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BEFORE THE ARIZONA CORPORATION COMMISSION

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JEFF HATCH-MILLER, Chairman
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KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF GOODMAN WATER COMPANY FOR A RATE INCREASE.	DOCKET NO. W-02500A-06-0281 **STAFF'S NOTICE OF FILING SURREBUTTAL TESTIMONY**

The Arizona Corporation Commission Utilities Division ("Staff") hereby files the Surrebuttal Testimony of Charles P. Myhlhousen,and Steven P. Irvine, Jr.

RESPECTFULLY SUBMITTED this 12th day of January 2007.

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Arizona Corporation Commission
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Original and thirteen (13) copies of the foregoing were filed this 12th day of January 2007 with:

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

Arizona Corporation Commission
DOCKETED
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SURREBUTTAL

TESTIMONY

OF

CHARLES R. MYHLHOUSEN

STEVEN P. IRVINE

DOCKET NO. W-02500A-06-0281

IN THE MATTER OF THE APPLICATION OF
GOODMAN WATER COMPANY FOR A
PERMANENT RATE INCREASE

JANUARY 12, 2007

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF GOODMAN WATER COMPANY FOR A PERMANENT RATE INCREASE	))))	DOCKET NO. W-02500A-06-0281

SURREBUTTAL

TESTIMONY

OF

CHARLES R. MYHLHOUSEN

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 12, 2007

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SURREBUTTAL SCHEDULES

EXECUTIVE SUMMARY
GOODMAN WATER COMPANY
DOCKET NO. W-02500A-06-0281

Staff's surrebuttal testimony recommends revised rates that would increase operating revenues by $249,846 to produce operating revenues of $463,194 resulting in operating income of $118,179, or a 117.11 percent increase over test year revenues of $213,348. Staff recommends a revised 9.30 percent cost of capital. Staff also recommends a revised FVRB of $1,270,741.

Revenue Requirement

The Company's rebuttal testimony revised revenue requirement is $538,812. Staff's surrebuttal testimony recommended revenue requirement is revised to $463,194 which reflects changes in Staff's cost of capital and other adjustments.

Rate Base

The Company's adjustment to accumulated depreciation related to meters is $152. Staff concurs with the Company.

The Company rebuttal testimony proposes a revised cash working capital in the amount of $21,310. Staff continues to recommend cash working capital of zero.

Income Statement

The Company's rebuttal testimony proposes property taxes in the revised amount of $19,287. Staff recommends property taxes in the amount of $17,776.

The Company's rebuttal testimony proposes income tax in the revised amount of $73,879. Staff recommends income taxes of $60,552.

The Company proposes that there should be no interest synchronization. Staff concurs with the Company.

The Company rebuttal testimony retains $32,000 for salaries and wages expense. Staff continues to recommend the amount of $6,400 for salaries and wages.

The Company rebuttal testimony retains $78,106 for outside services expenses. Staff continues to recommend outside services expense in the amount of $60,239.

Rate Design

The Company rebuttal testimony retains the rate design from its direct testimony. Staff rate design has different monthly minimums, commodity rates and break over points.

The Company changes its proposed late charge fee to 1.5 percent per month or $5.00 which ever is greater. Staff continues to recommend a late charge of 1.5 percent per month.

INTRODUCTION

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

A. My name is Charles R. Myhlhousen. I am a Public Utilities Analyst III employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Charles R. Myhlhousen who filed direct testimony in this case?

A. Yes, I am.

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

A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of Staff, to the rebuttal testimony of Goodman Water Company ("Goodman" or "Company") witness, Mr. Thomas J. Bourassa, regarding rate base, operating revenues and expenses, and revenue requirement.

Q. Did you attempt to address every issue the Company raised in its rebuttal testimony?

A. No. Staff limited its discussion to certain issues as outlined below. Staff's lack of response to any issue in this proceeding should not be construed as agreement with the Company's position in it rebuttal testimony; rather where there is no response Staff relies on its original direct testimony.

Q. What issues will you address?

A. Staff will address the issues listed below that are discussed in the rebuttal testimony of Goodman Water Company witness Mr. Thomas J. Bourassa.

Q. Please explain how Staff's surrebuttal testimony is organized.

A. Staff's surrebuttal testimony is generally organized to present issues in the same sequence as presented in Mr. Bourassa's rebuttal testimony.

Q. In regards to Staff's direct testimony and schedules, did Staff have a typographical error it wishes to correct?

A. Yes, on Schedule CRM-1, line 12 should read rate of return on rate base. The rate of return is computed on rate base. Staff does not compute rate of return on common equity. See surrebuttal testimony Schedule CRM-1.

On page 8 line 12 of Staff's direct testimony it should be 152.15 percent instead of 52.15 percent.

RESPONSE TO MR. THOMAS J. BOURASSA'S REBUTTAL TESTIMONY

Revenue Requirement:

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding revenue requirement?

A. Yes.

Q. Please summarize the proposed revenue requirements, revenue increase, and percent increase.

A. The proposed and recommended revenue requirement, revenue increase, and percent increase are as follows:

	Revenue Requirement	Revenue Increase	% Increase
Company-Direct	$537,955	$324,607	152.15%
Staff-Direct	$446,411	$233,063	109.24%
Company Rebuttal	$538,812	$325,463	152.55%
Staff Surrebuttal	$463,194	$249,846	117.11%

Q. Why has Staff changed and increased its revenue requirement?

A. Staff has made several adjustments to rate base, operating income and operating expenses based upon review of the Company's rebuttal testimony. They are listed below.

Rate Base:

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding rate base?

A. Yes.

Q. Would Staff please identify each party's respective rate base recommendations?

A. Yes. The rate bases proposed and recommended by both parties in the case are as follows:

	OCRB	FVRB
Company-Direct	$1,275,683	$1,275,683
Staff-Direct	$1,270,589	$1,270,589
Company Rebuttal	$1,292,051	$1,292,051
Staff Surrebuttal	$1,270,741	$1,270,741

On page 4, line 7 of Mr. Bourassa's rebuttal testimony under **OCRB** Staff's recommended amount for **OCRB** is incorrect. The amount should be $1,270,589 which is the same as **FVRB** of $1,270,589. Staff and the Company concur on the amount of plant-in-service included in rate base.

Q. Mr. Bourassa states that accumulated depreciation in the amount of $152 should be removed from rate base account No. 334 for meters. *See* Bourassa RT at page 4. Does Staff accept this number?

A. Yes. This adjustment increases rate base by $152, from $1,270,589 to $1,270,741. This adjustment reduces Staff's accumulated depreciation adjustment in its direct testimony from $415 to $263. The difference is $152. This is shown on Surrebuttal Schedule CRM-6.

Q. Has Staff reviewed Mr. Bourassa's rebuttal testimony regarding working capital?

A. Yes. Staff does not agree with Mr. Bourassa's rebuttal testimony that cash working capital should be included in rate base, in this case. The Company did not perform a lead/lag study nor explained how it determined that it would produce a positive cash working capital need. Generally, a lead/lag study will produce a negative cash working capital need. The Company wants a cash working capital allowance without a lead/lag study and relies on the formula method which is reserved for small (classes D & E) utilities and always produces a positive cash working capital need. Staff is not aware of any Class C and above utilities given cash working capital without a lead/lag study being performed. The Company states that it is a small utility. The Company is proposing revenue of $538,812, which is far above the $250,000 limit set for Class D utilities.

Q. Mr. Bourassa accounts for the difference between rate base and common equity in this case and suggests it should be included in rate base. He states in his rebuttal testimony at page 3, "Goodman has invested over $2.35 million of (sic) dollars in its water utility plant……". Does Staff agree?

A. Staff does not agree with Mr. Bourassa's analysis. This investment represents Company funds and advances and deposits from developers/rate payers. That is why the $2.35

million investment translates to a rate base of $1.27 million on which the Company may earn a fair rate of return.

Income Statement:

Q. Does Staff agree with the Company's statement concerning calculation of property taxes?

A. Yes, The difference between Staff recommended and the Company proposed level of property taxes is due to differences in Staff recommended and Company proposed revenue.

Q. Does Staff agree with Mr. Bourassa's adjustment of interest synchronization?

A. Yes. The Company has no long-term debt. Staff, mistakenly, included non-existent loan interest expense. See Surrebuttal Schedules CRM-2 and CRM-8.

Q. Does Staff agree with the Company that the salaries and wages are reasonable for the services provided by Mr. Sears?

A. No. Mr. Bourassa's rebuttal testimony at page 9 states that Goodman is a financially sound and well managed company. Mr. Sears is a co-owner of the Company which results in related party transactions. In a well managed company, time sheets, written reports and employee contracts would be required. None of these are required from, or provided by, Mr. Sears. The Company has not been able to supply documentation for the time worked by Mr. Sears or the duties performed. The Company can not justify the salary of $32,000 paid to Mr. Sears. Mr. Sears works for Goodman on an as-needed basis and weekly hours vary. Staff has allowed a reasonable amount based on the information supplied by the Company to Staff's Data Request No. 3.3, as to Mr. Sears' involvement in the Company's operations.

Q. Does Staff agree with the Company that the services provided by CWH2 are different than the services provided by YL Technologies?

A. No. The Company's response to Staff's Data Request No. 3.5 states that Mr. Hill, on average, spends only one to two hours per week providing services to Goodman. According to the CWH2 Services contract, they provide a variety of services. All of these services could not be provided in one to two hours per week or 4 to 8 hours per month. Mr. Hill has stated that on a weekly basis he performs the same tests that YL Technologies performs on a monthly basis which is all that is required. CWH2 charges are based on the Company's number of customers it serves and not on the duties performed by CWH2. The Company can not justify the money paid to CWH2 Services. There appears to be a duplication of services provided by CWH2. CWH2 monthly billings only reflect that it takes readings and checks sites. They do not reflect any other services being provided.

Q. Does Staff agree with the Company that the payment Mr. Shiner receives for outsides services is reasonable for the services provided?

A. No. Again Staff points out that Mr. Bourassa states that Goodman is a financially sound and well managed company. Mr. Shiner is a co-owner of the Company which results in related party transactions. Again in a well managed company, time sheets, written reports and contracts would be required. None of these documents are required from, or provided by, Mr. Shiner. The Company can not justify the expense amount paid to Mr. Shiner. The Company has not been able to supply documentation for the time worked or duties performed by Mr. Shiner. Mr. Shiner does not submit billings to the Company for the services performed.

Q. Does Staff agree with Mr. Bourassa that the expenses for salaries, wages and outside services are reasonable?

A. No. Staff does not agree with the Company's comparison with Sabrosa Water Company. Sabrosa has an interim operator running the system that has been abandoned by its owner. Staff does not agree with the comparison with Valley Utilities Water Company or Chaparral Water. Staff agrees with Mr. Bourassa that each company must be examined on a case-by-case basis and that is exactly what Staff has done. Mr. Bourassa's rebuttal testimony, pages 12 and 13 states he agrees that each company should be examined on a case by case basis. However, he also states it is not unreasonable to examine other water utilities for comparison. His argument is not sound because he proposes to use whatever method is most advantageous to the Company, not solely on its own merits and not on a company by company basis.

Rate Design:

Q. Does Staff agree with the Company proposed rate design?

A. No, Staff concurs with the Company that the monthly minimum for the 5/8 x 3/4 inch meter and 3/4 inch meter should be different in this rate case. The Company determines the size of meter a residential customer will have installed. Both the 5/8 x 3/4 inch and the 3/4 inch meter sizes are sizes that residential customers would use. However, since the Company has no 3/4 inch meter customers the minimums should be different since the 3/4 inch meter has larger flow capacity than the 5/8 x3/4 inch meter. Staff monthly minimums are scaled to the flow rates. In Staff's direct testimony, the monthly minimums were off because of a typographical error. This has been corrected. Staff's rate design for the 5/8 x 3/4inch meter and ¾ inch meter have three–tiers. All other meter sizes have two-tiers. See Surrebuttal Schedule CRM-18.

Q. Does it make sense to have separate tier structures or break over points for each size meter?

A. Yes. Goodman Water is not a small water company. It is a Class C water company. Staff's rate design is easy to understand for all meter sizes. Staff rate design takes into consideration growth in customer base and use of larger meter sizes. Once usage patterns have been established, the Company could file a rate case to have the break over points adjusted if necessary.

Q. Is 75,000 gallons break over point correct for 1 inch meters?

A. No. Staff concurs with the Company that the break over point on a two-tier structure for the 1 inch meter should be 22,500 gallons.

Q. What is Staff's surrebuttal recommended rates?

A. Staff's surrebuttal rates for customers by meter size are:

Meter Size	Monthly Minimum	Gallons included in Monthly Minimum
5/8	$39.00	0
¾	$59.00	0
1	$95.00	0
1 ½	$195.00	0
2	$305.00	0
3	$624.00	0
4	$975.00	0
6	$1950.00	0

The commodity charges and tiers by meter size are:

Meter Size	Tier (gallons)	Charge per 1,000 gallons
5/8 x3/4 Inch	Zero to 4,000	$3.65
And ¾ Inch	4,001 to 9,000	$5.60
	All gallons over 9,000	$6.42
1 Inch	Zero to 22,500	$5.60
	All gallons over 22,500	$6.42
1 ½ Inch	Zero to 34,000	$5.60
	All gallons over 34,000	$6.42
2 Inch	Zero to 45,000	$5.60
	All gallons over 45,000	$6.42
3 Inch	Zero to 68,000	$5.60
	All gallons over 68,000	$6.42
4 Inch	Zero to 90,000	$5.60
	All gallons over 90,000	$6.42
6 Inch	Zero to 135,000	$5.60
	All gallons over 135,000	$6.42

For irrigation commodity rates see the above individual meter size's commodity rates. For construction meter and standpipe the rate is $6.42 per 1,000 gallons with no monthly minimum charge.

Q. Does Staff agree with the Company's proposed changes to other rates and charges concerning late charge?

A. No. Staff is still recommending a late charge of 1.5 percent per month. This would be 18 percent per year. The Company has not furnished Staff with a listing of the percent of customers that are delinquent or if the Company even has a late payment problem. This 1.5 percent per month is what Staff has normally recommended that other water companies charge and is in line with the Commission's decisions.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

GOODMAN WATER COMPANY
Docket No. W-02500A-06-0281
Test Year Ended SEPTEMBER 30, 2005

Surrebuttal

DIRECT TESTIMONY OF CHARLES R. MYHLHOUSEN

TABLE OF CONTENTS TO SCHEDULES CRM

GOODMAN WATER COMPANY
Docket No. W-02500A-06-0281
Test Year Ended September 30, 2005

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION		(A) COMPANY ORIGINAL COST		(B) COMPANY FAIR VALUE		(C) STAFF ORIGINAL COST		(D) STAFF FAIR VALUE
1	Adjusted Rate Base	$	1,275,683	$	1,275,683	$	1,270,741	$	1,270,741
2	Adjusted Operating Income (Loss)	$	(76,594)	$	(76,594)	$	(54,620)	$	(54,620)
3	Current Rate of Return (L2 / L1)		-6.00%		-6.00%		-4.30%		-4.30%
4	Required Rate of Return		10.50%		10.50%		9.30%		9.30%
5	Required Operating Income (L4 * L1)	$	133,947	$	133,947	$	118,179	$	118,179
6	Operating Income Deficiency (L5 - L2)	$	210,541	$	210,541	$	172,799	$	172,799
7	Gross Revenue Conversion Factor		1.5418		1.5418		1.4459		1.4459
8	Required Revenue Increase (L7 * L6)	$	324,607	$	324,607	**$**	**249,846**	**$**	**249,846**
9	Adjusted Test Year Revenue	$	213,348	$	213,348	$	213,348	$	213,348
10	Proposed Annual Revenue (L8 + L9)	$	537,955	$	537,955	$	463,194	$	463,194
11	Required Increase in Revenue (%)		152.15%		152.15%		117.11%		117.11%
12	Rate of Return on Rate Base		10.50%		10.50%		9.30%		9.30%

References:
Column (A): Company Schedule A-1
Column (B): Company Schedule A-1
Column (C): Staff Schedule CRM-3
Column (D): Staff Schedule CRM-3

GOODMAN WATER COMPANY
Docket No. W-02500A-06-0281
Test Year Ended September 30, 2005

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
	Calculation of Gross Revenue Conversion Factor:				
1	Revenue	100.0000%			
2	Uncollecible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17)	30.8379%			
5	Subtotal (L3 - L4)	69.1621%			
6	**Revenue Conversion Factor (L1 / L5)**	1.445878			
	Calculation of Uncollectible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	30.8379%			
9	One Minus Combined Income Tax Rate (L7 - L8)	69.1621%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
	Calculation of Effective Tax Rate:				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 44)	25.6577%			
16	Effective Federal Income Tax Rate (L14 x L15)	23.8699%			
17	Combined Federal and State Income Tax Rate (L13 +L16)	30.8379%			
18	Required Operating Income (Schedule CRM-9 Col (E) Line 42	$ 118,179			
19	AdjustedTest Year Operating Income (Loss) (Schedule CRM-9 Line 42)	$ (54,620)			
20	Required Increase in Operating Income (L18 - L19)		$ 172,799		
21	Income Taxes on Recommended Revenue (Col. (D), L43)	$ 60,552			
22	Income Taxes on Test Year Revenue (Col. (B), L43)	$ (16,495)			
23	Required Increase in Revenue to Provide for Income Taxes (L21 - L22)		$ 77,047		
24	Recommended Revenue Requirement (Schedule CRM-1, Line 30)	$ 463,194			
25	Uncollectible Rate (Line 10)	0.0000%			
26	Uncollectible Expense on Recommended Revenue (L24 * L25)	$ -			
27	Adjusted Test Year Uncollectible Expense	$ -			
28	Required Increase in Revenue to Provide for Uncollectible Exp. (L26 - L27)		$ -		
29	Total Required Increase in Revenue (L20 + L23 + L28)		$ 249,846		
	Calculation of Income Tax:	Test Year		STAFF Recommended	
30	Revenue (Schedule CRM-9 Col (E) Line 5) & CRM-1 Col (B) Line 8	$ 213,348	$ 249,846	$ 463,194	
31	Operating Expenses Excluding Income Taxes	$ 284,463		$ 284,463	
32	Synchronized Interest (L47)	$ -		$ -	
33	Arizona Taxable Income (L30 - L31 - L32)	$ (71,115)		$ 178,731	
34	Arizona State Income Tax Rate	6.9680%		6.9680%	
35	Arizona Income Tax (L33 x L34)		$ (4,955)		$ 12,454
36	Federal Taxable Income (L33 - L35)	$ (66,160)		$ 166,277	
37	Federal Tax on First Income Bracket ($1 - $50,000) @ 15%	$ (7,500)		$ 7,500	
38	Federal Tax on Second Income Bracket ($50,001 - $75,000) @ 25%	$ (4,040)		$ 6,250	
39	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ -		$ 8,500	
40	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -		$ 25,848	
41	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ -	
42	Total Federal Income Tax		$ (11,540)		$ 48,098
43	Combined Federal and State Income Tax (L35 + L42)		$ (16,495)		$ 60,552
44	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				25.6577%
	Calculation of Interest Synchronization:				
45	Rate Base (Schedule CRM-3, Col. (C), Line 17)	$ 1,270,741			
46	Weighted Average Cost of Debt				
47	Synchronized Interest (L45 X L46)	$ -			

GOODMAN WATER COMPANY
Docket No. W-02500A-06-0281
Test Year Ended September 30, 2005
RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	REF	(C) STAFF AS ADJUSTED
1	Plant in Service	$ 2,348,486	$ 17,325	1	$ 2,365,811
2	Less: Accumulated Depreciation	108,248	263	2	108,511
3	Net Plant in Service	$ 2,240,238	$ 17,062		$ 2,257,300
	LESS:				
4	Contributions in Aid of Construction (CIAC)	$ -	$ -		$ -
5	Less: Accumulated Amortization	-	-		-
6	Net CIAC	-	-		-
7	Advances in Aid of Construction (AIAC)	971,695	-		971,695
8	Customer Deposits	14,864	-		14,864
9	Deferred Income Tax Credits	-	-		-
	ADD:				
10	Unamortized Finance Charges	-	-		-
11	Deferred Tax Assets	-	-		-
12	Working Capital	22,003	(22,003)	3	-
17	**Original Cost Rate Base**	$ 1,275,683	$ (4,941)		$ 1,270,741

References:
Column (A), Company Schedule B-1
Column (B): Schedule CRM-4
Column (C): Column (A) + Column (B)

GOODMAN WATER COMPANY
Docket No. W-02500A-06-0281
Test Year Ended September 30, 2005

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Transmission	[C] ADJ #2 Accum. Depr.	[D] ADJ #3 Working Capital	[I] STAFF ADJUSTED
		PLANT IN SERVICE:					
1							
2	301	Organization	$ 104,528	$ -	$ -	$ -	$ 104,528
3	302	Franchises	-	-	-	-	-
4	303	Land and Land Rights		-	-	-	-
5	304	Structures & Improvements	9,788	-	-	-	9,788
6	305	Collecting & Impounding Reservoirs		-	-	-	-
7	306	Lakes, Rivers, Other Intakes	-	-	-	-	-
8	307	Wells and Springs	386,591	-	-	-	386,591
9	308	Infiltration Galleries and Tunnels	-	-	-	-	-
10	309	Supply Mains	-	-	-	-	-
11	310	Power Generation Equipment	-	-	-	-	-
12	311	Pumping Equipment	686,993	-		-	686,993
13	320	Water Treatment Plant	11,054	-		-	11,054
14	330	Distribution Reservoirs & Standpipes	294,460	-	-	-	294,460
15	331	Transmission & Distribution Mains	611,348	17,325		-	628,673
16	333	Services	129,274	-	-	-	129,274
17	334	Meters	67,497	-		-	67,497
18	335	Hydrants	46,955	-	-	-	46,955
19	336	Backflow Prevention Devices	-	-	-	-	-
20	339	Other Plant & Misc. Equipment		-	-	-	-
21	340	Office Furniture & Equipment		-	-	-	-
22	341	Transportation Equipment		-	-	-	-
23	342	Stores Equipment	-	-	-	-	-
24	343	Tools, Ship & Garage Equipment		-	-	-	-
25	344	Laboratory Equipment	-	-	-	-	-
26	345	Power Operated Equipment	-	-	-	-	-
27	346	Communication Equipment		-	-	-	-
28	347	Miscellaneous Equipment		-	-	-	-
29	348	Other Tangible Plant	-	-	-	-	-
30			2,348,486	17,325	-	-	2,365,811
31	Add:						
32							-
33					-	-	-
34				-			-
35	Less:						-
36			-	-	-	-	-
37			-	-	-	-	-
38			-				
39	Total Plant in Service		$ 2,348,486	$ 17,325	$ -	$ -	$ 2,365,811
40	Less: Accumulated Depreciation		108,248	-	263		108,511
41				-	-	-	-
42	Net Plant in Service (L59 - L 60)		$ 2,240,238	$ 17,325	$ (263)	$ -	$ 2,257,300
43							
44	*LESS:*						
45	Contributions in Aid of Construction (CIAC)			$ -	$ -	$ -	$ -
46	Less: Accumulated Amortization			-	-	-	-
47	Net CIAC (L25 - L26)		-	-	-	-	-
48	Advances in Aid of Construction (AIAC)		971,695	-	-	-	971,695
49	Customer Meter Deposits		14,864	-	-	-	14,864
50	Deferred Income Tax Credits			-	-	-	-
51							
52	*ADD:*						
53	Unamortized Finance Charges		-	-	-	-	-
54	Deferred Tax Assets		-	-	-	-	-
55	Working Capital	Not allowed in class C and larger	22,003	-		(22,003)	-
56		without lead/lag study					
57	**Original Cost Rate Base**		$ 1,275,682	$ 17,325	$ (263)	$ (22,003)	$ 1,270,741

ADJ #	
1	Transmission Lines
2	Accumulated Depreciation
3	Cash Working Capital

GOODMAN WATER COMPANY
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Surrebuttal Schedule CRM-5

ORIGINAL COST RATE BASE ADJUSTMENT #1 TO RECLASSIFY PLANT FROM OUTSIDE SERVICES

Line No.	To Reclassify Plant From Outside Services	
1	Reclassification of Outside Services - Transmission Lines	$ 17,325
2	This expense was removed by the Company in a proforma adjustment from outside services expense but Company failed to include in plant.	$ 17,325
3		$ 17,325

GOODMAN WATER COMPANY
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Surrebuttal Schedule CRM-6

ORIGINAL COST RATE BASE ADJUSTMENT #2 - ACCUMULATED DEPRECIATION

Line No.	Accumulated Depreciation Adjustment		Corrected
1	Staff's Calculated Balance		**108511**
2	Company's Adjusted Accum. Depr. - Sched. B-2		108248
3	Difference	**$**	**263**
4	Increase/(Decrease) to Accumulated Depreciation	**$**	**263**
5	Accumulated deprecation recommmended in Staff's direct testimony.	$	415
6	Correct amount of accoumulated depreciation		263
7	Accumulated depreciation reduced on account No. 334 meters	$	152

GOODMAN WATER COMPANY
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Surrebuttal Schedule CRM-7

ORIGINAL COST RATE BASE ADJUSTMENTS #3 - REMOVAL OF CASH WORKLING CAPITAL ALLOWANCE

Line No.	Cash Working Capital Allowance	
1	Company's Cash Working Capital Allowance no lead/lag study provided	22,003
2	Staff's Cash Working Capital Allowance	0.00
3	total	0.00
4		
5		
6	Increase/(Decrease) to Cash Working Capital Allowance	(22,003)

GOODMAN WATER COMPANY
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Surrebuttal Schedule CRM-8

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS		[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1	*REVENUES:*						
2	Metered Water Sales	$ 195,408	$ -		$ 195,408	$ 249,846	$ 445,254
3	Water Sales - Unmetered	-	-		-	-	-
4	Other Operating Revenue	17,940	-		17,940	-	17,940
5	**Total Operating Revenues**	$ 213,348	$ -		$ 213,348	$ 249,846	$ 463,194
6	*OPERATING EXPENSES:*						
7	Salaries and Wages	$ 32,000	$ (25,600)	10	$ 6,400	$ -	$ 6,400
10	Purchased Water	-	-		-	-	-
11	Purchased Power	10,086	-		10,086	-	10,086
13	Chemicals	-	-		-	-	-
14	Repairs and Maintenance	9,868	-		9,868	-	9,868
15	Office Supplies and Expense	778	-		778	-	778
16	Outside Services	78,106	(17,867)	11	60,239		60,239
17	Water Testing	3,639	-		3,639	-	3,639
18	Rents	-	-		-	-	-
19	Transportation Expenses	-	-		-	-	-
20	Insurance - General Liability	18,253	-		18,253	-	18,253
21	Insurance - Health and Life	-	-		-	-	-
22	Regulatory Commission Expense - Rate Case	25,000	(1,875)	12	23,125	-	23,125
23	Miscellaneous Expense	2,386	(140)	13	2,246	-	2,246
24	Depreciation Expense	129,418	-		129,418	-	129,418
25	Taxes Other Than Income	2,635	-		2,635	-	2,635
26	Property Taxes	19,270	(1,494)	14	17,776	-	17,776
27	Income Tax	(41,497)	25,002	15	(16,495)	77,047	60,552
40							
41	**Total Operating Expenses**	$ 289,942	$ (21,974)		$ 267,968	$ 77,047	$ 345,015
42	**Operating Income (Loss)**	$ (76,594)	$ 21,974		$ (54,620)	$ 172,799	$ 118,179

References:
Column (A): Company Schedule C-1
Column (B): Schedule CRM-10
Column (C): Column (A) + Column (B)
Column (D): Schedules CRM-1 and CRM-2
Column (E): Column (C) + Column (D)

GOODMAN WATER COMPANY
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Test Year Ended September 30, 2005

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Salaries & Wages ADJ #1	[C] Outsdie Services ADJ #2	[D] Rate Case ADJ #3	[E] Miscellaneous ADJ #4	[F] Property Taxes ADJ #5	[G] Income taxes ADJ #6	[T] STAFF ADJUSTED
1	*REVENUES:*								
2	Metered Water Sales	$ 195,408	$ -	$ -	$ -	$ -	$ -	$ -	$ 195,408
3	Water Sales - Unmetered	-	-	-	-	-	-	-	$ -
4	Other Operating Revenue	17,940	-	-	-	-	-	-	$ 17,940
5	**Total Operating Revenues**	$ 213,348	$ -	$ -	$ -	$ -	$ -	$ -	$ 213,348
6	*OPERATING EXPENSES:*								
7	Salaries and Wages	$ 32,000	$ (25,600)	$ -	$ -	$ -	$ -	$ -	$ 6,400
8	Purchased Water			-	-	-	-	-	-
9	Purchased Power	10,086	-	-	-	-	-	-	10,086
10	Chemicals		-	-	-	-	-	-	-
11	Repairs and Maintenance	9,868		-	-	-	-	-	9,868
12	Office Supplies and Expense	778	-	-	-			-	778
13	Outside Services	78,106	-	(17,867)	-		-	-	60,239
14	Water Testing	3,639	-	-	-	-	-		3,639
15	Rents	-	-	-	-	-	-	-	-
16	Transportation Expenses		-	-	-	-	-		-
17	Insurance - General Liability	18,253	-	-	-	-	-	-	18,253
18	Insurance - Health and Life		-	-		-	-	-	-
19	Regulatory Commission Expense - Rate Case	25,000	-	-	(1,875)	-	-	-	23,125
20	Miscellaneous Expense	2,386	-			(140)	-	-	2,246
21	Depreciation Expense	129,418	-	-	-	-	-	-	129,418
22	Taxes Other Than Income	2,635	-	-	-	-	-		2,635
23	Property Taxes	19,270	-	-	-	-	(1,494)		17,776
24	Income Tax	(41,497)	-	-	-	-	-	25,002	(16,495)
									$ -
25	**Total Operating Expenses**	$ 289,943	$ (25,600)	$ (17,867)	$ (1,875)	$ (140)	$ (1,494)	$ 25,002	$ 267,968
26	**Operating Income (Loss)**	$ (76,594)	$ 25,600	$ 17,867	$ 1,875	$ 140	$ 1,494	$ (25,002)	$ (54,620)

ADJ #		References:
1	Salaries and Wages	Schedule CRM-10
2	Outside Services Expense	Schedule CRM-11
3	Regulatory Commission Expense rate case	Schedule CRM-12
4	Miscellaneous Expense	Schedule CRM-13
5	Property Taxes	Schedule CRM-14
6	Income Taxes	Schedule CRM-15

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Surrebuttal Schedule CRM-10

OPERATING EXPENSE ADJUSTMENT #1 - SALARIES AND WAGES

LINE NO.	Salaries and Wages	
1	amount claimed on application	$ 32,000
2	Amount disallowed based on information supplied by Company	(25,600)
3	Amount allowed	$ 6,400
4	Increase (Decrease) to Salaries and Wages	$ (25,600)

PURPOSELY OMITTED

GOODMAN WATER COMPANY
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Surrebuttal Schedule CRM-12

OPERATING INCOME ADJUSTMENT #2 - OUTSIDE SERVICES

LINE NO.	Outside Services				
1	Amount claimed on application			$	78,106
2	Amount decreased- lunch with J.S. Shiner	$	(174)		
3	CWH2 Duplication of oversee		(11,916)		
3	Amount disallowed for J.S. Shiner based on information supplied by Company		(5,777)		
5	Total disallowed		(17,867)		(17,867)
	Total allowed			$	60,239
6					
	Increase (Decrease)			$	(17,867)

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Surrebuttal Sechedule CRM-13

OPERATING INCOME ADJUSTMENT # 3 REGULARORY COMMISSION EXPENSE-RATE CASE

LINE NO.	Regulatory Commission Expense -Rate Case		
1	Total rate case expense claimed by the Company	$	100,000
2	This amount amortized by Company over 4 years		25,000
3			
	Amount allowed by Staff	$	92,500
4	Staff amortized over 4 years amount per year		23,125
5			
	Amount claimed by Company during test year	$	25,000
6	Amount disallowed by Staff		(1,875)
	Amount allowed by Staff	$	23,125
	Increase (Decrease)	$	(1,875)

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Surrebuttal Schedule CRM-14

OPERATING INCOME ADJUSTMENT #4 - MISCELLANEOUS EXPENSE

LINE NO.	Miscellaneous Expense		
1	Amount claimed on application	$ 2,386	
2	Amount decreased- lunch with J.S. Shiner	140	
3		$ 2,526	
4	Increase (decrease) to Miscellaneous Expense		$ (140)

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Surrebuttal Schedule CRM-15

OPERATING INCOME ADJUSTMENT #5 - PROPERTY TAXES

LINE NO.	Property Tax Calculation		STAFF AS ADJUSTED
1	Staff Adjusted Test Year Revenues	$	213,348
2	Weight Factor		2
3	Subtotal (Line 1 * Line 2)		426,696
4	Staff Recommended Revenue, Per Schedule CRM-1		463,194
5	Subtotal (Line 4 + Line 5)		889,890
6	Number of Years		3
7	Three Year Average (Line 5 / Line 6)		296,630
8	Department of Revenue Mutilplier		2
9	Revenue Base Value (Line 7 * Line 8)		593,260
10	Plus: 10% of CWIP - 2002		-
11	Less: Net Book Value of Licensed Vehicles		-
12	Full Cash Value (Line 9 + Line 10 - Line 11)		593259.99
13	Assessment Ratio		23.50%
14	Assessment Value (Line 12 * Line 13)		139,416
15	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)		12.7504%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	$	17,776
17	Company Proposed Property Tax		19,270
18	Increase/(Decrease) to Property Tax Expense	$	(1,494)

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OPERATING INCOME ADJUSTMENT #6 - INCOME TAXES

Line No.	Income Tax		
1	Staff Calculated Income Tax, Per Staff Schedule CRM-2, Line 43	$	(16,495)
2	Income Tax, Per Company Schedule C-1		(41,497)
3	Increase/(Decrease) to Income Tax Expense	$	25,002

See Schedule CRM -2 for calculation

GOODMAN WATER COMPANY
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Surrebuttal Schedule CRM-17

DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	AMOUNT	Projected RATE	EXPENSE
		Plant In Service			
1	301	Organization	$ 104,528	0.00%	$ -
2	302	Franchises	-	0.00%	-
3	303	Land and Land Rights	-	0.00%	-
4	304	Structures & Improvements	9,788	3.33%	326
5	305	Collecting & Impounding Reservoirs	-	2.50%	-
6	306	Lakes, Rivers, Other Intakes	-	2.50%	-
7	307	Wells and Springs	386,591	3.33%	12,873
8	308	Infiltration Galleries and Tunnels	-	6.67%	-
9	309	Supply Mains	-	2.00%	-
10	310	Power Generation Equipment	-	5.00%	-
11	311	Pumping Equipment	686,993	12.50%	85,874
12	320	Water Treatment Plant	11,054	3.33%	368
13	330	Distribution Reservoirs & Standpipes	294,460	2.22%	6,537
14	331	Transmission & Distribution Mains	628,673	2.00%	12,573
15	333	Services	129,274	3.33%	4,305
16	334	Meters	67,497	8.33%	5,623
17	335	Hydrants	46,955	2.00%	939
18	336	Backflow Prevention Devices	-	6.67%	-
19	339	Other Plant & Misc. Equipment	-	6.67%	-
20	340	Office Furniture & Equipment	-	6.67%	-
21	341	Transportation Equipment	-	20.00%	-
22	342	Stores Equipment	-	4.00%	-
23	343	Tools, Ship & Garage Equipment	-	5.00%	-
24	344	Laboratory Equipment	-	10.00%	-
25	345	Power Operated Equipment	-	5.00%	-
26	346	Communication Equipment	-	10.00%	-
27	347	Miscellaneous Equipment	-	10.00%	-
28	348	Other Tangible Plant	-	-	-
29		Subtotal General	$ 2,365,811		$ 129,418

RATE DESIGN

Monthly Usage Charge		Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8x3/4' Meter		$ 18.00	$ 44.78	$ 39.00
3/4 "Meter		27.00	67.18	59.00
1" Meter		48.00	111.96	95.00
11/2" Meter		90.00	223.92	195.00
2" Meter		144.00	358.27	305.00
3" Meter		270.00	671.76	624.00
4" Meter		450.00	1,119.60	975.00
5" Meter	Meter size does not exist	n/a	n/a	deleted
6" Meter		900.00	2,239.20	1,950.00
Fire Hydrants Per month	Deleted from tariff	15.00	0.00	deleted
Commodity Rates				
5/8x3/4 inch meter				
Gallons Included in Minimum		1,000	0	0
Excess over gallons included in minimum Per 1,000 Gallons		$ 2.20	N/A	N/A
5/8 x 3/4 inch meter per 1,000 Gallons				
Tier one	From zero to 4,000 Gallons	N/A	5.00	N/A
Tier two	From 4,000 to 10,000 Gallons	N/A	6.70	N/A
Tier three	Over 10,000 Gallons	N/A	7.70	N/A
Tier one	From 1 to 4,000 Gallons	N/A	N/A	3.60
Tier two	From 4,001 to 9,000 Gallons	N/A	N/A	5.35
Tier three	Over 9,000 Gallons	N/A	N/A	6.30
One inch meter and Larger per 1,000 Gallons		2.20	N/A	N/A
Tier one	Zero Gallons to 10,000 Gallons	N/A	5.00	N/A
Tier two	From 10,001 Gallons to 25,000 Gallons	N/A	6.70	N/A
Tier three	All Gallons over 25,000 Gallons	N/A	7.70	N/A
3/4 inch meter per 1,000 Gallons				
Tier one	From 1 Gallon to 4,000 Gallons	N/A	N/A	3.60
Tier two	From 4,001 Gallons to 9,000 Gallons	N/A	N/A	5.35
Tier Three	All Gallons over 9,000 Gallons	N/A	N/A	6.30
One inch Meter per 1,000 Gallons				
Tier one	Zero Gallons to 22,500 Gallons	N/A	N/A	5.35
Tier two	All Gallons over 22,500 Gallons	N/A	N/A	6.30
1 1/2 inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 34,000 Gallons	N/A	N/A	5.35
Tier two	All Gallons over 34,000 Gallons	N/A	N/A	6.30
Two inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 45,000 Gallons	N/A	N/A	5.35
Tier two	All Gallons over 45,000 Gallons	N/A	N/A	5.35
Three inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 68,000 Gallons	N/A	N/A	5.35
Tier two	All Gallons over 68,000 Gallons	N/A	N/A	6.30
Four inch meter per 1,000 gallons				
Tier one	Zero Gallons to 90,000 Gallons	N/A	N/A	5.35
Tier two	All Gallons over 90,000 Gallons	N/A	N/A	6.30
Six inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 135,000 Gallons	N/A	N/A	5.35
Tier two	All Gallons over 135,000 Gallons	N/A	N/A	6.30
Irrigation see above per meter sizes		see above per meter sizes	see above per meter sizes	see above per meter sizes
Standpipe per 1,000 gallons		4.75	7.70	6.30

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Service Line and Meter Installation Charges				
5/8" x 3/4" Meter		$ 225.00	$ 225.00	$ 225.00
3/4" Meter		$ 270.00	$ 270.00	$ 270.00
1" Meter		$ 300.00	$ 300.00	$ 300.00
1½" Meter		$ 425.00	$ 425.00	$ 425.00
2" Turbine Meter		$ 550.00	$ 550.00	$ 550.00
3" Turbine Meter		$ 750.00	$ 750.00	$ 750.00
4" Turbine Meter		$ 1,375.00	$ 1,375.00	$ 1,375.00
5" Turbine Meter	meter size does not exist	$ 2,090.00	$ 2,090.00	Deleted
6" Turbine Meter		$ 2,800.00	$ 2,800.00	$ 2,800.00
Service Charges				
Establishment		$ 50.00	$ 50.00	$ 50.00
Establishment (After Hours)		75.00	75.00	75.00
Reconnection (Deliquent)		75.00	75.00	75.00
Reconnection (Deliquent and After Hours)		n/a	n/a	50.00
Meter Test		20.00	20.00	20.00
Deposit		*	*	*
Deposit Interest		6.00%	6.00%	**
Re-Establishment (With-in 12 Months)		**	**	***
NSF Check		15.00.	15.00.	15.00.
Deferred Payment per annual		18.00%	18.00%	18.00%
Meter Re-Read		20.00	20.00	20.00
Late Charge per month		10.00	10.00	****

* Per Commission Rules (R14-2-403.B)
** Per Commission Rule (R14-2.403.B-3)
*** Months off system times the minimum (R14-2-403.D)
**** 1.50 percent per month on the unpaid balance

RATE DESIGN

Monthly Usage Charge		Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8x3/4' Meter		$ 18.00	$ 44.78	$ 39.00
3/4 "Meter		27.00	67.18	59.00
1" Meter		48.00	111.96	95.00
11/2" Meter		90.00	223.92	195.00
2" Meter		144.00	358.27	305.00
3" Meter		270.00	671.76	624.00
4" Meter		450.00	1,119.60	975.00
5" Meter	Meter size does not exist	n/a	n/a	deleted
6" Meter		900.00	2,239.20	1,950.00
Fire Hydrants Per month	Deleted from tariff	15.00	0.00	deleted
Commodity Rates				
5/8x3/4 inch meter				
Gallons Included in Minimum		1,000	0	0
Excess over gallons included in minimum Per 1,000 Gallons		$ 2.20	N/A	N/A
5/8 x 3/4 inch meter per 1,000 Gallons				
Tier one	From zero to 4,000 Gallons	N/A	5.00	N/A
Tier two	From 4,000 to 10,000 Gallons	N/A	6.70	N/A
Tier three	Over 10,000 Gallons	N/A	7.70	N/A
Tier one	From 1 to 4,000 Gallons	N/A	N/A	3.60
Tier two	From 4,001 to 9,000 Gallons	N/A	N/A	5.35
Tier three	Over 9,000 Gallons	N/A	N/A	6.30
One inch meter and Larger per 1,000 Gallons		2.20	N/A	N/A
Tier one	Zero Gallons to 10,000 Gallons	N/A	5.00	N/A
Tier two	From 10,001 Gallons to 25,000 Gallons	N/A	6.70	N/A
Tier three	All Gallons over 25,000 Gallons	N/A	7.70	N/A
3/4 inch meter per 1,000 Gallons				
Tier one	From 1 Gallon to 4,000 Gallons	N/A	N/A	3.60
Tier two	From 4,001 Gallons to 9,000 Gallons	N/A	N/A	5.35
Tier Three	All Gallons over 9,000 Gallons	N/A	N/A	6.30
One inch Meter per 1,000 Gallons				
Tier one	Zero Gallons to 22,500 Gallons	N/A	N/A	5.35
Tier two	All Gallons over 22,500 Gallons	N/A	N/A	6.30
1 1/2 inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 34,000 Gallons	N/A	N/A	5.35
Tier two	All Gallons over 34,000 Gallons	N/A	N/A	6.30
Two inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 45,000 Gallons	N/A	N/A	5.35
Tier two	All Gallons over 45,000 Gallons	N/A	N/A	5.35
Three inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 68,000 Gallons	N/A	N/A	5.35
Tier two	All Gallons over 68,000 Gallons	N/A	N/A	6.30
Four inch meter per 1,000 gallons				
Tier one	Zero Gallons to 90,000 Gallons	N/A	N/A	5.35
Tier two	All Gallons over 90,000 Gallons	N/A	N/A	6.30
Six inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 135,000 Gallons	N/A	N/A	5.35
Tier two	All Gallons over 135,000 Gallons	N/A	N/A	6.30
Irrigation see above per meter sizes		see above per meter sizes	see above per meter sizes	see above per meter sizes
Standpipe per 1,000 gallons		4.75	7.70	6.30

Service Line and Meter Installation Charges				
5/8" x 3/4" Meter		$ 225.00	$ 225.00	$ 225.00
3/4" Meter		$ 270.00	$ 270.00	$ 270.00
1" Meter		$ 300.00	$ 300.00	$ 300.00
1½" Meter		$ 425.00	$ 425.00	$ 425.00
2" Turbine Meter		$ 550.00	$ 550.00	$ 550.00
3" Turbine Meter		$ 750.00	$ 750.00	$ 750.00
4" Turbine Meter		$ 1,375.00	$ 1,375.00	$ 1,375.00
5" Turbine Meter	meter size does not exist	$ 2,090.00	$ 2,090.00	Deleted
6" Turbine Meter		$ 2,800.00	$ 2,800.00	$ 2,800.00
Service Charges				
Establishment		$ 50.00	$ 50.00	$ 50.00
Establishment (After Hours)		75.00	75.00	75.00
Reconnection (Deliquent)		75.00	75.00	75.00
Reconnection (Deliquent and After Hours)		n/a	n/a	50.00
Meter Test		20.00	20.00	20.00
Deposit		*	*	*
Deposit Interest		6.00%	6.00%	**
Re-Establishment (With-in 12 Months)		**	**	***
NSF Check		15.00.	15.00.	15.00.
Deferred Payment per annual		18.00%	18.00%	18.00%
Meter Re-Read		20.00	20.00	20.00
Late Charge per month		10.00	10.00	****

* Per Commission Rules (R14-2-403.B)
** Per Commission Rule (R14-2.403.B-3)
*** Months off system times the minimum (R14-2-403.D)
**** 1.50 percent per month on the unpaid balance

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Surrebuttal Schedule CRM-19

Typical Bill Analysis
General Service 5/8-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	5,509	$ 30.12	$ 74.89	$ 44.77	148.64%
Median Usage	4,500	27.90	68.13	$ 40.23	144.19%
Staff Recommended					
Average Usage	5,509	$ 30.12	$ 62.05	$ 31.93	106.01%
Median Usage	4,500	27.90	56.40	$ 28.50	102.15%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 18.00	$ 44.78	148.78%	$ 39.00	116.67%
1,000	20.20	49.78	146.44%	42.65	111.14%
2,000	22.40	54.78	144.55%	46.30	106.70%
3,000	24.60	59.78	143.01%	49.95	103.05%
4,000	26.80	64.78	141.72%	53.60	100.00%
5,000	29.00	71.48	146.48%	59.20	104.14%
4,500	27.90	68.13	144.19%	56.40	102.15%
6,000	31.20	78.18	150.58%	64.80	107.69%
7,000	33.40	84.88	154.13%	70.40	110.78%
8,000	35.60	91.58	157.25%	76.00	113.48%
9,000	37.80	98.28	160.00%	81.60	115.87%
5,509	30.12	74.89	148.64%	62.05	106.01%
10,000	40.00	104.98	162.45%	88.02	120.05%
11,000	42.20	111.68	164.64%	94.44	123.79%
12,000	44.40	118.38	166.62%	100.86	127.16%
13,000	46.60	125.08	168.41%	107.28	130.21%
14,000	48.80	131.78	170.04%	113.70	132.99%
15,000	51.00	138.48	171.53%	120.12	135.53%
16,000	53.20	145.18	172.89%	126.54	137.86%
17,000	55.40	151.88	174.15%	132.96	140.00%
18,000	57.60	158.58	175.31%	139.38	141.98%
19,000	59.80	165.28	176.39%	145.80	143.81%
20,000	62.00	171.98	177.39%	152.22	145.52%
25,000	73.00	205.48	181.48%	184.32	152.49%
30,000	84.00	238.98	184.50%	216.42	157.64%
35,000	95.00	272.48	186.82%	248.52	161.60%
40,000	106.00	305.98	188.66%	280.62	164.74%
45,000	117.00	339.48	190.15%	312.72	167.28%
50,000	128.00	372.98	191.39%	344.82	169.39%
75,000	183.00	540.48	195.34%	505.32	176.13%
100,000	238.00	707.98	197.47%	665.82	179.76%

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF GOODMAN WATER COMPANY FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON	)))))))	DOCKET NO. SW-02500A-06-0281

SURREBUTTAL

TESTIMONY

OF

STEVEN P. IRVINE

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 12, 2007

TABLE OF CONTENTS

SCHEDULES

EXECUTIVE SUMMARY
GOODMAN WATER COMPANY
DOCKET NO. W-02500A-06-0281

The surrebuttal testimony of Staff witness Steven P. Irvine addresses the following issues:

Capital Structure – Staff recommends that the Arizona Corporation Commission ("Commission") adopt a capital structure for Goodman Water Company ("Applicant" or "Company") for this proceeding consisting of 0 percent debt and 100 percent equity.

Cost of Equity – Staff's estimated return on equity ("ROE") for the Applicant is based on cost of equity estimates for the sample companies of 9.6 percent for the capital asset pricing model ("CAPM") and 9.0 percent for the discounted cash flow method ("DCF").

Overall Rate of Return – Staff recommends that the Commission adopt an overall rate of return ("ROR") of 9.3 percent.

Response to Mr. Bourassa's Rebuttal Testimony – The Commission should reject the Company proposed 10.5 percent ROE for the following reasons:

1. The Company's DCF estimates rely exclusively on analyst's forecasts. In addition, the Company's DCF constant growth analysis does not include dividend growth.

2. The Company's risk premium analysis is not market based and inappropriately relies on forecasted interest rates for 10-year Treasuries for 2007-2008.

I. INTRODUCTION

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

A. My name is Steve Irvine. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Did you previously file direct testimony dealing with cost of capital in this case?

A. Yes.

Q. What matters are addressed in your surrebuttal testimony?

A. This surrebuttal testimony presents an update of Staff's cost of capital analysis and related recommendations for Goodman Water Company ("Goodman" or "Company") and responds to cost of capital elements of the rebuttal testimony of Goodman Witness Mr. Thomas J. Bourassa.

Q. Please explain how Staff's surrebuttal testimony is organized.

A. Staff's surrebuttal testimony is presented in four sections. Section I is this introduction. Section II discusses Staff's updated cost of capital analysis. Section III presents Staff's comments on the cost of capital elements of the rebuttal testimony of the Applicant's cost of capital witness, Mr. Thomas J. Bourassa. Section III contains five subheadings that group together common issues related to the Company's cost of capital rebuttal testimony. The subheadings are: unique risk and size; comparison to actual and authorized returns; analyst forecasts; Staff inputs; and capital asset pricing model ("CAPM"). Lastly, Section IV presents Staff's cost of capital recommendations.

II. UPDATED COST OF CAPITAL ANALYSIS

Q. Has Staff updated its cost of capital ("COC") analysis since filing direct testimony?

A. Yes. Staff has updated the analysis to reflect more current market data. Surrebuttal schedules SPI-1 through SPI-8 are included to support the new results and analysis.

Q. Has Staff updated the capital structure?

A. No. Staff's capital structure continues to be 0 percent debt and 100 percent equity.

Q. Has Staff changed its method of calculating rate of return ("ROR")?

A. No. The methodology has not been changed.

Q. What is Staff's updated return on equity ("ROE")?

A. The ROE in Staff's direct testimony was 9.6 percent. Staff now recommends a 9.3 percent ROE.

Q. What is Staff's updated ROR estimate?

A. The ROR in Staff's direct testimony was 9.6 percent. Staff now recommends a 9.3 percent overall ROR for Goodman. Staff's recommendation is based on an ROE of 9.3 percent and a cost of debt of 0 percent.

III. RESPONSE TO THE REBUTTAL TESTIMONY OF THE APPLICANT'S COST OF CAPITAL WITNESS MR. THOMAS J. BOURASSA

Q. Are there any overriding issues with the Company's position that sheds light on the Company's cost of capital testimony?

A. Yes. The Company's rebuttal testimony contains wrong conclusions, inconsistencies, misapplies concepts, and ignores important factors. However, the most revealing aspect of the Company's cost of capital testimony is its demonstration of a fundamental misunderstanding of the cost of equity itself. A major criticism by the Company of Staff's approach is the selection of inputs to the models. However, the Company has no credible grounds to criticize the inputs used by Staff in its cost of capital models. In addition, the Company has not selected superior inputs for cost of capital models.

Unique Risk and Size

Q. What is Staff's response to the Company's assertion that, "If there is a lack of diversification, limited revenues and cash flow, small customer base, higher regulatory risk, and higher liquidity risk, investors do care and risk is higher"?[1]

A. It is unclear whether the reference to lack of diversification refers to diversification of an investor's portfolio or the business lines of a company. If the statement means to convey that unique risks are important to an investor who does not hold a diversified portfolio, the statement may be true but is irrelevant to determination of cost of equity. Investors who hold diverse portfolios can eliminate non-systematic risk. Therefore, only systematic risk affects the cost of equity. The market does not reward for unique risk as it can be diversified away. If the statement means to cite lack of diversification of a company's business lines as an example of a unique risk that is a concern to investors, the statement may be true of investors who do not hold diverse portfolios, but is untrue for investors holding diverse portfolios. Again, investors who hold diverse portfolios can eliminate non-systematic risk. Therefore, only systematic risk affects the cost of equity. The market does not reward for unique risk as it can be diversified away.

[1] Thomas J. Bourassa's rebuttal testimony. Page 15.

Q. Referring more specifically to the matter of size, what is Staff's response to the Company's argument that Goodman faces additional risk related to the small size of the Company compared to the sample group?[2]

A. A firm's size is a unique risk. The market does not reward for unique risk as it can be diversified away. In previous decisions the Commission has determined that small size is not grounds for a risk premium.[3]

Q. What is Staff's response to the Company's assertion that the average of the sample companies' betas do not reflect Goodman's level of risk.[4]

A. The Commission has regularly adopted Staff's recommended ROE's for utilities whose stock is not traded based on use of these same sample companies. Furthermore, Staff's use of the sample companies for its CAPM analysis is just as valid as the Company's use of the sample for its DCF analysis. The sample companies and Goodman are similar in that they are regulated utilities and serve captive customers. Any unique risks which may differentiate Goodman from the sample companies are diversifiable and not grounds for a risk premium.

Q. What is Staff's response to the Company's Exhibit No. 3 that contains a 2004 staff memorandum from the California Public Utilities Commission ("CPUC") detailing differing rate of return guidelines based on company size?

A. The Arizona Corporation Commission is not bound by decisions, policies, or staff memorandums of the CPUC. Furthermore, the Arizona Corporation Commission has previously ruled that firm size does not warrant recognition of a risk premium. Finally, as

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[2] Ibid. Page 15.
[3] Examples can be found in Decision Nos. 64282, 64727, and 66849.
[4] Thomas J. Bourassa's rebuttal testimony. Page 15.

investors' expectations change over time cost of equity findings made in 2004 should not be used as a basis for cost of equity estimation in 2007.

Q. Can Staff cite any studies that address the effects of a utility's small size on its cost of capital?

A. Yes. This matter is the subject of a study by Annie Wong, which was published in the *Journal of the Midwest Finance Association* in 1993. The study concluded that while a firm size risk factor may be required for industrial firms, it is not required for utilities:

> The objective of this study is to examine if the size effect exists in the utility industry. After controlling for equity values, there is some weak evidence that firm size is a missing factor from the CAPM for the industrial but not for the utility stocks. This implies that although the size phenomenon has been strongly documented for the industrials, the findings suggest that there is no need to adjust for the firm size in utility rate regulations.[5]

Q. Does Wong explain why size is not relevant in the utility industry?

A. Yes. Wong explains that the main reasons are monopolistic power and the regulated financial structure of utilities:

> First, given firm size, utility stocks are consistently less risky than industrial stocks. Second, industrial betas tend to decrease with firm size but utility betas do not. These findings may be attributed to the fact that all public utilities operate in an environment with regional monopolistic power and regulated financial structure. As a result, the business and financial risks are very similar among the utilities regardless of their sizes. Therefore, utility betas would not necessarily be expected to be related to firm size.[6]

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[5] Wong, Annie. "Utility Stocks and the Size Effect: An Empirical Analysis." *Journal of the Midwest Finance Association.* 1993. Page 98.
[6] Ibid. Page 98.

Q. What is Staff's response to the Company's argument that the Commission's previous decisions rejecting arguments for firm size adjustments do not apply to all Arizona regulated utilities?[7]

A. It is not customary for the Commission to make a judgment on a specific principle in an individual rate case and expressly apply the principle to all other regulated Arizona utilities. Such a global finding would more customarily be made in a generic docket. However, it can be said that the Commission has repeatedly rejected the firm size adjustment argument in recent cases.[8]

Comparison to Actual and Authorized Returns

Q. What is Staff's response to the Company's view that earnings play a far greater role in investment decisions than the results of a CAPM or DCF model?[9]

A. Actual earnings are not the earnings expected by the market and thus cannot be equated with cost of equity ("COE"). The return earned by other companies may be one consideration in estimating COE, but such returns should not be given a far greater role in consideration of COE estimation as asserted by the Company.[10] The COE is the expectation of investors, not the historical earnings. Recognizing this distinction is necessary for understanding the COE concept.

[7] Ibid. Page 17 and 18.
[8] Examples can be found in Decision Nos. 64282, 64727, and 66849.
[9] Ibid. Page 20.
[10] Ibid. Page 20.

Q. What is Staff's response to the Company's argument that the current COE should be higher than ROE's set by regulators in 2003 and 2004 for the sample companies as shown in D-4.14 as a result of increased interest rates?[11]

A. This argument ignores other important factors and displays a fundamental misunderstanding of a financial concept. This comparison fails to recognize that COE changes over time and that the returns authorized for the sample utilities in prior rate cases cannot be compared directly to the market expectations that exist presently. The Company itself notes that authorized ROE's may differ from COE if the authorized ROE's are the result of settlement agreements.[12] Furthermore, many variables influence COE and an in increase in interest rates does not necessarily result in an increase in cost of capital.

Q. Does Staff have further comments regarding the Company's view that authorized ROE's may be a conservative measure of COE?[13]

A. Yes. Staff would note that settlement agreements could also result in an ROE above the COE should parties allow a higher ROE in exchange for some other concession. Similarly, a regulator could choose to set ROE above COE at its own discretion for whatever reason it sees fit. This is one reason, as cited previously, that authorized ROE's cannot be equated with COE.

Q. What comment does Staff have in regard to the 14.2 percent rate of return that the Company calculates using a comparable earnings analysis?[14]

A. It is unclear to Staff how the Company has calculated the growth rates shown in the "5 Years" column at page 39 of the Company's rebuttal testimony. While the calculation may be unclear, Staff notes that actual returns should not be equated with COE. Staff also

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[11] Ibid. Page 19.
[12] Ibid. Page 19.
[13] Ibid. Page 19.
[14] Ibid. Page 20.

notes that the percentages shown in the annual average column appear to be the product of the percent increase in the "5 Years" column divided by five. Such a product would not yield average annual growth as it does not recognize compounding. The percentages in the average annual column should reflect smaller percentages of growth to account for annual compounding.

Q. What is Staff's comment on the Company's suggestion that projected interest rates should be used rather than current interest rates in cost of equity estimation?[15]

A. Analysts who forecast interest rates do not have any more information about the future than what is already reflected in the current rate. Present rates are more appropriate than forecasted rates, as the best indicator of tomorrow's yield is today's yield.

Use of Analyst's Forecasts

Q. What comments does Staff have regarding Mr. Bourassa's discussion of the merits of analysts' forecasts compared to other measures of growth such as historical growth rates?

A. Staff reiterates comments made in direct testimony as this matter has already been addressed. As analysts projections may differ from historic growth rates and both measures are available to the public, Staff includes both measures of growth in COE estimation to provide a balanced approach.

Q. Are historical growth rates any less subjective than using analyst expectations of growth?

A. Yes. Historical growth rates are the product of calculations. Analysts' projections are the products of human judgment. While analysts' projections are more subjective, Staff uses

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[15] Ibid. Page 23.

both historical growth and analysts' projections to achieve a balanced approach to COE estimation as discussed previously.

Q. Please discuss the Company's exclusion of historical dividends per share ("DPS") and EPS growth from its DCF model.

A. Exclusion of inputs that lend to either increase or decrease results produces a skewed result rather than the balanced outcome that is Staff's objective. Staff includes historical DPS and EPS growth because this is information readily available, and it is reasonable to expect investors to consider this information in making investment decisions. Had Staff excluded historical DPS and EPS, it would have been necessary to also exclude the highest growth components in order to maintain a balanced outcome. Staff's methodology for calculation of growth for use in the DCF model gives equal weight to historical and projected EPS, DPS and sustainable growth. Calculation of Staff's DCF growth rate component is shown in Surrebuttal Schedule SPI-7.

Q. What is Staff's comment regarding the Company's exclusion of DPS growth in its DCF analysis?[16]

A. Recently in Decision No. 68487, dated February 23, 2006, the Commission rejected a similar action by an applicant who had excluded several DCF return rates as the results were less than returns being authorized in other jurisdictions.[17] Exclusion of inputs that produce results that are viewed as either too low or too high based on a comparison to a benchmark of one's choosing is inappropriate.

[16] Ibid. Page 27.
[17] Docket No. G-01551A-04-0876.

Staff Inputs

Q. Please comment on the Company's characterization of the inputs for Staff's models as biased.

A. Staff does not exclude inputs to the models because they produce results that are above or below a selected benchmark and are viewed as too low or too high. In the case of Staff's exclusion of Connecticut's negative EPS growth, Staff has excluded the negative growth as it is inconsistent with the DCF model.

Q. Please comment of Staff's use of both arithmetic and geometric means in cost of equity estimation?

A. Staff uses both arithmetic and geometric means in the cost of equity analysis as it provides a balanced approach to the analysis. David Parcell's *The Cost of Capital- A Practitioner's Guide* describes that a dispute frequently occurs related to the question of whether arithmetic or geometric growth better portrays expected growth in the DCF model and that neither viewpoint reigns supreme.[18] Parcell also states that findings of a study by Carleton and Lakonishok on the matter lead to a conclusion that investors likely consider both arithmetic and geometric growth rates.[19]

CAPM

Q. What comment does Staff have in response to the Company's assertion that Staff's current market risk premium ("MRP") is very unstable?[20]

A. It is incorrect to conclude that changes in Staff's current MRP over time signify instability in Staff's method for determining the MRP. Changes in Staff's current MRP results are a

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[18] Parcell, David C. *The Cost of Capital – A Practitioner's Guide.* Parcell. 1997. p. 8 – 22 and 8 - 23.
[19] Ibid. Page 8 – 24.
[20] Ibid. Page 33.

reflection of changes in the market's current risk premium rather than instability in Staff's method.

Q. Please discuss the Company's comments regarding Staff's use of median values rather than average (mean) values in deriving the current MRP.

A. The Company represents that it has calculated the average price dividend yield and average price appreciation potential and that the averages are higher than the medians used by Staff. Staff has not calculated the averages for the appreciation potential and dividend yield. Rather than calculating the averages, Staff has relied on the median values for these indicators published on the front page of *Value Line*'s weekly *Investment Survey*. Staff notes that *Value Line* publishes the medians on the front page of the *Investment Survey* and that the Company has calculated the averages as an alternative. Staff has chosen to use the median dividend yields and median appreciation potential as the figures are highly accessible both to Staff and the investment community. In addition to being more accessible, median measures also have the benefit of being less affected by statistical outliers.

Q. Are there clear technical merits to the use of either median or average (mean) values in calculation of dividend yield or appreciation potential?

A. No. Both are measures of central tendency. One cannot know in advance whether a random set of data will have a higher median or average. For this reason, Staff's use of median values is not meant to reduce Staff's cost of equity estimation. Staff has relied on the median values consistently in the past as they are less affected by statistical outliers than average values and are published figures on *The Value Line Investment Survey*'s front page.

IV. STAFF RECOMMENDATIONS

Q. What are Staff's recommendations for Goodman's cost of capital?

A. Staff makes the following recommendations for Goodman's cost of capital:

1. Staff recommends a capital structure of 0 percent debt and 100 percent equity.
2. Staff recommends a cost of debt of 0 percent.
3. Staff recommends a cost of equity of 9.3 percent.
4. Staff recommends an overall rate of return of 9.3 percent.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

Goodman Water Company
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
Description	Weight (%)	Cost	Weighted Cost
Staff Recommended Structure			
Debt	0.0% [1]	0.0%	0.0%
Common Equity	100.0% [1]	9.3% [2]	9.3%
Weighted Average Cost of Capital/ROR			**9.3%**
Company Proposed Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	10.5%	10.5%
Weighted Average Cost of Capital/ROR			**10.5%**

[D] : [B] x [C]

1 Supporting Schedules: SPI-3

2 Supporting Schedule: SPI-2

Goodman Water Company
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]		[C]		[D]		[E]
DCF Method			D_1/P_0 [1]	+	g [2]	=	k
Constant Growth DCF Estimate			2.8%	+	5.7%	=	8.5%
Multi-Stage DCF Estimate						=	9.5%
Average of DCF Estimates							**9.0%**
CAPM Method	Rf	+	β [5]	x	(Rp)	=	k
Historical Market Risk Premium[3]	4.6%	+	0.82	x	7.5% [6]	=	10.7%
Current Market Risk Premium[4]	4.7%	+	0.82	x	4.7% [7]	=	8.5%
Average of CAPM Estimates							**9.6%**
					Average		**9.3%**
					Total		**9.3%**

1 MSN Money and Value Line

2 SPI-7

3 Wall Street Journal (Rf) 5, 7, and 10 year Treasury rates

4 Wall Street Journal (Rf) 30 Year Treasury bond rate

5 Value Line

6 Historical Market Risk Premium (Rp) from Ibbotson Associates SBBI 2006 Yearbook

7 Testimony

Goodman Water Company
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
Company	Debt	Common Equity	Total
American States Water	52.2%	47.8%	100.0%
California Water	50.4%	49.6%	100.0%
Aqua America	55.0%	45.0%	100.0%
Connecticut Water	45.0%	55.0%	100.0%
Middlesex Water	58.9%	41.1%	100.0%
SJW Corp	46.6%	53.4%	100.0%
Average Sample Water Utilities	51.4%	48.6%	100.0%
Goodman Water Company	0.0%	100.0%	100.0%

Source:
Sample Water Companies from Value Line

Goodman Water Company
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 1996 to 2005 DPS[1]	Dividends Per Share Projected DPS[1]	Earnings Per Share 1996 to 2005 EPS[1]	Earnings Per Share Projected EPS[1]
American States Water	1.1%	1.3%	2.5%	7.6%
California Water	1.1%	1.4%	2.3%	4.1%
Aqua America	6.2%	12.5%	9.4%	12.0%
Connecticut Water	1.3%	No Projection	-0.9%	No Projection
Middlesex Water	2.2%	No Projection	0.4%	No Projection
SJW Corp	4.2%	No Projection	6.6%	No Projection
Average Sample Water Utilities	2.7%	5.0%	4.2% [2]	7.9%

1 Value Line

2 Note that the figure -0.9% has been excluded from the calculation.

Goodman Water Company
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	**Retention Growth 1996 to 2005 br**	**Retention Growth Projected br**	**Stock Financing Growth vs**	**Sustainable Growth 1996 to 2005 br + vs**	**Sustainable Growth Projected br + vs**
American States Water	2.6%	5.1%	1.5%	4.1%	6.5%
California Water	2.6%	2.9%	2.8%	5.4%	5.7%
Aqua America	4.4%	6.3%	6.6%	11.0%	12.9%
Connecticut Water	2.7%	No Projection	0.6%	3.3%	No Projection
Middlesex Water	1.2%	No Projection	4.3%	5.5%	No Projection
SJW Corp	5.2%	No Projection	0.0%	5.2%	No Projection
Average Sample Water Utilities	3.1%	4.8%	2.6%	5.7%	8.4%

[B]: Value Line
[C]: Value Line
[D]: Value Line and MSN Money
[E]: [B]+[D]
[F]: [C]+[D]

Goodman Water Company
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 12/13/2006	Book Value	Mkt To Book	*Value Line* Beta β	Raw Beta β *raw*
American States Water	AWR	38.42	16.39	2.3	0.80	0.67
California Water	CWT	40.55	16.92	2.4	0.85	0.75
Aqua America	WTR	23.94	6.66	3.6	0.85	0.75
Connecticut Water	CTWS	22.69	11.94	1.9	0.85	0.75
Middlesex Water	MSEX	18.33	8.74	2.1	0.80	0.67
SJW Corp	SJW	36.14	10.86	3.3	0.75	0.60
Average				**2.6**	**0.82**	**0.70**

[C]: MSN Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: -0.35 + [F] / 0.67

Goodman Water Company
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
Description	g
DPS Growth - Historical[1]	2.7%
DPS Growth - Projected[1]	5.0%
EPS Growth - Historical[1]	4.2%
EPS Growth - Projected[1]	7.9%
Sustainable Growth - Historical[2]	5.7%
Sustainable Growth - Projected[2]	8.4%
Average	**5.7%**

1 Schedule SPI-4

2 Schedule SPI-5

Goodman Water Company
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_o)[1] 12/13/2006	Projected Dividends[2] (Stage 1 growth) (D_t)				Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
		d_1	d_2	d_3	d_4		
American States Water	38.4	0.94	0.99	1.05	1.11	6.8%	9.1%
California Water	40.6	1.20	1.27	1.34	1.41	6.8%	9.6%
Aqua America	23.9	0.47	0.49	0.52	0.55	6.8%	8.6%
Connecticut Water	22.7	0.87	0.92	0.97	1.03	6.8%	10.5%
Middlesex Water	18.3	0.72	0.76	0.80	0.85	6.8%	10.6%
SJW Corp	36.1	0.59	0.62	0.66	0.69	6.8%	8.3%

Average **9.5%**

$$P_0 = \sum_{t=1}^{n} \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n}\left[\frac{1}{(1+K)}\right]^n$$

Where : P_0 = current stock price
D_t = dividends expected during stage 1
K = cost of equity
n = years of non − constant growth
D_n = dividend expected in year n
g_n = constant rate of growth expected after year n

1 [B] see schedule SPI-6
2 Derived from Value Line Information
3 Average annual growth in GDP 1929 - 2005 in current dollars.
4 Internal Rate of Return of Projected Dividends