | | |
| 11 | Adjustment to Revenues/Expenses | $ | (1,334) | |
| 12 | | | | |
| 13 | | | | |
| 14 | | | | |
| 15 | | | | |
| 16 | | | | |
| 17 | REFERENCE SCHEDULES | | | |
| 18 | Rebuttal Schedule C-2, page 5, Adjustment Number 4 | | | |
| 19 | | | | |
| 20 | | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 5
(Reference Rebuttal 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 #9 CSB -22) | $ | (5,036) |
| 4 | | | |
| 5 | | | |
| 6 | | | |
| 7 | | | |
| 8 | | | |
| 9 | | | |
| 10 | | | |
| 11 | Adjustment to Revenues/Expenses | $ | (5,036) |
| 12 | | | |
| 13 | | | |
| 14 | | | |
| 15 | | | |
| 16 | REFERENCE SCHEDULES | | |
| 17 | Rebuttal Schedule C-2, page 6, Adjustment Number 5 | | |
| 18 | | | |
| 19 | | | |
| 20 | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Adjustments to Revenues and Expenses
Adjustment Number 6
(Reference Rebuttal Adjustment Number 7)

Exhibit
Final Schedule C-2
Page 7
Witness: Bourassa

| Line No. | Account No. | Description | Direct Adjusted Original Cost | From B-2 Adj. #1 PTY Plant | From B-2 Adj. #3 Capitalised Expenses | Rebuttal Adjusted Original Cost | Proposed Rates | Depreciation Expense |
|---|---|---|---|---|---|---|---|---|
| 1 | Depreciation Expense | | | | | | | |
| 2 | | | | | | | | |
| 3 | | | | | | | | |
| 4 | | | | | | | | |
| 5 | 351 | Organization | 25,000 | | | 25,000 | 0.00% | - |
| 6 | 352 | Franchises | 25,000 | | | 25,000 | 0.00% | - |
| 7 | 353 | Land and Land Rights | - | | | - | 0.00% | - |
| 8 | 354 | Structures and Improvements | 4,989,153 | | - | 4,989,153 | 3.33% | 166,139 |
| 9 | 355 | Power Generation Equipment | - | | | - | 5.00% | - |
| 10 | 360 | Collection Sewers - Force | 79,427 | | | 79,427 | 2.00% | 1,589 |
| 11 | 361 | Collection Sewers - Gravity | 1,570,491 | | | 1,570,491 | 2.00% | 31,410 |
| 12 | 362 | Special Collecting Structures | 19,067 | | | 19,067 | 2.00% | 381 |
| 13 | 363 | Services to Customers | 21,498 | | | 21,498 | 2.00% | 430 |
| 14 | 364 | Flow Measuring Devices | 3,708 | | | 3,708 | 10.00% | 371 |
| 15 | 365 | Flow Measuring Installations | 159,573 | | | 159,573 | 10.00% | 15,957 |
| 16 | 370 | Receiving Wells | - | | | - | 3.33% | - |
| 17 | 371 | Eff;uent Pumping Equipment | 66,132 | | | 66,132 | 12.50% | 8,267 |
| 18 | 380 | Treatment and Disposal Equipment | 10,938,833 | (272,191) | 5,397 | 10,672,039 | 5.00% | 533,602 |
| 19 | 381 | Plant Sewers | 945 | | | 945 | 5.00% | 47 |
| 20 | 382 | Outfall Sewer Lines | - | | | - | 3.33% | - |
| 21 | 389 | Other Plant and Misc. Equipment | 3,408,092 | | | 3,408,092 | 6.67% | 227,320 |
| 22 | 390 | Office Furniture and Equipment | 36,709 | | | 36,709 | 6.67% | 2,448 |
| 23 | 391 | Transportation Equipment | - | | | - | 20.00% | - |
| 24 | 393 | Tools, Shop and Garage Equipment. | - | | | - | 5.00% | - |
| 25 | 394 | Laboratory Equipment | 15,765 | | 1,648 | 17,413 | 10.00% | 1,741 |
| 26 | 395 | Power Operated Equipment | - | | | - | 5.00% | - |
| 27 | 398 | Other TangiblePlant | - | | | - | 10.00% | - |
| 28 | | | | | | | | |
| 29 | | | | | | | | |
| 30 | | TOTALS | $ 21,359,393 | $ (272,191) | $ 7,045 | $ 21,094,247 | | $ 989,702 |
| 31 | | | | | | | | |
| 32 | | | | | | | | |
| 33 | | | | | | | | |
| 34 | | | | | | | | |
| 35 | | | | | | | | |
| 36 | | | | | | | | |
| 37 | | | | | | | | |
| 38 | Less: Amortization of Contributions - Balance End of TY (net | | $ 1,827,557 | | | $ 1,827,557 | 4.692% | $ (85,745) |
| 39 | | | | | | | | |
| 40 | | | | | | | | |
| 41 | Total Depreciation Expense | | | | | | | $ 903,956 |
| 42 | | | | | | | | |
| 43 | Adjusted Test Year Depreciation Expense Direct Filing | | | | | | | 917,428 |
| 44 | | | | | | | | |
| 45 | Increase (decrease) in Depreciation Expense | | | | | | | (13,472) |
| 46 | | | | | | | | |
| 47 | Adjustment to Revenues and/or Expenses | | | | | | | $ (13,472) |
| 48 | | | | | | | | |
| 49 | REFERENCE SCHEDULES | | | | | | | |
| 50 | Rebuttal Schedule C-2, page 8, Adjustment Number 7 | | | | | | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Final Schedule C-2
Page 8
Witness: Bourassa

| Line No. | | | |
|---|---|---|---|
| 1 | Adjust Property Taxes to Reflect Proposed Revenues: | | |
| 2 | | | |
| 3 | Adjusted Revenues in year ended 12/31/04 | $ | 2,496,380 |
| 4 | Adjusted Revenues in year ended 12/31/04 | | 2,496,380 |
| 5 | Proposed Revenues | | 4,794,763 |
| 6 | Average of three year's of revenue | $ | 3,262,508 |
| 7 | Average of three year's of revenue, times 2 | $ | 6,525,015 |
| 8 | Add: | | |
| 9 | Construction Work in Progess at 10% | $ | - |
| 10 | Deduct: | | |
| 11 | Book Value of Transportation Equipment | | - |
| 12 | | | |
| 13 | Full Cash Value | $ | 6,525,015 |
| 14 | Assessment Ratio | | 24% |
| 15 | Assessed Value | | 1,566,004 |
| 16 | Property Tax Rate | | 16.2920% |
| 17 | | | |
| 18 | Property Tax | | 255,133 |
| 19 | Tax on Parcels | | 0 |
| 20 | | | |
| 21 | Total Property Tax at Proposed Rates | $ | 255,133 |
| 22 | Property Taxes per Direct Filing | | 253,982 |
| 23 | Change in Property Taxes | $ | 1,151 |
| 24 | | | |
| 25 | | | |
| 26 | Adjustment to Revenues and/or Expenses | $ | 1,151 |
| 27 | | | |
| 28 | REFERENCE SCHEDULES | | |
| 29 | Rebuttal Schedule C-2, page 7, Adjustment Number 6 | | |
| 30 | Rejoinder Schedule C-2, page 2, Adjustment Number 1 | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
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 | 31.63% |
| 2 | | |
| 3 | State Income Taxes | 6.97% |
| 4 | | |
| 5 | Other Taxes and Expenses | 0.00% |
| 6 | | |
| 7 | | |
| 8 | Total Tax Percentage | 38.60% |
| 9 | | |
| 10 | Operating Income % = 100% - Tax Percentage | 61.40% |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | $\frac{1}{\text{Operating Income \%}}$ = Gross Revenue Conversion Factor | |
| 16 | | 1.6286 |
| 17 | | |
| 18 | SUPPORTING SCHEDULES: | RECAP SCHEDULES: |
| 19 | | Final A-1 |
| 20 | | |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Summary of Cost of Capital

Exhibit
Final Schedule D-1
Page 1
Witness: Bourassa

| Line No. | Item of Capital | End of Test Year: Dollar Amount | End of Test Year: Percent of Total | End of Test Year: (e) Cost Rate | End of Test Year: Weighted Cost | Adjusted End of Test Year: Dollar Amount | Adjusted End of Test Year: Percent of Total | Adjusted End of Test Year: (e) Cost Rate | Adjusted End of Test Year: Weighted Cost |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Long-Term Debt | - | 0.00% | 0.00% | 0.00% | - | 0.00% | 0.00% | 0.00% |
| 2 | | | | | | | | | |
| 3 | Stockholder's Equity (1)(2) | 14,443,665 | 100.00% | 10.50% | 10.50% | 14,443,665 | 100.00% | 10.50% | 10.50% |
| 4 | | | | | | | | | |
| 5 | Totals | 14,443,665 | 100.00% | | 10.50% | 14,443,665 | 100.00% | | 10.50% |
| 6 | | | | | | | | | |
| 7 | **(1) Adjusted for accum. depreciation from Direct B-2** | **$** | **(195,634) .** | | | | | | |
| 8 | **(2) Adjusted foraccum. amortization from Direct B-2** | **$** | **75,381 .** | | | | | | |
| 9 | | | | | | | | | |
| 10 | | | | | | | | | |
| 11 | | | | | | | | | |
| 12 | SUPPORTING SCHEDULES: | | | | | | | | RECAP SCHEDULES: |
| 13 | | | | | | | | | |
| 14 | | | | | | | | | |
| 15 | | | | | | | | | |
| 16 | | | | | | | | | |
| 17 | | | | | | | | | |
| 18 | | | | | | | | | |
| 19 | | | | | | | | | |
| 20 | | | | | | | | | |
| 21 | | | | | | | | | |
| 22 | | | | | | | | | |
| 23 | | | | | | | | | |
| 24 | | | | | | | | | |
| 25 | | | | | | | | | |
| 26 | | | | | | | | | |
| 27 | | | | | | | | | |
| 28 | | | | | | | | | |
| 29 | | | | | | | | | |
| 30 | | | | | | | | | |
| 31 | | | | | | | | | |
| 32 | | | | | | | | | |

Exhibit
Final Schedule H1
Witness: Bourassa

**Gold Canyon Sewer Company**
Revenue Summary
With Annualized Revenues to Year End Number of Customers
And Estimated Customer Growth
Test Year Ended October 31, 2005

| 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 | $ 2,055,375 | $ 3,980,968 | $ 1,925,593 | 93.69% | 83.79% | 83.79% |
| 2 | Residential (<700 SF) per dwelling | 86,535 | 167,585 | 81,050 | 93.66% | 3.53% | 3.53% |
| 3 | Residential (Homeowner's Association) | 75,732 | 146,679 | 70,948 | 93.68% | 3.09% | 3.09% |
| 4 | Commercial | 178,185 | 345,108 | 166,924 | 93.68% | 7.26% | 7.26% |
| 5 | Effluent Sales | 31,699 | 61,395 | 29,696 | 93.68% | 1.29% | 1.29% |
| 6 | Subtotal | $ 2,427,526 | $ 4,701,736 | $ 2,274,210 | 93.68% | 98.96% | 98.96% |
| 7 | | | | | | | |
| 8 | ***Residential customer revenue*** | | | | | | |
| 9 | ***annualized to end of year, based on*** | | | | | | |
| 10 | ***year end number of customers*** | | | | | | |
| 11 | **Residential** | 51,345 | 99,448 | 48,103 | 93.69% | 2.09% | 2.09% |
| 12 | **Residential (<700 SF) per dwelling** | (27,203) | (52,682) | (25,479) | 93.66% | -1.11% | -1.11% |
| 13 | **Residential (Homeowner's Association)** | 1,400 | 2,712 | 1,312 | 93.68% | 0.06% | 0.06% |
| 14 | **Commercial** | (11) | (11) | - | 0.00% | 0.00% | 0.00% |
| 15 | Subtotal | $ 25,531 | $ 49,466 | $ 23,936 | 93.75% | 1.04% | 1.04% |
| 16 | | | | | | | |
| 17 | Subtotal Revenues from Bill Count | 2,453,056 | 4,751,202 | 2,298,146 | 93.68% | 200.00% | 200.00% |
| 18 | Misc Revenues | 44,804 | 44,804 | - | 0.00% | 0.00% | 0.00% |
| 19 | Totals | $ 2,497,860 | $ 4,796,006 | $ 2,298,146 | 92.00% | 200.00% | 200.00% |

**Gold Canyon Sewer Company**
Test Year Ended October 31, 2005
Analysis of Revenue by Detailed Class

Final Schedule H-2
Page 1
Witness: Bourassa

| Line No. | Customer Classification | Average Number of Customers at 10/31/2005 | Average Effluent | Revenues Present Rates | Revenues Proposed Rates | Proposed Increase Dollar Amount | Proposed Increase Percent Amount |
|---|---|---|---|---|---|---|---|
| 1 | Residential | 5,016 | N/A | $ 35.00 | $ 67.79 | $ 32.79 | 93.69% |
| 2 | Residential (<700 S.F.) | 259 | N/A | 19.09 | 36.97 | 17.88 | 93.66% |
| 3 | Residential (Homeowners Association)* | 1 | N/A | 31.82 | 61.63 | 29.81 | 93.68% |
| 4 | Commercial | 20 | N/A | 0.18 | 0.34 | 0.16 | 93.68% |
| 5 | Effluent | 3 | 2,382,750 | 0.39 | 0.76 | 0.37 | 93.68% |
| 6 | | | | | | | |
| 7 | Total | 5,299 | | | | | |
| 8 | | | | | | | |
| 9 | | | | | | | |
| 10 | * Shown on H5 schedule as number of occupied units billed, but only one customer is billed. | | | | | | |
| 11 | | | | | | | |

**Gold Canyon Sewer Company**
Present and Proposed Rates
Test Year Ended October 31, 2005

Exhibit
Final Schedule H-3
Page 1
Witness: Bourassa

| Line No. | Customer Classification and Meter Size | Present Rates | Proposed Rates | Percent Change |
|---|---|---|---|---|
| 1 | | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | **Monthly Charge for:** | | | |
| 6 | Residential | $ 35.00 | $ 67.79 | 93.6857% |
| 7 | Commercial, per gallon per day | 0.175 | 0.339 | 93.6800% |
| 8 | Effluent Sales (per 1,000 gallons) | 0.391 | 0.758 | 93.6800% |
| 9 | Residential charge for dwelling less than 700 SF | 19.09 | 36.97 | 93.6616% |
| 10 | Homeowner's Associations, per dwelling | 31.82 | 61.63 | 93.6832% |
| 11 | Recalimed non-pottable water per A.F. (See Effluent Sales per 1,000 gallons) | 127.50 | 246.94 | 93.6784% |

**Gold Canyon Sewer Company**
Present and Proposed Rates
Test Year Ended October 31, 2005

Exhibit
Final Schedule H-3
Page 2
Witness: Bourassa

| Line No. | Other Service Charges | Present Rates | Proposed Rates |
|---|---|---|---|
| 1 | Establishment | $ 25.00 | $ 25.00 |
| 2 | Establishment (After Hours) | 50.00 | 50.00 |
| 3 | Re-Establishment (With-in 12 Months) | (b) | (b) |
| 4 | Re-Establishment (After Hours)(b) plus | 40.00 | 40.00 |
| 5 | Reconnection (Deliquent) | (c) | (c) |
| 6 | Reconnection (Deliquent and After Hours)(c) plus | 30.00 | 30.00 |
| 7 | Min Deposit Requirement (Residential) | (a) | (a) |
| 8 | Min Deposit Requirement (Non-Residential) | (a) | (a) |
| 9 | Deposit Interest | 6.00% | 6.00% |
| 10 | NSF Check | 10.00 | 10.00 |
| 11 | Deferred Payment finance charge, Per Month | 1.50% | 1.50% |
| 12 | Late Payment Charge, Per Month | 1.50% | 1.50% |
| 13 | | | |
| 14 | Main Extension Tariff, per Rule | Cost | Cost |
| 15 | | | |
| 16 | Hook-Up Fee for New Service | | |
| 17 | 4 Inch service line | $ 900 | $ 900 |
| 18 | 6 Inch service line | $ 2,025 | $ 2,025 |
| 19 | 8 Inch service line | $ 3,600 | $ 3,600 |
| 20 | larger than 8 Inch service line | $ 5,625 | $ 5,625 |
| 21 | | | |
| 22 | (a) Residential - two times the average bill. Non-residential - two and one-half times the average bill. | | |
| 23 | (b) Minimum charge times number of full months disconnected. | | |
| 24 | (c) Actual cost of physical disconnection and reconnection (if same customer) and there shall be no | | |
| 25 | charge if there is no physical work performed. | | |
| 26 | | | |
| 27 | IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM | | |
| 28 | ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE | | |
| 29 | TAX. PER COMMISSION RULE | | |
| 30 | ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS, | | |
| 31 | AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES. | | |
| 32 | COST TO INCLUDE LABOR, MATERIALS AND PARTS, OVERHEADS AND ALL APPLICABLE TAXES. | | |

**Gold Canyon Sewer Company**
Representative Rate Schedule
Test Year Ended October 31, 2005

Exhibit
Final Schedule H-3
Page 3
Witness: Bourassa

**Hook-up Fee to charged Builders, Developers, and or New Homeowner's**

All Builders, Developers, and/or New Homeowners are required to pay a Hook-up Fee for connection to the sewer system.

| Service Line Size | Present Rates | Proposed Rates |
|---|---|---|
| 4 Inch service line | $ 900 | N/A |
| 6 Inch service line | $ 2,025 | N/A |
| 8 Inch service line | $ 3,600 | N/A |
| larger than 8 Inch service line | $ 5,625 | N/A |

Gold Canyon Sewer Company
Bill Comparison
Customer Classification
Residential

Exhibit
Final Schedule H4
Page 1
Witness: Bourassa

| Present Bill | Proposed Bill | Dollar Increase | Percent Increase |
|---|---|---|---|
| $ 35.00 | $ 67.79 | $ 32.79 | 93.69% |

**Present Rates:**

| | |
|---|---|
| Monthly Charge: | $ 35.00 |

**Proposed Rates:**

| | |
|---|---|
| Monthly Charge: | $ 67.79 |

Gold Canyon Sewer Company
Bill Comparison
Customer Classification
Residential (<700 S.F.)
RV/Mobile Home

Exhibit
Final Schedule H4
Page 2
Witness: Bourassa

| Present Bill | Proposed Bill | Dollar Increase | Percent Increase |
|---|---|---|---|
| $ 19.09 | $ 36.97 | $ 17.88 | 93.66% |

**Present Rates:**
Monthly Charge per Dwelling: $ 19.09

**Proposed Rates:**
Monthly Charge per Dwelling: $ 36.97

Gold Canyon Sewer Company
Bill Comparison
Customer Classification
Residential Units (Home Owners Association)

Exhibit
Final Schedule H4
Page 3
Witness: Bourassa

| Present Bill | Proposed Bill | Dollar Increase | Percent Increase |
|---|---|---|---|
| $ 31.82 | $ 61.63 | $ 29.81 | 93.68% |

**Present Rates:**
Monthly Charge per Dwelling: $ 31.82

**Proposed Rates:**
Monthly Charge per Dwelling: $ 61.63

Gold Canyon Sewer Company
Bill Comparison
Customer Classification
Commercial

Exhibit
Final Schedule H4
Page 4
Witness: Bourassa

| Average GPD | Present Bill | Proposed Bill | Dollar Increase | Percent Increase |
|---|---|---|---|---|
| - | $ - | $ - | $ - | 0.00% |
| 50 | 8.75 | 16.95 | 8.20 | 93.68% |
| 150 | 26.25 | 50.84 | 24.59 | 93.68% |
| 250 | 43.75 | 84.74 | 40.99 | 93.68% |
| 350 | 61.25 | 118.63 | 57.38 | 93.68% |
| 450 | 78.75 | 152.52 | 73.77 | 93.68% |
| 550 | 96.25 | 186.42 | 90.17 | 93.68% |
| 650 | 113.75 | 220.31 | 106.56 | 93.68% |
| 750 | 131.25 | 254.21 | 122.96 | 93.68% |
| 850 | 148.75 | 288.10 | 139.35 | 93.68% |
| 950 | 166.25 | 321.99 | 155.74 | 93.68% |
| 1,050 | 183.75 | 355.89 | 172.14 | 93.68% |
| 2,050 | 358.75 | 694.83 | 336.08 | 93.68% |
| 3,050 | 533.75 | 1,033.77 | 500.02 | 93.68% |
| 4,050 | 708.75 | 1,372.71 | 663.96 | 93.68% |
| 5,050 | 883.75 | 1,711.65 | 827.90 | 93.68% |
| 6,050 | 1,058.75 | 2,050.59 | 991.84 | 93.68% |
| 7,050 | 1,233.75 | 2,389.53 | 1,155.78 | 93.68% |
| 8,050 | 1,408.75 | 2,728.47 | 1,319.72 | 93.68% |
| 9,050 | 1,583.75 | 3,067.41 | 1,483.66 | 93.68% |
| 10,000 | 1,750.00 | 3,389.40 | 1,639.40 | 93.68% |
| 15,000 | 2,625.00 | 5,084.10 | 2,459.10 | 93.68% |
| 20,000 | 3,500.00 | 6,778.80 | 3,278.80 | 93.68% |
| 25,000 | 4,375.00 | 8,473.50 | 4,098.50 | 93.68% |
| 30,000 | 5,250.00 | 10,168.20 | 4,918.20 | 93.68% |
| 35,000 | 6,125.00 | 11,862.90 | 5,737.90 | 93.68% |
| 40,000 | 7,000.00 | 13,557.60 | 6,557.60 | 93.68% |
| 45,000 | 7,875.00 | 15,252.30 | 7,377.30 | 93.68% |
| 50,000 | 8,750.00 | 16,947.00 | 8,197.00 | 93.68% |
| 60,000 | 10,500.00 | 20,336.40 | 9,836.40 | 93.68% |
| 70,000 | 12,250.00 | 23,725.80 | 11,475.80 | 93.68% |
| 80,000 | 14,000.00 | 27,115.20 | 13,115.20 | 93.68% |
| 90,000 | 15,750.00 | 30,504.60 | 14,754.60 | 93.68% |
| 100,000 | 17,500.00 | 33,894.00 | 16,394.00 | 93.68% |
| Average Usage | | | | |
| 2,805 | $ 0.18 | $ 0.34 | $ 0.16 | 93.68% |
| Median Usage | | | | |
| 3,070 | $ 0.18 | $ 0.34 | $ 0.16 | 93.68% |

**Present Rates:**
Charge Per Gallon per Day $ 0.1750

**Proposed Rates:**
Charge Per Gallon per Day $ 0.3389

Gold Canyon Sewer Company
Bill Comparison
Customer Classification
Effluent Sales

Exhibit
Final Schedule H4
Page 5
Witness: Bourassa

| MidPoint Usage | Present Bill | Proposed Bill | Dollar Increase | Percent Increase |
|---|---|---|---|---|
| 500,000 | $ 195.64 | $ 378.92 | $ 183.28 | 93.68% |
| 1,000,000 | 391.28 | 757.84 | 367 | 93.68% |
| 2,000,000 | 782.57 | 1,515.67 | 733 | 93.68% |
| 3,000,000 | 1,173.85 | 2,273.51 | 1,100 | 93.68% |
| 4,000,000 | 1,565.13 | 3,031.35 | 1,466 | 93.68% |
| 5,000,000 | 1,956.42 | 3,789.19 | 1,833 | 93.68% |
| 6,000,000 | 2,347.70 | 4,547.02 | 2,199 | 93.68% |
| 7,000,000 | 2,738.98 | 5,304.86 | 2,566 | 93.68% |
| 8,000,000 | 3,130.27 | 6,062.70 | 2,932 | 93.68% |
| 9,000,000 | 3,521.55 | 6,820.53 | 3,299 | 93.68% |
| 10,000,000 | 3,912.83 | 7,578.37 | 3,666 | 93.68% |
| 11,000,000 | 4,304.11 | 8,336.21 | 4,032 | 93.68% |
| 12,000,000 | 4,695.40 | 9,094.05 | 4,399 | 93.68% |
| 13,000,000 | 5,086.68 | 9,851.88 | 4,765 | 93.68% |
| 14,000,000 | 5,477.96 | 10,609.72 | 5,132 | 93.68% |
| 15,000,000 | 5,869.25 | 11,367.56 | 5,498 | 93.68% |
| 16,000,000 | 6,260.53 | 12,125.39 | 5,865 | 93.68% |
| 17,000,000 | 6,651.81 | 12,883.23 | 6,231 | 93.68% |
| 18,000,000 | 7,043.10 | 13,641.07 | 6,598 | 93.68% |
| 19,000,000 | 7,434.38 | 14,398.91 | 6,965 | 93.68% |
| Average Usage | | | | |
| 2,382,750 | $ 932.33 | $ 1,805.74 | $ 873.41 | 93.68% |
| Median Usage | | | | |
| 1,500,000 | $ 586.92 | $ 1,136.76 | $ 549.83 | 93.68% |

**Present Rates:**

Charge per 1,000 gals $ 0.391

**Proposed Rates:**

Charge per 1,000 gals $ 0.758