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Docket #(s): W-02500A-06-0281

Exhibit # : S1, S2, S3, S4, S5, S6, S7, S8, S9
I1, I2, I3, I4, I5, A1, A2, A3

Arizona Corporation Commission
DOCKETED
FEB -7 2007

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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
BARRY WONG
Commissioner

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

DIRECT

TESTIMONY

OF

CHARLES R. MYHLHOUSEN

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

NOVEMBER 24, 2006

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

Goodman Water Company ("Goodman" or "Company") is an Arizona corporation that provides water utility service to a community approximately two miles south of Oracle Junction and approximately 22 miles north of downtown Tucson. The Company served approximately 459 customers during the test year ended September 30, 2005. The Company's current rates were approved with the original Certificate of Convenience and Necessity in Decision No. 56111, dated December 15, 1988. The Company began full operations in 2003.

The Company proposes rates that would produce operating revenue of $537,955 producing operating income of $133,947 for a 10.50 percent rate of return on a fair value rate base ("FVRB") of $1,275,683. The Company's proposal would increase annual operating revenue by $324,607 or 152.15 percent over test year revenues of $213,348. Under the Company's proposed rates, the typical residential 5/8 inch meter customer consuming the average of 5,509 gallons per month would experience a $44.77 or 148.64 percent increase in their monthly bill from $30.12 to $74.89.

Staff recommends rates that would produce total operating revenue of $446,411 producing operating income of $121,977 for a 9.60 percent rate of return on a FVRB of $1,270,589. Staff's recommended revenue represents an increase of $233,063 or 109.24 percent over test year revenue of $213,348. Under Staff's recommended rates, the typical residential 5/8 inch meter customer consuming the average of 5,509 gallons per month would experience a $29.89 or 99.22 percent increase in their monthly bill from $30.12 to $60.01.

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. Briefly describe your responsibilities as a Public Utilities Analyst III.

A. I am responsible for the examination and verification of financial and statistical information included in utility rate applications, developing revenue requirements, designing rates, preparing written reports and/or testimonies and related schedules that present Staff's recommendations to the Commission. I am also responsible for testifying at formal hearing on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Sociology with an emphasis in business from Bellevue University located in Bellevue, Nebraska. In the ensuring years, I have taken various accounting courses. I have participated in multiple rate cases and other regulatory proceedings. I attended the National Association of Regulatory Utility Commission Utilities Rate School, and have attended seminars and courses in utility regulation and utility accounting.

I began employment with the Commission as a utilities regulatory analyst in October 2000. Prior to joining the Commission, I worked at the Internal Revenue Service as a Revenue Agent for over twenty years.

Q. What is the scope of your testimony in this case?

A. I am presenting Staff's analysis and recommendations regarding Goodman Water Company's ("Goodman" or "Company") application for a permanent rate increase in the areas of rate base, operating income, revenue requirements, and rate design. Staff Witness Mr. Marlin Scott Jr. is presenting Staff's engineering analysis and recommendations. Staff witness Mr. Steve Irvine is presenting Staff's cost of capital analysis and recommendations.

Q. When was the application for a rate increase filed by the Company?

A. The original application was filed on April 26, 2006. but Staff found the application insufficient. The Company amended it and Staff found the application sufficient on July 12, 2006.

Q. What is the basis of Staff's recommendations?

A. Staff performed a regulatory audit of the Company's applications and records. The regulatory audit consisted of examining and testing financial information, accounting records, and other supporting documentation. Staff also verified that the accounting principles applied were in accordance with the Commission adopted National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USoA").

Q. **What test year was used by the Company in the filing?**

A. The Company used the twelve months ending September 30, 2005.

Q. Did Staff accept the test year proposed by the Company?

A. Yes. The September 30, 2005 test year selected was the most recent fiscal year available and should present a fairly accurate representation of the Company's financial operations for the determination of appropriate rates and charges.

BACKGROUND

Q. Please briefly describe the Company background.

A. The Company is a certificated Arizona corporation that provides water utility service in a community located approximately two miles south of Oracle Junction and approximately 22 miles north of downtown Tucson. The Company served approximately 459 customers during the year ended September 30, 2005.

On April 26, 2006, the Company filed an application for a permanent rate increase. On July 12, 2006, Staff filed a letter declaring the application sufficient.

The Commission's Decision No. 56111, dated September 15, 1988, approved the Company's application for a Certificate of Convenience and Necessity ('CC&N'). That Order utilized an estimated revenue requirement and rate base to determine the authorized rates. This current rate application is the first application filed since the Company received its CC&N in 1988 and began full operations in 2003.

Q. What are the primary reasons stated by the Company for requesting a permanent rate increase?

A. The Company rates for water utility service have not been increased since its CC&N was approved in 1988. While the Company has been in business since 1988, it did not begin full operations until 2003. Since that time the Company has grown to approximately 459

customers at the end of the test year and has invested over $2.33 million in plant. The Company's current rate of return, based on the adjusted test year data, is negative. Consequently, rate increases are necessary to ensure that the Company recovers its operating expenses and has an opportunity to earn a reasonable return on the fair value of its utility plant and property devoted to public service.

CONSUMER SERVICE

Q. Please provide a brief history of customer complaints, customers responses to the proposed rate increase, the Company's corporate standing with the Corporation Division and government impositions.

A. Staff reviewed the Commission's records from year 2003 through August 6, 2006, and found one complaint concerning disconnect and termination of service. The complaint was resolved. No customer responses to this filing have been received. The Company is in good standing with the Corporation Division. The Company is current on all property and sales taxes.

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Please summarize the Company's filing.

A. The Company proposes rates that would produce operating revenue of $537,955 and operating income of $133,947 for a 10.50 percent rate of return on fair value rate base ("FVRB") of $1,275,683. The Company's proposal would increase annual operating revenues by $324,607 or 152.15 percent over test year revenues of $213,348.

Q. Please summarize Staff's recommendations.

A. Staff recommends total annual operating revenue of $446,411 and operating income of $121,977 for a 9.60 percent rate of return on a FVRB of 1,270,589. Staff's recommended

revenue represents an increase of $233,063 or 109.24 percent over test year revenue of $213,348. See Schedule CRM-1.

RATE BASE

Q. Please review the rate base recommendations addressed in this testimony.

A. The Company, as filed, proposes a rate base of $1,275,683. Staff recommends a rate base $1,270,589, see Schedule CRM-3. For a detailed account of Staff's recommended adjustments, see Schedule CRM-4.

Q. Please review the rate base adjustments.

A. My testimony addresses the following rate base issues.

Adjustment No.1 Transmission Lines – Staff's adjustment increases transmission lines by $17,325. The Company removed this amount from outside services in the adjusted test year income statement, however it failed to include this amount in the transmission lines account No. 331 of plant in service. See Schedule CRM-5.

Adjustment No. 2 Accumulated Depreciation – Staff's adjustment increases accumulated depreciation in the amount of $415, which reflects the difference between Staff's and the Company's calculation of accumulated depreciation on plant in services account No. 331 of $163 and account No. 334 of $252. See Schedule CRM-7

Adjustment No. 3 Working Capital – Staff's adjustment decreases cash working capital by $22,033 from $22,003 to zero. Staff typically only allows cash working capital allowances calculated by the formula method for small class D and E utilities. The formula method always produces a positive cash working capital need. Utilities classified

as A, B, or C are much larger and Staff believes that the formula method does not accurately reflect the related cash working capital needs. Typically Staff finds that proper lead/lag studies usually produce a negative cash working capital need. Staff recommends disallowance of any cash working capital allowance in this case. See Schedule CRM-6.

OPERATING INCOME

Q. What are the results of Staff's analysis of test year revenues, expenses and operating income/loss?

A. Staff's analysis reflects adjusted test year revenues of $213,348, expenses of $255,723 and operating loss of $42,375 as shown on Schedules CRM-8 and CRM-9. Staff made seven adjustments to operating expenses.

Q. Please review the Staff adjustments to operating expenses.

A. My testimony addresses the following issues:

Adjustment No. 1 – Salaries and Wages – Staff's adjustment decreased this expense by $25,600 from $32,000 to $6,400 to disallow various functions that the Company was unable to provide time cards for, or other substantiation of, the separation of duties between outside services and the employee of the Company. Staff's adjustment provided for the portion of employee duties dedicated to day to day operations. See Schedule CRM-10.

Adjustment No. 2 – Repairs and Maintenance – Staff's adjustment decreased this expense by $4,130 from $9,868 to $5,738 as shown on schedule CRM-11. The Company no longer uses P & H Contracting. This will not be a going-forward expense, as the duties performed by P & H Contracting were already being performed by other contractors.

Adjustment No. 3 – Outside Services – Staff's adjustment decreased this expense by $17,867 from $78,106 to $60,239 as shown on Schedule CRM-12. Staff removed $174 for meals paid for Mr. Christopher Hill and Mr. J.A. Shiner. Mr. Shiner is a part owner of the Company. Mr. Christopher Hill provides outsides services of approximately 4 to 8 hours a month for the Company.

Staff removed $11,916 paid to CWH2 Company for outside services provided. This Company is owned by Mr. Christopher Hill. CWH2 only spends approximately 4 to 8 hours a month providing services. These services are similar to, and a duplication of, some of the services provided by Y.L. Technology.

The Company paid to Mr. J.A. Shiner $17,325. Staff removed $5,777 of the amount paid. Mr. J.A. Shiner is part owner of the Company. He is involved in the review of the day to day operations and also does future planning for the Company. Staff allowed an amount it determined was appropriate for the services provided.

Adjustment No. 4 – Regulatory Commission Expense – Rate Case – Staff's adjustment decreased this expense by $1,875 to remove the estimated cost claimed for possible contingencies as shown on Schedule CRM-13.

Adjustment No. 5 – Miscellaneous Expense – Staff's adjustment decreased this expense by $140 to reflect disallowance of cost of lunches with Mr. J.A. Shiner as shown on Schedule CRM-14.

Adjustment No. 6 – Property Tax Expense – Staff's adjustment decreased this expense by $1,719 from $19,270 to $17,551 as shown on Schedule CRM-15, to reflect Staff's

adjusted test year recommended revenue and using the calculation for the modified Arizona Department of Revenue property tax method.

Adjustment No. 7 – Income Tax Expense – Staff's adjustment decreased income tax by $17,222 from ($41,497) to ($24,275) as shown on Schedules CRM-2 and CRM-16 to reflect the application of statutory state and federal income tax rates to Staff's recommended taxable income.

REVENUE REQUIREMENT

Q. Would you please summarize the Company's proposed revenue requirement?

A. The Company's rate filing proposes annual revenues of $537,955, an increase of $324,607 or 52.15 percent over test year adjusted revenues of $213,348 as shown on Schedule CRM-1.

Q. Would you please summarize Staff's recommended revenue requirement?

A. Staff recommends annual revenue of $446,411, an increase of $233,063 or 109.24 percent over test year adjusted revenues of $213,348 as shown on Schedule CRM-9.

BASIS FOR OPERATING INCOME DETERMINATION

Q. What is the appropriate method to determine the Company's operating income and revenue requirement?

A. Operating income should be calculated by applying the recommended cost of capital to the FVRB. Revenue requirement is equal to the sum of operating expenses and the authorized rate of return.

Q. What is the appropriate rate of return on FVRB?

A. The appropriate rate of return on FVRB is the one that results in the revenue requirement, as discussed in the testimony of Staff witness Mr. Steve Irvine.

RATE DESIGN

Q Have you prepared a schedule summarizing the present, Company proposed, and Staff recommended rates and service charges?

A. Yes. A summary of the present, Company proposed, and Staff recommended rates and service charges are provided on Schedule CRM-18.

Q. Would you please summarize the current rate design?

A. The present monthly minimum charges by meter sizes are as follows: 5/8 x ¾ inch $18.00; ¾ inch $27.00; 1 inch $48.00; 1 ½ inch $90.00; 2 inch $144.00; 3 inch $270.00; 4 inch $450.00; 6 inch $900.00. One thousand gallons are included in the monthly minimum charge for the 5/8 x ¾ inch meter only. No gallons are included in the monthly minimum charge for all other meter sizes and customer classes. The present commodity rate is $2.20 per thousand gallons. These rates apply to all residential, commercial and irrigation customers.

For irrigation customers, the monthly minimum charge is the same based upon meter size with zero gallons included in the monthly minimum charge and a commodity rate of $2.20 per thousand gallons. For standpipe or bulk water customers the rate is $4.75 per 1,000 gallons.

Q. Would you please summarize the Company's proposed rate design?

A. The Company's proposed monthly minimum charges by meter size are as follows: 5/8 x3/4 inch $44.78; ¾ inch $67.18; 1 inch $111.96; 1 ½ inch $223.92; 2 inch $358.27; 3 inch $671.76; 4 inch $1,119.60; 6 inch $2,239.20. No gallons are included in the minimum charge. The Company proposes a three tier commodity rate with different break over points for 5/8 x ¾ inch residential meters and a two tier commodity rate for all other meter sizes. The first, second and third tier rates are $5.00, $6.70 and $7.70 per thousand gallons. These rates apply to residential, commercial and irrigation customers.

For irrigation customers the Company's proposed monthly minimum charge is the same based on meter size. The commodity charge is the same based on meter size.

The Company's proposed charge for standpipe or bulk water customers is $7.70 per 1,000 gallons.

Q. Would you please summarize Staff's recommended rate design?

A. Staff recommends an inverted tier rate design that consists of three tiers for the 5/8 x ¾ inch meter for residential customers and two tiers for all others. The additional tier for the residential 5/8 x3/4 inch meters is for the first 4,000 gallons. Efficiency in water use is encouraged by producing a higher customer bill with increased consumption or use of a larger meter. Irrigation and standpipe rates have been increased. A typical bill analysis is provided in Schedule CRM-19, and typical bill for average and median use under present, Company proposed, and Staff recommended rates are presented on Schedule CRM-19.

Q. What is the rate impact on a typical 5/8 x ¾ inch meter residential customer?

A. The average usage of residential 5/8 x ¾ inch meter customers is 5,509 gallons per month. The average residential 5/8 x ¾ inch-meter customers would experience a $44.77 or 148.64 percent increase in their monthly bill from $30.12 to $74.89 under the Company's proposed rates and a $30.50 or 98.53 percent increase in their monthly bill from $27.90 to $55.39 under Staff's recommended rates.

Staff recommends accepting the Company's proposed services charges and service line and meter installation charges with the exceptions of, 1) the 5 inch service line and installation charges since a 5-inch meter does not exist, and 2) late charge per month of $10.00 proposed by the Company. Staff recommends a late charge of 1.50 percent per month on the unpaid balance.

RECOMMENDATIONS:

Q. What is Staff recommending?

A. Staff recommends a provision be included in the Company's tariff to allow for the flow-through of all appropriate state and local taxes as provided for in A.A.C. Rule 14-2-409(D)(5).

Staff further recommends that the Company be ordered to utilize the new depreciation rates delineated on Schedule CRM-17.

Staff further recommends approval of its rates and charges as shown on Schedule CRM-18 pages 1 and 2.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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

DIRECT TESTIMONY OF CHARLES R. MYHLHOUSEN

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CRM-5	Original Cost Rate Base Adjustment #1 -Reclassification of Outside Services to Plant
CRM-6	Original Cost Rate Base Adjustment #2 - Removal of Cash Working Capital
CRM-7	Original Cost Rate Base Adjustment #3 - Accumulated Depreciation
CRM-8	Operating Income - Test Year and Staff Recommended
CRM-9	Summary of Operating Income Adjustments - Test Year
CRM-10	Operating Adjustment #1 - Salaries And Wages
CRM-11	Operating Adjustment #2 - Repairs & Maintenance
CRM-12	Operating Adjustment #3 - Outside Services
CRM-13	Operating Adjustment #4 - Rate case Expense
CRM-14	Operating Adjustment #5 - Miscellaneous Expense
CRM-15	Operating Adjustment #6 - Property Taxes
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CRM-17	Depreciation Expense
CRM-18	Rate Design
CRM-19	Typical Bill Analysis

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	$ 1,270,589	$ 1,270,589
2	Adjusted Operating Income (Loss)	$ (76,594)	$ (76,594)	$ (42,375)	$ (42,375)
3	Current Rate of Return (L2 / L1)	-6.00%	-6.00%	-3.34%	-3.34%
4	Required Rate of Return	10.50%	10.50%	9.60%	9.60%
5	Required Operating Income (L4 * L1)	$ 133,947	$ 133,947	$ 121,977	$ 121,977
6	Operating Income Deficiency (L5 - L2)	$ 210,541	$ 210,541	$ 164,351	$ 164,351
7	Gross Revenue Conversion Factor	1.5418	1.5418	1.4181	1.4181
8	Required Revenue Increase (L7 * L6)	$ 324,607	$ 324,607	**$ 233,063**	**$ 233,063**
9	Adjusted Test Year Revenue	$ 213,348	$ 213,348	$ 213,348	$ 213,348
10	Proposed Annual Revenue (L8 + L9)	$ 537,955	$ 537,955	$ 446,411	$ 446,411
11	Required Increase in Revenue (%)	152.15%	152.15%	109.24%	109.24%
12	Rate of Return on Common Equity (%)	10.50%	10.50%	9.60%	9.60%

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

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)	29.1592%			
5	Subtotal (L3 - L4)	70.8408%			
6	**Revenue Conversion Factor (L1 / L5)**	1.411617			
	Calculation of Uncollectible Factor:				
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	29.1592%			
9	One Minus Combined Income Tax Rate (L7 - L8)	70.8408%			
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)	23.8533%			
16	Effective Federal Income Tax Rate (L14 x L15)	22.1912%			
17	Combined Federal and State Income Tax Rate (L13 +L16)	29.1592%			
18	Required Operating Income (Schedule CRM-9 Col (E) Line 42	$ 121,977			
19	AdjustedTest Year Operating Income (Loss) (Schedule CRM-9 Line 42)	$ (42,375)			
20	Required Increase in Operating Income (L18 - L19)		$ 164,351		
21	Income Taxes on Recommended Revenue (Col. (D), L43)	$ 43,684			
22	Income Taxes on Test Year Revenue (Col. (B), L43)	$ (24,275)			
23	Required Increase in Revenue to Provide for Income Taxes (L21 - L22)		$ 67,959		
24	Recommended Revenue Requirement (Schedule CRM-1, Line 30)	$ 446,411			
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)		$ 232,311		
	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	$ 233,063	$ 446,411	
31	Operating Expenses Excluding Income Taxes	$ 279,998		$ 279,998	
32	Synchronized Interest (L47)	$ 26,682		$ 26,682	
33	Arizona Taxable Income (L30 - L31 - L32)	$ (93,332)		$ 139,731	
34	Arizona State Income Tax Rate	6.9680%		6.9680%	
35	Arizona Income Tax (L33 x L34)		$ (6,503)		$ 9,736
36	Federal Taxable Income (L33 - L35)	$ (86,829)		$ 129,994	
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%	$ (6,250)		$ 6,250	
39	Federal Tax on Third Income Bracket ($75,001 - $100,000) @ 34%	$ (4,022)		$ 8,500	
40	Federal Tax on Fourth Income Bracket ($100,001 - $335,000) @ 39%	$ -		$ 11,698	
41	Federal Tax on Fifth Income Bracket ($335,001 -$10,000,000) @ 34%	$ -		$ -	
42	Total Federal Income Tax		$ (17,772)		$ 33,948
43	Combined Federal and State Income Tax (L35 + L42)		$ (24,275)		$ 43,684
44	Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]				23.8533%
	Calculation of Interest Synchronization:				
45	Rate Base (Schedule CRM-3, Col. (C), Line 17)	$ 1,270,589			
46	Weighted Average Cost of Debt	2.10%			
47	Synchronized Interest (L45 X L46)	$ 26,682			

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	415	2	108,663
3	Net Plant in Service	$ 2,240,238	$ 16,910		$ 2,257,148
	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	$ (5,093)		$ 1,270,589

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	[E] ADJ #4	[F] ADJ #5	[G] ADJ #6	[H] ADJ #7	[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	-	415				-	-	108,663
41				-	-	-	-	-	-	-	-
42	Net Plant in Service (L59 - L 60)		$ 2,240,238	$ 17,325	$ (415)	$ -	$ -	$ -	$ -	$ -	$ 2,257,148
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	$ (415)	$ (22,003)	$ -	$ -	$ -	$ -	$ 1,270,589

ADJ #		References:
1	Transmission Lines	Schedule CRM-5
2	Accumulated Depreciation	Schedule CRM-8
3	Cash Working Capital	Schedule CRM-7

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

ORIGINAL COST RATE BASE ADJUSTMENT #2 - ACCUMULATED DEPRECIATION

Line No.	Accumulated Depreciation Adjustment		
1	Staff's Calculated Balance	$	108,663
2	Company's Adjusted Accum. Depr. - Sched. B-2		108,248
3	Difference	$	415
4	Increase/(Decrease) to Accumulated Depreciation	$	415

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)

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	$ 233,063	$ 428,471
3	Water Sales - Unmetered	-	-	-	-	-
4	Other Operating Revenue	17,940	-	17,940	-	17,940
5	**Total Operating Revenues**	$ 213,348	$ -	$ 213,348	$ 233,063	**$ 446,411**
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	(4,130) 11	5,738	-	5,738
15	Office Supplies and Expense	778	-	778	-	778
16	Outside Services	78,106	(17,867) 12	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) 13	23,125	-	23,125
23	Miscellaneous Expense	2,386	(140) 14	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	(1,829) 15	17,441	-	17,441
27	Income Tax	(41,497)	17,222 16	(24,275)	67,959	43,684
40						
41	**Total Operating Expenses**	$ 289,942	$ (34,219)	$ 255,723	$ 67,959	$ 323,682
42	**Operating Income (Loss)**	$ (76,594)	$ 34,219	$ (42,375)	$ 165,103	**$ 122,729**

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
Docket No. W-02500A-06-0281
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] Repairs & Maint ADJ #2	[D] Outsdie Services ADJ #3	[E] Rate Case ADJ #4	[F] Miscellaneous ADJ #5	[G] Property Taxes ADJ #6	[H] Income taxes ADJ #7	[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		(4,130)	-	-	yre4	-	-	5,738
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	-	-	-	-		(1,829)		17,441
24	Income Tax	(41,497)	-	-	-	-	-		17,222	(24,275)
										$ -
25	**Total Operating Expenses**	$ 289,943	$ (25,600)	$ (4,130)	$ (17,867)	$ (1,875)	$ (140)	$ (1,829)	$ 17,222	$ 255,723
26	**Operating Income (Loss)**	$ (76,594)	$ 25,600	$ 4,130	$ 17,867	$ 1,875	$ 140	$ 1,829	$ (17,222)	$ (42,375)

ADJ #		References:
1	Salaries and Wages	Schedule CRM-17
2	Repairs and Maintenance Expense	Schedule CRM-18
3	Outside Services Expense	Schedule CRM-19
4	Regulatory Commission Expense rate case	Schedule CRM-20
5	Miscellaneous Expense	Schedule CRM-21
6	Property Taxes	Schedule CRM-22
7	Income Taxes	Schedule CRM-23

OPERATING EXPENSE ADJUSTMENT #1 - SALARIES AND WAGES

LINE NO.	Salaries and Wages		
1	amount claimed on application	$	32,000
2	Amount Disallowed for future planning		(25,600)
3	Amount allowed	$	6,400
4	Increase (Decrease) to Salaries and Wages	$	(25,600)

OPERATING EXPENSE ADJUSTMENT #2 - REPAIRS AND MAINTENANCE

LINE NO.	Repairs and Maintenance		
1	Amount claimed on application	$	9,868
2	Amount decreased- P&H Contracting No longer used by Company	$	5,738
3	Increase (decrease) to Repairs and Maintenance	$	(4,130)

OPERATING INCOME ADJUSTMENT #3 - 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	Shiner for future planning not day to day operations		(5,777)		
5	Total disallowed		(17,867)		(17,867)
	Total Allowed			$	60,239
6					
	Increase (Decrease)				
	Increase (Decrease)			$	(17,867)

OPERATING INCOME ADJUSTMENT # 4 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 amortizecd 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)

OPERATING INCOME ADJUSTMENT #5 - 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)

OPERATING INCOME ADJUSTMENT #6 - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	(C) 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			446,411
5	Subtotal (Line 4 + Line 5)			873,107
6	Number of Years			3
7	Three Year Average (Line 5 / Line 6)			291,036
8	Department of Revenue Mutilplier			2
9	Revenue Base Value (Line 7 * Line 8)			582,071
10	Plus: 10% of CWIP - 2002			-
11	Less: Net Book Value of Licensed Vehicles			-
12	Full Cash Value (Line 9 + Line 10 - Line 11)			582071.22
13	Assessment Ratio			23.50%
14	Assessment Value (Line 12 * Line 13)			136,787
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)			$ 17,441
17	Company Proposed Property Tax			19,270
18	Increase/(Decrease) to Property Tax Expense			$ (1,829)

OPERATING INCOME ADJUSTMENT #7 - INCOME TAXES

Line No.	Income Tax		
1	Staff Calculated Income Tax, Per Staff Schedule JRM-2, Line 43	$	(24,275)
2	Income Tax, Per Company Schedule C-1		(41,497)
3	Increase/(Decrease) to Income Tax Expense	$	17,222

See Schedule CRM -2 for calculation

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	95.00
1" Meter		48.00	111.96	195.00
11/2" Meter		90.00	223.92	305.00
2" Meter		144.00	358.27	624.00
3" Meter		270.00	671.76	975.00
4" Meter		450.00	1,119.60	1,950.00
5" Meter	Meter size does not exist	n/a	n/a	deleted
6" Meter		900.00	2,239.20	4,485.00
				8,385.00
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	3.35
Tier two	From 4,001 to 9,000 Gallons	N/A	N/A	5.04
Tier three	Over 9,000 Gallons	N/A	N/A	6.00
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	Zero Gallons to 30,000 Gallons	N/A	N/A	5.04
Tier two	All Gallons over 30,000 gallons	N/A	N/A	6.00
One inch Meter per 1,000 Gallons				
Tier one	Zero Gallons to 75,000 Gallons	N/A	N/A	5.04
Tier two	All Gallons over 75,000 Gallons	N/A	N/A	6.00
1 1/2 inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 100,000 Gallons	N/A	N/A	5.04
Tier two	All Gallons over 100,000 Gallons	N/A	N/A	6.00
Two inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 225,000 Gallons	N/A	N/A	5.04
Tier two	All Gallons over 225,000 Gallons	N/A	N/A	6.00
Three inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 350,000 Gallons	N/A	N/A	5.04
Tier two	All Gallons over 350,000 Gallons	N/A	N/A	6.00
Four inch meter per 1,000 gallons				
Tier one	Zero Gallons to 725,000 Gallons	N/A	N/A	5.04
Tier two	All Gallons over 725,000 Gallons	N/A	N/A	6.00
Six inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 1,500,000 Gallons	N/A	N/A	5.04
Tier two	All Gallons over 1,500,000 Gallons	N/A	N/A	6.00
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	6.22

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

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	$ 60.01	$ 29.89	99.22%
Median Usage	4,500	27.90	54.92	$ 27.02	96.85%

Present & Proposed Rates (Without Taxes)
General Service 3/4-Inch Meter

Gallons	Present		Company Proposed		%	Staff Recommended		%
	5/8"		5/8"			5/8"		
	Minimum Charge	$ 18.00	Minimum Charge	$ 44.78		Minimum Charge	$ 39.00	
	1st Tier Rate	2.2000	1st Tier Rate	5.0000		1st Tier Rate	3.3500	
	1st Tier Breakover	9,999,999	1st Tier Breakover	4,000		1st Tier Breakover	4,000	
	2nd Tier Rate	2.2000	2nd Tier Rate	6.7000		2nd Tier Rate	5.0400	
	2nd Tier Breakover	9,999,999	2nd Tier Breakover	9,999,999		2nd Tier Breakover	9,000	
	3rd Tier Rate	2.2000	3rd Tier Rate	7.7000		3rd Tier Rate	6.0000	
Consumption	Rates		Rates		Increase	Rates		Increase
-	$ 18.00		$ 44.78		148.78%	$ 39.00		116.67%
1,000	20.20		49.78		146.44%	42.35		109.65%
2,000	22.40		54.78		144.55%	45.70		104.02%
3,000	24.60		59.78		143.01%	49.05		99.39%
4,000	26.80		64.78		141.72%	52.40		95.52%
5,000	29.00		71.48		146.48%	57.44		98.07%
4,500	27.90		68.13		144.19%	54.92		96.85%
6,000	31.20		78.18		150.58%	62.48		100.26%
7,000	33.40		84.88		154.13%	67.52		102.16%
8,000	35.60		91.58		157.25%	72.56		103.82%
9,000	37.80		98.28		160.00%	77.60		105.29%
5,509	30.12		74.89		148.64%	60.01		99.22%
10,000	40.00		104.98		162.45%	83.60		109.00%
11,000	42.20		111.68		164.64%	89.60		112.32%
12,000	44.40		118.38		166.62%	95.60		115.32%
13,000	46.60		125.08		168.41%	101.60		118.03%
14,000	48.80		131.78		170.04%	107.60		120.49%
15,000	51.00		138.48		171.53%	113.60		122.75%
16,000	53.20		145.18		172.89%	119.60		124.81%
17,000	55.40		151.88		174.15%	125.60		126.71%
18,000	57.60		158.58		175.31%	131.60		128.47%
19,000	59.80		165.28		176.39%	137.60		130.10%
20,000	62.00		171.98		177.39%	143.60		131.61%
25,000	73.00		205.48		181.48%	173.60		137.81%
30,000	84.00		238.98		184.50%	203.60		142.38%
35,000	95.00		272.48		186.82%	233.60		145.89%
40,000	106.00		305.98		188.66%	263.60		148.68%
45,000	117.00		339.48		190.15%	293.60		150.94%
50,000	128.00		372.98		191.39%	323.60		152.81%
75,000	183.00		540.48		195.34%	473.60		158.80%
100,000	238.00		707.98		197.47%	623.60		162.02%

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
BARRY WONG
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 RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON	)	DOCKET NO. W-02500A-06-0281

DIRECT

TESTIMONY

OF

STEVEN P. IRVINE

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

NOVEMBER 24, 2006

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

The direct 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 ("Goodman" or "Company") for this proceeding consisting of 0 percent debt and 100 percent equity.

Cost of Equity – Staff's 9.6 percent estimated return on equity ("ROE") for the Company is based on cost of equity estimates for the sample companies ranging from 9.0 percent using the discounted cash flow method ("DCF") to 10.1 percent using the capital asset pricing model ("CAPM").

Overall Rate of Return – Staff recommends that the Commission adopt an overall rate of return ("ROR") of 9.6 percent.

Mr. Bourassa's Testimony – The Commission should reject the 10.5 percent ROE proposed by Goodman for the following reasons:

1. Mr. Bourassa's DCF estimates rely exclusively on analysts' forecasts. In addition, Mr. Bourassa's DCF constant growth analysis does not include dividend growth.
2. Mr. Bourassa's risk premium analysis is not market based and 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 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. Briefly describe your responsibilities as a Public Utilities Analyst.

A. In my capacity as a Public Utilities Analyst, I conduct studies to estimate the cost of equity capital, perform analyses of debt costs and compute the overall rate of return in rate proceedings. I also design rates to generate the revenue requirement in rate proceedings.

Q. Please describe your educational background and professional experience.

A. In 1994, I graduated from Arizona State University, receiving a Bachelor of Science degree in Business Marketing. In 1997, I received a Masters degree in Public Administration from Arizona State University. I began employment with the Commission in May of 2001 and have worked in the Utilities Division since September of 2002.

Q. What is the scope of your testimony in this case?

A. My testimony provides Staff's recommended rate of return for Goodman Water Company ("Goodman" or "Company") in this case.

Summary of Testimony and Recommendations

Q. Briefly summarize how Staff's cost of capital testimony is organized.

A. Staff's cost of capital testimony is presented in ten sections. Section I is this introduction. Section II discusses the concept of weighted average cost of capital ("WACC"). Section III presents the concept of capital structure and presents Staff's recommended capital

structure for Goodman in this proceeding. Section IV discusses the concepts of return on equity ("ROE") and risk. Section V presents the methods employed by Staff to estimate Goodman's ROE. Section VI presents the findings of Staff's ROE analysis. Section VII presents Staff's final cost of equity estimates for Goodman. Section VIII presents Staff's rate of return ("ROR") recommendation for Goodman. Section IX presents Staff's comments on the direct testimony of Goodman's witness, Mr. Thomas J. Bourassa. Finally, Section X summarizes Staff's recommendations.

Q. Briefly summarize Staff's proposed capital structure, return on equity and overall rate of return for Goodman in this proceeding.

A. Staff recommends a 9.6 percent overall ROR. Staff's recommended ROR reflects a capital structure composed of 0 percent debt and 100 percent equity, a 9.6 percent ROE for the Company based on cost of equity estimates for the sample companies ranging from 9.0 percent using the discounted cash flow method ("DCF") to 10.1 percent using the capital asset pricing model ("CAPM"). Staff's recommended 9.6 percent ROR is calculated in Schedule SPI-1.

Q. Briefly summarize Goodman's proposed capital structure, return on equity and overall rate of return for this proceeding.

A. The Company proposes a capital structure that consists of 100 percent equity and 0 percent debt. Since the Company is not proposing any debt financing, its proposed ROR is equal to its ROE at 10.5 percent. Table I summarizes Goodman's proposed capital structure and costs.

Table 1

	Weight	Cost	Weighted Cost
Long-term Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	10.5%	10.5%
Cost of Capital/ROR			**10.5%**

II. THE WEIGHTED AVERAGE COST OF CAPITAL

Q. Please explain the term cost of capital.

A. Cost of capital is the opportunity cost of an investment. For an investor it is the rate of return that one would expect to earn in investments with risk similar to the investment being considered. One can invest in a company through a variety of securities such as stock, bonds, and debt. The cost of capital to a company issuing a variety of securities is an average of the expected returns on the securities the company has issued weighted according to the size of each security relative to the company's entire security portfolio. This total cost of capital is referred to as the weighted average cost of capital ("WACC"). While a company may determine the size of the dividends it pays or offer debt at particular rates at its own discretion, in a competitive market, the market determines the expected return on its equity capital. Equity investors are attracted to an equity investment when the expected returns are similar to those of other entities with similar risk. That is, the cost of equity capital is determined by the market.

Q. What is the WACC formula?

A. The WACC formula is as follows:

Equation 1

$$WACC = \sum_{i=1}^{n} W_i * r_i$$

In this equation, W_i is the weight given to the ith security (the proportion of the ith security relative to the portfolio) and r_i is the expected return on the ith security.

Q. Please provide an example of a hypothetical capital structure demonstrating application of Equation 1.

A. For purposes of this example, assume that an entity has a capital structure composed of 70 percent debt and 30 percent equity. Also, assume that the embedded cost of debt is 7.0 percent and the expected return on equity, i.e. the cost of equity, is 10.0 percent. Calculation of the WACC is as follows:

WACC = (70% * 7.0%) + (30% * 10.0%)

WACC = 4.90% + 3.00%

WACC = 7.90%

The weighted average cost of capital in this example is 7.90 percent. The entity in this example would need to earn an overall rate of return of 7.90 percent to cover its cost of capital.

III. CAPITAL STRUCTURE

Background

Q. Please explain the capital structure concept.

A. While WACC describes the average unit cost of capital employed from a company's various securities, capital structure describes the relative proportions of each type of security (capital leases, long-term debt, short-term debt, preferred stock, and common stock). As the proportion of the capital structure represented by fixed obligation financing increases (increased leverage), risk associated with the ability to meet financial obligations (financial risk) increases.

Q. How is the capital structure for a given company described?

A. A company's capital structure is described by simply stating the percentage of each component of the capital structure relative to the whole capital structure. The following is an example of a hypothetical capital structure. Assume that the capital structure for an entity that is financed by $10,000 of capital leases, $30,000 of long-term debt, $5,000 of short-term debt, $10,000 of preferred stock and $45,000 of common stock. The capital structure for the company is shown in Table 2.

Table 2

Component			%
Capital Leases	$10,000	($10,000/$100,000)	10.0%
Long-Term Debt	$30,000	($30,000/$100,000)	30.0%
Short-Term Debt	$5,000	($5,000/$100,000)	5.0%
Preferred Stock	$10,000	($10,000/$100,000)	10.0%
Common Stock	$45,000	($45,000/$100,000)	45.0%
Total	$100,000		100%

The capital structure in this example is composed of 10.0 percent capital leases, 30.0 percent long-term debt, 5.0 percent short-term debt, 10.0 percent preferred stock and 45.0 percent common stock.

Goodman's Capital Structure

Q. What capital structure does Goodman propose?

A. The Company recommends a capital structure with 0 percent debt and 100 percent equity. Schedule D-1 of the application describes that stockholder's equity in the Company was $1,372,377 during the test year and that there was no long term debt.

Q. What capital structure does Staff recommend for Goodman?

A. Staff recommends a capital structure composed of 100 percent equity and 0 percent debt as shown in Schedules SPI-1.

Q. How does Goodman's capital structure compare to capital structures of publicly traded water utilities?

A. The average capital structure of the six publicly traded water companies ("sample companies") is 51.4 percent debt and 48.6 percent equity. The capital structure for each of the sample companies is shown in Schedule SPI-3.

Q. Does Staff discuss the matter of a cost of equity adjustment as it relates to capital structure differences between Goodman and the sample water companies?

A. Yes. This matter is discussed in Section VII, Final Cost of Equity Estimates for Goodman.

IV. RETURN ON EQUITY

Background

Q. Please define the term cost of equity.

A. Cost of equity is the compensation that investors expect for bearing the risk of ownership of a stock. The return that investors expect for a given stock is equivalent to the expected returns of other firms with equivalent risk. Investors can expect a given stock's return to be similar to returns of other stocks with equivalent levels of risk as investors can simply select the other stocks as an alternative. Investors are likely to do so if there are other stocks available with similar levels of risk and higher returns. Cost of equity is therefore determined by the market given the prevailing market conditions.

Q. Can the cost of equity for Goodman be determined by market data related to its stock and earnings?

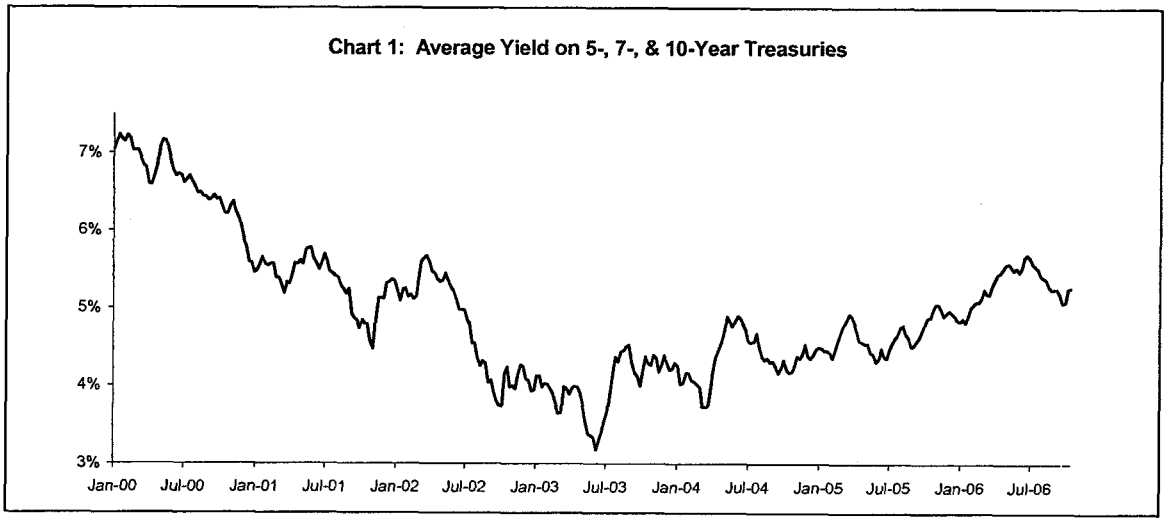
A. As Goodman's stock is not publicly traded, its cost of equity cannot be estimated directly. As stated previously, investors expect returns equivalent to the returns of stocks with equivalent risk. As a proxy for Goodman's own market data, Staff has estimated Goodman's cost of equity using market data from six publicly traded water utilities.

Q. Do interest rates affect cost of equity?

A. Yes. According to the CAPM, the direction of change in interest rates is an indicator of the direction of change in cost of equity. The CAPM is a market based model used for cost of capital estimation that Staff employs to estimate Goodman's cost of equity. The CAPM model is discussed in greater detail in Section V of this testimony.

Q. What has been the general trend in interest rates in recent years?

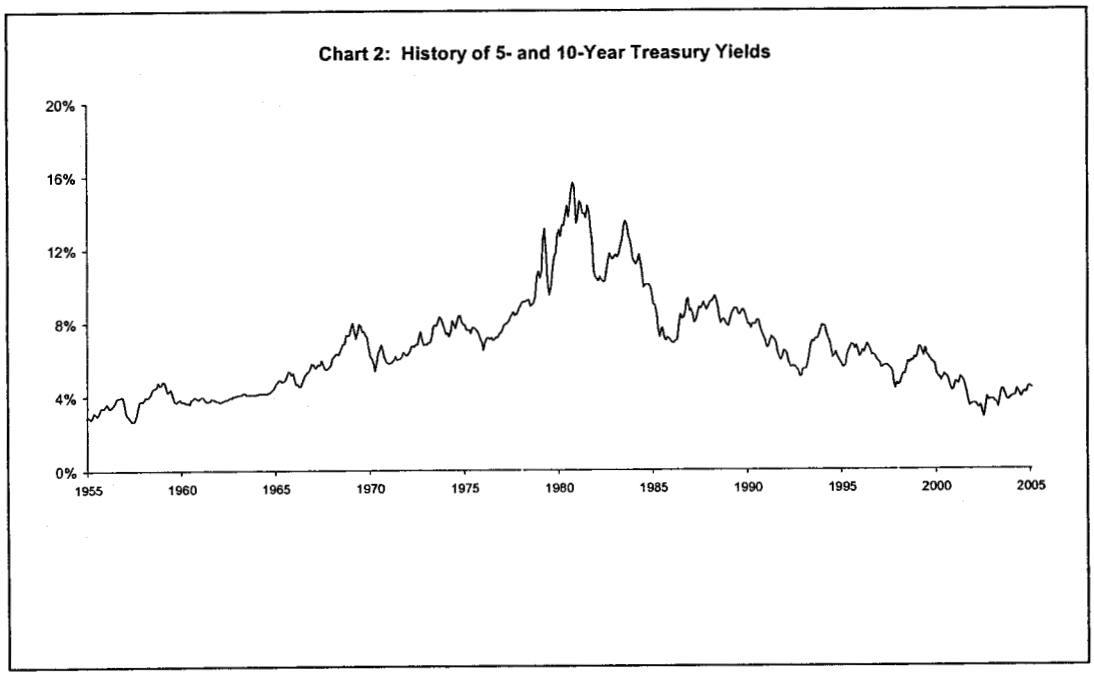
A. U.S. treasury rates from November 2000 to 2006 are shown in Chart 1. The chart shows that the rates in this timeframe generally declined until mid 2003 and have on average risen somewhat since that time.



Source: Federal Reserve

Q. What has been the general trend in interest rates in the long-term?

A. U.S. treasury rates from 1955 to present are shown in Chart 2. The chart demonstrates that in that period rates rose on average until the 1980's and have fallen on average since that time.



Source: Federal Reserve

Q. What do these trends suggest for cost of equity?

A. As mentioned previously, interest rates generally have a positive relationship with cost of capital. As a result, cost of equity has declined significantly in the past 25 years.

Risk

Q. Please define risk as it relates to cost of capital.

A. Risk is uncertainty that results from the variability of returns from an investment. Greater variability results in greater risk. Because investors are generally averse to risk,

investments with greater inherent risk must promise higher expected yields.[1] Risk can be separated into two components: market risk and non-market risk. Market risk can also be referred to as systematic or non-diversifiable risk. Non-market risk can also be referred to as unique or diversifiable risk.

Q. What is market risk?

A. Market risk is risk which results from forces that affect the entire market. Examples of forces that contribute to market risk include but are not limited to: inflation, interest rates, general business cycles, international incidents, and war. Each of these forces impacts the entire market. An investor cannot eliminate market risk by holding a diverse portfolio as market risk affects all stocks. While market risk affects all stocks, the degree to which market risk affects an individual stock's returns varies. The sensitivity of a given stock's returns relative to the whole market is measured by the indicator Beta. Beta reflects both the business risk and financial risk of a firm. As Beta is a component of the CAPM model, it is discussed in greater detail in Section V of this testimony.

Q. What is business risk?

A. Business risk is that risk which is associated with the fluctuation in earnings due to the basic nature of a firm's business. Companies in the same line of business experience the same business risk associated with earning cycles for that line of business. Business risk affects cost of equity.

Q. What is financial risk?

A. Financial risk is the risk that results from a company's reliance on debt financing. Financial risk affects cost of equity. Firms whose capital is highly leveraged have greater

[1] Scott, David L. Wall Street Words, revised edition. Houghton Mifflin Company. Boston. 1988. p. 324.

exposure related to the ability to service debt. As leverage increases, risk also increases. This increase in risk results in an increase in cost of equity.

Q. What is non-market risk?

A. Non-market risk, or firm-specific risk, is risk that results from forces which are firm specific, or singular to a firm. Examples of forces that contribute to non-market risk include but are not limited to: strikes, lawsuits, failure of a product line, and loss of a client. Different firms experience their own unique, or non-market, risks. By holding a diverse portfolio an individual investor can eliminate non-market risk.

Q. Do market and non-market risk affect cost of equity?

A. Market risk does affect cost of equity. Because non-market risk is diversifiable, investors cannot expect to be compensated for non-market risk.

V. ESTIMATING THE COST OF EQUITY

Introduction

Q. Did Staff directly estimate Goodman's cost of equity?

A. No. As Goodman is not a publicly traded company, financial metrics needed to directly estimate Goodman's cost of equity are not available. For this reason, Staff used market information from six publicly traded water companies as a proxy for the financial metrics needed to estimate Goodman's cost of equity. Data from the proxy companies is averaged in Staff's analysis. Relying on averaged data from a sample group as a proxy has the beneficial effect of reducing sample error associated with variance present at the instant in time from which the financial metrics are selected.

Q. What companies did Staff select as proxies or comparables for Goodman?

A. Staff's sample consisted of: American States Water, California Water, Connecticut Water Services, Middlesex Water, Aqua America, and SJW Corp. These companies were selected as they are publicly traded and a significant portion of their revenues come from regulated operations. Goodman's analysis is based on these same sample companies.

Q. What models did Staff implement to estimate Goodman's cost of equity?

A. Staff's estimate of the cost of equity is based the DCF and the CAPM.

Q. Why did Staff choose to base its analysis on the DCF and CAPM?

A. Staff chose these models as they are widely recognized market based models for estimating the cost of equity. Since the cost of equity is determined by the market, use of market based models is appropriate. These models are explained in the following sections of this testimony.

Discounted Cash Flow Model Analysis

Q. Please provide a brief summary of the theory upon which the DCF method of estimating the cost of equity is based.

A. The DCF method of stock valuation is based on the theory that an investment's current value is equal the discounted sum of the future revenues generated from the investment. Professor Myron Gordon pioneered the use of the DCF method to estimate the cost of capital for a public utility in the 1960's. This model is widely used due to its theoretical merit and simplicity. The DCF formula calculates the cost of capital using expected dividends, market price, and a dividend growth rate. This process is applied to each of the sample companies and the results are averaged to determine an estimated cost of capital for the subject company.

Q. Are alternative growth rate models used in Staff's application of the DCF?

A. Yes. Staff uses two versions of the DCF. In one version, Staff uses a single continuous growth rate. This is referred to as the constant growth DCF. In the second version Staff uses a two-stage growth rate that assumes that dividend growth will change in the future. This second model is referred to as the multi-stage or non-constant growth DCF.

The Constant-Growth DCF

Q. What is the mathematical formula used in Staff's constant-growth DCF analysis?

A. The constant-growth DCF formula used in Staff's analysis is as follows:

Equation 2:

$$K = \frac{D_1}{P_0} + g$$

where:
K = the cost of equity
D_1 = the expected annual dividend
P_0 = the current stock price
g = the expected infinite annual growth rate of dividends

This formula assumes that the company has a constant earnings retention rate and that its earnings will continue to grow at a single constant rate. According to this equation, a stock with a current market price of $10 per share, an expected annual dividend of $0.60 per share and an expected dividend growth rate of 4.0 percent per year has a cost of equity of 10.0 percent. This is calculated as follows: ($0.60/$10 or 6.0 percent) + (4.0 percent) = 10 percent.

Q. How did Staff select the dividend yield components D_1 and P_0 in the constant-growth DCF formula?

A. Staff used the expected annual dividend[2] (D_1) and stock price (P_0) at the close of the market on November 1, 2006, as reported by *MSN Money*.

[2] *Value Line* Summary & Index. October 27, 2006

Q. Why did Staff use the November 1, 2006 spot stock price rather than a historical average stock price to calculate the dividend yield component of the DCF formula?

A. Current rather than historic spot price is used in order to be consistent with financial theory. According to the efficient market hypothesis, current stock prices reflect all available information. This includes investors' current expectations of future returns. Consequently, current stock price is the best indicator of those expectations. Use of a historical average of stock prices illogically discounts the most recent information in favor of less recent information. The latter is stale and is representative of underlying conditions that may have changed.

Q. How did Staff estimate the dividend growth (g) component of the constant-growth DCF model represented by Equation 2?

A. The growth component used by Staff is determined by averaging six different estimation methods. The results are shown in Schedule SPI-7. Staff calculated both historical and projected growth estimates on dividend-per-share ("DPS")[3], earnings-per-share ("EPS")[4] and sustainable growth bases.

Q. Why did Staff include EPS growth in estimation of the dividend growth component of the constant-growth DCF model?

A. Historic and projected EPS are considered in the constant-growth DCF model as dividends are related to earnings. While dividend payouts are not necessarily determined by a given constant proportion to earnings, dividends cannot exceed earnings indefinitely. In the long term, dividend payouts are dependent on earnings.

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[3] Derived from information provided by *Value Line*
[4] Derived from information provided by *Value Line*

Q. How did Staff calculate historical DPS growth?

A. Staff calculated historical DPS growth by averaging DPS growth of the sample water utilities from 1996 to 2005. These averages are shown on Schedule SPI-4. Staff's analysis indicates an average historical growth rate of 2.7 for the sample water utilities.

Q. How did Staff estimate the projected DPS growth?

A. Staff averaged the projected DPS growth rates shown in *Value Line* for the sample water utilities. The average of the DPS projections is 5.0 percent as shown in SPI-4.

Q. How did Staff calculate the historical EPS growth rate?

A. Staff calculated the historical EPS growth rate by averaging the EPS for the sample companies from 1996 to 2005. Staff excluded Connecticut Water's historical EPS growth rate from the average as it is negative 0.9 percent and negative growth is inconsistent with the DCF model. The historical average EPS is 4.2 percent as shown in SPI-4.

Q. How did Staff estimate the projected EPS growth?

A. Staff averaged the projected EPS growth rates shown in *Value Line* for the sample water utilities. The average of the EPS projections is 7.9 percent as shown in SPI-4.

Q. How did Staff calculate its historical and projected sustainable growth rates?

A. Historical and projected sustainable growth rates are calculated by adding the respective retention growth rates (br) to stock financing growth rates (vs) as shown in the last two columns of SPI-5.

Q. What is retention growth?

A. Retention growth is growth in dividends that results from retention of earnings. This concept is based on the theory that dividend growth will not be achieved unless the

company retains and reinvests some of its earnings. It is used in Staff's calculation of sustainable growth shown in SPI-5.

Q. What is the formula for the retention growth rate?

A. Retention growth is the product of the retention ratio and the book/accounting return on equity. The formula is as follows:

Equation 3:

$$\text{Retention Growth Rate} = br$$

where: b = the retention ratio (1 – dividend payout ratio)
r = the accounting/book return on common equity

Q. How did Staff calculate the average historical retention growth rate (br) for the sample water utilities?

A. Staff calculated the historical retention rates by averaging the retention rates for the sample companies from 1996 to 2005. The historical average retention rate is 3.1 percent as shown in SPI-5.

Q. How did Staff determine projected retention growth rate (br) for the sample water utilities?

A. Staff averaged the projected retention growth rates for the period 2009 to 2011 shown in *Value Line* for the sample water utilities. The average of the retention rate projections is 4.8 percent as shown in SPI-5.

Q. When can retention growth provide a reasonable estimate of future dividend growth?

A. The retention growth rate is a reasonable estimate of future dividend growth when the retention ratio is reasonably constant and the entity's market price to book value ("market-to-book ratio") is expected to be 1.0. The average retention ratio has been reasonably constant in recent years. However, the market-to-book ratio for the sample water utilities is 2.6, notably higher than 1.0, as shown in Schedule SPI-6.

Q. Is there any financial implication of a market-to-book ratio greater than 1.0?

A. Yes. A market-to-book ratio greater than 1.0 implies that investors expect an entity to earn an accounting/book return on its equity that exceeds its cost of equity. The relationship between required returns and expected cash flows is readily observed in the fixed securities market. For example, assume an entity contemplating issuance of bonds with a face value of $10 million at either 6 percent or 7 percent, and thus, paying annual interest of $600,000 or $700,000, respectively. Regardless of investors' required return on similar bonds, investors will be willing to pay more for the bonds if issued at 7 percent than if the bonds are issued at 6 percent. For example, if the current interest rate required by investors is 6 percent, then investors would bid $10 million for the 6 percent bonds and more than $10 million for the 7 percent bonds. Similarly, if equity investors require a 7 percent return and expect an entity to earn accounting/book returns of 12 percent, the market will bid up the price of the entity's stock to provide the required return of 7 percent.

Q. How has Staff generally recognized a market-to-book ratio exceeding 1.0 in its cost of equity analyses in recent years?

A. Staff has assumed that investors expect the market-to-book ratio to remain greater than 1.0. Given that, Staff has added a stock financing growth rate (vs) term to the retention ratio (br) term to calculate its historical and projected sustainable growth rates.

Q. Do the historical and projected sustainable growth rates Staff uses to develop its DCF cost of equity in this case include stock financing growth as an input?

A. Yes.

Q. What is stock financing growth?

A. Stock financing growth is the growth in an entity's dividends due to the sale of stock by that entity. Stock financing growth is a concept derived by Myron Gordon and discussed in his book *The Cost of Capital to a Public Utility.*[5] Stock financing growth is the product of the fraction of the funds raised from the sale of stock that accrues to existing shareholders (v) and the fraction resulting from dividing the funds raised from the sale of stock by the existing common equity(s).

[5] Gordon, Myron J. *The Cost of Capital to a Public Utility*, MSU Public Utilities Studies, Michigan, 1974. pp 31-35.

Q. What is the mathematical formula for the stock financing growth rate?

A. The stock financing growth rate formula is as follows:

Equation 4:

$$\text{Stock Financing Growth} = vs$$

where: v = Fraction of the funds raised from the sale of stock that accrues to existing shareholders

s = Funds raised from the sale of stock as a fraction of the existing common equity

Q. How is the variable v presented above calculated?

A. Variable v is calculated as follows:

Equation 5:

$$v = 1 - \left(\frac{book\ value}{market\ value} \right)$$

For example, assume that a share of stock has a $40 book value and is selling for $80. Then, to find the value of v, the formula is applied:

$$v = 1 - \left(\frac{40}{80} \right)$$

In this example, v is equal to 0.50.

Q. How is the variable s presented above calculated?

A. Variable s is calculated as follows:

Equation 6:

$$s = \frac{\text{Funds raised from issuance of stock}}{\text{Total existing common equity before issuance}}$$

For example, assume that an entity has $100 in existing equity, and it sells $25 of stock. Then, to find the value of s, the formula is applied:

$$s = \left(\frac{25}{100}\right)$$

In this example, s is equal to 25.0 percent.

Q. What is the vs term when the market-to-book ratio is equal to 1.0?

A. A market-to-book ratio equal to 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment equal to the cost of equity. When the market-to-book ratio is equal to 1.0, none of the funds raised from the sale of stock by the entity accrues to the benefit of existing shareholders, i.e., the term v is equal to zero (0.0). Consequently, the vs term is also equal to zero (0.0). When stock financing growth is zero, dividend growth depends solely on the br term.

Q. What is the affect of the vs term when the market-to-book ratio is greater than 1.0?

A. A market-to-book ratio greater than 1.0 reflects that investors expect an entity to earn a book/accounting return on their equity investment greater than the cost of equity. Equation 5 shows that when the market-to-book ratio is greater than 1.0 the v term is also greater than zero. The excess by which new shares are issued and sold over book value per share

of outstanding stock is a contribution that accrues to existing stockholders in the form of a higher book value. The resulting higher book value leads to higher expected earnings and dividends. Continued growth from the vs term is dependent upon the continued issuance and sale of additional shares at a price that exceeds book value per share.

Q. What vs estimate did Staff calculate from its analysis of the sample water utilities?

A. Staff estimated an average stock financing growth (vs) of 2.6 percent for the sample water utilities as shown in Schedule SPI-5.

Q. What would one expect to occur should a stock have a market-to-book ratio greater than 1.0 as a result of investors' expectations that earnings would exceed the cost of equity capital and the entity subsequently was authorized rates equal to its cost of equity capital?

A. A reasonable expectation is for the market-to-book ratio to move toward 1.0.

Q. If the average market-to-book ratio of the sample water utilities falls to 1.0 due to authorized ROE's equaling the cost of equity capital, would Staff's inclusion of the vs term in its constant-growth DCF analysis result in an overestimate of its sustainable dividend growth rate and the resulting DCF ROE estimate?

A. Yes. Inclusion of the vs term assumes that the market-to-book ratio continues to exceed 1.0, and that the water utilities will continue to issue and sell stock at prices exceeding book value resulting in benefits for existing shareholders. If the market-to-book ratio declines to 1.0, the stock financing term is not necessary.

Q. What are Staff's historical and projected sustainable growth rates?

A. Based on the average earnings retention of the sample water companies, Staff's estimated historical sustainable growth rate is 5.7 percent. Staff's projected sustainable growth rate is 8.4 percent based on the retention growth rate projected by *Value Line*. Staff's estimates of the sustainable growth rate are shown in SPI-5 and SPI-7.

Q. What is Staff's expected infinite annual growth rate in dividends?

A. Staff's expected infinite annual growth rate in dividends is 5.7 percent, the average of historical and projected dividends per share ("DPS"), earnings per share ("EPS"), and sustainable growth rate estimates. The calculation is shown in SPI-7.

Q. What is Staff's constant-growth DCF estimate?

A. Staff's constant-growth DCF estimate is 8.5 percent as shown in Schedule SPI-2.

Multi-Stage DCF

Q. Why did Staff include the multi-stage DCF in its estimate of Goodman's cost of equity?

A. Staff used the multi-stage DCF to consider the assumption that dividends may not grow at a constant rate.

Q. Please describe the multi-stage DCF used in Staff's analysis?

A. As mentioned previously, the multi-stage DCF uses two stages of growth. The first stage is four years followed by the second stage. A separate growth rate is applied to each stage.

Q. What is the mathematical formula for the multi-stage DCF?

A. The multi-stage DCF formula is shown in the following equation:

Equation 7:

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

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

Q. What steps did Staff take to implement its multi-stage DCF cost of equity model?

A. First, Staff projected future dividends for each of the sample water utilities using the near-term and long-term growth rate periods discussed previously. Second, Staff calculated the rate (cost of equity) which equates the present value of the forecasted dividends to the current stock price for each of the sample water utilities. Finally, Staff calculated an average of the individual sample companies' cost of equity estimates.

Q. How did Staff calculate growth rate for the first stage of the multi-stage DCF?

A. The growth rate for the first stage is based on *Value Line's* projected dividends for the next twelve months, when available, and on the average dividend growth rate calculated in Staff's constant DCF analysis for the remainder of the stage.

Q. How did Staff estimate the growth rate for the second stage of the multi-stage DCF model?

A. Staff calculated the arithmetic mean of growth in GDP from 1929 to 2005.[6] Use of the historic arithmetic mean of GDP assumes that dividend growth for the utility will be similar to the historical growth in the overall economy.

Q. What is the historical GDP growth rate that Staff used in stage-2 growth?

A. The arithmetic mean of growth in GDP used in stage-2 is 6.8 percent as shown in SPI-8.

Q. What is Staff's multi-stage DCF estimate?

A. Staff's multi-stage DCF estimate is 9.5 percent as shown in Schedule SPI-8.

Q. What is Staff's overall DCF estimate?

A. Staff's overall DCF estimate is 9.0 percent. Staff calculated the overall DCF estimate by averaging the constant growth DCF (8.5 percent) and multi-stage DCF (9.5 percent) estimates as shown in Schedule SPI-2.

Capital Asset Pricing Model

Q. Please describe the capital asset pricing model and the premise it is based on.

A. The CAPM is a model used in pricing of securities. The CAPM formula is based on the premise that the return on a security is equal to the sum of a risk free rate and a risk premium. The risk free rate portion of the formula compensates an investor for the risk inherent in investing in the market. The risk premium portion of the formula compensates an investor for taking on additional risk. The model illustrates the relationship between risk and expected return. It is useful in establishing expected returns for a security given

[6] www.bea.doc.gov

its risk and the returns of other securities of similar risk. In 1990, Professors Harry Markowitz, William Sharpe, and Merton Miller earned the Nobel Prize in Economic Sciences for their contribution to the development of the CAPM. The CAPM assumes that investors hold portfolios sufficiently diversified to eliminate any non-systematic (unique) risk.[7]

Q. What is the mathematical formula for the CAPM?

A. The mathematical formula for the CAPM is:

Equation 8:

$$K = R_f + \beta (R_m - R_f)$$

where:

R_f	=	risk free rate
R_m	=	return on market
β	=	beta
$R_m - R_f$	=	market risk premium
K	=	expected return

The equation shows that the expected return (K) on a security is equal to the risk-free interest rate (R_f) plus the product of the market risk premium ("Rp") ($R_m - R_f$) multiplied by beta (β) where beta represents the risk of the investment relative to the market.

Q. What is the risk free rate?

A. The risk free rate is the rate of return of an investment with no risk.

Q. What rate does Staff use to estimate the risk free rate?

A. Staff relies on the U.S. Treasury security spot rates as an estimate for the risk free rate.

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[7] Brigham, Eugene F. and Ehrhardt, Michael C. Financial Management Theory and Practice 11th Edition. 2005. Thomson South-Western. United States. P. 182.

Q. Why are U.S. Treasury security spot rates an appropriate measure of the risk-free rate?

A. U.S. Treasury securities are generally considered risk free as they are issued and backed by the U.S. Government. U.S. Treasuries also have the benefit of being verifiable, objective and readily available.

Q. What does beta measure?

A. Beta represents the correlation between price variation of an individual security and the price variation of the market. Beta is a measure of systematic (market) risk. Systematic risk, as opposed to unsystematic (unique) risk, cannot be eliminated by diversification. Investors who hold diverse portfolios can eliminate non-systematic risk. Therefore only systematic risk affects the cost of equity.

Q. How is the Beta measurement expressed?

A. Beta is expressed as a numeral. Beta for the market is 1.0. A security with a beta greater than 1.0 is riskier than the market, and a security with a beta less than 1.0 is less risky than the market. The degree to which a given security's beta is greater or less than 1.0 indicates its relatively greater or lesser risk to the market.

Q. How did Staff estimate Goodman's beta?

A. Staff's DCF analysis for Goodman uses a beta equal to the average of the betas for the sample companies. Staff used the betas published in *Value Line* on October 27, 2006. The average of the betas is 0.82. Schedule SPI-6 shows the *Value Line* betas and their average.

Q. How did the average of the sample water utilities beta's compare to the market's Beta?

A. The average beta of the six sample water utilities is 0.82. This conclusion is based on averaging beta's published in *Value Line* on October 27, 2006. As beta for the entire market is 1.0, the average of the sample companies' Betas is less than the market's beta.

Q. What is the implication of a 0.82 beta for the average of sample water utilities compared to a 1.0 beta for the market?

A. The implication is that the cost of equity for a regulated water utility is below the average required return on the market.

Q. Please describe the expected market risk premium (R_m-R_f).

A. Conceptually, it is the return that an investor expects to receive to compensate for market risk. Mathematically speaking, the expected market risk premium is the expected return on a market portfolio minus the risk free rate.

Q. How many risk premium CAPM analyses did Staff conduct in its analysis of Goodman's cost of equity capital?

A. Staff conducted two risk premium CAPM analyses: current market risk premium and historic market risk premium. Staff averaged the results of the two risk premium analyses to calculate a CAPM cost of equity estimate as shown in SPI-2.

Historic Market Risk Premium

Q. What did Staff use for the historic market risk premium?

A. Staff referred to the *Ibbotson Associates' Stocks, Bonds, Bills, and Inflation 2005 Yearbook* and selected Ibbotson's measure of the average premium of the market over

intermediate treasury securities since 1926. Ibbotson Associates calculates the historical risk premium by averaging the historical arithmetic differences between the S&P 500 and the intermediate-term government bond income returns. Staff's historic market risk premium is 7.5 percent as shown in Schedule SPI-2.

Current Market Risk Premium

Q. How did Staff establish the current market risk premium?

A. Staff solved equation 8 for the market risk premium using a DCF derived expected return (K) of 10.48 percent based on *Value Line's* current projections for the dividend yield (1.7 percent) and growth (8.78 percent[8]) for all dividend paying stocks; the 30-year Treasury note rate (4.68 percent) for the risk free rate (R_f); and the market beta of 1.0. Staff calculated a current market risk premium of 5.80 percent.[9]

Q. What are the results of Staff's historical and current market risk premium CAPM analyses?

A. Staff's cost of equity estimate is 10.7 percent using the historical market risk premium CAPM and 9.4 percent using current market risk premium CAPM.

Q. What is Staff's overall CAPM estimate?

A. Staff's overall CAPM estimate is 10.1 percent which is the average of the historical market risk premium CAPM and the current market risk premium CAPM estimates as shown in Schedule SPI-2.

[8] 3 to 5 year growth = 40%. $1.4^{0.25}$ = 1.0878; (1.0878 – 1.0 = .0878 or 8.78%)
[9] If 10.48= 4.68% + 1(Rm – Rf), then, (Rm-Rf) = 5.8%

VI. SUMMARY OF STAFF'S COST OF EQUITY ANALYSIS

Q. What is Staff's constant-growth DCF analysis estimate of the cost of equity for the sample water companies?

A. Staff's constant-growth DCF estimate of the cost of equity for the sample water utilities is 8.5 percent. The results are shown in Schedule SPI-2. A summary of the analysis is as follows:

k = Dividend yield + Expected dividend growth

k = 2.8% + 5.7%

k = 8.5%

Q. What is Staff's multi-stage DCF analysis estimate of the cost of equity for the sample water companies?

A. Staff's multi-stage DCF estimate of the cost of equity for the sample water utilities is 9.5 percent. The result is presented in Schedule SPI-2. A summary of the analysis is as follows:

Company	**Equity Cost Estimate (k)**
American States Water	9.0%
California Water	9.9%
Aqua America	8.7%
Connecticut Water	10.6%
Middlesex Water	10.5%
SJW Corp	8.5%
Average	**9.5%**

Q. What is Staff's overall DCF estimate of the cost of equity?

A. Staff's overall DCF estimate of the cost of equity for the sample utilities is 9.0 percent. This estimate is calculated by averaging Staff's constant growth and multi-stage DCF estimates as shown in Schedule SPI-2.

Q. What is Staff's CAPM estimate of the cost of equity for the sample companies using the historical market risk premium?

A. Staff's CAPM estimate of the cost of equity for the sample companies using the historical market risk premium is 10.7 percent. The results are shown in Schedule SPI-2. A summary of the analysis is as follows:[10]

k = historical risk free rate + beta * historical market risk premium
k = 4.5% + 0.82 * 7.5%
k = 4.5% + 6.2%
k = 10.7%

Q. What is Staff's CAPM estimate of the cost of equity for the sample companies using the current market risk premium?

A. Staff's CAPM estimate of the cost of equity for the sample companies using the current market risk premium is 9.4 percent. The results are shown in Schedule SPI-2. A summary of the analysis is as follows:[11]

k = current risk free rate + Beta * current market risk premium
k = 4.7% + 0.82 * 5.8%
k = 4.7% + 4.7%
k = 9.4%

Q. What is Staff's overall CAPM estimate of the cost of equity for the sample utilities?

A. Staff's overall CAPM estimate for the sample utilities is 10.1 percent. This estimate is calculated by averaging the historical market risk premium CAPM and the current market risk premium CAPM estimates for the sample companies as shown in Schedule SPI-2.

[10] Rounded Figures
[11] Rounded Figures

Q. Please summarize the results of Staff's cost of equity analysis.

A. The following table shows the results of Staff's cost of equity analysis:

Table 2

Method	Estimate
Average DCF Estimate	9.0%
Average CAPM Estimate	10.1%
Overall Average	**9.6%**

Staff's average estimate of the cost of equity of the sample water utilities is 9.6 percent.

VII. FINAL COST OF EQUITY ESTIMATES FOR GOODMAN

Q. Does capital structure influence the cost of equity?

A. Yes. Capital structure influences cost of capital. Companies with higher debt leverage have higher financial risk. Investors require a higher rate of return to compensate for greater risk. Accordingly, when an applicant's capital structure is different than the average of the sample companies an adjustment to the cost of equity may be appropriate to reflect the difference in financial risk.

Q. Does Goodman's capital structure differ from the average capital structure of the sample companies?

A. Yes. Schedule D-2 of the application indicates that Goodman has no debt. This debt free capital structure reflects less financial risk than the average of the sample companies. The sample companies average 51.4 percent debt and 48.6 percent equity.

Q. Does Staff recommend an adjustment to recognize the difference in financial risk between Goodman and the sample companies?

A. No. Staff finds that Goodman's capital structure is appropriate. The Company is privately held and has no access to capital markets. An entity that lacks access to the

capital markets has comparatively less ability to manage its capital structure efficiently than an entity with access to the capital markets. Therefore, an entity lacking access to the capital markets should appropriately maintain a higher level of equity to maintain financial health. A downward adjustment to return on equity would serve as a disincentive for the Company to maintain a capital structure that is appropriate for its circumstances.

Q. What is Staff's ROE recommendation for Goodman?

A. Staff recommends an ROE of 9.6 percent.

VIII. RATE OF RETURN RECOMMENDATION

Q. What is Staff's overall rate of return recommendation for Goodman?

A. Staff recommends a 9.6 percent ROR for Goodman. Staff's recommendation is based on a capital structure composed of 0 percent debt and 100 percent equity and a 9.6 percent ROE as shown in Schedule SPI-1 and Table 3 below.

Table 3

	Weight	Cost	Weighted Cost
Long-term Debt	0%	0%	0%
Common Equity	100%	9.6%	9.6%
Cost of Capital/ROR			**9.6%**

IX. STAFF RESPONSE TO COMPANY'S COST OF CAPITAL WITNESS MR. THOMAS J. BOURASSA

Q. Please summarize Mr. Bourassa's cost of capital analyses and recommendations.

A. Mr. Bourassa's cost of capital recommendation is based on use of both constant growth and multi-stage growth DCF models. In addition to these models, he also performs a

bond-yield plus risk premium analysis and a comparative earning analysis to support the results of his conclusions from his DCF analyses. Mr. Bourassa asserts that Goodman faces additional risks not captured by the market models, such as financial risk and Arizona's use of historic test years and limited out of period adjustments.[12] Mr. Bourassa concludes that a 10.5 percent ROE presents a reasonable balance resulting from his analyses.

Constant-Growth DCF

Q. What are Staff's comments on Mr. Bourassa's sole reliance on analysts' forecasts to estimate DPS growth in his constant growth DCF estimates?

A. Staff finds Mr. Bourassa's sole reliance on analysts' forecasts to be inappropriate for two reasons. First, sole reliance on analysts' forecasts of earnings growth to forecast DPS is inappropriate because it assumes that investors do not independently consider other relevant information such as past dividend and earnings growth. Second, analysts' forecasts are known to be overly optimistic. Sole use of analysts' forecasts to calculate the growth in dividends (g) results in inflated growth estimations, and consequently, inflated cost of equity estimates.

Q. Does Staff have any comment regarding Mr. Bourassa's statement "To the extent that past results provide useful indications of future growth prospects, analysts' forecasts would already incorporate that information ... Any further recognition of the past will double count what has already occurred."[13]

A. Analysts' forecasts cannot be used as a proxy for investors' expectations for growth. Investors have at their disposal both analysts' forecasts and historic growth data. While

[12] Direct Testimony of Thomas J. Bourassa, Goodman Water Company. Company, Docket no. W-02500A-06-0281, page 26 of 48.
[13] Direct Testimony of Thomas J. Bourassa, Goodman Water Company. Company, Docket no. W-02500A-06-0281,, page 37 of 48.

analysts may have considered historical measures of growth, it is reasonable to assume that investors rely to some extent on past growth as well. This calls for consideration of both analysts' forecasts as well as past growth. Should the entire investment community form their growth expectations based on both analysts' forecasts *and* their own assessment of historic data, their collective conclusions will form the market's expectation for growth and subsequently for cost of capital. Further, investor consideration of historical data does not necessarily result in a double count of the information. Investors may assess the historical data differently than analysts and modify analysts' projections to reflect their own analyses. The market will reflect investors' expectations regardless of whether any duplicate consideration of historical data takes place in their analyses.

Q. Does Staff have any comments on the study conducted by David A. Gordon, Myron J. Gordon and Lawrence I. Gould[14] that Mr. Bourassa asserts supports exclusive use of analysts' forecasts in the DCF model?

A. Yes. The article cited by Mr. Bourassa does not conclude that investors ignore past growth when pricing stocks. The article describes that the Gordon and Gould study considered three methods of growth estimation that rely on historical data. The article states that these three methods are "popular/or attractive methods" and "have been widely used in … research on stock valuation models."[15] The article also says, "There is a wide variety of acceptable methods for using historical data to estimate future growth."[16] The article does not support the sole use of analysts' forecast in the DCF.

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[14] Gordon, David A., Myron J. Gordon, Lawrence I. Gould. "Choice Among Methods of Estimating Share Yield." *The Journal of Portfolio Management*. Spring 1989. pp. 50-55. (Bourassa's direct testimony, page 37, footnote.)
[15] Ibid.
[16] Ibid.

Q. Does Staff have any further evidence that Professor Gordon does not recommend exclusive reliance on analysts' forecasts as the measure of growth in the DCF model?

A. Yes. Nine years after publishing his study Professor Gordon addressed the matter at the 30th Financial Forum of the Society of Utility and Regulatory Financial Analysts. In his address he stated:

> I understand that companies coming before regulatory agencies liked and advocated the high growth rates in security analyst forecasts for arriving at their cost of equity capital. Instead of rejecting these forecasts, I understand that FERC and other regulatory agencies have decided to compromise with them. In particular, in arriving at the cost of equity for company X, the FERC has decided to arrive at the growth rate in my dividend growth model by using an average of two growth rates. One is security analysts forecast of the short-term growth rate in earnings provided by IBES or *Value Line* and the other a more long run and typically lower figure such as the past growth in GNP.
>
> Such an average can be questioned on various grounds. However, my judgment is that between the short-term forecast alone and its average with the past growth rate in GNP, *the latter may be a more reasonable figure.*[17] (Emphasis added)

Simply stated, if Professor Gordon were to use these questionable methods of estimating growth rates, he would temper the typically higher analysts' forecasts with the typically lower GNP growth rate by averaging the two.

[17] Gordon, M. J. Keynote Address at the 30th Financial Forum of the Society of Utility and Regulatory Financial Analysts. May 8, 1998. Transparency 3.

Q. Are there other experts who offer views that suggest sole reliance on analysts' growth forecasts is inadvisable?

A. Yes. Other financial experts have commented on the optimism in analysts' growth forecasts.[18] Several studies have been conducted to measure this phenomenon. In *Contrarian Investment Strategies: The Next Generation* David Breman cites a study that found that *Value Line* analysts overestimated forecasts by 9 percent annually, on average for the 1987 – 1989 period.

Burton Malkiel of Princeton University studied one-year and five-year forecasts made by respected analysts. His study found that when compared to actual earnings, several naïve forecasting models, including growth of national income, proved to be more accurate. The following excerpt from Professor Malkiel's book *A Random Walk Down Wall Street* discusses the results of his study:

> When confronted with the poor record of their five-year growth estimates, *the security analysts honestly, if sheepishly, admitted that five years ahead is really too far in advance to make reliable projections*. They protested that although long-term projections are admittedly important, they really ought to be judged on their ability to project earnings changes one year ahead. Believe it or not, it turned out that their one-year forecasts were even worse than their five-year projections.
>
> The analysts fought back gamely. They complained that it was unfair to judge their performance on a wide cross section of industries, because earnings for high-tech firms and various "cyclical" companies are notoriously hard to forecast. *"Try us on utilities," one analyst confidently asserted. At the time they were considered among the most stable group of companies because of government regulation. So we tried it and they didn't like it. Even*

[18] See Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. p. 100. Dreman, David. *Contrarian Investment Strategies: The Next Generation*. 1998. Simon & Schuster. New York. pp. 97-98. Malkiel, Burton G. *A Random Walk Down Wall Street*. 2003. W.W. Norton & Co. New York. p. 175.

> *the forecasts for the stable utilities were far off the mark.*[19] (Emphasis added)

Q. Is the investment community aware that analysts' forecasts are inflated or overly optimistic?

A. Yes. Problems related to analysts' forecasts are cited in a number of financial articles widely available to investors such as *The Wall Street Journal.*[20] Logically, investors who are made aware of the bias in analysts' forecasts will not rely solely on those forecasts in decision making. Such investors are more likely to rely on other methods of growth assessment or a combination of methods.

Q. Does Mr. Bourassa's own testimony provide comment contradicting the propriety of sole reliance on analysts' forecasts to estimate dividend growth?

A. Yes. Mr. Bourassa's testimony (P. 30, lines 26 and 27) describes that an advantage of the comparable earnings approach is that it is easy to calculate and the amount of subjective judgment required is minimal. In this statement Mr. Bourassa correctly indicates that minimizing subjective judgment in cost of equity analysis is an advantage. Analysts' projections are inherently subjective and prone to error. Accordingly, they should not be relied upon solely in growth estimation.

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[19] Malkiel, Burton G. A Random Walk Down Wall Street. 2003. W.W. Norton & Co. New York. p. 175

[20] See Smith, Randall & Craig, Suzanne. "Big Firms Had Research Ploy: Quiet Payments Among Rivals." *The Wall Street Journal.* April 30, 2003. Brown, Ken. "Analysts: Still Coming Up Rosy." *The Wall Street Journal.* January 27, 2003. p. C1. Karmin, Craig. "Profit Forecasts Become Anybody's Guess." *The Wall Street Journal.* January 21, 2003. p. C1. Gasparino, Charles. "Merrill Lynch Investigation Widens." *The Wall Street Journal.* April 11, 2002. p. C4. Elstein, Aaron. "Earnings Estimates Are All Over the Map." *The Wall Street Journal.* August 2, 2001. p. C1. Dreman, David. "Don't Count on those Earnings Forecasts." *Forbes.* January 26, 1998. p. 110. Coggan, Philip. "Optimism skews predictions EQUITIES: Data demonstrate that corporate performance reverts to the mean, writes Philip Coggan." *Financial Times Limited.* April 24, 2004. p. 12. Thomas, Joe. "Too Good to be True." *Financial Times Business Limited.* September 3, 2004. Boselovic, Len. "Heard Off the Street." *Pittsburgh Post-Gazette.* March 7, 2005. BUSINESS, Pg.B-1. Jagow, Scott. Marketplace Morning Report (radio program). Minnesota Public Radio. October 20, 2005.

Q. What are Staff's comments to Mr. Bourassa's testimony (P. 32, lines 12 and 13) that states, "In the final analysis ROE estimates are subjective and should be based on sound, informed judgment" given that he previously identified minimizing subjectivity as an advantage in cost of equity models?

A. The subjectivity inherent in growth estimation can be reduced by inclusion of historic growth data that is factual as opposed to sole reliance on perceptions.

Q. Does Mr. Bourassa make other subjective choices in his cost of equity analysis that unnecessarily reduce its objectivity?

A. Yes. Mr. Bourassa's testimony (P. 37, lines 22 though 34) describes that he has not used forecasts of dividend growth in his DCF model as the average annual forecast of dividend growth is very low. The omission of such data results in exclusion of publicly accessible data which the investment community may consider in forming its growth expectations. Mr. Bourassa apparently believes that forecasts of dividend growth are appropriate considerations for cost of equity analysis but excluded them, therefore, swaying the results of his cost of equity estimation.

Q. Should DPS growth be included in a DCF analysis?

A. Yes. The present value of a stock is equal to the present value of all future dividends rather than the present value of all future earnings. This is the case as not all earnings are dispersed as dividends. On this matter, Professor Jeremy Siegel of the Wharton School of Finance said:

> Note that the price of the stock is always equal to the present value of all future *dividends* and not the present value of future earnings. Earnings not paid to investors can have value only if they are paid as dividends or other cash disbursements at a later date. Valuing

> stock as the present discounted value of future earnings is manifestly wrong and greatly overstates the value of the firm.[21]

Multi-Stage DCF

Q. What are Staff's comments on Mr. Bourassa's sole reliance on forecasted earnings growth for the near-term ("Stage - 1 growth") in his multi-stage DCF?

A. It is not likely that investors rely solely on forecasted earnings growth and therefore his conclusions are not likely to reflect the market's expectations. Investors have a variety of methods available to them to assess growth. Alternatives include historic growth which is objective rather than subjective. Additionally, as stated previously, analysts' forecasts are known to be inflated or overly optimistic.

Risk Premium

Q. Please describe Mr. Bourassa's risk premium analysis.

A. Mr. Bourassa computed the average risk premium for (1) actual returns for the ten years 1995 to 2004 and (2) authorized returns for the ten years 1996 to 2006 compared to the 10-year Treasury rate on Goodman's proxies. He then added the average risk premium for each method to the forecasted interest rates for 10-year Treasuries for 2007-2008.

Q. What are Staff's comments on Mr. Bourassa's risk premium method for estimation of cost of equity?

A. This analysis is based on actual returns for his sample of water companies. This analysis is not market based as the cost of equity is determined by the market and not by actual or authorized returns. The analysis also relies on forecasts for interest on 10-year Treasuries. Analysts who forecast future interest rates have no more information upon which to project future interest rates than what is reflected in the current rate.

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[21] Seigel, Jeremy J. Stocks for the Long Run. 2002. McGraw-Hill. New York. P. 93.

Nancy L. Jacob of the University of Washington and R. Richardson Pettit of the University of Houston note the following:

> While we know something about many of the factors that determine interest rates (money supply, the demand for loanable funds, etc.) little evidence exists to suggest these factors can be predicted with enough accuracy to successfully predict the rates.[22]

Q. What is Staff's comment in regard to Mr. Bourassa's statement which explains that he selected the forecast for interest rates for 2007 – 2008 as that is the period in which Goodman's rates will be in effect?[23]

A. Irrespective of the timing, it remains that it is a faulty assumption that interest rates can be predicted.

Comparative Earnings

Q. Please provide a description of Mr. Bourassa's comparative earnings analysis.

A. In his comparative earnings analysis Mr. Bourassa compares the results of his DCF and risk premium methods to the actual and authorized returns reported in *AUS Utility Reports* and to *Value Line's* forecasts of the composite equity return for the water utility industry.

Q. What are Staff's comments on this method?

A. Again, as with his risk premium analysis, Mr. Bourassa relies on actual and authorized returns. As mentioned previously, actual and authorized returns are not market based. The cost of equity is determined by the market; hence, actual and authorized returns are not reliable indicators of the cost of equity. These methods are not consistent with modern financial theory. In regard to reliance on *Value Line* forecasts for equity return for the

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[22] Jacob, Nancy L., R. Richardson Pettit. *Investments*. Irwin. Homewood, Ill. 1988. p. 499.
[23] Direct Testimony of Thomas J. Bourassa, Goodman Water Company. Company, Docket no. W-02500A-06-0281,, page 41 of 48.

water utility industry, Staff would again note that analyst's forecasts are known to be inflated or overly optimistic.

Unique Risks

Q. What is Staff's response to Mr. Bourassa's assertion that the market data provided by the water utility sample does not capture all of the market risks of Goodman because Arizona rate regulation requires use of historical test years and recognizes limited out of period adjustments?[24]

A. The risk examples cited by Mr. Bourassa are examples of unique risks. Use of a historical test year is a unique risk and so is use of a future test year. Existence of unique risk does not necessarily indicate that a company has more total risk than others as all companies have their own set of unique risks. Moreover, the market does not reward for unique risk as it can be diversified away.

Q. What is Staff's response to Mr. Bourassa's assertion that a good argument can be made that Goodman is not comparable to the six publicly traded water utilities in the same group as a result of size differences?[25]

A. The Commission has previously ruled that firm size does not warrant recognition of a risk premium. In Decision No. 64727, dated April 17, 2002, for Black Mountain Gas, the Commission agreed with Staff that "the 'firm size' phenomenon' does not exist for regulated utilities, and that therefore there is no need to adjust for risk for small firm size in utility rate regulation." Decision No. 64282, dated December 28, 2001, states, "We do not agree with the Company's proposal to assign a risk premium to Arizona Water based on its size relative to the other publicly traded water utilities ..."

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[24] Direct Testimony of Thomas J. Bourassa, Goodman Water Company. Company, Docket no. W-02500A-06-0281,, page 26 of 48.

[25] Direct Testimony of Thomas J. Bourassa, Goodman Water Company. Company, Docket no. W-02500A-06-0281,, page 28 of 48.

CAPM

Q. What is Staff's comment regarding Mr. Bourassa's criticism of the CAPM?

A. Mr. Bourassa asserts that the CAPM has questionable assumptions that underlie the model that have detracted from its practical application.[26] The CAPM, like all other models for estimating the cost of equity, has limitations. If all models exhibiting limitations were eliminated, no models would be acceptable. The CAPM has a particularly beneficial quality that makes it a preferable model. It is market based. In The Cost of Capital – A Practitioner's Guide, David Parcell indicates that, "It (CAPM) has widespread use in the investment community, particularly by portfolio managers who employ modern portfolio theory."[27]

X. RECOMMENDATIONS

Q. Please summarize Staff's recommendations.

A. Staff recommends a 9.6 percent ROR for Goodman. Staff's recommendation is based on a capital structure composed of 0 percent debt and 100 percent equity and a 9.6 percent ROE as shown Table 4 below.

Table 4

	Weight	Cost	Weighted Cost
Long-term Debt	0%	0%	0%
Common Equity	100%	9.6%	9.6%
Cost of Capital/ROR			**9.6%**

[26] Direct Testimony of Thomas J. Bourassa, Goodman Water Company. Company, Docket no. W-02500A-06-0281,, page 31 of 48.
[27] Parcell, David C. *The Cost of Capital – A Practitioner's Guide.* Parcell. 1997. p. 6 – 23.

1 Staff further recommends that the Commission reject the Company's proposed 10.5
2 percent ROR. The Company's proposed ROR is supported by ROE estimation methods
3 that are not reliable representatives of the current cost of equity capital.
4
5 **Q. Does this conclude your direct testimony?**
6 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]	9.6% [2]	9.6%
Weighted Average Cost of Capital/ROR			**9.6%**
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]	4.5%	+	0.82	x	7.5% [6]	=	10.7%
Current Market Risk Premium[4]	4.7%	+	0.82	x	5.8% [7]	=	9.4%
Average of CAPM Estimates							**10.1%**
					Average		**9.6%**
					Total		**9.6%**

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 2005 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%	6.6%
California Water	2.6%	2.9%	2.6%	5.2%	5.6%
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	4.4%	5.6%	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 11/1/2006	Book Value	Mkt To Book	*Value Line* Beta β	Raw Beta β *raw*
American States Water	AWR	40.69	16.31	2.5	0.80	0.67
California Water	CWT	37.58	16.84	2.2	0.85	0.75
Aqua America	WTR	23.55	6.61	3.6	0.85	0.75
Connecticut Water	CTWS	22.00	11.88	1.9	0.85	0.75
Middlesex Water	MSEX	18.85	8.70	2.2	0.80	0.67
SJW Corp	SJW	32.31	10.80	3.0	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] 11/1/2006	Projected Dividends[2] (Stage 1 growth) (D_t) d_1	d_2	d_3	d_4	Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[4]
American States Water	40.7	0.94	0.99	1.05	1.11	6.8%	9.0%
California Water	37.6	1.20	1.27	1.34	1.41	6.8%	9.9%
Aqua America	23.6	0.47	0.49	0.52	0.55	6.8%	8.7%
Connecticut Water	22.0	0.87	0.92	0.97	1.03	6.8%	10.6%
Middlesex Water	18.9	0.72	0.76	0.80	0.85	6.8%	10.5%
SJW Corp	32.3	0.59	0.62	0.66	0.69	6.8%	8.5%
						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

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

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

DIRECT TESTIMONY

OF

MARLIN SCOTT, JR.

UTILITIES ENGINEER

UTILITIES DIVISION

NOVEMBER 24, 2006

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

CONCLUSIONS

A. The Goodman Water Company ("Company") has a water loss of 9.3% which is within acceptable limits.

B. The Company's current well source and storage capacity are adequate to serve the present customer base and reasonable growth.

C. The Arizona Department of Environmental Quality ("ADEQ") has reported no major deficiencies and based on data submitted to ADEQ, ADEQ has determined that the Company's system, PWS #11-130, is currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

D. The Company reported the arsenic concentrations for its Well #1 at 2.7 parts per billion ("ppb") and Well #2 at 1.0 ppb. Based on these levels, the Company is in compliance with the new arsenic standard.

E. The Company is located in the Arizona Department of Water Resources Tucson Active Management Area ("AMA") and is in compliance with AMA water use and monitoring requirements.

F. The Company has no outstanding Arizona Corporation Commission compliance issues.

RECOMMENDATIONS

1. Staff recommends the Company's annual cost of $3,639 be adopted for the water testing expense in this proceeding.

2. Staff recommends that the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners category presented in Table H-1 on a going-forward basis.

3. The Company has requested no changes to its service line and meter installation charges; however, Staff recommends the deletion of the 5-inch meter installation charge due to the fact that 5-inch meters do not exist. This change is shown in Table I-1.

INTRODUCTION

Q. Please state your name, place of employment and job title.

A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Utilities Engineer.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since November 1987.

Q. Please list your duties and responsibilities.

A. As a Utilities Engineer, specializing in water and wastewater engineering, my responsibilities include: the inspection, investigation, and evaluation of water and wastewater systems; preparing reconstruction cost new and/or original cost studies, cost of service studies and investigative reports; providing technical recommendations and suggesting corrective action for water and wastewater systems; and providing written and oral testimony on rate applications and other cases before the Commission.

Q. How many companies have you analyzed for the Utilities Division?

A. I have analyzed approximately 455 cases covering various responsibilities for the Utilities Division.

Q. Have you previously testified before this Commission?

A. Yes, I have testified in 53 proceedings before this Commission.

Q. What is your educational background?

A. I graduated from Northern Arizona University in 1984 with a Bachelor of Science degree in Civil Engineering Technology.

Q. Briefly describe your pertinent work experience.

A. Prior to my employment with the Commission, I was Assistant Engineer for the City of Winslow, Arizona, for about two years. Prior to that, I was a Civil Engineering Technician with the U.S. Public Health Service in Winslow for approximately six years.

Q. Please state your professional membership, registrations, and licenses.

A. I am a member of the National Association of Regulatory Utility Commissioners ("NARUC") Staff Subcommittee on Water.

PURPOSE OF TESTIMONY

Q. Were you assigned to provide the Utilities Division Staff's ("Staff") engineering analysis and recommendation for the Goodman Water Company ("Company") in this proceeding?

A. Yes. I reviewed the Company's rate application and inspected the water system on August 21, 2006. This testimony and its attachment present Staff's engineering evaluation.

ENGINEERING REPORT

Q. Please describe the attached Engineering Report, Exhibits MSJ-1.

A. Exhibit MSJ-1 presents the details of Staff's analysis and findings and is attached to this direct testimony. Exhibit MSJ-1 contains the following major topics: (1) a description of the water system, (2) water use, (3) growth, (4) compliance with the rules of the Arizona

Department of Environmental Quality, Arizona Department of Water Resources, and the Arizona Corporation Commission, (5) depreciation rates, (6) service line and meter installation charges, and (7) curtailment plan and backflow prevention tariffs.

Staff's conclusions and recommendations from this engineering report are contained in the **"EXECUTIVE SUMMARY"** above.

Q. Does this conclude your direct testimony?

A. Yes.

Engineering Report
For
Goodman Water Company
Docket No. W-02500A-06-0281 (Rates)

September 11, 2006

A. LOCATION OF GOODMAN WATER COMPANY ("COMPANY")

The Company serves a community located approximately two miles south of Oracle Junction and approximately 22 miles north of downtown Tucson. Figure A-1 shows the location of the Company within Pinal County and Figure A-2 shows the approximate 1.33 square-miles of certificated area.

B. DESCRIPTION OF WATER SYSTEM

The water system was field inspected on August 21, 2006, by Marlin Scott, Jr., Staff Utilities Engineer, and Charles Myhlhousen, Staff Analyst, in the accompaniment of Christopher Hill, representing the Company.

The operation of the water system consisted of two wells, one storage tank, two booster systems and a distribution system serving 479 customers during the test year ending September 30, 2005. A system schematic is shown in Figure B-1 with detailed plant facility descriptions as follows:

Table 1. Well Data

Well Data	Well #1	Well #2
ADWR ID No.	55-610541	55-595228
Casing Size	12-inch	16-inch
Casing Depth	700 feet	618 feet
Year Drilled	1982	2004
Pump	75-Hp Vertical Turbine	100-Hp Vertical Turbine
Flow Rate	650 GPM	800 GPM
Meter Size	8-inch	8-inch
Treatment	Liquid Chlorination	Liquid Chlorination
Surge Tank	5,000 gallon	5,000 gallon

Table 2. Storage Tank

Capacity (Gallons)	Quantity (Each)	Location	Year Constructed
400,000	1	Well Site #1	2001

Table 3. Booster Systems

Location	Plant Facilities	Storage Tank (From Table 2)
Well Site #1	20, 40, 50 & 75-Hp booster pumps	400,000 gal. storage tank
	5,000 gal. pressure tank (surge)	
Plant #4	5, 10, 15 and 40-Hp booster pumps	
	Two 5,000 gal. pressure tanks (surge)	
	8-inch meter	

Table 4. Water Mains

Diameter	Material	Length
6-inch	PVC	2,750 ft.
8-inch	PVC	3,770 ft.
10-inch	PVC	7,720 ft.
12-inch	DIP	208 ft.
	Total:	14,448 ft.

Table 5. Customer Meters

Size	Quantity
5/8 x 3/4-inch	431
3/4-inch	-
1- inch	45
1-1/2-inch	-
2-inch	3
3-inch	-
Total:	479

Table 6. Fire Hydrants

Size	Quantity
Standard	25

Table 7. Structures & Treatment Equipment

Structures & Treatment Equipment
Well #1: Liquid chlorination unit and 150 feet by 150 feet block wall fencing
Well #2: Liquid chlorination unit and 100 feet by 100 feet block wall fencing
Plant #4: 75 feet by 100 feet block wall fencing
Note: All three sites have security camera/laser beam units that were installed in 2006 and were not in operation during Staff's inspection date. According to the Company, these units were not reported in this rate case filing.

C. WATER USE

Water Sold

Based on the information provided by the Company, water use for the year 2005 is presented in Figure C-1. Customer consumption experienced a high monthly average water use of 465 gallons per day ("GPD") per connection in October and a low monthly average water use of 129 GPD per connection in March for an average annual use of 267 GPD per connection.

Non-Account Water

Non-account water should be 10% or less. The Company reported 49,395,000 gallons pumped and 44,810,000 gallons sold, resulting in a water loss of 9.3%. This 9.3% is within the acceptable limits.

System Analysis

The water system's current well source capacity of 1,450 GPM and storage capacity of 400,000 gallons is adequate to serve the present customer base and reasonable growth.

D. GROWTH

Figure D-1 depicts the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. During the year

2005, the Company had 479 customers and it is projected that the Company could have approximately 1,180 customers by December 2010.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Compliance

ADEQ reported the Company's system, PWS #11-130, has no major deficiencies and based on data submitted to ADEQ, ADEQ has determined that this system is currently delivering water that meets water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company reported its water testing expense at $3,639 for the test year. Staff has reviewed this reported amount and recommends this annual cost of $3,639 be adopted for this proceeding.

Arsenic

The U.S. Environmental Protection Agency has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The date for compliance with the new MCL was January 23rd, 2006.

The Company reported the arsenic concentrations for its Well #1 at 2.7 ppb and Well #2 at 1.0 ppb. Based on these levels, the Company is in compliance with the new arsenic standard.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is located in the Tucson Active Management Area ("AMA") and is subject to AMA reporting and conservation requirements. Since the Company pumps less than 250 acre-feet of water per year, it is considered a small provider by ADWR and is not subject to conservation rules. The Company is required to monitor and report water use. ADWR reported that the Company has complied with its water use and monitoring requirements.

G. ACC COMPLIANCE

According to the Utilities Division Compliance Section, the Company has no outstanding ACC compliance issues.

H. DEPRECIATION RATES

The Company has been using a depreciation rate of 2.50% in every National Association of Regulatory Utility Commissioners ("NARUC") plant category. In recent orders, the Commission has been shifting away from the use of a composite rate in favor of individual depreciation rates by NARUC category. (For example, a uniform 2.50% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific depreciation rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table H-1 and it is recommended that the Company use these depreciation rates by individual NARUC category on a going-forward basis.

I. SERVICE LINE AND METER INSTALLATION CHARGES

The Company has requested no changes to its service line and meter installation charges. Staff however, recommends the deletion of the 5-inch meter installation charge due to the fact that 5-inch meters do not exist. This change is shown in Table I-1.

J. CURTAILMENT PLAN TARIFF

The Company has an approved curtailment tariff that became effective on February 18, 2003, by Decision No. 65651.

K. BACKFLOW PREVENTION TARIFF

The Company has an approved backflow prevention tariff that became effective on February 18, 2003, by Decision No. 65651.

FIGURES

Pinal County Map ..... Figure A-1

Certificated Area ..... Figure A-2

System Schematic ..... Figure B-1

Water Use ..... Figure C-1

Growth ..... Figure D-1

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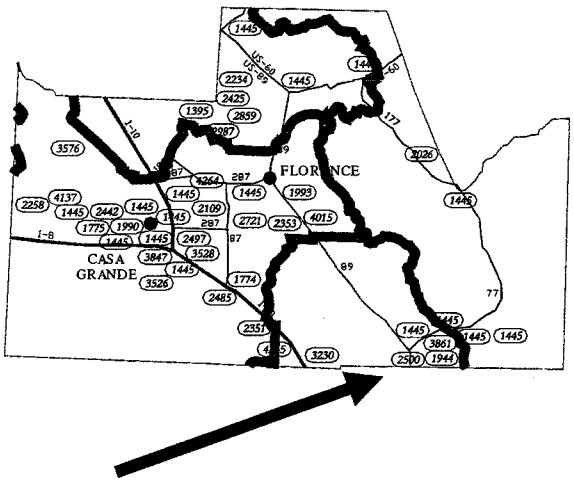
Depreciation Rates ..... Table H-1

Service Line and Meter Installation Charges ..... Table I-1

PINAL COUNTY



1445	ARIZONA WATER COMPANY	2351	PICACHO PEAK WATER COMPANY
2026	BIDEGAIN WATER COMPANY	3528	PICACHO WATER COMPANY
2721	CARTER WATER COMPANY	1774	PICACHO WATER IMPROVEMENT CORPORATION
3847	CASA GRANDE SOUTH WATER COMPANY	1395	QUEEN CREEK WATER COMPANY
1990	CASA GRANDE WEST WATER COMPANY, INC.	4245	RED ROCK UTILITIES, LLC
2442	CP WATER COMPANY	3861	RIDGEVIEW UTILITY COMPANY
2859	DIVERSIFIED WATER UTILITIES, INC.	3576	SANTA CRUZ WATER COMPANY
1775	FRANCISCO GRANDE UTILITY COMPANY	4137	SANTA ROSA WATER COMPANY
2497	GOLDEN CORRIDOR WATER COMPANY	2109	SIGNAL PEAK WATER COMPANY, INC.
2500	GOODMAN WATER COMPANY	2485	SPRING BRANCH WATER COMPANY, INC.
2234	H2O, INC.	4015	SUNLAND WATER COMPANY
2258	HACIENDA ACRES WATER SYSTEM	2425	SUN VALLEY FARMS, UNIT VI WATER COMPANY
2987	JOHNSON UTILITIES COMPANY	3230	TWIN HAWKS UTILITY, INC.
1944	LAGO DEL ORO WATER COMPANY	1993	UNITED UTILITIES
2353	PARK WATER COMPANY	4264	WOODRUFF WATER COMPANY, INC.

Figure A-1. Pinal County Map

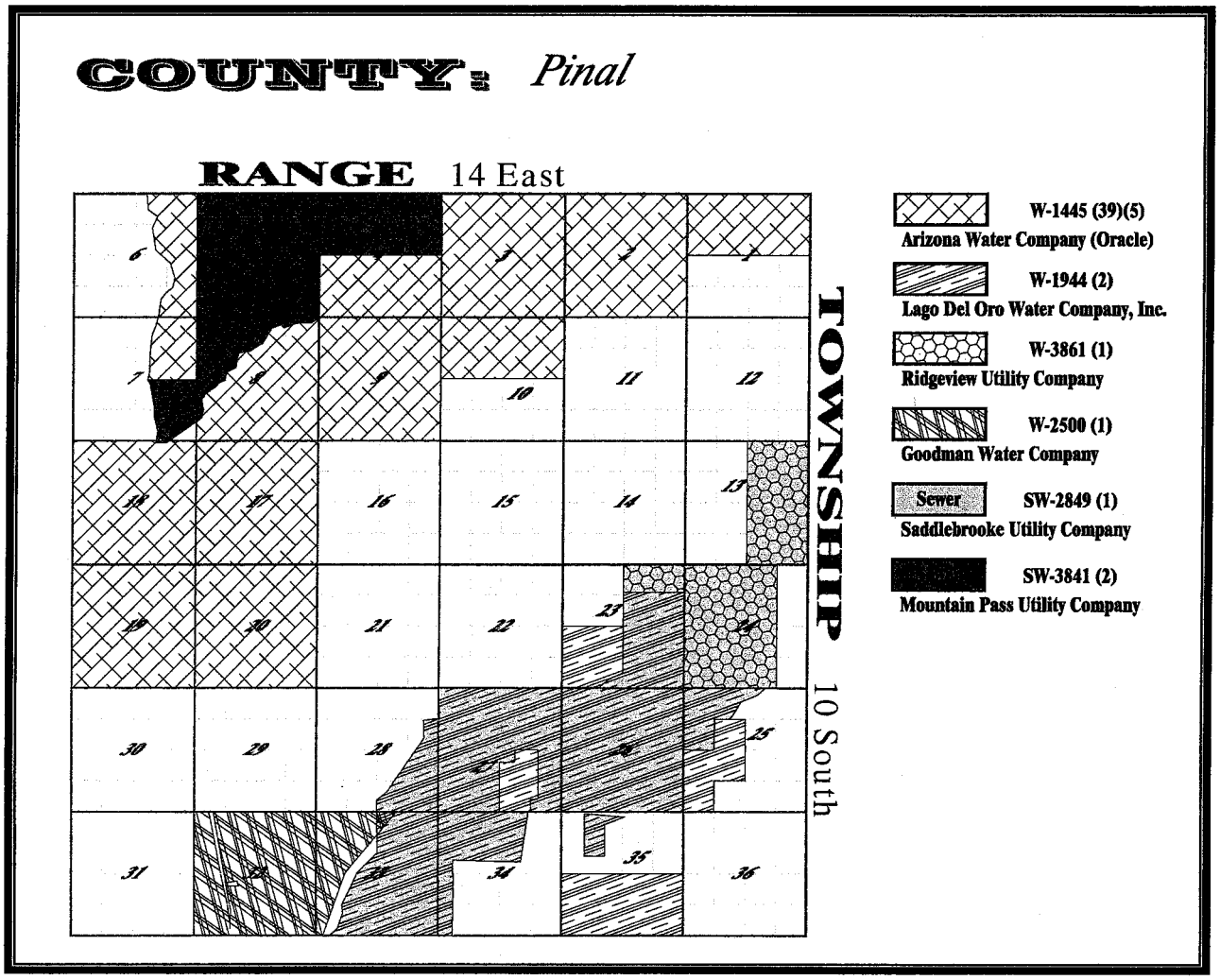


Figure A-2. Certificated Area

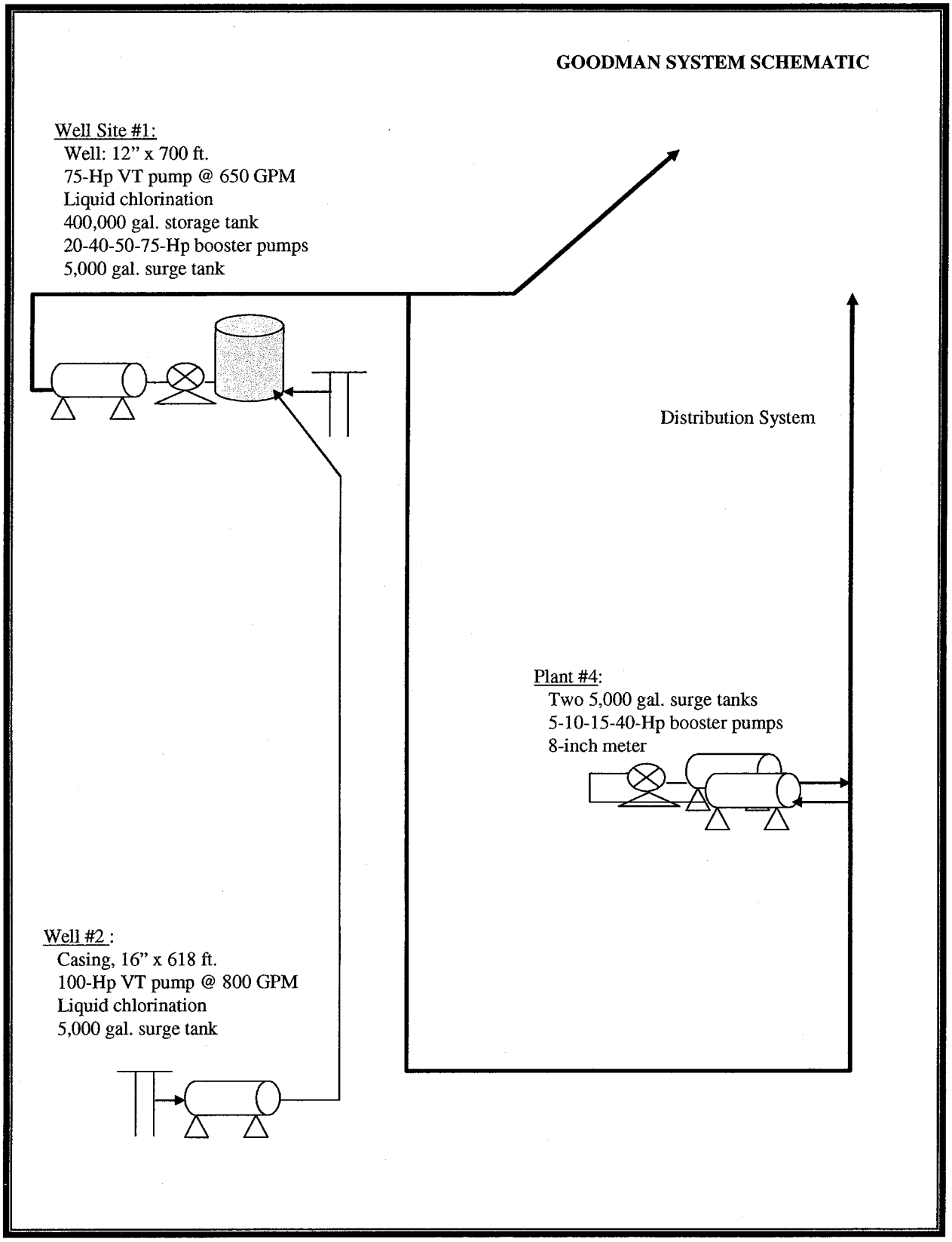


Figure B-1. System Schematic

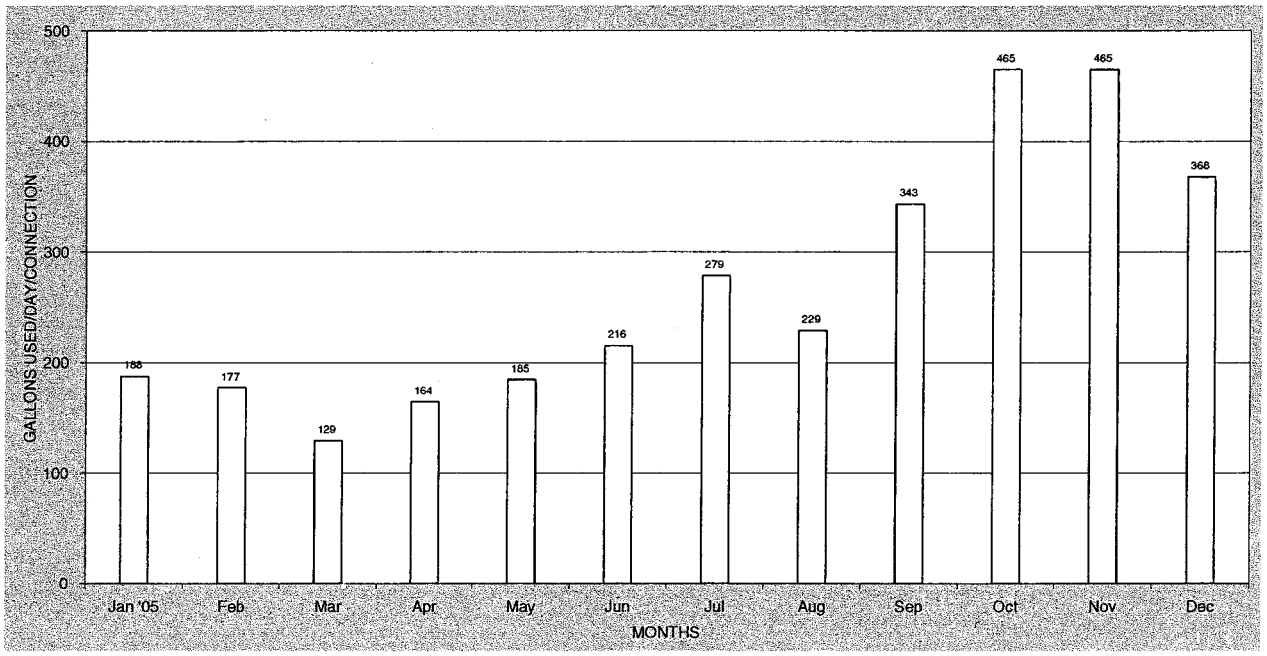


Figure C-1. Water Use

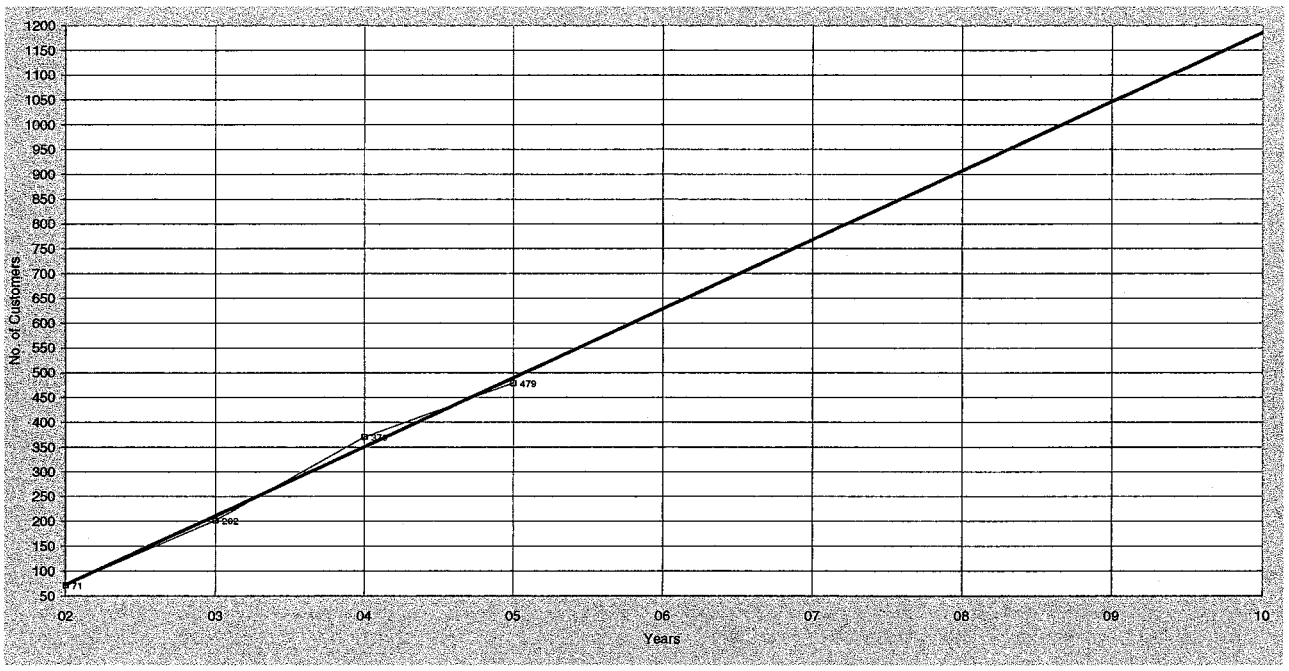


Figure D-1. Growth

Table H-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment	30	3.33
330	Distribution Reservoirs & Standpipes	45	2.22
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	10	10.00

Table I-1. Service Line and Meter Installation Charges

Meter Size	Current Charges	Recommended Charges
5/8 x3/4-inch	$225	$225
3/4-inch	$270	$270
1-inch	$300	$300
1-1/2-inch	$425	$425
2-inch	$550	$550
3-inch	$750	$750
4-inch	$1,375	$1,375
5-inch	$2,090	None
6-inch	$2,800	$2,800

EXHIBIT
S-4

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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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

<u>Revenue Requirement:</u>

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.

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Surrebuttal

DIRECT TESTIMONY OF CHARLES R. MYHLHOUSEN

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Surrebuttal Schedule CRM-1

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

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Surrebuttal Schedule CRM-2

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)	$ -			

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Surrebuttal Schedule CRM-3

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)

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Surrebuttal Schedule CRM-4

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

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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

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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 reconmmended in Staff's direct testimony.	$ 415
6	Correct amount of accoumulated depreciation	263
7	Accumulated depreciation reduced on account No. 334 meters	$ 152

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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)

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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
Docket No. W-02500A-06-0281
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

GOODMAN WATER COMPANY
Docket No. W02500A-06-0281
Test Year Ended September 30, 2005

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
Docket No. W-02500-06-0281
Test Year Ended September 30, 2005

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)

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

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)

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

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)

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)

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

Surrebuttal Schedule CRM- 16

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

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

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
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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
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1" Meter		$ 300.00	$ 300.00	$ 300.00
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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

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

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%

Exhibit
S-5
Admitted

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

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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.

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[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

[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

[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.

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[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

[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

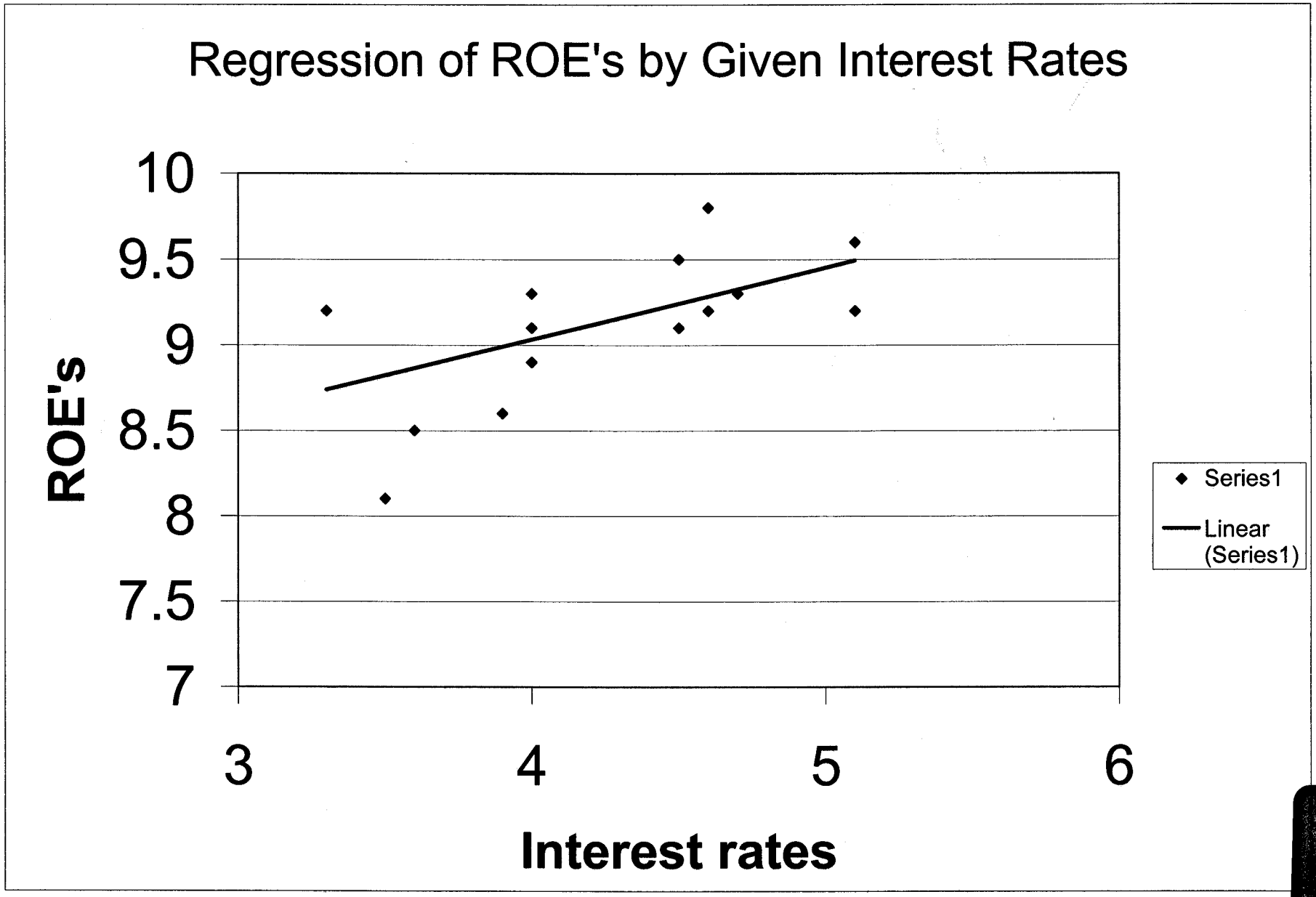
Goodman Water Company
Multi-Stage DCF Estimates
Sample Water Utilities

[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) d_1	d_2	d_3	d_4	Stage 2 growth[3] (g_n)	Equity Cost Estimate (K)[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


Regression of ROE's by Given Interest Rates
10
9.5
9
8.5
8
7.5
7
ROE's
3
4
5
6
Interest rates
Series1
Linear (Series1)

CM 1.13

ARIZONA CORPORATION COMMISSION
STAFF'S FIRST SET OF DATA REQUESTS
REGARDING THE APPLICATION FOR RATE INCREASE
GOODMAN WATER COMPANY
DOCKET NO. W-02500A-06-0281
JULY 12, 2006

CM 1.13 Please provide a breakdown by name, position, salary and duties for each employee included in the salaries and wage expense.

CM 1.14 Please state the dollar threshold for costs that are expensed versus capitalized.

CM 1.15 Please provide copies of the invoices for the purchased power expense.

CM 1.16 Please explain what is included in the account 'other water revenues' and if this amount will remain approximately the same going forward.

CM 1.17 Please provide a certificate that the Company is in good standing with the Arizona Department of Revenue.

CM 1.18 Is the Company current in payment of its sales taxes?

CM 1.19 Is the Company current in payment of its property taxes?

CM 1.20 Please provide a current detailed schedule of advances in aid of construction starting from the last Commission Decision including any amounts refunded.

CM 1.21 Please explain and provide documentation for the plant proforma adjustment of $10,755.

CM 1.22 Please explain and provide documentation for the adjustment for interest income shown on schedule C-2 page 6.

CM 1.23 Please provide documentation for the proforma adjustment to interest expense and how it was determined.

CM 1.24 Meter and Service Line Installation Charges. Please justify the proposed charge and how it was determined for each meter size requested.

CM 1.25 Please provide copies of the invoices and policies for insurance general liability expense.

Goodman Water Company

Employee: Alexander Sears
Title: Chief Executive Officer
Salary: $32,000

Description: Plans and directs all aspects of the organization's policies, objectives and initiatives. Responsible for the short- and long-term profitability and growth of the company.

Responsibilities/Duties:

- Provides overall strategic direction and leadership for the water division ensuring that business performance targets are met. Develops and executes an aggregated business plan that includes financial growth and operational performance objectives.
- Plans and organizes work relating to the timing and management of utility rate making applications.
- Oversees the development and control of operating, maintenance and investment budgets capital improvement budget, cash flow projections, and accounting controls to assure accomplishment of financial goals.
- Participates in the process of seeking and analyzing utility acquisition targets.
- Manages and oversees the outside service contracts for daily utility operations services, billing and collections services, customer services, and accounting services.

LEWIS AND ROCA LLP LAWYERS

Michael F. McNulty
One South Church Avenue Suite 700
Tucson, Arizona 85701-1611

RECEIVED
AUG 28 2006
LEGAL DIV.
ARIZ. CORPORATION COMMISSION

Direct Dial: (520) 629-4453
Direct Fax: (520) 879-4732
Michael_McNulty@lrlaw.com
Admitted in: Arizona, District of Columbia

Our File Number: 42393-00008

August 25, 2005

Via Hand Delivery/Tucson Office

RECEIVED
AUG 25, 2006
ARIZONA CORP. COMM.
TUCSON, AZ.

Mr. Charles Myhlhousen
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

David M. Ronald, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

EXHIBIT
S

Re: Goodman Water Company
Docket No. W-02500A-06-0281
Staff's Third Set of Data Requests

Dear Messrs. Myhlhousen and Ronald:

This letter responds to your letter of August 10, 2006, requesting additional information from the Applicant, Goodman Water Company.

CM 3.1 **Please explain why many of the new plant item's invoices are billed to D. R. Horton and also these same invoices are paid by D. R. Horton. Also please provide copies of any agreements or contracts between Goodman Water Company and D. R. Horton.**

In accordance with finalized main extension agreements, approved by the Commission, D.R. Horton, Inc. has agreed to finance the construction of the infrastructure being built to serve the customers of Goodman Water Company. Nearly all of the lands within the service area of the Applicant are being developed by this one homebuilder. The following main extension agreements are attached to this correspondence, at **Tab "3.1"**:

FILE COPY

205094.2

- Eagle Crest Ranch, Phase I: Line Extension Agreement between Goodman Water Company, an Arizona public service corporation, and D. R. Horton, Inc., an Arizona corporation, dated February 28, 2002, approved by the Arizona Corporation Commission ("ACC") on June 13, 2002.

- Eagle Crest Ranch, Phase II: Line Extension Agreement between Goodman Water Company, an Arizona public service corporation, and D. R. Horton, Inc., an Arizona corporation, dated April 14, 2004, approved by the ACC on April 28, 2004 by Jim Fisher and, again, on July 19, 2004 by Brad Morton.

- Eagle Crest Ranch, Phase III: Line Extension Agreement between Goodman Water Company, an Arizona public service corporation, and D. R. Horton, Inc., an Arizona corporation, dated August 3, 2005, approved by the ACC on November 14, 2005.

Additionally, at **Tab "3.1"**, we enclose a set of documents related to the Company's sale of 7.85 shares of the company's stock to D.R. Horton, Inc., together with copies of the accompanying conveyancing instruments, including:

- Consents In Writing To Action Of The Board Of Directors Of Goodman Water Company
- Stock Certificates
- Shareholders Agreements, and Amended and Restated Shareholders Agreement
- Subscription Agreements, and Amended and Restated Subscription Agreement
- Holding Escrow Agreement

CM 3.2 **Please provide a detailed explanation as to what services are provided by J. A. Shiner, Inc. This should include but not limited to what type of management service is provided and/or rendered for operations and the number of hours per week spent in this management. Please provide copies of necessary time sheets and detailed work reports. Please provide copies of any written agreement or contracts between Goodman Water Company and J. A. Shiner, Inc.**

Mr. Shiner is the company's president, and a member of its Board of Directors. He performs the duties of a president of any typical small business. He does not maintain time sheets or work reports, nor does he have a separate services contract with his own company. Among other duties, Mr. Shiner:

- Supervises CWH2 Services, LLC, and the company's engineers, Westland Resources
- Supervises the company's legal counsel, Lewis and Roca, LLP
- Manages regulatory issues brought to him by various company consultants
- Reviews monthly financial information, including profit and loss statements, water usage and sales, and the company balance sheet
- Supervises the company's legal counsel and accounting professionals
- Monitors systems growth and reviews opportunities to expand the company's CC&N

CM 3.3 **Is J. A. Shiner president of Goodman Water Company and/or part owner of the water company? Is J. A. Shiner involved in other work of professional pursuits? Is J. A. Shiner still the statutory agent for the water company? If not, who is the present statutory agent?**

James A. Shiner is president and an owner of Goodman Water Company. Mr. Shiner is no longer the Statutory Agent for the company. The current Statutory Agent is L & R Service Company (a subsidiary of Lewis and Roca, the company's law firm). Mr. Shiner is an investor and a lender, and is not involved in any other professional pursuits.

CM 3.4 **Please provide a detailed explanation as to what services are provided by CWH2 Services, L. L. C. This should include but not limited to what types of services are provided or rendered and the number of hours per week spent in providing this service. Please provide copies of necessary time sheets and detailed work reports. Please provide copies of any written agreement or contracts between Goodman Water Company and CWH2 Services.**

CWH2 Services, LLC, is owned and operated by Christopher Hill. Goodman Water Company is monitored by CWH2 Services, LLC, at a minimum on a weekly basis and responds to emergencies. Additionally, the following services are provided:

1. Review and comment on proposed plans, design and construction management.

2. Assist in regulatory matters, i.e., ADEQ, ACC and other regulatory, statutory and local.

3. Establish and assist on work plan for system growth, i.e. future staffing, job descriptions, etc.

4. Provide input (as requested and as observed) on a matters related to maintaining the highest standards of a professionally run water system.

5. Monitor progress and activities of other professionals, as requested by the Company.

6. Act as liaison representing Company in affairs associated with operation, design and construction of the Company.

7. Provide flexibility in a professional environment to complete tasks as accepted by the Company.

8. Work with Company's owners and Board of Directors, as needed.

9. Supervise Company's certified operators on plant and distribution, governmental compliance, billing, water usage, etc.

CWH2 Services has provided contract services to the Applicant since August, 2004. Attached to this correspondence at **Tab "3.4"** are copies of:

- The Management Agreement under which CWH2 Services provides services to the Applicant.
- Monthly time sheets and work reports reflecting the time and efforts provided to the Applicant by CWH2 Services.

Additionally, as requested, we have also enclosed copies of the timesheets for CWH2 Services at **Tab "3.4"**.

CM 3.5 Please provide a detailed schedule of all other business enterprises that Christopher Hill is involved in and the hours per week spent in these pursuits.

Christopher Hill (owner of CWH2 Services, LLC) is a certified operator for water and wastewater, Grade IV in all categories. In his capacity as owner of CWH2 Services, LLC, Mr. Hill manages the following companies and typically commits the following number of hours, on average, as follows:

• Goodman Water Company	1.0 to 2.0 hours per week
• High Chaparral Water	.25 hours per week
• Willow Springs Utilities	.5 hours per week
• Lift Station Operation (5)	2.0 hours per week
• Lakewood Water Co.	1.0 hour per week
• Red Rock Utilities	1.0 hour per week
• Redhill Water	.25 hours per week
• Rillito Water	.25 hours per week
• Tierra Linda Water	2.0 hours per week

Part time contractors also work with CWH2 Services, LLC, under the direction of Christopher Hill, for field and compliance monitoring/sampling support. Contract employees provide flexibility and consistency in operation of the above entities, under his direction. In addition to the foregoing consulting services, Mr. Hill serves as the Deputy General Manager of the Metropolitan Domestic Water Improvement District, in Pima County, Arizona.

CM 3.6 Please provide the number of hours that Alexander Sears works per week for Goodman Water Company. Please provide copies of time sheets and summary of work accomplished reports. Is Alexander Sears an owner in Goodman Water Company?

Alexander Sears works for Goodman Water Company on an as-needed basis and weekly hours vary. Timesheets and work accomplishment reports are not maintained. Mr. Sears is an owner of Goodman Water Company, and the Chairman of its Board of Directors.

CM 3.7 Please provide the name of the president of Goodman Water Company.

James A. Shiner is president of Goodman Water Company.

CM 3.8 Please provide a list of the water company officers by name and their positions with the Company.

President	James A. Shiner
Vice President	None
Secretary	Jackie Ziliox
Treasurer	Jackie Ziliox

CM 3.9 Please provide a list by name of who is on the board of directors and their position on the board.

Board of Directors: James A. Shiner and Alexander Sears

CM 3.10 **Please provide the amount of time spent for Goodman Water Company supervising and/or overseeing the services provided by yL Technology? Please provide a detailed listing of the services provided by yL Technology to Goodman Water Company.**

Attached to this letter, at **Tab "3.10"** is a copy of the consulting agreement that has been entered into between the Applicant and yL Technologies. The services that yL Technologies provides, as reflected in the attached contract, include:

- Provision of "Certified Operator" services at the Grade 2 Level as required by Arizona Department of Environmental Quality (ADEQ)
- Monthly meter reading, meter turn on and shutoff, installation and shutoff, scheduled to comply with ACC requirement
- Monitoring and maintenance of proper water quality, and conduct laboratory analyses to comply with ADEQ regulations
- Preparation of Consumer Confidence Reports
- Supervision of system repairs, meter installations, blue staking, etc.
- Maintenance of billing system and records required by ACC, ADEQ, ADWR, CAGRD, etc., including accounts payable, accounts receivable, and general ledger
- Management of all customer billing, including processing of payment receipts and deposits, and detailed reports of financial transaction with copies of bills paid provided to the company and to CWH2 Services, LLC, including usage information, customer charges, customer receipts and deposits
- Maintenance of office hours of 8:00 a.m. to 5:00 p.m. for customer service (includes 2 phone lines)
- Response to emergencies 24 hours daily, 365 days
- Disconnect, shutoffs, re-connections, meter re-reads, meter testing and establish services
- Reports provided to ADEQ, ACC, ADWR, PCWW, HOA's as required

The time incurred by the company in the supervision of yL Technologies is reflected in the timesheets and reports of CWH2 Services, LLC, which is charged with supervising Ms. Hartwell's company.

CM 3.11 Arizona Corporation Commission Decision No. 56118 authorized Goodman Water Company to acquire long-term debt. Did the Company acquire long-term debt? If debt was acquired, provide the status of any long-term debt. Provide copies of any and all loan documents.

The Goodman Water Company does not hold any long-term debt.

CM 3.12 Why are Univar invoices billed to Lakewood Water Company and also why is the produce then shipped to Lakewood Water Company? Why are these invoices recorded in the general ledger of Goodman Water Company under account number 62000, Materials and Supplies?

The Applicant's need for chlorine preceded its being accorded credit approval by Univar. The Lakewood Water Company, owned by CWH2 Services, LLC (which serves as Manager for Goodman Water Company), had an account with Univar and it agreed to acquire and provide chlorine to Goodman Water Company, and it has done so for the past one and one half years. Costs for chlorine are handled solely as pass through, without price mark-up. Arrangements continue to be made for Goodman Water Company to set up accounts with vendors.

CM 3.13 Please provide copies of invoices for Westland Resources, Inc., for these dates 11/19/2005 for $100 and 11/22/2005 for $240.

At **Tab "3.13"**, we have enclosed invoices that correspond to the dollar amounts and the vendor that is the subject of the staff inquiry. However, the dates referenced do not correspond; the Company has reviewed its invoices from Westland Resources, and finds there do not appear to be any invoices in 2005 that correspond to the description given. In 2004, however, there were two invoices (copies, attached) representing Westland invoice #29203023 in the amount of $100 which was billed in October 2004 and paid in November 2004; and OPW invoice # 11310 for $240 which was billed in June 2004, approved in July 2004, and paid in November 2004.

CM 3.14 What is the name of the wastewater company that serves the area that Goodman Water Company serves? Is Goodman Water a principal in this wastewater company?

Pima County Wastewater Management ("PCWWM") serves the area of Goodman Water Company. Goodman Water Company customers pay wastewater fees separately to PCWWM. Goodman Water has no ownership position in the wastewater utility.

CM 3.15 Why does Goodman Water Company have two separate phone lines from Qwest?

Two separate phone lines are used for discrete alarms at two separate water plants, i.e. Water Plants #1 and #4. Telemetry will eventually allow for one phone line, once in service. Telemetry service is expected towards the end of September 2006.

Sincerely,

Michael F. McNulty

MFM/hib

cc: Goodman Water Company
yL Technology
CWH2 Services, L.L.C.
Thomas J. Bourassa, CPA

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

EXHIBIT
S-9
admitted

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	Zero to 4,000 Gallons	N/A	N/A	3.65
Tier two	From 4,001 to 9,000 Gallons	N/A	N/A	5.60
Tier three	Over 9,000 Gallons	N/A	N/A	6.42
3/4 inch meter per 1,000 Gallons				
Tier one	Zero to 4,000 Gallons	N/A	N/A	3.65
Tier two	From 4,001 Gallons to 9,000 Gallons	N/A	N/A	5.60
Tier Three	All Gallons over 9,000 Gallons	N/A	N/A	6.42
One inch meter and Larger per 1,000 Gallons		2.20	N/A	see below
Tier one	Zero Gallons to 10,000 Gallons	N/A	5.00	see below
Tier two	From 10,001 Gallons to 25,000 Gallons	N/A	6.70	see below
Tier three	All Gallons over 25,000 Gallons	N/A	7.70	see below
One inch Meter per 1,000 Gallons				
Tier one	Zero Gallons to 22,500 Gallons	N/A	N/A	5.60
Tier two	All Gallons over 22,500 Gallons	N/A	N/A	6.42
1 1/2 inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 34,000 Gallons	N/A	N/A	5.60
Tier two	All Gallons over 34,000 Gallons	N/A	N/A	6.42
Two inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 45,000 Gallons	N/A	N/A	5.60
Tier two	All Gallons over 45,000 Gallons	N/A	N/A	6.42
Three inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 68,000 Gallons	N/A	N/A	5.60
Tier two	All Gallons over 68,000 Gallons	N/A	N/A	6.42
Four inch meter per 1,000 gallons				
Tier one	Zero Gallons to 90,000 Gallons	N/A	N/A	5.60
Tier two	All Gallons over 90,000 Gallons	N/A	N/A	6.42
Six inch meter per 1,000 Gallons				
Tier one	Zero Gallons to 135,000 Gallons	N/A	N/A	5.60
Tier two	All Gallons over 135,000 Gallons	N/A	N/A	6.42
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	6.42
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

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

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%

GOLDER RANCH FIRE DISTRICT

Community Risk Prevention Division

Helping to make our community a better, safer place to live!

Uniform Fire Code 1997 Ed.

EXHIBIT
F-1
admitted

TO:	OPW Engineering, Matt Wadlington
FROM:	Steven Schoon, Fire Marshal
DATE:	January 12, 2004
PROJECT:	Eagle Crest Ranch Phase 3, Lots 378-477
PERMIT #:	GR1545
PLAN REVIEW:	**Fire Code Review of Building Permit Application Documents**

Please note the following Fire Code review comments for the above referenced project. This review shall be addressed by written comment and/or plan modification and resubmitted to the Community Risk Prevention Division prior to the issuance of a permit for construction.

1. Lots 378-419 are accessible from a single fire apparatus access road. A planned area development serving more than 25 dwelling units requires more than a single fire apparatus access road. An exception may be granted if all dwelling units are equipped with an approved automatic sprinkler system designed and installed in accordance with NFPA 13D as modified.

2. Notes 3 & 4 indicate a fire flow of 1000 GPM. Note 6 indicate dwellings exceeding 3,600 square feet in fire area shall install an approved automatic sprinkler system. These notes are correct; however, D.R. Horton and Westland Resources is in current discussions with GRFD to upgrade the existing 1000 GPM to 1,500 GPM to allow for larger dwellings over 3,600 square feet without installing a sprinkler system. This issue needs to be addressed for lots 420-477 prior to approval of the water plan.

3. Any dwelling which will have an automatic sprinkler system installed will require a minimum size water meter of 3/4" full flow or larger to accommodate the appropriate flows for an automatic sprinkler system.

The following comments are for documentation purposes and are not provided as a change or modification to the plans.

1. Fire apparatus access roads and water supply for fire protection is required to be installed and made serviceable prior to combustible materials arriving on the site.
2. Temporary street signs shall be installed at each street intersection when construction of new roadways allows passage of vehicles. All structures under construction shall be clearly identified with an approved address and building number. Signs shall be of an approved size, weather resistant, and be maintained until replaced by permanent signs.
3. All out of service hydrants shall be clearly marked or tagged as out of service. While the water lines are undergoing bacteriological cleansing and testing, the hydrants shall be marked as out of service. Out of service marking and tags shall remain until the hydrant has been inspected by the developer, approved by the Water Utility, and is in service. The Water Utility will notify the Fire Marshal when the hydrants are in service and available for fire flow testing.
4. The Developer is responsible for blue reflective street markers at each hydrant location.
5. Structures under construction, alteration, or demolition shall be provided with not less than one approved portable fire extinguisher. Fire extinguishers shall be conspicuously located where they will be readily accessible and immediately available in the event of fire. Portable fire extinguishers shall be maintained in a fully charged and operable condition. The code official is authorized to require additional approved portable fire extinguishers where special hazards exist, such as flammable or combustible liquid storage hazards. Fire extinguishers shall comply with IFC Section 906.
6. Fire extinguishers for roofing operations shall be readily available. There shall be at least one multipurpose portable fire extinguisher with a rating of 2-A:20-B:C on the roof being covered or repaired.

7. Combustible debris shall not be accumulated within buildings. Combustible debris, rubbish and waste material shall be removed from buildings at the end of each shift of work. Combustible debris, rubbish and waste material shall not be disposed of by burning on the site. Materials susceptible to spontaneous ignition, such as oily rags, shall be stored in a listed disposal container.
8. An approved fire department key box shall be obtained and installed at an accessible approved location for each structure or group of structures as approved by the code official. Ordering forms may be obtained by the code official. Door keys shall be provided and maintained in the key box as to provide access to all structures for fire-fighting and life-saving purposes.
9. Deferred fire protection system plans shall be submitted and approved prior to installation of the system. Failure to gain approved plans prior to installation will be subject to citation.
10. Automatic fire sprinkler systems and fire alarm systems shall be monitored by an approved central monitoring station. Fire protection system monitoring shall be in service prior to acceptance testing/inspection of the system.

Please call me at 818-1017 if I can be of assistance,
Steven Schoon, Fire Marshal

GOLDER RANCH FIRE DISTRICT

Community Risk Prevention Division

Helping to make our community a better, safer place to live!

September 2003

Jim Morrison, Vice President Construction
D.R. Horton Homes
5255 E. Williams Circle
Suite 1030
Tucson, Arizona 85711

EXHIBIT
I-2
admitted

RE: Fire Code Review of Eagle Crest Ranch Development

Dear Mr. Morrison,

There have been recent discussions regarding some Fire Code deficiencies within the Eagle Crest Ranch Development. It is my intention to strive for fire code compliance and continue the good relations between Golder Ranch Fire District and D.R. Horton Homes. The two main issues at hand are as follows; fire flow requirements in relation to dwelling unit square footage, insufficient emergency secondary access. On the final plat for phase 2, I have also identified a concern regarding access for two separate cul-de-sacs with over 25 dwelling units each.

I. Fire Flow

A. **UFC Appendix III-A / IFC Appendix B – Section 5.1 One- and Two-Family Dwellings -** The minimum fire flow and flow duration requirements for one- and two-family dwellings having a fire area which does not exceed 3,600 square feet shall be 1,000 gallons per minute. Fire flow and flow duration for dwellings having a fire area in excess of 3,600 square feet shall not be less than that specified in UFC Table A-III-A-1. **Exception** – A reduction of 50 percent, as approved, is allowed when the building is provided with an approved automatic sprinkler system.

B. **UFC Appendix III-A – Section 4 Fire Area -** Defined as the total floor area of all floor levels within the exterior walls, and under horizontal projections of a roof of a building except as modified in Section 4. **Area Separation** – Portions of a building which are separated by one or more four-hour area separation walls constructed in accordance with the Building Code, without openings and provided with a 30-inch parapet, are allowed to be considered as separate fire areas.

C. **Horizontal Projections of a Roof** – GRFD interpretation and clarification with the latest editions of the fire code - Covered patios and porches that are not open on two or more sides are also considered as Fire Area for defining fire flow requirements.

D. **Garages** – Garages are included as Fire Area for defining fire flow requirements.

E. **Fire Area Exceeding 3,600 Square Feet** – The next step in Table A-III-A-1 is 1,750 gallons per minute for buildings not exceeding 4,800 square feet.

F. **Water Development Plans** – The approved Water Development Plans were approved for 1,000 gpm fire flow and have notation that dwelling units exceeding 3,600 square feet in fire area shall have an automatic fire sprinkler system installed.

G. **Situation** – The "*Kopopelli*" model consists of 3,682 square feet plus a 652 square foot garage and covered porches/patios open on two or more sides for a total of 4,334 square feet fire area. The "*Windsong*" model consists of 2,998 square feet plus a 676 square foot garage and covered porches/patios open on two or more sides for a total of 3,674 square feet fire area. Both of these models exceed 3,600 square feet and are required to have an automatic sprinkler system installed. D.R. Horton Homes has constructed and completed five (5) dwelling units that exceed 3,600 square feet in fire area, lots 147, 157, 162, 166, and 191. An automatic fire sprinkler system has not been installed in these dwelling units. A sixth dwelling unit exceeding 3,600 square feet is currently under construction, lot 193. An approved automatic sprinkler system has been installed for lot 193. Future lots might be sold and built upon with dwelling units exceeding 3,600 square feet.

H. **Proposed Solution** – Jim Morrison, D.R. Horton Homes, has expressed the desire of D.R. Horton Homes to not have to install automatic sprinkler systems in the homes exceeding 3,600 square feet and has proposed to increase the available fire flow to 1,500 gallons per minute. Westland Resources has modeled the existing water system and submitted documentation that the system could handle an increase of 500 gpm.

I. Dwelling units exceeding 3,600 square feet but not exceeding 4,800 square feet would require 1,750 gpm by Table A-III-A-1. Chief Fink and Fire Marshal Schoon have reviewed the situation, and due to an overall 500 gpm improvement for the entire development, agreed to allow the dwelling units to be constructed up to 4,800 in fire area, if 1,500 gpm is available.

II. Secondary Access

A. **UFC 1998 Supplement / IFC Appendix D**– Planned Area Developments where the number of dwelling units exceeds 25 shall be provided with separate and approved fire apparatus access roads. Exception – Where all dwelling units are protected by approved automatic sprinkler systems, access from two directions shall not be required. **Section 503.1.2 Additional access.** The code official is authorized to require more than one fire apparatus access road based on the potential for impairment of a single road by vehicle congestion, condition of terrain, climatic conditions, or other factors that could limit access.

B. **Situation** - The Development Plan was shown with two main access points; these being from Oracle Road onto Eagle Crest Boulevard, and from SaddleBrooke Boulevard onto Eagle Crest Boulevard. The SaddleBrooke Boulevard access point would not be installed until such time that the commercial properties on the Northwest corner of the development were started. The development has more than 500 dwelling units planned. The majority of dwelling units were further identified to be accessible from a single main roadway, Eagle Heights Drive. The developer agreed to install a secondary access point adjacent to lot 148 that leads to Edwin Road and it would be gated to allow for emergency use only. Any locking mechanism shall be approved by GRFD and adhere to the standard for approved key boxes of locking mechanisms. The required unobstructed width of fire apparatus access roads is 20 feet. The standard for emergency fire apparatus roads is 14 feet.

C. **Problem** – The secondary access has been completed. The gate is currently not locked. The gate is obstructed by a three foot high dirt and rock barrier placed between Edwin Road and the gate. The gate width is 14 feet; however, the access consistently narrows down to 9 feet wide as it meets with the development roadway adjacent to lot 148. This secondary access is unusable and does not meet the standard.

D. **Solution** – Correct the width deficiency, remove the dirt and rock barrier, and install a Knox Lock. A Knox Lock Form will be provided.

III. Long, Dead-End Roads with Single Point of Access

A. **UFC 1998 Supplement / IFC Appendix D** – Developments of one- or two family dwellings where the number of dwelling units exceeds 30 shall be provided with a minimum of two separate and approved fire apparatus access roads. **Exception:** Where all dwelling units are protected by approved residential sprinkler systems, access from two directions may not be required. **Section 503.1.2 Additional Access.** The code official is authorized to require more than one fire apparatus access road based on the potential for impairment of a single road by vehicle congestion, condition of terrain, climatic conditions, or other factors that could limit access.

B. **Situation** – The latest Final Plat GRFD has reviewed shows two long dead-end cul-de-sacs with a single point of access for each one. One of these roadways, Diamond Bay Drive, serves 104 lots and the other, Mountain Shadow Drive, serves 45 lots.

C. **Solution** - A second means of access shall be provided for each area or all dwelling units on these two points of access shall be constructed with an approved automatic sprinkler system.

EXHIBIT I-2

DRAFT

GOLDER RANCH FIRE DISTRICT

Community Risk Prevention Division

Helping to make our community a better, safer place to live!

June 28, 2004

Leslie Schaefer
D R Horton
5255 E. Williams Circle
Suite 1030
Tucson, AZ 85711

EXHIBIT
I-3
admitted

RE: Eagle Crest Ranch, Phase III (Lots 378-419)

Dear MS. Schaefer,

I received your letter describing the road widths and possibly increasing the fire flow to 1,500 gpm in lieu of the required installation of automatic sprinkler systems. The road widths stated are minimum widths and as such do not offer anything to consider in the way of not enforcing the fire code with an alternative method. Your letter was bold enough to suggest that emergency apparatus could utilize a 10' right of way on both sides and illustrated it as a "clear area." With the installation of mailboxes, landscaping, and vehicles of homeowners parked in their driveways, I certainly can not see this as a "clear area."

D R Horton has stated in October 2003 they would increase the fire flow to 1,500 gpm because of constructing dwellings exceeding 3,600 square feet. The Fire Code requirement is 1,750 gpm for dwellings exceeding 3,600 square feet. GRFD agreed to accept an increase to 1,500 gpm for dwellings up to but not exceeding 4,800 square feet. As of June 2004, the improvements have not been accomplished.

Furthermore, the entire development is served by a single access point. An emergency secondary access was constructed in the cul-de-sac of Mountain Shadows Drive to meet the Fire Code. The Fire Code requires minimum clear width of 20 feet. GRFD agreed to accept a 14 foot clear width for the relatively short distance between Mountain Shadows Drive and Edwin Road. The developer constructed an access that is only 9 feet wide with one side having a vertical drop off into a drainage area. The access can not be utilized by fire apparatus. In the October 2003 meeting with D R Horton and GRFD, this was pointed out and was also to be corrected. As of June 2004, the access has not been corrected.

Increasing the available fire flow to 1,500 gpm, and correcting the existing secondary access is paramount to the continuation of this development. Golder Ranch Fire District has been patient and obviously willing to work with D R Horton; however, D R Horton has not been responsive to correcting the deficiencies. Lots 378-419 do require without exception, an additional secondary access or the installation of an automatic sprinkler system in each dwelling.

Sincerely,

Steven L. Schoon
Fire Marshal

Golder Ranch Fire District - Community Risk Prevention Division 3535 E. Hawser St.; Tucson, Arizona 85739
520-818-1017 Fax 520-825-8043 www.golderranchfire.org prevention@golderranchfire.org

PETITION TO REDUCE GOODMAN WATER COMPANY'S EXCESSIVE RATE INCREASE REQUEST FOR EAGLE CREST RANCH RESIDENTS

GOODMAN WATER COMPANY HAS APPLIED FOR A INCREASE IN REVENUE WHICH RESULTS IN A 149% INCREASE IN BASE WATER RATES AND A 167% INCREASE IN THE AVERAGE WATER USE RATE.

EXAMPLE: IF A RESIDENT IN DR HORTON'S PHASE 3-B Lots 378 to 419, WHO HAS A 1"METER FOR FIRE SPRINKLERS, THE BASE RATE IS GOING FROM $45 TO $112.19 AND THE WATER USE RATE IS GOING FROM A FLAT RATE OF $2.20/1,000 GALLONS TO A TIER RATE OF $5.02 FOR 0-10,000, $6.72 FOR 10,001-25,000 AND $7.72 OVER 25,000 GALLONS.
A MONTHLY BILL FOR A 1"METER AND 7,500 GALLONS WOULD GO FROM $61.50 TO $149.84 OR A 144% INCREASE.

IF YOU DO NOT HAVE A FIRE SPRINKLER SYSTEM THEN YOU WOULD HAVE A 5/8" METER. THIS BASE RATE IS GOING FROM $18 TO $44.87 AND THE WATER USE RATE IS GOING FROM A FLAT RATE OF $2.20/1,000 GALLONS TO A TIER RATE OF $5.02 FOR 0-4,000, $6.72 FOR 4,001-10,000 AND $7.72 OVER 10,000 GALLONS. THERE WILL NO LONGER BE A FREE 1,000 GALLONS INCLUDED IN THE BASE RATE. EXAMPLE: A MONTHLY BILL FOR A 5/8"METER AND 7,500 GALLONS WOULD GO FROM $32.30 TO $88.4[illegible] OR A 174% INCREASE.

THIS REPRESENTS A PENALTY FOR HAVING A FIRE SPRINKLER WHICH IS THE DIFFERENCE BEWTEEN THE 5/8" METER AND THE 1" METER BILL OF $61.37 OR 69%.
THE CURRENT FIRE SPRINKLER GENERATED DISPARITY BETWEEN THE 5/8"METER'S $18 AND THE 1" METER'S $45 BASE RATE IS CURRENTLY $324/YR OR 150%.

WE THE UNDERSIGNED HAVE 1" METERS SUPPORTING A FIRE SPRINKLER SYSTEM. THE MODEL OF HOME IS THE SAME AS THOSE ON 5/8" METERS WITHOUT FIRE SPRINKLERS. WE DEMAND THAT GOODMAN WATER COMPANY INSTITUTE A FIRE SPRINKLER RATE CLASS MODELED AFTER THE 5/8" RATE CLASS AND STOP OVER CHARGING FOR A BASE RATE USED FOR HIGH VOLUME WATER USE CUSTOMERS WHEN OUR CONSUMPTION WOULD BE NO DIFFERENT THAN FOR COMPARABLE HOMES ON THE 5/8" METER. WE ALSO FIND THE PROPOSED TIER LEVELS TOO LOW AND DO NOT REFLECT TYPICAL AVERAGE USE NOR ARE THEY COMPARABLE TO OTHER LOCAL WATER COMPANIES.

WE CONTEND THAT THE TIMING OF THE RATE INCREASE IS PREMATURE. THE EFFECT OF THE PROPOSED BASE RATE BEING SPREAD AMONG A SMALLER POPULATION ARTIFICIALLY INFLATES THE BASE RATE AND PROVIDES FOR WINDFALL PROFITS AS THE CUSTOMER BASE GROWS FROM 470 CUSTOMERS TO ITS PROJECTED FINAL 958 CUSTOMERS IN EAGLE CREST RANCH.

WE ADDITIONALLY OPPOSE THIS RATE INCREASE OVERALL BECAUSE IT IS GREATLY ABOVE ANY COST OF LIVING INDEX AND OUT OF LINE WITH COMPARIABLE WATER RATES FOR OTHER LOCAL WATER COMPANIES.

	PRINT NAME	SIGNATURE	ADDRESS	PHONE NUMBER
1	MaryBeth Hallett	MHallett	39232 S. Mtn Shadow	(520)-498-2356
2	Sharon Evans	Sharon Evans	39244 S Mtn Shadow	(520)-825-9661
3	Ashley Price	APrice	39256 S Mtn Shadow	(520)-722-6483
4	Luana Neill	Luana Neill	39268 S. Mtn Shadow Dr	(520)-742-2626
5	John Almond	[illegible]	39280 S. Mtn Shadow Dr	(520)-877-2702
6	Nicki Valentine	Nicholas H. Valentine	39292 S Mountain Shadow	(520)-614 581 9605
7	Tim Frazio	[illegible]	39304 S. Mountain Shadow Dr	(520)-909-2992
8	Tim Sauer	[illegible]	39316 S. Mountain Shadow Dr	(520)-818-2633
9	Jack Cunningham	[illegible]	39328 S. MTN SHADOW DR	(520)-825-1914
10	Anthony Figueroa	[illegible]	39352 S. MTN SHADOW	(520)-818-2614

DOCKET NO# W-02500A-06-0281

EXHIBIT T-4

PETITION TO REDUCE GOODMAN WATER COMPANY'S EXCESSIVE RATE INCREASE REQUEST FOR EAGLE CREST RANCH RESIDENTS

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	PRINT NAME	SIGNATURE	ADDRESS	PHONE NUMBER
1	David Hills	[illegible]	39412 S. MTN Shadow	(520)- 825-6571
2	SHANE SHOLL	[illegible]	39388 S. MOUNTAIN SHADOW DR	(520)- 818-6571
3	Alin Alwer	[illegible]	39376 S MOUNTAIN SHA	(520)- 2258598
4	LAURA Reese	[illegible]	39436 S. Mountain Shadow Dr.	(520)- 818-9339
5	RICHARD PUZZELE	[illegible]	39472 S Mtn Shadow Dr	(520)- 229-9031
6	JAMES MILLER	[illegible]	39451 S. MTN SHADOW DR	(520)- 742-1492
7	JIM VINCENT	[illegible]	39460 S MTN SHADOW DR	(520)- 818-2786
8	R. Blain Weiss	[illegible]	39208 S. Mtn Shadow Dr	(520)- 390-7072
9	ROBERT LEE	[illegible]	39424 S. MTN SHADOW DR	(520)- 825-9222
10	GARRETT MUNIER	[illegible]	39440 S. MOUNTAIN SHADOW DR	(520)- 531-5318

DOCKET NO# W-02500A-06-0281

PETITION TO REDUCE GOODMAN WATER COMPANY'S EXCESSIVE RATE INCREASE REQUEST FOR EAGLE CREST RANCH RESIDENTS

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	PRINT NAME	SIGNATURE	ADDRESS	PHONE NUMBER
1	BILL HARKINS	Bill Harkins	39285 S. MTN Shadow Dr. Tucson, AZ 85739	(520)- 818-0868
2	Louis Gurrieri	Louis Gurrieri	39261 S. Mountain Shadow Dr. Tucson Az. 85739	(520)- 825-2523
3	KEVIN HERNANDEZ	Kevin Hernandez	39249 S. Mountain Shadow Dr. Tucson, Az. 85739	(520)- 825-5393
4	Jennifer Anderson	[illegible]	39237 S. Mountain Shadow Dr Tucson, Az 85739	(520)- 531-1098
5	Curtis Hachin	[illegible]	39215 S Mountain Shadow Tucson AZ 85739	(520)- 579-3386
6	Elaine Jeromy	Elaine Jeromy	39299 S Mountain Shadow Dr Tucson AZ 85739	(520)- 744-5208
7	Edward Degan	Edward Degan	39311 S. Mountain Shadow Dr. Tucson AZ 85739	(520)- 818-2687
8	Ellen Kirton	Ellen Kirton	39327 S. Mountain Shadow Dr Tucson AZ 85739	(520)- 360-8359
9	ROLF REDDICK	[illegible]	39340 S. MOUNTAIN SHADOW TUCSON, AZ 85739	(520)- 225-8519
10	Russ Williams	Russ Williams	39359 S. Mountain Shadow Dr. Tucson 85739	(520)- 760-1016

DOCKET NO # W-02500A-06-0281

PETITION TO REDUCE GOODMAN WATER COMPANY'S EXCESSIVE RATE INCREASE REQUEST FOR EAGLE CREST RANCH RESIDENTS

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	PRINT NAME	SIGNATURE	ADDRESS	PHONE NUMBER
1	M. Poulle	M. Poulle	Tucson, Az. 85739 39371 N. Mtn Shadow Dr	(520)- 307-4434
2	Nancy Haase	Nancy Haase	39473 S. Mntn. Shadow Tucson Az 85739 Dr	(520)- 572-8659
3	Richard Police	Police	39395 S. Mtn Shadow Dr Tucson, Az 85739	(520)- 229-1515
4	Scott Miller	[illegible]	39413 S. Mtn Shadow Tucson, Az 85739	(520)- 818-3779
5	Sidney G. Wilson	Sidney G. Wilson	39273 S. mountain Shadow Dr Tucson, Az. 85739	(520)-818-6724
6				(520)-
7				(520)-
8				(520)-
9				(520)-
10				(520)-

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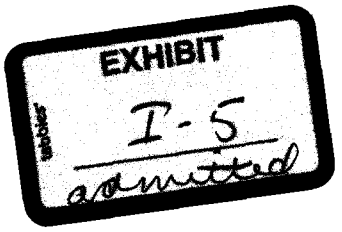
	PRINT NAME	SIGNATURE	ADDRESS	PHONE NUMBER
1	John Fiorino	[illegible]	39435 S. Mountain Shadows	(520)- 480-242-8555
2	Joanne Spencer	Joanne Spencer	39340 S Mountain Shadows Dr	(520)- 818-6510
3	LAWRENCE WAWRZYNIAK	[illegible]	39485 S. MOUNTAIN SHADOW DR	(520)- 825-6672
4				(520)-
5				(520)-
6				(520)-
7				(520)-
8				(520)-
9				(520)-
10				(520)-

DOCKET NO. # W-02500A-06-0281

January 12, 2007



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

RE: Addendum 1 to MOTION TO INTERVENE in the rate application of Goodman Water Company for increase in its rates and charges for utility service filed on December 29, 2006.

DOCKET No. W-02500A-06-0281

My name, address and phone number are listed below.

I. Request for Residential Fire Sprinkler Rate Class

I have been a Customer of the Goodman Water Company since October 1, 2005. My home is located in Phase 3-B of the DR Horton Mélange series of homes built in Eagle Crest Ranch. There are currently 42 lots number 378 to 419 in Phase 3-B located from 39484 to 39208 S Mountain Shadow Dr (See Exhibit I) which were required to have a Fire Sprinkler System installed due in part that this phase created a dead end cul-de-sac with greater than 30 homes. I am one of these customers. The DR Horton homes built in Phase 3-B are the same models built in Phase 1 and Phase 2-B on 70 ft. lots also located on S. Mountain Shadow Drive and Rock Ledge Loop within the Eagle Crest Ranch development. It is my understanding from phone conversations on January 10, 2007 with the Golder Ranch Fire Inspector that approved the Water Plans for this Phase, that the Fire Sprinkler System requires a minimum of a 3/4" Full Flow Meter. I currently do not know the reasoning behind the decision by Goodman Water Company to install 1" Meters vs. the 3/4" Full Flow Meters.

I request that Goodman Water Company add an additional base rate classification for those customers who are required to have a Fire Sprinkler System installed in their residential home and that the ACC Staff support this request. The Fire Sprinkler is a passive system that is separate from the rest of the house plumbing. The house plumbing is no different from those DR Horton homes in the Mélange Series with 5/8" Meters. This base rate classification should be the same as for the current 5/8 Meter customers with the sole exception for the actual installation cost difference of either a 3/4" or a 1" water meter. Goodman Water Company states in their Application dated April 29, 2006, Section VII; Rate Design, Page 47, Lines 8 and 9 that "The monthly minimums are supposed to reflect the demand that customers with larger meters place on the system." I would generally agree if there were corresponding plumbing pipe sizes and fixtures that would use this capacity. But this is not the case with this group of homes. If there is an issue with creating a separate Fire Sprinkler Base Rate class then consideration should be given to the creation of a Fire Sprinkler Credit that would offset the 1" Meter or 3/4" Meter charge and bring it in line with the 5/8" Meter base rate.

This Fire Sprinkler requirement was communicated to me via a contract change order eighteen days after I signed a binding contract to build my home. (See Exhibit II attached)

There was no mention that this system would have a larger water service vs. the standard 5/8" Meter service or that my base water rate would increase from $18 to $45 or 150% higher. I did not learn of the base rate charge until I made an inquiry to Goodman Water Company after receiving my first water bill on November 30, 2005. I view this as a Fire Sprinkler penalty for being overrated for a service meter size vs. a house plumbed the same as having the 5/8" Meter service and no appreciable difference in water usage.

There are still three more major building phases in the DR Horton plans that will increase our community to 958 homes. Based on the proposed road layouts and Golder Ranch Fire District's fire code there will be 151 more homes planned to be built that will require Fire Sprinklers. These homes will be part of Phase 4-C and Phase 5-B (See Exhibit III attached)

II. Water Use Records for 1 inch Meters

The Goodman Water Company states that there are insufficient records for the one inch customers. Yet they make the statement that because we have one inch meters, we must use considerably more water that those customers with 5/8 inch Meters (See Rate Application Lines referenced above). I disagree. My home was part of the first 10 lots sold in Phase 3-B. I was one of the last houses completed in this 10 lot group and all 42 lots in Phase 3-B have been completed as of December, 2006. I have attached a summary of my water bills for the year of 2006. (See Exhibit IV attached)

We are a retired couple living in a single story Desert Oasis model of the DR Horton Homes. I contend that the water usage for this group of families would be no different than those of similar homes on 5/8" meter service as the houses are plumbed internally the same. The only difference is the passive Fire Sprinkler System. The neighborhood is a mix of new families with children, Retirees and Part-time use residences. Lots sizes range from 45 to 70 ft. Water usage is affected primarily by family size, working vs. retired persons and whether a residence has a swimming pool. Regarding swimming pools, the first time fill will skew a normal water usage distribution and therefore water readings as a group can appear to be higher than settled down usage. In this group of 42 homes there were approximately 10 pools installed between 10,000 and 25,000 gallons in size in 2006. There are several more pools under construction in 2007. We are not commercial customers whose building is entirely plumbed with one inch pipe for general water distribution.

Therefore to pay a penalty of over 150% for water service based on increased demand potential over the 5/8" demand is not justified. The attached spread sheet reflects the water bills for two identical Desert Oasis Home models for 12 months of 2006. Lot 378 is my home with the 1" Meter and the Lot 274 has the 5/8" Meter. The difference in water use is minimal, perhaps affected by the fact that Lot 378 is a 2 person retired family in their first year of residence vs. Lot 274 with a 2 person working family completing their second year of residency. (See Exhibit V attached)

III. Water Usage Tier Rates

The proposed water usage tier rates for the 5/8" Meter are more than 50% lower than comparable rates offered by the Tucson Water Company at 11,220 gallon tier levels, the Town of Marana's 12,000 gallon tier levels and Oro Valley's 10,000, 15,000, greater than 25,000 gallon tier levels. The closest community of Saddlebrook and The Preserve (Ridgeview) served by the Lago Del Oro Water Company has only a one water usage tier rate structure.

Referring to the two sample homes that I submitted (see Exhibit IV & V attached), the average monthly water usage ranges from 6,096 to 6,539 gallons. The lower tier levels of 1-4K and 4,001k to 10K and 10k plus have the effect of just allowing for a higher average cost per gallon than encouraging water conservation. My understanding that for planning purposes the average per capita daily water use is 125 gallons. For a two person household this would be 7,500 gallons per month. The proposed tier rates seem practical only for single person households and limited use residences. If I were to apply the proposed 5/8" Meter rate to my current 2006 water usage my average cost per one thousand gallons would be $5.68 or a 158% increase. (See Exhibit IV Comments, attached)

IV. Timing of Rate Increase

I also contend that this rate increase request is premature. There are currently 470 homes built since the beginning of the Eagle Crest Ranch development with the projected maximum build out at 958 Homes. (See Exhibit III attached)

Goodman Water Company is asking for their total profit margin to be spread out among 459 customers at the time of filing. There are approximately 500 lots closed today. This allows for windfall profits to be returned for those customers above the base customer count that the proposed revenues are spread across.

Any justified rate increase should be spread out on a minimum base of 958 homes plus commercial businesses and to be implemented on a stepped basis rather than all at one time.

V. Impact on Property Values

These proposed water rates can have a significant impact on current property values and hinder the future development of Eagle Crest Ranch. Who will want to buy a home here if the water rates are from 79 to 523% higher when compared to surrounding housing developments? (See Exhibit VI attached). The rate difference is especially difficult when considering the Fire Sprinkler Penalty for those families selling the same model home against another built in a different phase of the development without a Fire Sprinkler.

VI. Summary

1. The ACC Staff needs to address the inequity in the water rate structure caused by Fire Sprinklers and how it currently affects 42 home owners and the future of 151 new home owners in the Eagle Crest Ranch community.

2. The Goodman Water Company incorrectly assumes that they should be charging a high rate based on demand for 1" Meter Customers. They make no consideration for Fire Sprinkler Customers.

3. The Water Usage Tier Rates are in conflict with normal water usage resulting in an even higher average cost per 1,000 gallons.

4. The timing of this increase is premature and that any justified rate increase will be placed on too small a customer base providing windfall profits as new customers are added to the base.

5. The excessive Rate Increase is not in line with surrounding towns and community rates which will have a significant impact on property values and future home sales.

I hereby certify that a copy of this Addendum 1 to my Notice of Intervention originally filed on December 29, 2006 has been mailed to:

Goodman Water Company, 6340 North Campbell Avenue, Suite 278, Tucson, Arizona 85718.
Lewis and Roca, LLP, One South Church Avenue, Suite 700, Tucson, Arizona 85701-1611
Jane L. Rodda, 400 West Congress St., Tucson, Arizona 85701

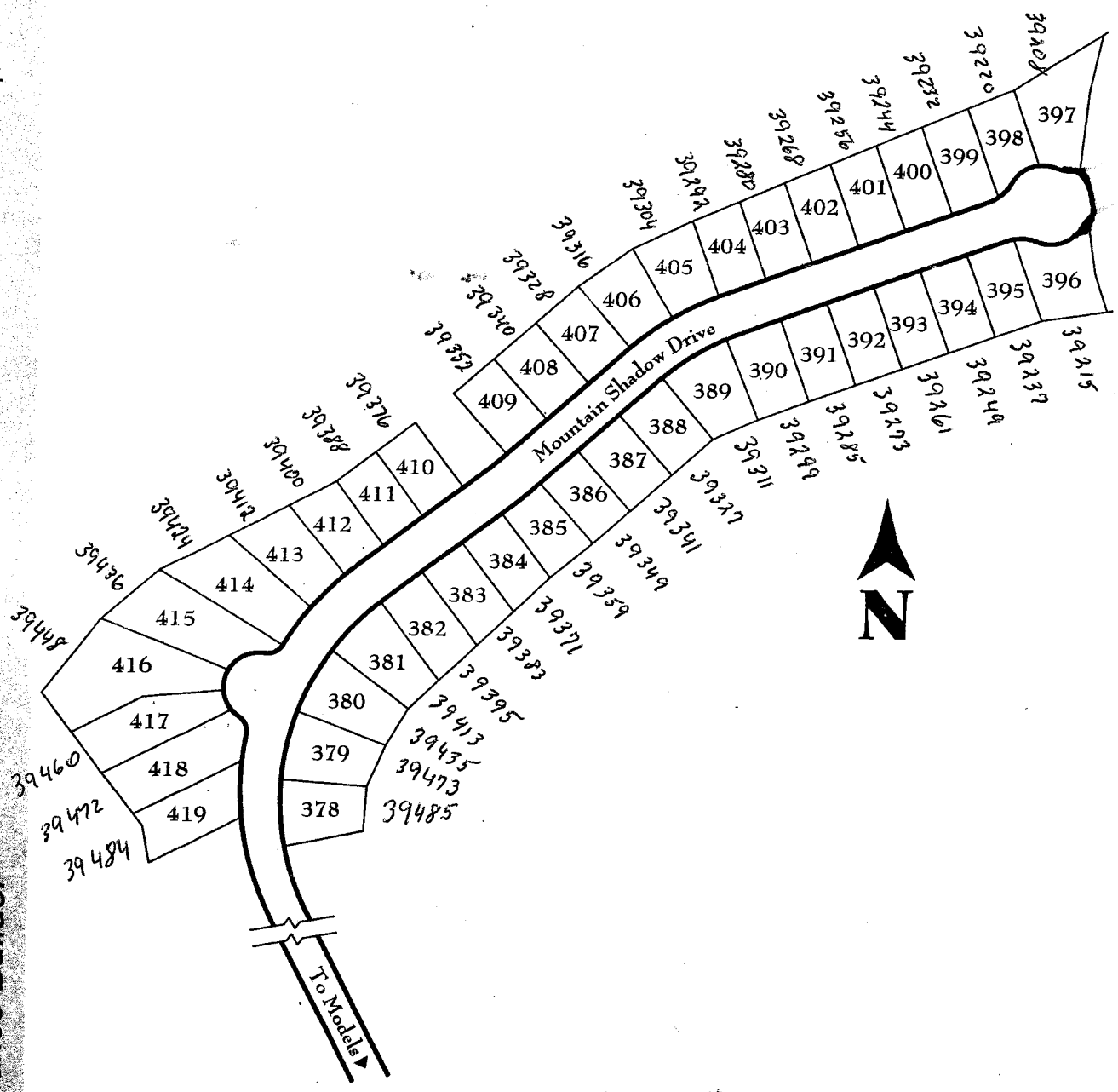
Sincerely,

Lawrence Wawrzyniak
39485 S. Mountain Shadow Dr.
Tucson, Arizona 85739
Telephone (520) 825-6672

Cc: Arizona Corporation Commission (13)
Goodman Water Company (1)
Lewis and Roca, LLP (1)
Jane L. Rodda (1)

EXHIBIT I

MELANGE AT EAGLE CREST
PHASE III SITE PLAN



NOTE: HAND WRITTEN NUMBERS ARE STREET ADDRESSES FOR S. MOUNTAIN SHADOW DR.

PRINTED THREE DIGIT NUMBERS ARE LOT NUMBERS.

DOCKET NO.
W-02500A-06-0281

All renderings and plans are artist's conceptions actual homes may have minor differences from these drawings and are subject to change without notice.

All measurements and locations of items and features shown are approximate and may vary.
All prices, features and materials are subject to change. Consult a sales representative for additional information.

LIC.#124600ROC 11/04

D·R·HORTON
America's Confidence Builder

Energy Advantage PLUS

EQUAL HOUSING OPPORTUNITY

EXHIBIT II

D·R·HORTON America's Builder DHI NYSE

D.R. Horton, Inc.

ADDENDUM TO PURCHASE CONTRACT

O.C.D. 1/10/2005 ADDENDUM # 1

DATE 1/28/2005 CONSTRUCTION STAGE # 0

BUYER(S) Lawrence W & Christine R Wawrzyniak

PRESENT ADDRESS 5 Royale Dr

CITY Fairport STATE NY ZIP 14450

HOME PHONE 585-425-2483 BUSINESS PHONE _____ BUSINESS PHONE _____

SUBDIVISION NAME Eagle Crest Melange Pha LOT 378 ADDRESS 39485 S Mountain Shadow D

MODEL NAME _____ MODEL NO. 2319 ELEVATION C

BUYER AND SELLER AGREE THAT THE TERMS AND CONDITIONS OF THE ABOVE REFERENCED CONTRACT ARE AMENDED AS FOLLOWS:

Buyer acknowledges this home will include fire sprinklers as required by fire code.

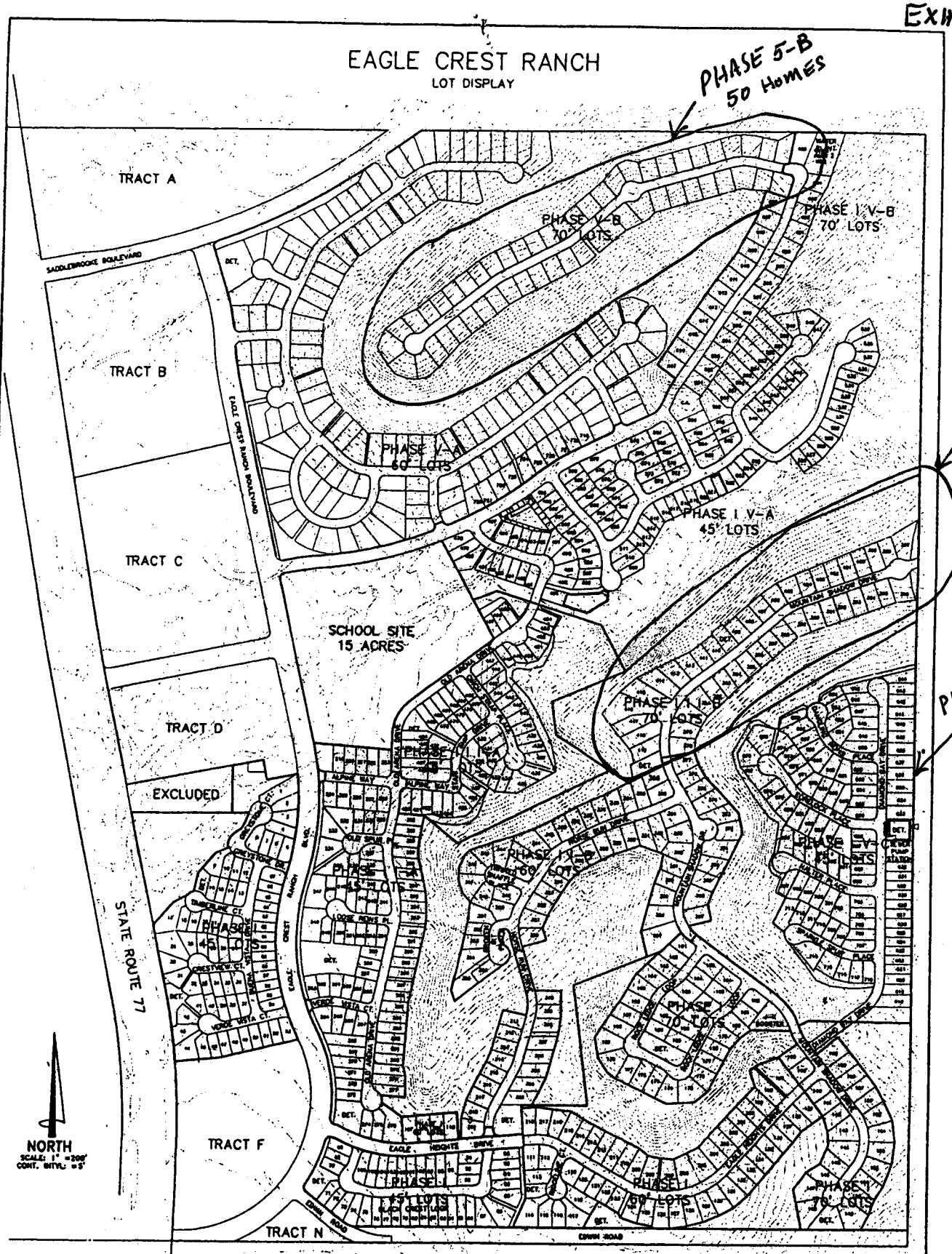
DOCKET NO.
W-02500A-06-0281

BUYER AND SELLER INSTRUCT THE ESCROW AGENT TO ACCEPT THIS INSTRUMENT AS ITS ESCROW INSTRUCTIONS. THIS AMMENDMENT SUPERSEDES ANY AND ALL PREVIOUS AMENDMENTS TO THE ABOVE-REFERENCED PURCHASE CONTRACT.

EXHIBIT III

EAGLE CREST RANCH

LOT DISPLAY



LOT SUMMARY	45'	60'	70'	TOTAL
PHASE I	106	55	57	218
PHASE I I-A	84	-	-	159
PHASE I I-B	-	54	21	
PHASE I I I-A	58	-	-	100
PHASE I I I-B	-	-	42	
PHASE I V-A	113	-	-	241
PHASE I V-B	-	-	27	
PHASE I V-C	101	-	-	
PHASE V-A	-	150	-	240
PHASE V-B	-	-	50	
PHASE V-C	40	-	-	
TOTAL	477	258	200	958

TOTAL LOTS = 958

1/12/07

EAGLE CREST RANCH

LOT DISPLAY

OPW ENGINEERING, L.L.C.

ENGINEERING SURVEYING PLANNING

opw 7000 E. Tanque Verde Rd. #37
Tucson, Arizona 85715
Sheet 1 of 1
OPW Job No. 92004-702

DOCKET NO.
W-02500A-06-0281

Account# 300378B
Fire Sprinkler System
Golder Ranch Fire Code
Dead end cul-dul-sak
>than 30 homes.
1" Meter service

39485 S. Mountain Shadow Dr
Tucson, AZ. 85739

Desert Oasis Model

EXHIBIT IV
Dr Horton
Lot 378
Phase 3-B

Billing Date	Read Date	Previous Reading	Current Reading	Gallons Used	Current Water	Tax	Total	Comments
1/30/2006	1/28/2006	20620	26920	6300	58.86	3.34	62.20	
2/28/2006	2/24/2006	26920	30820	3900	53.58	3.03	56.61	
3/27/2006	3/25/2006	30820	35740	4920	55.82	3.16	58.98	
5/2/2006	4/29/2006	35740	41900	6160	58.55	3.32	61.87	
6/1/2006	5/31/2006	41900	48760	6860	60.09	3.41	63.50	
6/30/2006	6/29/2006	48760	53760	5000	56.00	3.17	59.17	
7/27/2006	7/27/2006	53760	58920	5160	56.35	3.75	60.10	
8/28/2006	8/26/2006	58920	66690	7770	62.09	3.84	65.93	Note 1
9/26/2006	9/24/2006	66690	75840	9150	65.13	4.03	69.16	Note 2
10/30/2006	10/28/2006	75840	85300	9460	65.81	4.07	69.88	Note 2
11/27/2006	11/26/2006	85300	91700	6400	59.08	3.64	62.72	Note 3
12/28/2006	12/27/1936	91700	99090	7390	61.26	3.79	65.05	Note 4
				78470	**712.62**	**42.55**	**755.17**	
Average Monthly Usage was 6,539								
Projected 2007 Monthly Usage is 7,500 Gallons								
Note 1	Front Yard Landscaping Completed							
Note 2	Extra Drip Water to establish Plants							
Note 3	Looks to be a appoximate normal water rate for month							
Note 4	Extra Water used to clean Exterior boundry walls prior to painting							

Prepared by: L. Wawrzyniak
1/12/07

Account# 300378B
Fire Sprinkler System
Golder Ranch Fire Code
Dead end cul-dul-sak
>than 30 homes.
1" Meter service

39485 S. Mountain Shadow Dr
Tucson, AZ. 85739

Desert Oasis Model

EXHIBIT IV
Dr Horton
Lot 378
Phase 3-B

	Current 5/8" Base Rate	Current 1" Base Rate	Current Water Use Rate @ 2.20/k	Proposed 5/8" Base Rate	Proposed 5/8" Tier Rate 1-4 K @$5.02/k	Proposed 5/8" Tier Rate 4,001-10 K @6.72/k	Proposed 1" Base Rate	Proposed 1" Tier Rate 1-10K @$5.02/k
	18.00	45.00	13.86	44.87	20.08	15.46	112.19	31.63
	18.00	45.00	8.58	44.87	19.58	0.00	112.19	19.58
	18.00	45.00	10.82	44.87	20.08	6.18	112.19	24.70
	18.00	45.00	13.55	44.87	20.08	14.52	112.19	30.92
	18.00	45.00	15.09	44.87	20.08	19.22	112.19	34.44
	18.00	45.00	11.00	44.87	20.08	6.72	112.19	25.10
	18.00	45.00	11.35	44.87	20.08	7.80	112.19	25.90
	18.00	45.00	17.09	44.87	20.08	25.33	112.19	39.01
	18.00	45.00	20.13	44.87	20.08	34.61	112.19	45.93
	18.00	45.00	20.81	44.87	20.08	36.69	112.19	47.49
	18.00	45.00	14.08	44.87	20.08	16.13	112.19	32.13
	18.00	45.00	16.26	44.87	20.08	22.78	112.19	37.10
Totals	**216.00**	**540.00**	**172.62**	**538.44**	**240.46**	**205.43**	**1346.28**	**393.92**

2006 Water cost at current 5/8" Base Rate	388.62
2006 Water cost at current 1" Base Rate	712.62
2007 Water cost at proposed 5/8" Base Rate	984.33
2007 Water cost at proposed 1" Base Rate	1,740.20

Comments:

In 2006 I paid an extra $324 for my 1" service vs a 5/8" Service with no benefit or a 150% penalty

In 2007 the rate difference between the current 5/8" & new 1" is $1130.28 or a 523% increase

In 2007 comparing the same 1 " Service, water cost will increase $1027.58
or a 144% penalty because of the Fire Sprinkler

In 2007 if a new sprinkler rate equal to the 5/8" service was in place
the difference between my old 1" rate and the new 5/8" rate is still a 36% increase

The average cost per 1k under the 5/8" Tier Rate is really $5.68 due to artificially low break points

The effective difference between the Current $2.20/k rate and the new tier rates result in an
average increase of 158%

Prepared by: L. Wawrzyniak
1/12/07

Account# 100274B
NO Fire Sprinkler System
5/8" Meter Service

40071 S. Mountain Shadow Dr
Tucson, AZ. 85739

Desert Oasis Model

EXHIBIT V
Dr Horton
Lot 274
Phase 2-B

Billing Date	Read Date	Previous Reading	Current Reading	Gallons Used	Current Water	Tax	Total	Comments
1/30/2006	1/28/2006	174690	180910	6220	29.48	1.69	31.17	
2/28/2006	2/24/2006	180910	186070	5160	27.15	1.55	28.70	
3/27/2006	3/25/2006	186070	191760	5690	28.32	1.63	29.95	
5/2/2006	4/29/2006	191760	200210	8450	34.39	1.98	36.37	
6/1/2006	5/31/2006	200210	206900	6690	30.52	1.75	32.27	
6/30/2006	6/29/2006	206900	214620	7720	32.78	1.89	34.67	
7/27/2006	7/27/2006	214620	222310	4690	32.72	2.21	34.93	
8/28/2006	8/26/2006	222310	229620	7310	31.88	1.99	33.87	
9/26/2006	9/24/2006	229620	235660	6040	29.09	1.81	30.90	
10/30/2006	10/28/2006	235660	242810	7150	31.53	1.97	33.50	
11/27/2006	11/26/2006	242810	246830	4020	24.64	1.53	26.17	
12/28/2006	12/27/1936	246830	250840	4010	26.82	1.67	28.49	
			TOTALS	**73150**	**359.32**	**21.67**	**380.99**	
	Average Monthly Usage was 6,096 Gallons							
	Projected 2007 Monthly Usage is 6,500							

Prepared by: L. Wawrzyniak
1/12/07

Account# 100274B
NO Fire Sprinkler System
5/8" Meter Service

40071 S. Mountain Shadow Dr
Tucson, AZ. 85739

Desert Oasis Model

EXHIBIT V
Dr Horton
Lot 274
Phase 2-B

	Current Base Rate	Water Use Rate @ 2.20/k	Proposed Base Rate	Proposed 5/8" Tier Rate 1-4 K @$5.02/k	Proposed 5/8" Tier Rate 4,001-10 K @6.72/k
	18.00	11.48	44.87	20.08	14.91
	18.00	9.15	44.87	20.08	7.79
	18.00	10.32	44.87	20.08	11.35
	18.00	16.39	44.87	20.08	29.90
	18.00	12.52	44.87	20.08	18.07
	18.00	14.78	44.87	20.08	24.99
	18.00	14.72	44.87	20.08	4.63
	18.00	13.88	44.87	20.08	22.24
	18.00	11.09	44.87	20.08	13.70
	18.00	13.53	44.87	20.08	21.16
	18.00	6.64	44.87	20.08	0.13
	18.00	6.64	44.87	20.08	0.13
TOTALS	**216.00**	**141.14**	**538.44**	**240.96**	**168.99**
	2006 Water cost at current 5/8" Base Rate				357.14
	2007 Water cost at proposed 5/8" Base Rate				948.39
	Comments:				
	The proposed rate will effectively be 166% for this customer.				
	The average water rate per 1,000 gallons is $5.60.				

Prepared by: L. Wawrzyniak
1/12/07

Goodman Water Company
Rate Comparison

EXHIBIT VI

	Goodman WaterCo. Actual	**Goodman Water Co. Proposed**	Goodman Water Base Rate as compared to Goodman Current	**Oro Valley Water Co. Actual**	Goodman Water Base Rate as compared to Oro Valley	**Marana Water Co. Actual**	Goodman Water Base Rate as compared to Marana	**Lago Del Oro Water Co. SaddleBrook Actual**	Goodman Water Base Rate as compared to SaddleBrook	**Lago Del Oro Water Co. Ridgeview Actual**	Goodman Water Base Rate as compared to Ridgeview
Base Rate											
5/8" Meter	$18.00	$44.87	149%	$13.25	239%	$14.00	221%	$12.40	262%	$25.00	79%
1" Meter	$45.00	$112.19	149%	$33.00	240%	$34.00	230%	$18.00	523%	$51.00	120%

Goodman Current		**Goodman Proposed**		**Oro Valley**		**Marana**		**Lage Del Oro Saddlebrook**		**Lago Del Oro Ridegeview**	
Water Usage Tier Rates	Cost per 1,000 Gal.	Water Usage Tier Rates	Cost per 1,000 Gal.	Water Usage Tier Rates	Cost per 1,000 Gal.	Water Usage Tier Rates	Cost per 1,000 Gal.	Water Usage Tier Rates	Cost per 1,000 Gal.	Water Usage Tier Rates	Cost per 1,000 Gal.
5/8" Meter		**5/8" Meter**		**5/8" Meter**		**5/8" Meter**		**5/8" Meter**		**5/8" Meter**	
0 to 1,000	$0.00	1 to 4,000	$5.02	0 to 10.000	$2.08	0-1,000	$0.00	0 to 2,000	$0.00	Over 0	$3.41
Over 1,000	$2.20	4,001 to 10,000	$6.72	10,001 to 25,000	$2.81	1,001 to 10,000	$2.15	Over 2,000	$1.80		
		Over 10,000	$7.72	Over 25,000	$3.76	10,001-20,000	$3.00				
						20,001 to 30,000	$3.90				
						30,000 to 40,000	$4.80				
						Over 40,000	$6.90				
1" Meter		**1" Meter**		**1" Meter**		**1" Meter**		**1" Meter**		**1" Meter**	
Over 0	$2.20	1 to 10,000	$5.02	0 to 16,000	$2.08	0-1,000	$0.00	0 to 2,000	$0.00	Over 0	$3.41
		10,001 to 25,000	$6.72	16,001-27,000	$2.81	1,001 to 10,000	$2.15	Over 2,000	$1.80		
		Over 25,000	$7.72	Over 27,000	$3.76	10,001-20,000	$3.00				
						20,001 to 30,000	$3.90				
						30,000 to 40,000	$4.80				
						Over 40,000	$6.90				

LEWIS AND ROCA LLP LAWYERS

APPLICANT'S EXHIBIT A-1

COMPANY'S APPLICATION

LEWIS AND ROCA LLP LAWYERS

COPY

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2006 APR 26 A 10: 52

AZ CORP COMMISSION
DOCUMENT CONTROL

KRISTIN K. MAYES
COMMISSIONER

WILLIAM A. MUNDELL
COMMISSIONER

JEFF HATCH-MILLER
CHAIRMAN

MIKE GLEASON
COMMISSIONER

MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF **GOODMAN WATER COMPANY** FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICES BASED THEREON	No. W-02500A-06-0281

APPLICATION FOR A RATE ADJUSTMENT

AND NOTICE OF FILING OF DIRECT TESTIMONY OF

THOMAS J. BOURASSA AND CHRISTOPHER W. HILL

The service territory of Goodman Water Company, an Arizona public service corporation, is located in southern Pinal County, Arizona, immediately north of the unincorporated community known as Catalina, in northern Pima County. In the Fall of 1988, the Goodman Water Company (the "Company"), a Class "D" utility, received a Certificate of Convenience & Necessity authorizing it to engage in the water utility business. (See, Decision No. 56118, October 1, 1988). Until the year 2002, the growth in

the Company's customer base was insignificant, but since that time, the Company has been adding approximately 100 new customers each year.

The Company's rates for water utility service have not increased in eighteen years; not since its CC&N was approved in 1988. At present, with 459 customers at the end of the test year, the Company has invested over $2.33 million in plant infrastructure, but the Company's current rate of return, based on the adjusted test year data, is a negative 6 percent (-6%). Consequently, rate increases are necessary to ensure that the Company recovers its operating expenses and has an opportunity to earn a reasonable return on the fair value of its utility plant and property devoted to public service.

The owners of the Company engaged the services of Mr. Thomas J. Bourassa, C.P.A., to review the rates and tariffs of the Company, to prepare the pre-filed "Direct Testimony of Thomas J. Bourassa" attached as Exhibit "A", and the test year rate schedules attached at Exhibit "B" as required by A.C.R.R. R14-2-103(B). Additionally, the pre-filed "Direct Testimony of Christopher W. Hill", the Company's Manager, is attached at Exhibit "C."

Wherefore, the Company respectfully requests, through its legal counsel, Lewis and Roca, LLP, that the Commission grant the Company's application for a determination of the fair value of the Company's utility plant and property, and for an increase in its rates and charges.

RESPECTFULLY SUBMITTED this 25 day of April, 2006.

LEWIS AND ROCA

Michael F. McNulty
Lewis and Roca, LLP
One South Church Avenue, Suite 700
Tucson, Arizona 85701-1611
Attorneys for Goodman Water Company

LEWIS AND ROCA LLP LAWYERS

ORIGINAL AND thirteen (13) copies of the foregoing delivered VIA DHL this 25 day of April, 2006

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

COPY of the foregoing delivered VIA U.S. MAIL this 25 day of April, 2006

Goodman Water Company
6340 North Campbell Avenue, Suite 278
Tucson, AZ 85718

Hope L. Brachen

LEWIS AND ROCA LLP LAWYERS

Lewis and Roca, LLP
Michael F. McNulty (No. 005107)
One South Church Avenue, Suite 700
Tucson, Arizona 85701
Attorneys for Goodman Water Company

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
COMMISSIONER

WILLIAM A. MUNDELL
COMMISSIONER

JEFF HATCH-MILLER
CHAIRMAN

MIKE GLEASON
COMMISSIONER

MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF GOODMAN WATER 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	)	No. W-02500A- DIRECT TESTIMONY

DIRECT TESTIMONY OF

THOMAS J. BOURASSA

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 West Wood Drive, Phoenix, Arizona 85029.

Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

A. I am a Certified Public Accountant and am self-employed, providing consulting services to utility companies as well as general accounting services. I have a B.S. in Chemistry and Accounting from Northern Arizona University (1980) and an M.B.A. with an emphasis in Finance from the University of Phoenix (1991).

Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND REGULATORY EXPERIENCE?

A. Yes. Prior to becoming a private consultant, I was employed by High-Tech Institute, Inc., and served as Controller and Chief Financial Officer. Prior to working for High-Tech Institute, I worked as a Division Controller for the Apollo Group, Inc. Before joining the Apollo Group, I was employed at Kozoman & Kermode, CPAs. In that position, I prepared compilations and other write-up work for water and wastewater utilities, as well as tax returns.

In my consulting practice, I have prepared and/or assisted in the preparation of various water and wastewater utility rate applications before the Arizona Corporation Commission ("Commission"), including Vail Water Company, E&T Water Company, Ponderosa Utility Company, Diablo Village Water Company, New River Utility Company, Far West Water & Sewer Company, Sedona Venture Water and Sewer, Bella Vista Water Company, Rio Verde Utilities, Gold Canyon Sewer Company, Green Valley Water Company, Beardsley Water Company, Livco Water and Sewer Company, Pine Water Company, Arizona-American Water Company, Chaparral City Water Company, Valley Utilities Water Company,

Community Water of Green Valley, Black Mountain Sewer Company, and Avra Water Co-op.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying in this proceeding on behalf of the applicant, Goodman Water Company ("Goodman" or "the Company"). Goodman is seeking increases in its rates and charges for water utility service in its certificated service area, which is located in Pinal County.

II. OVERVIEW OF THE COMPANY'S REQUEST FOR RATE RELIEF.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I will testify in support of the Company's proposed adjustments to its rates and charges for water utility service. I am sponsoring Schedules A through H, which are filed concurrently herewith in support of the Company's application. I was responsible for the preparation of these schedules based on my investigation and review of the relevant books and records for the Company. The Company has not prepared a cost of service study, so the G Schedules are omitted.

Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.

A. The test year used by Goodman is the 12-month period ending September 30, 2005. The Company is requesting a 10.5 percent return on its fair value rate base ("FVRB"). The Company has also proposed certain pro forma adjustments to take into account known and measurable changes to rate base, expenses and revenues. These pro forma adjustments are consistent with normal ratemaking and are contemplated by the Commission's rules and regulations governing rate applications. *See* R14-2-103. These adjustments are necessary to obtain a normal or realistic relationship between revenues, expenses and rate base on a going-forward basis.

The Company's fair value rate base is $1,275,683. The increase in revenues to provide for recovery of operating expenses and a 10.5 percent return on rate base is approximately $324,607, an increase of approximately 152 percent over the adjusted and annualized test year revenues.

Q. WHY IS THE COMPANY FILING FOR RATE INCREASES AT THIS TIME?

A. The Company's rates for water utility service have not been increased since its CC&N was approved in 1988 (Decision No. 56118, October 1, 1988). While the Company has been in business since 1988, it did not begin full operations until 2003. Since that time the Company has grown to approximately 459 customers at the end of the test year and has invest over $2.33 million in plant. The Company's current rate of return, based on the adjusted test year data, is a negative 6 percent. Consequently, rate increases are necessary to ensure that the Company recovers its operating expenses and has an opportunity to earn a reasonable return on the fair value of its utility plant and property devoted to public service.

III. SUMMARY OF A, E AND F SCHEDULES.

Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S SCHEDULES. PLEASE DESCRIBE THE SCHEDULES LABELED AS A, E, AND F.

A. Goodman is classified as a Class C utility per the Commission Rules. *See* R14-2-103-A. The Company has prepared the required schedules for Class C utilities.

The A-1 Schedule is a summary of the rate base, operating income, current operating margin, required operating margin, operating income deficiency, and the increase in gross revenue. A 10.5 percent return on fair value rate base ("FVRB") is requested. The increase in the revenue requirement is $324,607. Revenues at present and proposed and customer classifications are also shown on this schedule.

The A-2 Schedule is a summary of results of operations for the test year, prior years, and a projected year at present rates and proposed rates.

Schedule A-3 containing the Company's capital structure for the test year and the two prior years is not required and is excluded.

Schedule A-4 contains the plant construction, and plant in service for the test year and prior years. The projected plant additions are also shown on this schedule.

Schedule A-5 is the summary of the Company's changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates is not required and is excluded.

The E Schedules are based on the Company's actual operating results, as reported by the Company in annual reports filed with the Commission. Per Commission's rules and regulations governing rate applications the Company has provided prior year fiscal year results. *See* R14-2-103-B. The Company has also provided supplemental information which includes prior year balance sheet and income statement information ending on September 30.

The E-1 Schedule contains the comparative balance sheet data the fiscal years 2003, 2004, and September 30, 2005.

Schedule E-2, page 1, contains the income statement for the fiscal years 2003, 2004, and the year ending September 30, 2005.

Schedule E-3 contains the statements of changes in the Company's financial position for the test year and the two prior years is not required and is excluded.

Schedule E-4 provides the changes in stockholder's equity is not required and is excluded.

Schedule E-5 contains the Company's plant in service at the end of the test year, and one year prior to the end of the test year.

Schedule E-7 contains operating statistics for the fiscal years ended December 31, 2003, December 31, 2004, and the test year ended September 30, 2005.

Schedule E-8 contains the taxes charged to operations.

The accountant's notes to the financial statements and the financial assumptions used in preparing the rate filing schedules are shown on Schedules E-9 and F-4, respectively, in accordance with the Commission's standard filing requirements. The Company does not prepare audited financial statements.

Schedule F-1 contains the results of operations at the present rates (actual and adjusted), and at proposed rates.

Schedule F-2 contains the summary of changes in financial position (cash flow) for the prior two years, the test year at present rates, and a projected year at present and proposed rates is not required and is excluded.

Schedule F-3 shows the Company's projected construction requirements for one year subsequent to the test year (2006).

Schedule F-4 contains the assumptions used in developing the adjustments and projections contained in the rate filing.

IV. RATE BASE (B SCHEDULES).

Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE LABELED AS THE B SCHEDULES?

A. Yes. I will start with Schedule B-5, which is the working capital allowance. Because Goodman is a small water utility, I used the "formula method" of computing the working capital allowance to reduce expenses associated with seeking rate relief.

Q. PLEASE CONTINUE.

A. The Company's filing does not include Schedules B-3 and B-4. Again, to reduce rate case expense, as well as the potential for disputed issues, Goodman is requesting that its original cost rate base ("OCRB") be used as its FVRB.

Q. HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO THE ORIGINAL COST RATE BASE?

A. Yes. Schedule B-2 shows adjustments to the OCRB cost rate base proposed by the Company. Schedule B-2, pages 2 through 3, is the supporting schedule. These adjustments are, in summary:

Adjustment number 1 reduces accumulated depreciation to the re-computed amounts per the Company's plant schedules.

Q. DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON B-2 REFLECT THE LAST COMMISSION ORDER?

A. Yes. As I stated, the Company received approval for its CC&N in September 1988. The Company has not previously filed a rate case. Thus, the plant shown on Schedule B-2 started with zero plant and shows plant additions and retirements since start up. Pages 2a through 2f of the B-2 schedule, show the details of plant additions, retirements, and accumulated depreciation through the end of the test year using half-year convention for depreciation. The depreciation rate is a composite 2.5 percent.

Q. WHY WAS THERE A DIFFERENCE BETWEEN THE RECORDED ACCUMULATED DEPRECIATION AT THE END OF THE TEST YEAR AND THE RECOMPUTED AMOUNT?

A. Because the Company used incorrect depreciation rates in the past. Per the Staff report used as the basis for approval of the Company's CC&N (ACC Decision 56118, September 15, 1988), a 2.5% depreciation rate should have been used.

Q. PLEASE CONTINUE.

A. Adjustment number 2 increases plant in service for expenses reclassified to plant in service. The expense adjustments to plant in service will be discussed later in my testimony.

Adjustment number 3 shows working capital computed using the formula method as shown on schedule B-5.

Q. HOW WAS THE PROPOSED "FAIR VALUE" RATE BASE SHOWN ON A-1 DETERMINED?

A. As stated, the FVRB shown on Schedule A-1 is based on OCRB.

V. INCOME STATEMENT (C SCHEDULES).

Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO THE INCOME STATEMENT AS SHOWN ON SCHEDULES C-1 AND C-2.

A. The test year adjusted income statement is shown on schedule C-1. Details of adjustments are shown on schedule C-2, pages 1 through 13. The following is a summary of adjustments shown on Schedule C-1:

Adjustment 1 annualizes depreciation expense. The proposed depreciation rate for each component of utility plant is shown on Schedule C-2, page 2. The depreciation rates approved in the Company's CC&N was a composite rate equal to 2.5 percent for all plant. The Company requests authority to use individual rates by plant account to more realistically reflect individual plant lives. The Commission has been moving away from the use of composite depreciation rates in favor of individual rates. Uniform rates are not always appropriate because they do not reflect a realistic expected life of the plant. The Company's proposed depreciation rates are published by the ACC Staff and are considered "typical and customary".

Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?

A. Yes. *e.g.*, *Chaparral City Water Company*, Decision 68176 (September 30, 2005) at 34; and *Valley Utilities Water Company*, Decision 62908 (September 18, 2000) at 5.

Q. WERE DEPRECIATION STUDIES COMPLETED IN THOSE CASES?

A. No. While a depreciation study would provide more definitive rates, depreciation studies are costly and often result in controversy. This in turn results in higher rate case expense. The Staff typical and customary rates are based on anticipated depreciation lives developed by the National Association of Regulatory Commissioners, a recognized authority.

Q. DOESN'T THE USE OF ACCOUNT SPECIFIC DEPRECIATION RATES RESULT IN HIGHER DEPRECIATION EXPENSE IN THE INSTANT CASE?

A. Yes, however, utilizing depreciation rates which do not realistically reflect the life of assets results under recovery of plant investment through depreciation when the plant reaches the end of its useful life. Utility companies should receive a timely return of plant investment. Without a timely return of plant investment, less cash flow is available for plant replacement and/or new plant investment.

Q. DOES THE USE OF ACCOUNT SPECIFIC DEPRECIATION RATES ALWAYS RESULT IN HIGHER DEPRECIATION EXPENSE?

A. No. In the recently filed Black Mountain Sewer case (Docket SW-02361A-05-0657), Black Mountain Sewer Company ("BMSC") proposes account specific depreciation rates which results in approximately $77,000 less depreciation expense than would have been under BMSC's previously authorized 5 percent composite rate. Again, the underlying principle is to set depreciation rates which more realistically reflect asset lives. The impact on depreciation expense is irrelevant if this principle is to be consistently followed.

Q. PLEASE CONTINUE.

Adjustment 2 increases the property taxes based on proposed revenues. The Company's adjustment recognizes the recently passed Arizona legislation (H.B. 2779) now codified in A.R.S. § 42-15001, entitled "Assessed Valuation of Class One Property"). The law reduces the assessment ratio ½ percent (0.5%) for the next 10 years starting in 2006. Goodman has proposed a three-year reduction in the assessment ratio, a reduction from 25 percent to 23.5 percent.

Q. HOW DID YOU COMPUTE THE PROPERTY TAXES AT PROPOSED RATES?

A. To determine full cash value, I used the method employed by the Arizona Department of Revenue - Centrally Valued Properties ("ADOR" or "the Department"). This method determines full cash value by using twice the average of three years of revenue, plus an addition for CWIP and a deduction for the book value of transportation equipment. In the instant case, I used two times the adjusted revenues for September 30, 2005, and revenues at proposed rates. The assessed value (23.5 percent of full cash value) was then multiplied by the property tax rate to determined adjusted property tax expense.

Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?

A. Yes. *e.g.*, *Rio Rico Utilities*, Decision No. 67279 (October 5, 2004), at 8; *Arizona Water Company*, Decision No. 64282 (December 28, 2001) at 12-13; *Bella Vista Water Company*, Decision No. 65350 (November 1, 2002), at 16; *Arizona-American Water Company*, Decision No. 67093 (June 30, 2004), at 9-10. Even more recently, this methodology was utilized by the Commission in *Chaparral City Water Company,* Decision No. 68176 (September 30, 2005), at 13-15 and *Arizona Water Company-Western Group*, Decision No. 68302 (November 14, 2005) at 28-29. In the Commission's own words, "Staff calculated property taxes using its proposed adjusted test year revenues twice and its recommended revenues once to calculate a three year average of revenues. We agree with Staff that using only historical revenues to calculate property taxes to include in the cost of service fails

to capture the effects of future revenue from new rates, and can result in an understatement or overstatement of property tax expense." Decision No. 67093 at 9-10.

Q. IS THIS SYNCHRONIZATION OF PROPERTY TAX EXPENSE WITH REVENUES PROPER RATE MAKING?

A. Yes. Like income taxes, which are also based on the amount of revenue the utility realizes, property taxes must be adjusted to ensure that the new rates are sufficient to produce the authorized return on rate base. For this reason, since the new ADOR methodology was adopted several years ago, the Commission has repeatedly approved the use of proposed revenues to determine an appropriate level of property tax expense to be recovered through rates.

Q. MR. BOURASSA, ISN'T THERE A LAG FROM THE TIME NEW RATES CHARGED CUSTOMERS GO INTO EFFECT AND THE DATE ON WHICH PROPERTY TAXES ARE ACTUALLY PAID?

A. Yes. As an example, if new rates for the Company went into effect on January 1, 2006, property taxes based on these new rates would first appear on the property tax bill received in September 2007. However, the Company should be accruing property taxes to match the revenues collected. Thus, there is no mismatch between revenues and expenses. Moreover, the property taxes resulting from my calculation are based on only a portion of proposed revenues. To properly consider the future impact of the rate increases, I should have computed the proposed property taxes based solely on proposed revenues rather than averaging proposed and historic revenues. Consequently, this adjustment is conservative.

Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE INCOME STATEMENT ADJUSTMENTS.

A. Adjustment 3 shows the rate case expense. The Company estimates rate case expense of $100,000 amortized over four years because it believes a four-year

cycle for future rate cases is reasonable given this utility's circumstances. The Company did not substantially begin serving customers until 2003.

Q. DO YOU BELIEVE THIS IS A REASONABLE AMOUNT OF RATE CASE EXPENSE GIVEN THE REQUESTED INCREASE IN REVENUE?

A. Yes. Rate case expense is primarily driven by three factors: (1) the Commission's ratemaking process; (2) the length of time between rate cases; and (3) the number of parties, issues and complexity of the proceedings.

Q. PLEASE DISCUSS THE FIRST OF THESE FACTORS?

A. The Company cannot raise its rates except by filing for rate relief and the Commission dictates the process for obtaining rate relief. Goodman, a Class C water provider based on the proposed revenues with roughly 460 customers, has to file the substantially the same schedules as a Class A and B utility (*i.e.,* APS, Arizona Water, SW Gas) with hundreds of thousands of customers. While a larger utility's filing would obviously be "larger", Goodman still faces essentially the same requirement of filing multiple copies of every document and notice requirements as a larger utility. In addition to the filing and notice requirements imposed by the Commission on larger utilities. For instance, the Company must prepare three rounds of pre-filed testimony, participate in all of the procedural and evidentiary hearings and open meetings, and typically, file one or more rounds of closing briefs. To meet all of the requirements of obtaining rate relief, Goodman requires the assistance and expertise of a regulatory accountant and attorney, resulting in a substantial portion of the rate case expense actually incurred.

Q. PLEASE DISCUSS THE SECOND FACTOR?

A. The length of time between rate cases has a substantial impact on rate case expense. Every rate case involves reconciliation of plant accounts since the last rate case. Obviously, the longer it has been, the more difficult the reconciliation. Similarly, longer periods between the determination of operating expenses

typically means more increases in expenses. This leads to larger increases which are always more controversial.

Q. PLEASE DISCUSS THE THIRD FACTOR THAT YOU HAVE IDENTIFIED AS DRIVING RATE CASE EXPENSE.

A. The number of parties has a substantial impact on rate case expense. Cases where RUCO is a party require more effort than cases in which the only adverse party is Staff. Customers and other interveners add to rate case expense and the complexity of the proceedings. The number and complexity of disputed issues also influences total rate case expense, and those impacts cannot be known until the case proceeds.

Q. IS THIS THE REASON YOU REFERRED TO THE RATE CASE EXPENSE AS AN ESTIMATE?

A. Yes, it is an estimate based on my experience. But I can only consider the foreseeable. If things turn out more complicated than anticipated, the Company will modify its request to account for that increased expense. Conversely, if the case proceeds and rate case expense is lower than expected, we would make an appropriate adjustment downward.

Q. SHOULDN'T THE COMPANY'S SHAREHOLDERS BEAR SOME OF THE BURDEN OF RATE CASE EXPENSE?

A. As a practical matter, the utility always does. My estimate of $100,000 assumes Goodman will actually incur a higher amount of total rate case expense. I would also agree that if the utility does something improper, or advances positions in bad-faith, it should shoulder the burden of such actions. But, as I testified, the Commission dictates the process, not the utility and absent such circumstances, the utility must be allowed to recover its reasonably incurred rate case expense.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE INCOME STATEMENT ADJUSTMENTS?

A. Adjustment 4 annualizes revenues to the year-end number of customers. The annualization was based on the number of customers at the end of the test year,

compared to the actual number of customers during each month of the test year. Average revenues by month were computed for the test year. The average revenues were then multiplied by the increase (or decrease) in number of customers for each month of the test year.

Adjustment 5, labeled as 5a, and 5b removes other income and expenses to eliminate their effects on income taxes.

Adjustment 6 annualizes purchased power expense based on the additional gallons treated from annualizing revenues to the year-end number of customers.

Adjustment 7 reduces test year contractual services for customer billing costs to reflect a rate change from the Company's service provider.

Adjustment 8 annualizes contractual services for customer billing costs to properly match expenses to the annualization of revenues.

Adjustment 9, labeled as 9a and 9b, reduces salaries and wages expense and associated payroll tax expense to reflect the correct annual salaries and wages.

Adjustment 10 removes capitalized expense from contractual services. The expenses are for blue stake services for setting meters and installing service lines, and is properly classified as plant-in-service.

Adjustment 11 removes rate case related expense from the test year which is captured by Adjustment 3 above.

Adjustment 12 adjusts income tax expense to reflect income taxes at proposed revenues.

VI. COST OF CAPITAL (D SCHEDULES).

A. Rate Of Return Summary

Q. WOULD YOU PLEASE SUMMARIZE YOUR RECOMMENDED EQUITY RETURN?

A. Yes. I am recommending a return on equity of 10.5 percent. My recommendation is based on cost of equity estimates using constant growth and multi-stage growth discounted cash flow ("DCF") models and is confirmed by a risk premium analysis, current and projected equity returns for the sample group of publicly traded utilities, and my review of the economic conditions expected to prevail during the period in which new rates will be in effect. Goodman has no debt; therefore, the overall cost of capital is 10.5 percent.

The cost of equity for Goodman cannot be estimated directly because it is extremely small and is not publicly traded. Therefore, there is no market data for Goodman. Consequently, I applied the DCF models to a sample of water utilities selected from the *Value Line Investment Survey*. There are six water utilities in my sample: American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, and SJW Corp. I selected these water utilities because Staff has used them in recent water utility rate cases. To test my DCF results, I performed a risk premium analysis based on 10-year Treasury rates. Computations of common equity returns using DCF and risk premium approaches are shown on schedules D-4.9 through D-4.13.

My DCF analysis indicates that a return on equity ("ROE") in the range of 8.5 percent to 12.0 percent is appropriate. My risk premium analysis serves as a check of reasonableness for the DCF results. That analysis indicates a ROE in the range of 10.3 percent to 11.1 percent. A return on equity of 10.5 percent is within the ranges produced by both types of equity cost estimates, and is conservative when Goodman's extremely small size compared to the sample and other business risks not captured by the market data are considered.

Q. HAVE YOU PREPARED ANY SCHEDULES AND ATTACHMENTS TO ACCOMPANY YOUR TESTIMONY?

A. Yes. The D-1 Schedule shows the common equity, relevant long-term debt and the weighted cost of capital. Again, the Company has no long-term debt in its capital structure.

B. <u>Overview of the Cost of Capital</u>

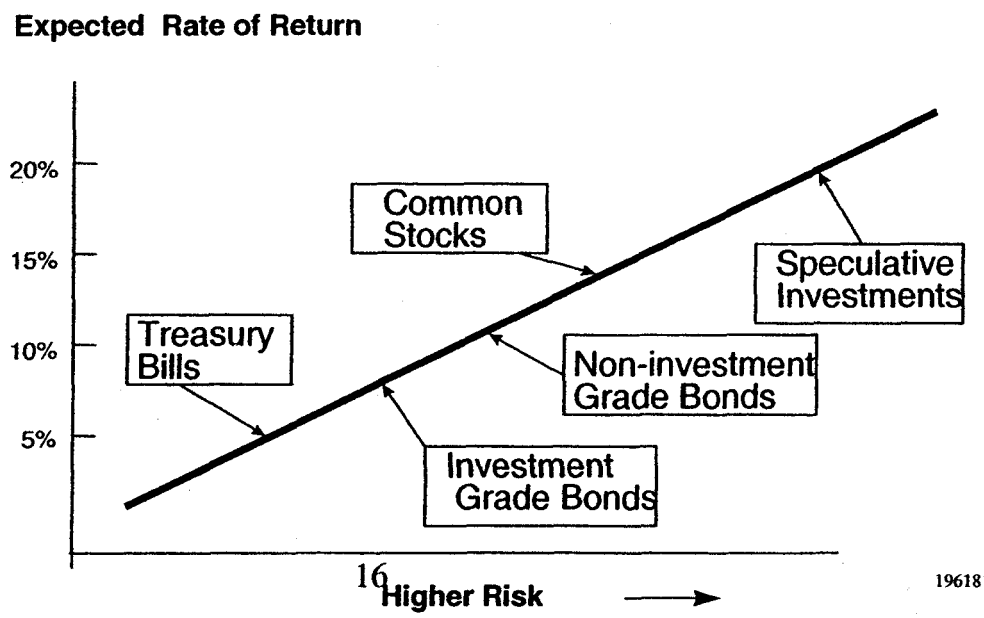
Q. PLEASE PROVIDE AN OVERVIEW OF THE COST OF CAPITAL.

A. Put simply, the cost of capital is the rate of return that equity investors expect to receive. Investors can choose to invest in many types of assets. Each will have varying degrees of risk, ranging from relatively low risk assets such as Treasury securities to somewhat higher risk corporate bonds to even higher risk common stocks. As the level of risk increases, investors require higher returns on their invested capital.

Q. CAN YOU ILLUSTRATE THE CAPITAL MARKET RISK-RETURN CONCEPT?

A. Yes. The following graph depicts the risk-return relationship that has become widely known as the Capital Market Line ("CML"). The CML illustrates in a general way the risk-return relationship.

The Capital Market Line (CML)



The CML can be viewed as a continuum of the available investment opportunities for investors. Investment risk increases as one moves upward and to the right along the CML. As the risk of an investment increases, the expected return on the investment also increases.

Q. HOW DOES THE RISK-RETURN TRADE-OFF CONCEPT WORK IN THE CAPITAL MARKET?

A. As already suggested by the CML, the allocation of capital in a free market economy is based upon the relative risk of, and expected return from, an investment. In general, investors rank investment opportunities in the order of their relative risks. Investment alternatives in which the expected return is commensurate with the perceived risk become viable investment options. If all other factors remain equal, the greater the risk, the higher the rate of return investors will require to compensate investors for the possibility of loss of either the principal amount invested or the expected annual income from such investment.

Short-term Treasury bills provide a high degree of certainty and in nominal terms (after considering inflation) are considered virtually risk free. Long-term bonds and preferred stocks, having priority claims to assets and fixed income payments, are relatively low risk, but are not risk free. The market values of long-term bonds often fluctuate when government policies or other factors cause interest rates to change. Common stocks are higher and to the right on the CML continuum because they are exposed to more risk. Common stock risk includes the nature of the underlying business and financial strength of the issuing corporation as well as market-wide factors, such as general changes in capital costs.

The capital markets reflect investor expectations and requirements each day through market prices. Prices for stocks and bonds change to reflect investor expectations and the relative attractiveness of one investment versus another.

While the example provided above seems straightforward, returns on common stocks are not directly observable in advance, in contrast to debt or preferred stocks with fixed payment terms, and therefore they must be estimated from market data. Estimating the cost of equity capital is a matter of informed judgment about the relative risk of the company in question and the expected rate of return characteristics of other alternative investments.

Q. HOW IS THE COST OF CAPITAL FOR A PARTICULAR UTILITY DETERMINED?

A. The measurement of a utility's cost of capital is a complex topic. It requires an analysis of the factors influencing the cost of various types of capital, such as interest on long-term debt, dividends on preferred stock, and earnings on common equity. Each of these sources of funds has a cost. The unit cost of the various component sources of capital is an important input into the calculation of a utility's overall cost of capital.

The data for such an analysis comes from the capital market where the firm raises funds by issuing common stock, selling bonds, and by borrowing (both long- and short-term) from banks and other financial institutions. In the highly competitive capital markets, the cost of capital, whether the capital is in the form of debt or equity, is determined by two important factors:

1) The pure or real rate of interest, often called the risk-free rate of interest; and

2) The uncertainty or risk premium (the compensation the investor requires over and above the real or pure rate of interest for subjecting his capital to additional risk).

Q. WOULD YOU DISCUSS THESE FACTORS IN GREATER DETAIL?

A. The pure rate of interest essentially reflects both the time preference for, and the productivity of, capital. From the standpoint of the individual, it is the rate of interest required to induce the individual to forego present consumption and offer the funds thus saved to others for a specified length of time. Moreover, the pure

rate of interest concept is based on the assumption that no uncertainty affects the investment undertaken by the individual, i.e., there is no doubt that the periodic interest payments will be made and the principal returned at the end of the time period. In reality, investments without risk do not exist. Every commitment of funds involves some degree of uncertainty. U.S. Government obligations, however, may at times approach something like a risk free rate of interest. It must be pointed out, however, that U.S. Treasury obligations are only "risk free" in the sense that they are typically regarded as being free of default risk. Holders of these obligations still face the dangers of purchasing power loss (inflation risk) and the loss of capital values if real interest rates rise (interest rate risk).

Turning to the second factor affecting the cost of capital, it is generally accepted that the higher the degree of uncertainty, the higher the cost of capital. Investors are regarded as risk adverse and require that the rate of return increase as the risks (uncertainty) associated with an investment increase.

Q. CAN YOU PROVIDE SOME PERSPECTIVE ON YOUR PREVIOUS DISCUSSION WITH RESPECT TO RETURNS ON COMMON STOCKS?

A. Yes. Conceptually,

Required Return for Common Stocks	=	Return on a risk-free asset	+	Risk Premium

where the risk premium investors require for common stocks will be higher than the risk premium they require for investment grade bonds. This relationship is depicted in the graph of the CML, above. As I will discuss in the next section, this concept is the basis of risk premium methods I used to estimate the cost of equity.

Q. WHAT HAS BEEN THE RECENT EXPERIENCE IN THE U.S. CAPITAL MARKETS?

A. In the past 10 years, inflation and capital market costs have generally declined. Interest rates have been lower than in previous decades. Inflation, as measured by the Consumer Price Index, has been at relatively low levels. The uneven pace of

the economy kept consumer prices in check and resulted in low interest rates. Since the first quarter 2004, however, improving economic growth and concerns about inflation have led to fluctuating interest rates. The Federal Reserve began raising interest rates in June 2004 to address these concerns.

The economic forecast data show clear expectations for continuing economic growth. The disruptions caused by the August and September 2004 hurricanes are considered temporary and the economy continues to perform remarkably well. Real GDP for the third quarter of 2005 grew at 3.8 percent, while the fourth quarter grew at 3.1 percent. Expectations are that real GDP for the first quarter of 2006 will grow at 4.7 percent, but is expected to moderate thereafter. If real GDP grows as expected, 1st quarter 2006 would mark the 12th straight quarter of better than 3 percent growth, the best run since the mid-1980's. Real GDP growth is projected to be 3.0% and 3.5% through in 2006.

Policymakers remain concerned about heightened inflation pressures. There has been a rebound in consumer activity and the rise in payrolls may signal a modestly higher level of inflation. Core inflation at the end of 2005 was at the top of the Fed's preferred measure of 1.0%-2.0%, which serves as a reminder to the markets that the Fed's monetary tightening will continue. The Federal Reserve, confronted with above-trend growth, increased the federal funds rate to 4.50% at the end of January 2006.

The consensus forecast in early March of 2006 indicated the Federal Reserve would raise the federal funds rate another 25 to 50 basis points in the coming months. On March 28, 2006, the Federal Reserve did increase the federal funds rate to 4.75 percent. Longer range consensus forecasts of the federal funds rate for the first quarter of 2007 is 4.9 percent. The 10-year Treasury bond is projected to increase from its current level of about 4.6 percent to 4.9 percent by the end of the fourth quarter of 2006. Long range consensus forecasts of 10-year Treasury bond rate for 2007 and 2008 are 5.2 percent and 5.2 percent, respectively.

Q. IS THERE A RELATIONSHIP BETWEEN THE COST OF EQUITY AND INTEREST RATES?

A. Yes. The cost of equity moves in the same direction as interest rates. Rising interest rates indicate the cost of equity is also rising. The upward trend in interest rates discussed above is an important factor in estimating the cost of capital.

Q. IS GOODMAN AFFECTED BY THESE SAME MARKET UNCERTAINTIES AND CONCERNS?

A. Yes. To varying degrees, all the water utilities in the sample are affected.

Q. WHAT ARE THE RECENT DEVELOPMENTS IN THE WATER UTILITY INDUSTRY AFFECTING UTILITY INVESTMENTS AND THE MARKET?

A. Although the water utilities in the sample have recently encountered a more favorable regulatory environment, especially in California, the water utility industry is expected to confront increasing infrastructure demands. Many of the current infrastructures are over 100 years old and are in need of significant maintenance and, in some cases, massive renovation and replacement. In addition, water companies are faced with the continued heightened threat of bio-terrorism on U.S. pipelines and reservoirs as well as the continuing need to comply with EPA water purification standards. As infrastructure costs continue to climb, many smaller companies are at a disadvantage. Without sufficient resources to fund improvements, many companies are being forced to sell to larger utilities with the flexibility and capital to deal with them.

Q. WOULD YOU PLEASE DISCUSS IN MORE DETAIL THE IMPACT OF RISK ON CAPITAL COSTS?

A. Certainly. With reference to specific utilities, risk is often discussed as consisting of two separate types of risk: business risk and financial risk.

Business risk, the basic risk associated with any business undertaking, is the uncertainty associated with the enterprise's day-to-day operations. In essence, it is a function of the normal day-to-day business environment, both locally and

nationally. Business risks include the condition of the economy and capital markets, the state of labor markets, regional stability, government regulation, technological obsolescence, and other similar factors that may impact demand for the business product and its cost of production. For example, one of the biggest risks Goodman faces is the ever-changing regulatory climate. Water utilities are subject to strict regulation because of the health and risks associated with their operations. The environmental rules frequently change, usually resulting in additional requirements and increased costs.

The greater the degree of uncertainty regarding the various factors affecting a company's business, the greater the risk of an investment in the company and the greater the compensation required by the investor.

Financial risk, on the other hand, concerns the distribution of business risk to the various capital investors in the utility. As discussed earlier, permanent capital is normally divided into three categories: long-term debt, preferred stock, and common equity. Because common equity owners have only a residual claim on earnings after debt and preferred stockholders are paid, financial risk tends to be concentrated in that element of the firm's capital. Thus, a decision by management to raise additional capital by issuing additional debt concentrates even more of the financial risk of the utility in the common equity owners.

Although often discussed separately, the two types of risks are interrelated. Specifically, a common equity investor may seek to offset exposure to high financial risk by investing in a firm perceived to have a low degree of business risk. In other words, the total risk to an investor would be high if the enterprise was characterized as a high business risk with a large portion of its permanent capital financed with senior debt. To attract capital under these circumstances, the firm would have to offer higher rates of return to its common equity investors.

Q. IS THERE A RELATIONSHIP BETWEEN A UTILITY'S CAPITAL STRUCTURE AND ITS COST OF CAPITAL?

A. Generally, when a firm engages in debt financing, it exposes itself to risks that, once debt becomes significant relative to the total capital structure, increase in a geometric fashion compared to the linear percentage increase in the debt ratio itself. This risk is illustrated by considering the effect of leverage on net earnings. For example, as leverage increases, the equity ratio falls. This creates two adverse effects on the investor. First, equity earnings decline rapidly and may even disappear. Second, the "cushion" of equity protection for debt falls. A decline in the protection afforded debt holders, or the possibility of a serious decline in debt protection, will act to increase the cost of debt financing. Therefore, one may conclude that each new financing, whether through debt or equity, impacts the marginal cost of future financing by any alternative method. For a firm already perceived as being over-leveraged, this additional borrowing would cause the marginal cost of both equity and debt to increase. On the other hand, if the same firm instead employed equity funding, this could actually reduce the real marginal cost of additional borrowing, even if the particular equity issuance occurred at a higher unit cost than an equivalent amount of debt.

The theoretical optimum ratio of debt to equity in the capital structure will vary considerably from one industry to another and, to a very significant extent, among companies within a given industry, based on the size of the company and its ability (or inability) to attract capital. A theoretically "balanced" capital structure is one that provides debt with adequate protection, yet contains enough leverage to produce equity earnings sufficient to attract new equity capital (but not so large a degree of leverage as to introduce earnings instability and render equity investment speculative). For smaller utilities, for example, financial leverage often has detrimental impacts with very slight increases in expenses. As a consequence, smaller utilities like Goodman cannot support the same percentage of debt in their capital structure as a larger utility.

Q. HAS THE U.S. SUPREME COURT SET FORTH ANY STANDARDS THAT APPLY TO EQUITY RETURNS?

A. Yes. In 1923, the U.S. Supreme Court set forth the following criteria for determining whether a rate of return is reasonable in *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923):

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments on other business undertaking which are attended by corresponding risks and uncertainties.... The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management to maintain and support its credit and enable it to raise money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market, and business conditions generally.

In *Federal Power Commission v. Hope Natural Gas*, 320 U.S. 591, 603 (1944), the Supreme Court stated the following regarding the return to owners of a company:

> [T]he return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return moreover, should be sufficient to assure confidence to the financial integrity of the enterprise so as to maintain its credit and to attract capital.

Taken together, these cases provide the foundation for later cases dealing with the issue of rate of return. In summary:

(1) The rate of return should be similar to the return in businesses with similar or comparable risks;

(2) The return should be sufficient to ensure the confidence in the financial integrity of the utility;

(3) The return should be sufficient to maintain and support the utilities credit; and

(4) The return should enable the utility to attract capital necessary for the proper discharge of its duties.

Based on these principles, the fair rate of return should closely parallel investor opportunity costs as discussed above. If the utility earns its market cost of equity, neither its stockholders nor its customers should be disadvantaged.

Q. HOW HAVE THESE CRITERIA BEEN APPLIED IN REGULATORY PROCEEDINGS?

A. The application of the "reasonableness" criteria laid down in these Supreme Court cases has resulted in significant controversy. The typical method of computing the overall cost of capital is quite straightforward: it is the composite, weighted cost of the various classes of capital (debt, preferred stock, and common equity), used by the utility. The weighting is done by calculating the proportion that each class of capital bears to total capital. However, there is no consensus regarding the best method of measuring the cost of equity capital. The increasing regulatory emphasis on objectivity in determining of return has resulted in a proliferation of quasi-mechanical techniques and formulae for use in equity return determination. As will be discussed more fully below, however, none of the techniques introduced has been universally accepted.

C. Estimating the Cost of Equity Capital

Q. WOULD YOU BRIEFLY DESCRIBE THE APPROACH YOU FOLLOWED IN YOUR COST OF CAPITAL STUDY?

A. Estimating the cost of equity is a matter of informed judgment. The development of an appropriate rate of return for a regulated enterprise involves the determination the level of risk associated with that enterprise and the determination of an appropriate return for that risk level. Practitioners employ various techniques that provide a link to actual capital market data and assist in defining the various relationships that underlie the equity cost estimation process.

As I have testified, Goodman is not publicly traded so the information required to directly estimate Goodman's cost of equity is not available. Accordingly, I used a sample of water utilities to provide means of developing an appropriate cost of equity for Goodman. There are six water utilities included in my sample and include American States Water, Aqua America, California Water, Connecticut Water, Middlesex Water, and SJW Corp. All these companies are followed by the *Value Line Investment Survey*.

Q. DOES THE MARKET DATA PROVIDED BY THE WATER UTILITY SAMPLE CAPTURE ALL OF THE MARKET RISKS GOODMAN MIGHT FACE IF IT WERE PUBLICLY TRADED?

A. In my opinion, no. First, there is no comparable market data for utility companies the size of Goodman. The smallest company in the sample, Connecticut Water, has 100 times the net plant investment of Goodman, and over 250 times the revenues. Second, market data for the sample water utilities do not include data for water utilities primarily serving the Arizona market and thus primarily subject to Arizona rate regulation. Arizona rate regulation requires use of historical test years and limited out of period adjustments. Further, Goodman faces the risk that unexpected changes in costs in the period in which new rates will be in effect will not be recovered without a costly and lengthy general rate case.

The water sample is heavily weighted with utilities doing business in California. American States, California Water, and SJW Corp. are based in California and receive the bulk of revenues from utility service in that state. These utilities are face less regulatory risk because the California Public Utilities Commission ("PUC") allows the use of future test years and balancing accounts for expenses such as purchased power and purchased water. Aqua America, the largest water utility in the group, has operations in more than 10 states. As a result, its systems are regulated by different state commissions and are less affected by unfavorable decisions and policies of a particular regulatory commission.

Q. CAN YOU PROVIDE A GENERAL DESCRIPTION OF THE WATER UTILITIES IN YOUR SAMPLE?

A. Certainly. Schedule D-4.1 lists the operating revenues and net plant for the six water utilities as reported by *AUS Utility Reports* (formerly *C.A. Turner Utility Reports*) and Goodman. In addition, below is a general description of each of the companies:

(1) American States primarily serves the California market though Southern California Water Company with over 250,000 California customers in 75 communities, primarily in Los Angeles, San Bernardino, and Oranges counties. It has one subsidiary serving the Arizona market with approximately 13,000 customers in Fountain Hills and Scottsdale. Approximately 91 percent of American States revenues were derived from Southern California Water. Revenues for American States were over $228 million in 2004 and net plant was over $591 million at the end of 2004.

(2) Aqua America owns regulated utilities in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, Maine, Missouri, New York, and South Carolina, serving over 835,000 customers at the end of 2004. The Pennsylvania subsidiary provides over 50 percent of Aqua America's operating revenues. Revenues for Aqua America were over $442 million in 2004 and net plant was over $1.79 billion at the end of 2004.

(3) California Water Service Group owns subsidiaries in California, New Mexico, Washington, and Hawaii serving over 470,000 customers. The California operations account for over 95 percent of customers and over 96 percent of operating revenues. Revenues for California Water were over $315 million in 2004 and net plant was over $705 million at the end of 2004.

(4) Connecticut Water Services owns subsidiaries in Connecticut and Massachusetts serving over 87,000 customers. Revenues for Connecticut Water

Service were over $53 million in 2004 and net plant was over $195 million at the end of 2004.

(5) Middlesex Water owns subsidiaries in New Jersey and Delaware serving over 84,000 customers and provides water service under contract to municipalities in central New Jersey to a population of over 267,000. Revenues for Middlesex Water were over $71 million in 2004 and net plant was over $235 million at the end of 2004.

(6) SJW Corp. owns San Jose Water, which provides water service in an 138 square mile area in San Jose, California, and surrounding communities. Revenues for SJW Corp were over $166 million in 2004 and net plant was over $286 million at the end of 2004.

Q. HOW DOES GOODMAN COMPARE TO THE SAMPLE WATER UTILITIES?

A. It is much smaller. At the end of the test year, Goodman had approximately 459 water utility customers. Its revenues totaled less than $200,000, and its original cost rate base was approximately $1.3 million. And Goodman is not diversified. It has a relatively small service territory in Pinal County area with relatively low growth potential compared to the sample companies, and no alternative sources of revenue.

Q. IS GOODMAN COMPARABLE TO THE SAMPLE WATER UTILITIES?

A. Certainly, a good argument can be made that Goodman is not comparable to the six publicly traded water utilities in the same group. Unfortunately, as I testified, the approaches commonly used to estimate a utility's cost of equity require market data, which is not available for small private businesses, like Goodman. As a result, much larger, public companies must be used as proxies. This is an important factor to keep in mind, since the criteria established by the Supreme Court in decisions such as *Bluefield Water Works* and *Hope Natural Gas* require the use of

comparable companies, i.e., companies that would be viewed by investors as having similar risks.

Q. YOU PREVIOUSLY DISCUSSED FINANCIAL RISK, WHICH IS RELATED TO A FIRM'S CAPITAL STRUCTURE. HOW DO THE CAPITAL STRUCTURES OF THE SAMPLE WATER UTILITIES COMPARE TO GOODMAN?

A. Schedule D-4.2 shows the capital structure of Goodman contains no debt and 100 percent equity compared to the average of the water utility sample of 48 percent debt and 52 percent equity. Having no debt in its capital structure implies less financial risk than the water utility sample.

Q. DO YOU HAVE ANY GENERAL CONCERNS WITH THE DATA AVAILABLE TO MAKE COST OF EQUITY ESTIMATES FOR THE WATER UTILITIES?

A. Yes. Schedule D-4.3 shows that common stock prices have increased significantly during the past five years, and those increases have exceeded the average annual increases in dividends per share (DPS), earnings per share (EPS) and book value per share. *Value Line* (January 2004) suggests part of the reason for this is consolidation in the water utility industry. *Value Line* has advised investors to expect mergers and acquisitions to continue and stock prices from an acquisition to be as much as four times book value.

Irrespective of investor merger and acquisition expectations, stock price growth has exceeded book growth. Schedule D-4.4 shows that common stock prices have had annual average price increases during the past 10 years that have exceeded the average annual increases in dividends per share, earnings per share, and book value per share.

Q. ARE THERE OTHER DATA SHOWING THAT STOCK PRICES FOR THE WATER UTILITY STOCKS HAVE BEEN INCREASING?

A. Yes. Schedule D-4.5 compares the closing stock prices for the March 28, 2005, to the spot price at March 28, 2006. In this period of time, the average increase in prices was over $7.20 per share. This is an average of nearly 33 percent.

Q. WHAT IMPLICATIONS DOES THIS HAVE FOR ESTIMATING THE COST OF EQUITY USING THE SAMPLE WATER UTILITIES?

A. If investors have bid up prices for utility stocks in anticipation of a merger or acquisition, the stock prices will reflect the investor's expected premium at acquisition. As I will discuss later, this distorts the results produced the DCF model and lowers the indicated equity cost.

Alternatively, investors may have bid up the prices for the water utility stocks because they expect increases in earnings and dividends in the future. In other words, investors expect the water utilities to be authorized, and to actually earn higher returns on equity.

Q. WHAT METHODS AND CAPITAL MARKET DATA ARE USED TO EVALUATE THE COST OF EQUITY CAPITAL?

A. Techniques for estimating the cost of equity generally fall into three groups:

(1) comparable earnings methods,

(2) risk premium methods, and

(3) DCF methods.

The comparable earnings methods used to determine the cost of equity is a direct outgrowth of judicial opinions on the rate of return. The *Bluefield* decision suggests that opportunity cost, as defined in the economic literature, is the appropriate measure of the actual cost of common equity for a regulated utility. This approach involves direct observation of market returns, an assessment of the persistence of those returns, and an evaluation of the risk accepted by that return. The advantage of the comparable earnings approach is that it is easy to calculate and the amount of subjective judgment required is minimal. The basis for comparison is the book value of common equity, which less vulnerable to

regulatory influences, in contrast to the market-based DCF model and the capital asset pricing model ("CAPM").

The second group of estimation techniques are risk premium methods, which begin with currently observable market returns, such as yields on government or corporate bonds, and add an incremental amount for the additional risk associated with common equity. The CAPM, for example, is a type of risk premium approach. Although the CAPM method is widely used in academic research, questionable assumptions that underlie the model have detracted from its practical application. Other risk premium methods, such as the bond-yield plus risk premium method, are less subjective than the CAPM and are easier to implement. The risk premium method does not require estimates of beta or market risk premiums, for example, or depend on what interest rate is chosen as the proxy for the risk free rate.

Q. CAN YOU ELABORATE?

A. Yes. Despite more than 30 years of attempts to empirically validate the CAPM approach, there is no consensus on its legitimacy. There are a few hints that the model is incorrect. For starters, we all hold different portfolios. Therefore, it cannot be exactly true. Researchers have focused on the more interesting issue of whether rates of return depend upon beta (ß) and whether the elegant, linear form of the model holds for all types of stocks. What they have found is that real markets typically deviate broadly from the original version of the CAPM, which is sometimes called the Sharpe-Linter model. Some of the most forceful arguments against the CAPM are presented in a recent article written by Dr. Eugene Fama and Dr. Kenneth French.[1] Reviewing various empirical studies of the CAPM, these authors found that beta does a relatively poor job at explaining differences in the actual returns of portfolios of U.S. stocks. They noted that there are variables

[1] Eugene F. Fama and Kenneth R. French, "The Capital Asset Pricing Model: Theory and Evidence," *Journal of Economic Perspectives* (Summer 2004) 25-46.

besides beta (ß) explain portfolio returns better, suggesting the CAPM, while theoretically interesting, is incomplete and has little practical application.

Q. PLEASE CONTINUE.

The final commonly used technique, the DCF method, is simply the sum of a stock's expected dividend yield and the expected long-term growth rate. Dividend yields are readily available, but long-term growth estimates are more difficult to obtain. DCF constant growth models require very long-term growth estimates, and it can be argued that more explicit multi-stage models are preferred. The DCF model results are generally more consistent with actual capital market behavior. However, as I have stated, the DCF model does require judgment in selecting appropriate growth rates.

In the final analysis ROE estimates are subjective and should be based on sound, informed judgment. I have applied several versions of the DCF and risk premium methods that I believe brackets the fair cost of equity capital for Goodman, without taking into account the additional risks Goodman possesses.

Q. PLEASE EXPLAIN THE DCF METHOD OF ESTIMATING THE COST OF EQUITY.

A. The DCF model is based on the concept that the current price of a share of stock is equal to the present value of future cash flows from the purchase of the stock. In other words, the DCF model is an attempt to replicate the market valuation process that sets the price investors are willing to pay for a share of a company's stock. It rests on the assumption that investors rely on the expected returns (i.e., cash flow they expect to receive) to set the price of a security. The DCF model in its most general form is:

(1) $P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \ldots + CF_n/(1+k)^n$

where k is the cost of equity; n is a very large number; P_0 is the current stock price; and, CF_1, CF_2,...CF_n are all the expected future cash flows expected to be received in periods 1, 2, ...n.

Equation (1) can be written to show that the current price (P_0) is also equal to

(2) $P_0 = CF_1/(1+k) + CF_2/(1+k)^2 + \ldots + P_t/(1+k)^t$

where P_t is the price expected to be received at the end of the period t. If the future price (P_t) included a premium (an expected increase in the stock price or capital gain), the price the investor would pay today in anticipation of receiving that premium would increase. In other words, by estimating the cash flows from the purchase of a stock in the way of dividends and capital gains, we can calculate the investors' required rate of return, i.e., the rate of return investors presumptively used in bidding the current price to the stock (P_0) to its current level. This is a Market Price version of the DCF model. As with the general form of the DCF model in equation (1), in the Market Price approach the current stock price (P_0) is the present value of the expected cash inflows. The cash flows are comprised of dividends and the final selling price of the stock. The estimated cost of equity (k) is the rate of return investors expect if they bought the stock at today's price, held the stock and received dividends through the transition period, and then sold it for price (P_t).

Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THE MARKET PRICE VERSION OF THE DCF MODEL?

A. Yes. Assume an investor buys a share of common stock for $40. If the expected dividend during the coming year is $2.00, then the expected dividend yield is 5 percent ($2.00/$40 = 5.0 percent). If the stock price is also expected to increase to $43.00 after one year, this $3.00 expected gain adds an additional 7.5 percent to the expected total rate of return ($3.00/$40 = 7.5 percent). Thus, the investor buying the stock at $40 per share, expects a total return of 12.5 percent (5 percent dividend yield plus 7.5 percent price appreciation). The total return of 12.5 percent is the appropriate measure of the cost of capital because this is the rate of return that caused the investor to commit $40 of his capital by purchasing the stock.

I have provided a Market Price DCF model in Exhibit 1 to illustrate the Market Price DCF model approach further. The model computes the implied rate of return from a stream of cash flows. The first cash flow is negative and is the purchase price of the stock. I used the spot price at March 28, 2006, as reported by *Zack's Investment Research* as the initial purchase price. The next series of cash flows are the expected dividends for the next four years. The final cash flow is the dividend in year 5 plus the expected selling price of the stock. The selling price of the stock is based on the historical 5-year average annual price growth for each of the stocks. The average implied rate of return is 15.3 percent.

Q. HOW DOES THE RESULT OF YOUR MARKET PRICE DCF COMPARE TO THE HISTORICAL COMPOUND ANNUAL MARKET RETURNS FOR THE WATER UTILITY SAMPLE?

A. As shown in Exhibit 2, the average 5-year historical compound annual total market return for the water utility sample is 20.3 percent. The 5-year market Price DCF result is lower that the 5 year historical total market returns. The 5-year market price DCF using historical 10 year average annual price growth is closer at 18.3 percent. Despite the fact that the historical 5-year average total market returns as well as the market price DCF indicate returns in the range of 15 to 20 percent, I do not rely on this method. I have instead used it to evaluate the reasonableness of the results produced by the other versions of the DCF model I have used.

Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF THE DCF MODEL.

A. Under the assumption that future cash flows are expected to grow at a constant rate ("g"), equation (1) can be solved for k and rearranged into the simple form:

(3) $k = CF_1/P_0 + g$

where CF_1/P_0 is the expected dividend yield and g is the expected long term dividend (price) growth rate ("g"). The expected dividend yield is computed as the ratio of next period's expected dividend ("CF_1") divided by the current stock price ("P_0"). This form of the DCF model is known as the constant growth DCF model

and recognizes that investors expect to receive a portion of their total return in the form of current dividends and the remainder through future dividends and capital (price) appreciation. A key assumption of this form of the model is that investors expect that same rate of return (k) every year and that market price grows at the same rate as dividends. This has not been historically true for the water utility sample as evidenced by the data shown in schedules D-4.3 and D-4.4. As a result, estimates of long-term growth rates (g) should take this into account.

Q. HOW IS THE FORMULA FOR THE MULTI-STAGE DCF MODEL DERIVED?

Under the multi-stage growth DCF model, equation (1) is expanded to incorporate two or more growth rate periods and is written as:

(4) $P_0 = CF_0(1+g_1)/(1+k) + \ldots + CF_0(1+g_2)^n/(1+k)^n + CF_0(1+g_t)^{(t+1)}/k-g_t)$

where g_1, g_2, etc., represent growth rates for periods 1, 2, etc., and g_t represents the growth rate from period t to infinity. This version of the DCF model assumes that cash flow growth will occur at different rates for one or more periods and ultimately reach a terminal growth stage that continues indefinitely.

Q. LET'S TURN TO SPECIFIC INPUTS USED IN YOUR DCF MODELS. WHAT DATA HAVE YOU USED TO COMPUTE THE DIVIDEND YIELD (CF_1/P_0) IN YOUR MODELS?

A. I used the spot price for each of stocks of the water utilities in the sample group on March 28, 2006 as reported by *Zacks Investment Research*. The dividend is the expected 2006 dividend.

Q. EARLIER YOU TESTIFIED THAT STOCK PRICES HAVE BEEN INCREASING DUE TO POTENTIAL MERGERS AND ACQUISITIONS, HOW DOES THIS IMPACT THE DIVIDEND YIELD?

A. The DCF model results will be negatively biased because the dividend yield (CF_1/P_0) is reduced by virtue of having a larger denominator, the stock price (P_0). This impact is not by itself problematic, since the DCF model is intended to take

into account changes in the stock price (upward or downward). Investors may have bid up the price of the stocks of the water utilities in the sample group because they expect increased growth in earnings and, as a result, increased dividend growth and appreciation in the price of the stock. However, if stock prices have been bid up in anticipation of a merger or an acquisition, then the DCF model estimate will not reflect true market conditions and understate the cost of equity.

Q. WHAT MEASURES OF GROWTH ("g") HAVE YOU USED?

A. I have used earnings growth forecasts, where available, from three different, widely-followed sources: *Zack's Investment Research, Standard & Poor Earnings Guide*, and *Value Line Investment Survey*. Schedule D-4.6 reflects estimates of earnings growth.

I have also used forecasts of book returns, retention ratios, and growth in the number of common shares from *Value Line* to determine sustainable growth estimates, which I describe in more detail below. Schedules D-4.7 and D-4.8 show my calculations of sustainable growth.

For the multi-stage DCF, I employed a two-stage model with short-term and long-term growth rates. Staff normally uses two growth stages in its multi-stage DCF model, so I used that approach as well. I used analysts' forecasts of EPS growth for the near term and average long-term GDP growth for the long-term.

Q. DID YOU USE THE ARITHMETIC MEAN OR THE GEOMETRIC MEAN FOR GDP GROWTH?

A. The arithmetic mean. It is well established that if the cost of capital is estimated from historical data, an arithmetic average should be used.[2]

Q. WHY DID YOU USE FORECASTED GROWTH RATES IN YOUR MODELS?

[2] Ibbotson Associates, *SBBI Valuation Edition 2005 Yearbook* 75-77; Richard A. Brealey and Stewart C. Myers, *Principles of Corporation Finance* (7th ed. 2003) 156-157.

A. The DCF model requires estimates of growth that investors expect in the future. Accordingly, I used analysts' forecasts of growth. Logically, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information.[3] To the extent that past results provide useful indications of future growth prospects, analysts' forecasts would already incorporate that information. In addition, a stock's current price reflects known historic information on that company, including its past earnings history. Any further recognition of the past will double count what has already occurred. Therefore, forward-looking growth rates should be used.

Q. HAVE YOU COMPARED THE ANALYST ESTIMATES OF GROWTH WITH HISTORICAL DATA?

A. Yes. As shown in Exhibit 3, the average 5-year historical compound annual capital (price) appreciation is 10.65 percent. The average 10-year historical compound annual capital (price) appreciation is 15.83 percent. This is significantly higher than the average analyst estimates of growth of 8.21 percent. While historical returns do not necessarily reflect what will occur in the future, the analysts' estimates of EPS growth are <u>less</u> than the historical capital appreciation. Thus, I believe using the analyst estimates of EPS growth for the growth rate in the DCF model is conservative.

Q. WHY HAVE YOU NOT USED FORECASTS OF DIVIDEND GROWTH?

A. The average annual forecast of dividend growth is extremely low. When forecasted dividend growth is used in the DCF model, it produces a cost of equity below the cost of debt.

Q. HAVE YOU PREPARED CONSTANT GROWTH DCF MODELS USING ANALYST ESTIMATES OF DPS GROWTH?

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[3] See David A. Gordon, Myron J. Gordon and Lawrence I Gould, "Choice Among Methods of Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55.

A. Yes. Exhibit 4, attached hereto, reflect constant growth DCF results using analyst estimates of DPS growth. The result is 5.9 percent. This is less than the current yield on a Moody's Baa investment grade bond at 6.4 percent. Forecasted Moody's Baa investment grade bonds for 2007-2008 is 7.1 percent.

Q. HAVE YOU PREPARED CONSTANT GROWTH DCF MODELS USING HISTORICAL DPS AND EPS GROWTH RATES?

A. Yes. Exhibits 5 and 6, attached hereto, reflect constant growth DCF results using five-year historical annual growth rates for DPS and EPS. The DCF results using five-year historical annual growth rates for DPS is 5.6 percent. Again, the current yield on a Moody's Baa investment grade bond is 6.4 percent. Forecasted Moody's Baa investment grade bonds for 2007-2008 is 7.1 percent.

The DCF results using five-year historical annual growth rates for EPS is 7.2 percent. While this appears to be higher than the current cost of Moody's Baa investment grade bonds, a further review of the data shows that the indicated cost of equity for American States is 2.9 percent and that for Connecticut Water Services is 5.7 percent. Both are below the current cost of Moody's Baa investment grade bonds at 6.4 percent. Further review reveals the indicated cost of equity for California Water at 7.2 percent is approximately equal to the consensus forecast of Moody's Baa investment grade bonds. If these three results are excluded, the average result is 11.2 percent. While I do not rely on this result, it is consistent with my DCF results using analyst estimates for EPS growth.

Q. WHY HAVEN'T YOU AVERAGED THESE RESULTS WITH THE RESULTS OF YOUR DCF USING ANALYST EXPECTATIONS OF EPS GROWTH?

A. Using the analyst expectations of DPS growth, the historical DPS growth, or historical EPS growth results in returns which are unrealistic. Thus, averaging these results with the results using analyst estimates of EPS growth only serves to depress the indicated cost of equity. Investors would not bid up the price of a

utility stock if the expected return is approximately the equal to or less than returns on bonds or other debt investments. As the CML depicted previously illustrates, common stocks are higher and to the right of investment grade bonds on the CML continuum because they are exposed to more risk. The DCF model is a forward looking model and the results using historical DPS and EPS growth are unreasonable.

Q. YOU MENTIONED SUSTAINABLE GROWTH EARLIER. PLEASE EXPLAIN WHAT SUSTAINABLE GROWTH IS?

A. Sustainable growth is derived by combining the expected growth from future retained earnings and expected future growth from sales of common stock. The growth rate (g) becomes:

(5) $g = br + sv$

where b is the expected retention ratio; r is the expected return on common equity; s is the funds raised from the sale of stock as a fraction of existing common equity; and, v is fraction of funds raised from the sale of stock that accrues to shareholders.[4]

Q. HOW DID YOU ESTIMATE "br" GROWTH?

A. I used projected rates of return, dividends per share, and earnings per share found in *Value* Line to estimate "br" growth.

Q. HOW DID YOU ESTIMATE "sv" GROWTH?

A. I used *Value Line*'s projections of new issues of common stock to estimate "s" and reported books values and the spot price to estimate "v". All of the water utility stocks used in my sample are currently selling at prices above book value and thus have "sv" growth.

Q. HOW DO YOUR ESTIMATES FOR SUSTAINABLE GROWTH COMPARE TO THE HISTORICAL COMPOUND ANNUAL CAPITAL APPRECIATION RETURN?

[4] See Gordon Myron J., *The Cost of Capital to a Public Utility* (Michigan, 1974).

A. The average sustainable growth for the utility sample as shown in schedule D-4.7 is 8.41 percent and is lower than the average 5-year and 10-year historical compound annual capital appreciation return of 10.65 percent and 15.83 percent, respectively.

Q. LET'S MOVE ON TO YOUR OTHER EQUITY COST ESTIMATION METHOD, MR. BOURASSA. PLEASE EXPLAIN YOUR RISK PREMIUM METHODOLOGY.

A. Risk premium methods are based on the assumption that equity securities are riskier than debt. Since equity securities are riskier, investors require a higher rate of return. The risk premium between equity securities and debt can be directly estimated by comparing authorized and actual returns on equity with the current yields of investment grade bonds or other debt instruments:

> The risk premium method of determining the cost of equity, sometimes referred to as the "stock-bond-yield spread method" or the "risk positioning method," or again the "bond-yield plus risk-premium" method, recognizes that common equity capital is more risky than debt from an investor's standpoint, and that investors require higher returns on stocks than on bonds to compensate for the additional risk. The general approach is relatively straightforward: First, determine the historical spread between the return on debt and the return on equity. Second, add this spread to the current debt yield to derive an estimate of current equity return requirements.
>
> The risk premium approach to estimating the cost of equity derives its usefulness from the simple fact that while equity return requirements cannot be readily quantified at any given time, the returns on bonds can be assessed precisely at every instant in time. If the magnitude of the risk premium between stocks and bonds is known, then this information can be used to produce the cost of common equity. This can be accomplished retrospectively using historical risk premiums or prospectively using expected risk premiums.

Roger A. Morin, *Regulatory Finance: Utilities' Cost of Capital* (1994) 269. As I have testified, there is no need to estimate betas or market risk premiums, as required in implementing the CAPM. It is a simpler and less subjective approach.

Q. CAN YOU EXPLAIN YOUR BOND-YIELD PLUS RISK PREMIUM APPROACH?

A. Yes. I have computed the average risk premium for the actual and authorized returns from 1996 to 2005 (10 years) when compared to the 10-year Treasury rate for the six water utilities in the sample group. I then add the average risk premium to the forecasted interest rates for 10-year Treasuries for 2007-2008.

Q. WHY DO YOU USE PROJECTED INTEREST RATES FOR 2007-2008?

A. I have used this period because it is the period in which Goodman's rates will be in effect.

Q. WHY NOT USE CURRENT RATES FOR TREASURY SECURITIES?

A. The goal is to determine the cost of capital for Goodman when new rates are in effect, not the cost of capital 12 months before new rates are approved. Current interest rates are sometimes higher and sometimes lower than rates during future periods. However, interest rates have been close to 40 year lows in past few years, and have been increasing and are expected to increase.

Q. ARE RISK PREMIUM ESTIMATES OF THE COST OF EQUITY CONSISTENT WITH OTHER CURRENT CAPITAL MARKET COSTS?

A. Yes. The risk premium approach is founded on directly observable, market interest rates. This assures that the premium estimates of the cost of equity begin with a sound basis, are tied to current capital market costs.

D. <u>Details of Cost of Equity Estimates</u>

Q. PLEASE DISCUSS YOUR ANALYSIS OF THE COST OF EQUITY FOR GOODMAN.

A. In the first part of my analysis, I applied two versions of the constant growth DCF and a two-stage DCF models to the six water utilities in the sample group. The DCF analyses appear on schedules D-4.9, D-4.10, and D-4.11. The DCF models produce an indicated equity cost in the range of 8.6 percent to 12.2 percent.

In the second part of my analysis, I developed and reviewed cost of equity estimates based on the bond-yield plus risk premium method. The risk premium

analysis based on actual and authorized returns on equity indicates an equity cost in the range of 10.3 percent to 11.1 percent.

In the third part of my analysis, I compared the actual and authorized returns reported in *AUS Utility Reports* to the results of my DCF and risk premium methods. The range of actual returns is from 8.6 percent to 13.7 percent. The range of authorized returns is from 9.9 percent to 12.7 percent.

Finally, I also considered *Value Line*'s most current forecasts of the composite equity return for the water utility industry. *Value Line*'s forecasts a composite return of 11% for 2005, 10% for 2006, and 11.0% for the 2008-10 period.

Based on the DCF and risk premium results, and with consideration for current market, industry, and other factors, I believe a return on equity of 10.5 percent is appropriate. Goodman has a higher cost of equity than the water utility sample group due to its small size, leverage and other characteristics. Thus, an equity return of 10.5% is conservative for Goodman.

Q. PLEASE DISCUSS YOUR CONSTANT GROWTH DCF MODELS.

A. I computed the cost of equity using two constant growth models. The first, shown on schedule D-4.9, uses analyst's forecasts of earning per share growth. The average of the results is 10.9 percent.

The second constant growth DCF model, shown on schedule D-4.10, uses my computations of sustainable growth ("br + sv"). To compute sustainable growth, I used analysts forecasts of the retention ratio and return of common equity to estimate "br" growth. I also used analysts' forecast of the growth in the number of common shares and the current market to book ratio to estimate "vs" growth. The current market to book ratio is based on the spot price at March 28, 2006, and the book value at December 31, 2005. The average of the results is 11.1 percent.

Q. PLEASE DISCUSS YOUR MULTISTAGE DCF MODEL.

A. I use a two-stage growth DCF model. The average of the analysts' expected growth is used for the near-term and GDP growth for the long-term. Short-term growth is given a weight of .67. The average result of the two-stage DCF model, shown on schedule D-4.11, is 10.4 percent.

Q. PLEASE DISCUSS YOUR RISK PREMIUM ANALYSIS?

A. The first risk premium analysis, shown on schedule D-4.12, computes the average risk premium on the actual returns for the six water companies from 1996 to 2005 (10 years) when compared to the 10-year Treasury rates. The average risk premium is then added to the forecasted interest rates for 10-year Treasuries for 2007-2008. The result of the first risk premium analysis is 10.3 percent.

The second risk premium analysis, shown on schedule D-4.13, computes the average risk premium on the authorized returns for the six water companies from 1996 to 2005 (10 years) when compared to the 10-year Treasury rate. The average risk premium is then added to the forecasted interest rates for 10-year Treasuries for 2007-2008. The result of second risk premium analysis is 10.8 percent.

Q. WHAT ARE THE ACTUAL AND AUTHORIZED RETURNS FOR THE SAMPLE WATER UTILITIES?

A. Schedule D-4-14 shows the actual and authorized returns for the six water utilities. The average of the actual returns is 10.5 percent. The average of the authorized returns is 10.8 percent.

Q. PLEASE SUMMARIZE YOUR RESULTS.

A. The following table summarizes the results of the models I have used, and provides the comparable earnings data I used as I check on my estimates:

DCF Analysis	Range	Midpoint
Constant Growth (earnings growth)	9.8% - 11.9%	10.9%
Constant Growth (sustainable growth)	8.6% - 12.2%	10.4%
Two-Stage Growth Model	9.8% - 11.2%	10.5%

Risk Premium Analysis		
Actual Returns	10.3% - 10.4%	10.4%
Authorized Returns	10.8% - 11.1%	11.0%
Comparable Earnings		
Actual Returns	8.6% - 13.6%	11.1%
Authorized Returns	9.9% - 12.7%	11.3%
Value Line Industry Composite (2005)		11.0%
Value Line Industry Composite (2006)		10.0%
Value Line Industry Composite (2008)		11.0%

At 10.5 percent, my recommended cost of equity is near the middle of the range of estimates produced by the DCF and risk premium models, but nevertheless within the ranges of both sets of estimates. My recommendation represents a reasonable balance between the economic forecasts of higher interest rates during the period in which rates will be in effect, the reduced equity costs obtained from low dividend yields using the DCF model, and my judgment about Goodman's additional risks not captured by the market models, including the risk of rate regulation and small size for Goodman.

...

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VII. RATE DESIGN (H SCHEDULES).

Q. WHAT ARE THE COMPANY'S PRESENT RATES?

A.

Meter Size	Monthly Minimum	Gallons included in Monthly Minimum
5/8	$ 18.00	1,000
3/4	$ 27.00	0
1	$ 45.00	0
1 1 /2	$ 90.00	0
2	$ 144.00	0
3	$ 270.00	0
4	$ 450.00	0
6	$ 900.00	0

The commodity charge for all meter sizes is $2.20 per 1,000 gallons above the gallons included in the minimum.

The construction meter and standpipe rate is $4.75 per 1,000 gallons with no minimum monthly charge.

Q. WHAT ARE THE COMPANY'S PROPOSED RATES?

A. The proposed rates for customers with using a water meter size of:

Meter Size	Monthly Minimum	Gallons included in Monthly Minimum
5/8	$ 44.78	0
3/4	$ 67.18	0
1	$ 111.96	0
1 1/2	$ 223.92	0
2	$ 358.27	0
3	$ 671.76	0
4	$1,119.60	0

6	$2,239.20	0

The commodity charges and tiers by meter size are:

Meter Size	Tier (gallons)	Charge per 1,000 gallons
5/8 and ¾ Inch	1 to 4,000	$ 5.00
	4,001 to 10,000	$ 6.70
	Over 10,000	$ 7.70
1 Inch and larger	1 to 10,000	$ 5.00
	10,001 to 25,000	$ 6.70
	Over 25,000	$ 7.70

The proposed construction meter and standpipe rate is $7.70 per 1,000 gallons with no minimum monthly charge.

Q. DID YOU PREPARE A COST OF SERVICE STUDY TO DERIVE THE MONTHLY MINIMUMS AND COMMODITY RATES?

A. No. The monthly minimums are based on the rates from the prior rate case increased by the same percentage for all meter sizes. The percentage increase applied to the monthly minimums is less than that applied to the commodity rates. In the prior rate case the monthly minimums were scaled based on the flows from a 5/8 inch meter.

Q. WOULD A COST OF SERVICE STUDY DETERMINE THE COMMODITY RATES, IF THE COMMODITY RATES ARE INVERTED, THAT IS THE CHARGE PER 1,000 GALLONS INCREASES AS MORE WATER IS USED?

A. No. A cost of service study will determine the revenues that should be collected from monthly minimum charges and the revenues that should be collected from the rates charged for the commodity. Inverted rates for the commodity charge are not justified through a cost of service study. The exception being if the cost of service study is prepared based on incremental plant investment. Inverted rates are really to encourage conservation.

Q. HAVE YOU INVERTED THE COMMODITY RATES?

A. Yes.

Q. ARE THE TIERS FOR THE COMMODITY RATES THE SAME FOR EACH SIZE METER? IF NOT, WOULD YOU PLEASE EXPLAIN WHY THE TIERS ARE DIFFERENT?

A. No, the commodity rate tiers are different for 5/8 inch and ¾ inch, and 1 inch and larger meters. The monthly minimum charges are higher for meters larger than 5/8 inch. The monthly minimums are supposed to reflect the demand that customers with larger meters place on the system. A customer on a meter size larger than 5/8 inch, is already paying for his or her higher demand. Thus, the commodity rate tiers should reflect the higher monthly minimums already being paid. To achieve the balance for higher monthly minimums, customers on larger sized meters should have more gallons in each rate tier.

Q. WHAT ARE THE TIERS FOR EACH METER SIZE, AND HOW ARE THEY COMPUTED?

A. The first commodity rate tier is computed on monthly average usage for the 5/8 inch meter size. The monthly average for 5/8 inch meter is 5,500 gallons. I set the first tier for the 5/8 inch and ¾ inch meters at 4,000 gallons, which is below the average residential average usage for the 5/8 inch metered customers. The first tier for a 1 inch meter and larger meters is 10,000 gallons. A one inch meter flows two and one half times that of a 5/8 inch meter.

I set the second tier for the 5/8 inch meter at 10,000 gallons, which is two and one half times the first tier. I set the second tier for 1 inch meters and larger at 25,000 gallons, or two and one half times the first tier gallons.

Q. WHAT IS THE IMPORTANCE OF THE COMMODITY RATES, AND HOW DID YOU COMPUTE THEM?

A. The first goal of commodity rates should be to generate the revenue requirement. For conservation rate designs, like the inverted tier design, revenue stability is a

key aspect. Thus, commodity rates are very important. The second goal of the commodity rates should be that they are understandable by customers. The third goal of the commodity rates is to give customers a price signal to encourage water usage conservation.

The first commodity tier rate is the most important, as all customers will be charged this rate. Here, I set the commodity rate at $5.00, or approximately 127% higher than the existing commodity rate of $2.20. For the commodity tier two, I increased the first tier charge per 1,000 gallons by $2.70 to $6.70, or approximately 205% over the existing $2.20 commodity rate. For the commodity tier three, I increased the second tier charge per 1,000 gallons by $1.00 to $7.70, or approximately 250% over the existing $2.20 commodity rate.

Q. WHAT IS THE RATE IMPACT ON RESIDENTIAL CUSTOMERS USING THE MONTHLY AVERAGE WATER USAGE?

A. Customers on 5/8 meters who consume the average quantity of water (5,513 gallons per month) will experience a rate increase of $46.97 per month, or an increase of approximately 168.25%.

Q. IS THE COMPANY REQUESTING ANY OTHER CHANGES IN ITS RATES AND TARIFFS?

A. The Company is requesting changes to the meter and service line installation charges to reflect current costs. See schedule H-3, page 3.

Q. ARE THERE ANY PROPOSED CHANGES TO THE COMPANY'S MISCELLANEOUS SERVICE CHARGES?

A. No.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

LEWIS AND ROCA LLP LAWYERS

ORIGINAL AND thirteen (13) copies of the foregoing delivered VIA DHL this 25 day of April, 2006

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

COPY of the foregoing delivered VIA U.S. MAIL this 25 day of April, 2006

Goodman Water Company
6340 North Campbell Avenue, Suite 278
Tucson, AZ 85718

Hope A. Bowen

GOODMAN WATER COMPANY

SCHEDULE "A"

197652.1

Goodman Water Company
Test Year Ended September 30, 2005
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	1,275,683
2			
3	Adjusted Operating Income		(76,594)
4			
5	Current Rate of Return		-6.00%
6			
7	Required Operating Income	$	133,947
8			
9	Required Rate of Return on Fair Value Rate Base		10.50%
10			
11	Operating Income Deficiency	$	210,541
12			
13	Gross Revenue Conversion Factor		1.5418
14			
15	Increase in Gross Revenue		
16	Requirement	$	324,607

	Customer Classification (Residential Commercial, Irrigation)	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
21	5/8 x 3/4 Inch Residential	$ 124,765	$ 343,162	$ 218,397	175.05%
22	3/4 Inch Residential	-	-	-	0.00%
23	1 Inch Residential	10,839	27,362	16,523	152.44%
24	2 Inch Residential	13,982	43,526	29,544	211.31%
25	Construction Water	13,412	21,741	8,329	62.11%
26				-	0.00%
27	Revenue Annualization	32,746	84,216	51,469	157.18%
28				-	0.00%
29	**Subtotal**	$ 195,744	$ 520,007	$ 324,263	165.66%
30					
31	Other Water Revenues	17,940	17,940	-	0.00%
32				-	0.00%
33				-	0.00%
34	**Total of Water Revenues (a)**	$ 213,684	$ 537,947	$ 324,263	151.75%

41 SUPPORTING SCHEDULES:
42 B-1
43 C-1
44 C-3
45 H-1
46

Goodman Water Company
Test Year Ended September 30, 2005
Summary of Results of Operations

Exhibit
Schedule A-2
Page 1
Witness: Bourassa

Line No.	Description	Prior Years Ended 12/31/2003	Prior Years Ended 12/31/2004	Test Year Actual 9/30/2005	Test Year Adjusted 9/30/2005	Projected Year Present Rates 9/30/2006	Projected Year Proposed Rates 9/30/2006
1	Gross Revenues	$ 110,199	$ 178,577	$ 180,602	$ 213,348	$ 213,348	$ 537,955
2							
3	Revenue Deductions and	161,610	243,411	306,535	289,943	289,943	404,009
4	Operating Expenses						
5							
6	Operating Income	$ (51,411)	$ (64,834)	$ (125,933)	$ (76,594)	$ (76,594)	$ 133,947
7							
8	Other Income and	-	-	-	-	-	-
9	Deductions						
10							
11	Interest Expense	(32)	(73)	(90)	-	-	-
12							
13	Net Income	$ (51,443)	$ (64,907)	$ (126,023)	$ (76,594)	$ (76,594)	$ 133,947
14							
15	Earned Per Average						
16	Common Share	(0.11)	(0.14)	(0.27)	(0.17)	(0.17)	0.29
17							
18	Dividends Per						
19	Common Share	-	-	-	-	-	-
20							
21	Payout Ratio	-	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	-0.21%	-3.27%	-5.52%	-3.32%	-2.48%	4.35%
25							
26	Return on Year End						
27	Capital	-3.07%	-2.82%	-5.56%	-3.32%	-1.99%	3.47%
28							
29	Return on Average						
30	Common Equity	-11.85%	-5.49%	-9.66%	-5.88%	-6.23%	10.03%
31							
32	Return on Year End						
33	Common Equity	-5.02%	-4.84%	-9.93%	-6.06%	-6.43%	9.55%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	(1,605.19)	(888.14)	(1,399.26)	-	-	-
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	(1,606.59)	(888.14)	(1,399.26)	-	-	-
41							
42							
43	SUPPORTING SCHEDULES						
44	C-1						
45	E-2						
46	F-1						

Goodman Water Company
Test Year Ended September 30, 2005
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		Construction Expenditures	Net Plant Placed in Service	Gross Utility Plant in Service
1				
2	Prior Year Ended 12/31/2002	102,353	102,353	102,353
3				
4	Prior Year Ended 12/31/2003	1,536,960	1,536,960	1,639,314
5				
6	Prior Year Ended 12/31/2004	598,662	672,404	2,311,718
7				
8	Test Year Ended 12/31/2005	602,274	26,013	2,337,731
9				
10	Projected Year Ended 12/31/2006	1,773,859	1,773,859	4,111,590
11				
12				
13				
14				
15	SUPPORTING SCHEDULES:			
16	B-2			
17	E-5			
18	F-3			
19				
20				

GOODMAN WATER COMPANY

SCHEDULE "B"

197652.1

Goodman Water Company
Test Year Ended September 30, 2005
Summary of Rate Base

Exhibit
Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 2,348,486	$ 2,348,486
3	Less: Accumulated Depreciation	108,248	108,248
4			
5	Net Utility Plant in Service	$ 2,240,239	$ 2,240,239
6			
7	Less:		
8	Advances in Aid of		
9	Construction	971,695	971,695
10	Contributions in Aid of		
11	Construction - Net of amortization	-	-
12	Customer Meter Deposits	14,864	14,864
13	Deferred Income Taxes & Credits	-	-
14	Investment tax Credits	-	-
15			
16			
17	Plus:		
18	Unamortized Finance		
19	Charges	-	-
20	Deferred Tax Assets	-	-
21	Allowance for Working Capital	22,003	22,003
22			
23			
24	Total Rate Base	$ 1,275,683	$ 1,275,683
25			
26			
27			
28	SUPPORTING SCHEDULES:		
29	B-2		
30	B-3		
31	B-5		
32	E-1		
33			

Goodman Water Company
Test Year Ended September 30, 2005
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Adjustments Label	Proforma Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	$ 2,337,731	2	10,755	$ 2,348,486
3					
4	**Less:**				
5	Accumulated				
6	Depreciation	201,274	1	(93,026)	108,248
7					
8					
9	Net Utility Plant				
10	in Service	$ 2,136,458			$ 2,240,239
11					
12	**Less:**				
13	Advances in Aid of				
14	Construction	971,695			971,695
15					
16	Contributions in Aid of				
17	Construction - Net	-			-
18					
19	Customer Refundable Meter Deposits	14,864			14,864
20	Deferred Income Tax Liability	-			-
21	Investment Tax Credits	-			-
22		-			-
23					
24	**Plus:**				
25	Unamortized Finance				
26	Charges	-			-
27	Deferred Income Tax Asset	-			-
28	Working capital	-	3	22,003	22,003
29		-			-
30					
31	Total	$ 1,149,899			$ 1,275,683
32					
33					
34					
35	SUPPORTING SCHEDULES:				RECAP SCHEDULES:
36	B-2, pages 2-3				B-1
37	E-1				
38					
39					
40					
41					
42					
43					
44					

Goodman Water Company
Test Year Ended September 30, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment 1

Exhibit
Schedule B-2
Page 2
Witness: Bourassa

Line No.			
1	Accumulated Depreciation Adjustment		
2			
3	Computed Balance	$	108,248
4	Balance per Company Schedule E-1		201,274
5	Difference	$	(93,026)
6			
7			
8			
9			
10			
11	Increase (Decrease) to Accumulated Depreciation	$	(93,026)
12			
13			
14			
15	SUPPORTING SCHEDULES		
16	B-2, pages 2a-3e		
17			
18			
19			
20			

Goodman Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2a
Witness: Bourassa

Account No.	Description	Deprec. Rate	12/31/1988	Accum. Depr.	1999-2001 Plant Additions	1999-2001 Plant Adjustments	1999-2001 Adjusted Plant Additions	1999-2001 Plant Retirements	1999-2001 Plant Balance	1999-2001 Depr.
301	Organization Cost	0.00%	-				-		-	-
302	Franchise Cost	0.00%	-				-		-	-
303	Land and Land Rights	0.00%	-				-		-	-
304	Structures and Improvements	2.50%	-				-		-	-
305	Collecting and Impounding Res.	2.50%	-				-		-	-
306	Lake River and Other Intakes	2.50%	-				-		-	-
307	Wells and Springs	2.50%	-				-		-	-
308	Infiltration Galleries and Tunnels	2.50%	-				-		-	-
309	Supply Mains	2.50%	-				-		-	-
310	Power Generation Equipment	2.50%	-				-		-	-
311	Electric Pumping Equipment	2.50%					-		-	-
320	Water Treatment Equipment	2.50%	-				-		-	-
330	Distribution Reservoirs & Standpipe	2.50%	-				-		-	-
331	Transmission and Distribution Mains	2.50%	-				-		-	-
333	Services	2.50%	-				-		-	-
334	Meters	2.50%	-				-		-	-
335	Hydrants	2.50%	-				-		-	-
336	Backflow Prevention Devices	2.50%	-				-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-				-		-	-
340	Office Furniture and Fixtures	2.50%	-				-		-	-
341	Transportation Equipment	2.50%	-				-		-	-
342	Stores Equipment	2.50%	-				-		-	-
343	Tools and Work Equipment	2.50%	-				-		-	-
344	Laboratory Equipment	2.50%	-				-		-	-
345	Power Operated Equipment	2.50%	-				-		-	-
346	Communications Equipment	2.50%	-				-		-	-
347	Miscellaneous Equipment	2.50%	-				-		-	-
348	Other Tangible Plant	2.50%	-				-		-	-
	Plant Held for Future Use						-		-	-
	TOTAL WATER PLANT		-	-	-	-	-	-	-	-
	Depreciation									
(a)	Staff Accumulated Depreciation Allocated to Plant.		-						-	
	Retirements (excluding land)									
	Accumulated Depreciation Balance			-					-	
	Half Year Convention used on depreciation								-	

Goodman Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2b
Witness: Bourassa

Account No.	Description	Deprec. Rate	2002 Plant Additions	2002 Plant Adjustments	2002 Adjusted Plant Additions	2002 Plant Retirements	2002 Plant Balance	2002 Deprec.
301	Organization Cost	0.00%	94,596		94,596		94,596	-
302	Franchise Cost	0.00%			-		-	-
303	Land and Land Rights	0.00%			-		-	-
304	Structures and Improvements	2.50%			-		-	-
305	Collecting and Impounding Res.	2.50%			-		-	-
306	Lake River and Other Intakes	2.50%			-		-	-
307	Wells and Springs	2.50%			-		-	-
308	Infiltration Galleries and Tunnels	2.50%			-		-	-
309	Supply Mains	2.50%			-		-	-
310	Power Generation Equipment	2.50%			-		-	-
311	Electric Pumping Equipment	2.50%			-		-	-
320	Water Treatment Equipment	2.50%			-		-	-
330	Distribution Reservoirs & Standpipe	2.50%			-		-	-
331	Transmission and Distribution Mains	2.50%			-		-	-
333	Services	2.50%			-		-	-
334	Meters	2.50%	7,757		7,757		7,757	97
335	Hydrants	2.50%			-		-	-
336	Backflow Prevention Devices	2.50%			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-		-	-
340	Office Furniture and Fixtures	2.50%			-		-	-
341	Transportation Equipment	2.50%			-		-	-
342	Stores Equipment	2.50%			-		-	-
343	Tools and Work Equipment	2.50%			-		-	-
344	Laboratory Equipment	2.50%			-		-	-
345	Power Operated Equipment	2.50%			-		-	-
346	Communications Equipment	2.50%			-		-	-
347	Miscellaneous Equipment	2.50%			-		-	-
348	Other Tangible Plant	2.50%			-		-	-
	Plant Held for Future Use				-		-	-
	TOTAL WATER PLANT		102,353	-	102,353	-	102,353	97
	Depreciation						97	
(a)	Staff Accumulated Depreciation Allocated to Plant,							
	Retirements (excluding land)						-	
	Accumulated Depreciation Balance						97	
	Half Year Convention used on depreciation							

Goodman Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2c
Witness: Bourassa

Account No.	Description	Deprec. Rate	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Plant Additions	2003 Plant Retirements	2003 Plant Balance	2003 Deprec.
301	Organization Cost	0.00%			-		94,596	-
302	Franchise Cost	0.00%			-		-	-
303	Land and Land Rights	0.00%			-		-	-
304	Structures and Improvements	2.50%			-		-	-
305	Collecting and Impounding Res.	2.50%			-		-	-
306	Lake River and Other Intakes	2.50%			-		-	-
307	Wells and Springs	2.50%	233,767		233,767		233,767	2,922
308	Infiltration Galleries and Tunnels	2.50%			-		-	-
309	Supply Mains	2.50%			-		-	-
310	Power Generation Equipment	2.50%			-		-	-
311	Electric Pumping Equipment	2.50%	542,915		542,915		542,915	6,786
320	Water Treatment Equipment	2.50%			-		-	-
330	Distribution Reservoirs & Standpipe	2.50%	251,477		251,477		251,477	3,143
331	Transmission and Distribution Mains	2.50%	402,268		402,268		402,268	5,028
333	Services	2.50%	65,581		65,581		65,581	820
334	Meters	2.50%	15,978		15,978		23,735	394
335	Hydrants	2.50%	24,975		24,975		24,975	312
336	Backflow Prevention Devices	2.50%			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-		-	-
340	Office Furniture and Fixtures	2.50%			-		-	-
341	Transportation Equipment	2.50%			-		-	-
342	Stores Equipment	2.50%			-		-	-
343	Tools and Work Equipment	2.50%			-		-	-
344	Laboratory Equipment	2.50%			-		-	-
345	Power Operated Equipment	2.50%			-		-	-
346	Communications Equipment	2.50%			-		-	-
347	Miscellaneous Equipment	2.50%			-		-	-
348	Other Tangible Plant	2.50%			-		-	-
	Plant Held for Future Use				-		-	-
	TOTAL WATER PLANT		1,536,961	-	1,536,961	-	1,639,314	19,406
	Depreciation						19,406	
(a)	Staff Accumulated Depreciation Allocated to Plant.							
	Retirements (excluding land)						-	
	Accumulated Depreciation Balance						19,503	
	Half Year Convention used on depreciation							

Goodman Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2d
Witness: Bourassa

Account No.	Description	Deprec. Rate	2004 Plant Additions	2004 Plant Adjustments *	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Balance	2004 Deprec.
301	Organization Cost	0.00%			-		94,596	-
302	Franchise Cost	0.00%			-		-	-
303	Land and Land Rights	0.00%			-		-	-
304	Structures and Improvements	2.50%	1,343	8,445	9,788		9,788	122
305	Collecting and Impounding Res.	2.50%			-		-	-
306	Lake River and Other Intakes	2.50%			-		-	-
307	Wells and Springs	2.50%		152,824	152,824		386,591	7,754
308	Infiltration Galleries and Tunnels	2.50%			-		-	-
309	Supply Mains	2.50%			-		-	-
310	Power Generation Equipment	2.50%			-		-	-
311	Electric Pumping Equipment	2.50%	39,505	104,573	144,078		686,993	15,374
320	Water Treatment Equipment	2.50%	2,161	8,893	11,054		11,054	138
330	Distribution Reservoirs & Standpipe	2.50%		42,983	42,983		294,460	6,824
331	Transmission and Distribution Mains	2.50%	273,671	(64,591)	209,080		611,348	12,670
333	Services	2.50%	52,520	11,173	63,693		129,274	2,436
334	Meters	2.50%	16,925		16,925		40,660	805
335	Hydrants	2.50%	18,590	3,390	21,980		46,955	899
336	Backflow Prevention Devices	2.50%			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-		-	-
340	Office Furniture and Fixtures	2.50%			-		-	-
341	Transportation Equipment	2.50%			-		-	-
342	Stores Equipment	2.50%			-		-	-
343	Tools and Work Equipment	2.50%			-		-	-
344	Laboratory Equipment	2.50%			-		-	-
345	Power Operated Equipment	2.50%			-		-	-
346	Communications Equipment	2.50%			-		-	-
347	Miscellaneous Equipment	2.50%			-		-	-
348	Other Tangible Plant	2.50%			-		-	-
	Plant Held for Future Use				-		-	-
	TOTAL WATER PLANT		404,715	267,689	672,404	-	2,311,718	47,023
	Depreciation						47,023	
(a)	Staff Accumulated Depreciation Allocated to Plant.							
	Retirements (excluding land)						-	
	Accumulated Depreciation Balance						66,526	
	Half Year Convention used on depreciation							

* Adjustment for actual expenses adjustment recorded in 2005

Goodman Water Company
Plant Additions and Retirements

Exhibit
Schedule B-2
Page 2e
Witness: Bourassa

Account No.	Description	Deprec. Rate	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	September 30 2005 Plant Balance	9 Months Ended September 2005 Deprec.
301	Organization Cost	0.00%		9,932	9,932		104,528	-
302	Franchise Cost	0.00%			-		-	-
303	Land and Land Rights	0.00%			-		-	-
304	Structures and Improvements	2.50%			-		9,788	184
305	Collecting and Impounding Res.	2.50%			-		-	-
306	Lake River and Other Intakes	2.50%			-		-	-
307	Wells and Springs	2.50%			-		386,591	7,249
308	Infiltration Galleries and Tunnels	2.50%			-		-	-
309	Supply Mains	2.50%			-		-	-
310	Power Generation Equipment	2.50%			-		-	-
311	Electric Pumping Equipment	2.50%			-		686,993	12,881
320	Water Treatment Equipment	2.50%			-		11,054	207
330	Distribution Reservoirs & Standpipe	2.50%			-		294,460	5,521
331	Transmission and Distribution Mains	2.50%			-		611,348	11,463
333	Services	2.50%			-		129,274	2,424
334	Meters	2.50%	16,082		16,082		56,742	913
335	Hydrants	2.50%			-		46,955	880
336	Backflow Prevention Devices	2.50%			-		-	-
339	Other Plant and Miscellaneous Equipment	2.50%			-		-	-
340	Office Furniture and Fixtures	2.50%			-		-	-
341	Transportation Equipment	2.50%			-		-	-
342	Stores Equipment	2.50%			-		-	-
343	Tools and Work Equipment	2.50%			-		-	-
344	Laboratory Equipment	2.50%			-		-	-
345	Power Operated Equipment	2.50%			-		-	-
346	Communications Equipment	2.50%			-		-	-
347	Miscellaneous Equipment	2.50%			-		-	-
348	Other Tangible Plant	2.50%			-		-	-
	Plant Held for Future Use				-		-	-
	TOTAL WATER PLANT		16,082	9,932	26,013	-	2,337,731	41,722
	Depreciation						41,722	
(a)	Staff Accumulated Depreciation Allocated to Plant.							
	Retirements (excluding land)						-	
	Accumulated Depreciation Balance						108,248	
	Half Year Convention used on depreciation							

Goodman Water Company
Test Year Ended September 30, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment 2

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Line No.			
1	Adjustment to Plant in Service		
2			
3	Reclassfied Contractual Services (See C-2, Adjustment 10, Page 11)	$	10,755
4			
5	Total		10,755
6			
7	Increase (Decrease) to Plant in Service	$	10,755
8			
9			
10			
11			
12			
13			
14			
15			
16			

Goodman Water Company
Test Year Ended September 30, 2005
Income Statement

Exhibit
Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**						
2	Metered Water Revenues	$ 162,662	4	$ 32,746	$ 195,408	$ 324,607	$ 520,015
3	Unmetered Water Revenues	-			-		-
4	Other Water Revenues	17,940			17,940		17,940
5		$ 180,602		$ 32,746	$ 213,348	$ 324,607	$ 537,955
6	**Operating Expenses**						
7	Salaries and Wages	$ 64,001	9a	(32,001)	$ 32,000		$ 32,000
8	Purchased Water	-			-		-
9	Purchased Power	9,442	6	644	10,086		10,086
10	Chemicals	-			-		-
11	Repairs and Maintenance	9,868			9,868		9,868
12	Office Supplies and Expense	778			778		778
13	Outside Services	104,451	7/8/10/11/1:	(26,345)	78,106		78,106
14	Water Testing	3,639			3,639		3,639
15	Rents	-			-		-
16	Transportation Expenses	-			-		-
17	Insurance - General Liability	18,253			18,253		18,253
18	Insurance - Health and Life	-			-		-
19	Regulatory Commission Expense - Rate Case	55	3	24,945	25,000		25,000
20	Miscellaneous Expense	2,386			2,386		2,386
21	Depreciation Expense	86,268	1	43,150	129,418		129,418
22	Taxes Other Than Income	5,324	9b	(2,689)	2,635		2,635
23	Property Taxes	2,070	2	17,200	19,270		19,270
24	Income Tax	-	13	(41,497)	(41,497)	114,066	72,569
25					-		-
26	**Total Operating Expenses**	$ 306,535		$ (16,592)	$ 289,943	$ 114,066	$ 404,009
27	**Operating Income**	$ (125,933)		$ 49,339	$ (76,594)	$ 210,541	$ 133,947
28	**Other Income (Expense)**						
29	Interest Income	1,747	5a	(1,747)	-		-
30	Other income	-			-		-
31	Interest Expense	(90)	5b	90	-		-
32	Other Expense	-			-		-
33		-			-		-
34	**Total Other Income (Expense)**	$ 1,657		$ (1,657)	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (124,276)		$ 47,682	$ (76,594)	$ 210,541	$ 133,947
36							
37	SUPPORTING SCHEDULES:					RECAP SCHEDULES:	
38	C-2					A-1	
39	E-2						
40							

Goodman Water Company
Test Year Ended September 30, 2005
Adjustments to Revenues and Expenses

Exhibit
Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Depreciation Expense	2 Property Taxes	3 Rate Case Expense	4 Revenue Annualization	5 Remove Other Inc./Oth. Expense	6 Purchased Power Annualization	Subtotal
3	Revenues				32,746			32,746
5	Expenses	43,150	17,200	24,945			644	85,939
8	Operating Income	(43,150)	(17,200)	(24,945)	32,746	-	(644)	(53,192)
11	Interest Expense					(1,747)		(1,747)
14	Other Income / Expense					90		90
16	Net Income	(43,150)	(17,200)	(24,945)	32,746	(1,657)	(644)	(54,849)

Adjustments to Revenues and Expenses

		7 Outside Services	8 Annualize Outside Services	9 Salaries and Wages	10 Capitalize Outside Services	11 Remove Rate Case Expense	12 Correct Outside Services	Subtotal
23	Revenues							32,746
25	Expenses	(3,470)	6,034	(34,690)	(10,755)	(3,929)	(14,225)	24,904
28	Operating Income	3,470	(6,034)	34,690	10,755	3,929	14,225	7,842
31	Interest Expense							(1,747)
34	Other Income / Expense							90
36	Net Income	3,470	(6,034)	34,690	10,755	3,929	14,225	6,185

Adjustments to Revenues and Expenses

		13 Income taxes	14	15	16	17	18	Total
43	Revenues							32,746
45	Expenses	(41,497)						(16,592)
48	Operating Income	41,497	-	-	-	-	-	49,339
51	Interest Expense							(1,747)
54	Other Income / Expense							90
56	Net Income	41,497	-	-	-	-	-	47,682

Goodman Water Company
Test Year Ended September 30, 2005
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Schedule C-2
Page 2
Witness: Bourassa

Line No.						
1	Depreciation Expense					
2						
3	Account				Proposed	Depreciation
4	No.	Description		Original Cost	Rate	Expense
5	301	Organization Cost		104,528	0.00%	-
6	302	Franchise Cost		-	0.00%	-
7	303	Land and Land Rights		-	0.00%	-
8	304	Structures and Improvements		9,788	3.33%	326
9	305	Collecting and Impounding Res.		-	2.50%	-
10	306	Lake River and Other Intakes		-	2.50%	-
11	307	Wells and Springs		386,591	3.33%	12,873
12	308	Infiltration Galleries and Tunnels		-	6.67%	-
13	309	Supply Mains		-	2.00%	-
14	310	Power Generation Equipment		-	5.00%	-
15	311	Electric Pumping Equipment		686,993	12.50%	85,874
16	320	Water Treatment Equipment		11,054	3.33%	368
17	330	Distribution Reservoirs & Standpipe		294,460	2.22%	6,537
18	331	Transmission and Distribution Mains		611,348	2.00%	12,227
19	333	Services		129,274	3.33%	4,305
20	334	Meters		56,742	8.33%	4,727
21	335	Hydrants		46,955	2.00%	939
22	336	Backflow Prevention Devices		-	6.67%	-
23	339	Other Plant and Miscellaneous Equipment		-	6.67%	-
24	340	Office Furniture and Fixtures		-	6.67%	-
25	341	Transportation Equipment		-	20.00%	-
26	342	Stores Equipment		-	4.00%	-
27	343	Tools and Work Equipment		-	5.00%	-
28	344	Laboratory Equipment		-	10.00%	-
29	345	Power Operated Equipment		-	5.00%	-
30	346	Communications Equipment		-	10.00%	-
31	347	Miscellaneous Equipment		-	10.00%	-
32	348	Other Tangible Plant		-	10.00%	-
33						
34		TOTALS	$	2,337,731		$ 128,176
35						
36						
37	Reclassified Expenses					-
38	Blue Stake Service for setting meters (See C-2 Adjustment 9)					-
39	333	Meters	$	10,755	8.33%	896
40	Legal Services rlated to LXA's (See C-2 Adjustment 11)					
41	331	Transmission and Distribution Mains		17,325	2.00%	347
42						
43						
44			$	28,080		$ 1,242
45						
46	**Post Test Year Plant per B-2**					
47						-
48						-
49						-
50	Total PTY Plant		$	-		$ -
50						
51	Less: Amortization of Contributions - Balance End of TY		$	-	5.4829%	$ -
52						
53	Total Depreciation Expense					$ 129,418
54						
55	Test Year Depreciation Expense					86,268
56						
57	Increase (decrease) in Depreciation Expense					43,150
58						
59	Adjustment to Revenues and/or Expenses					$ 43,150
60						

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended 09/31/05	$	213,348
4	Adjusted Revenues in year ended 09/31/05		213,348
5	Proposed Revenues		537,955
6	Average of three year's of revenue	$	321,551
7	Average of three year's of revenue, times 2	$	643,101
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		-
12			
13	Full Cash Value	$	643,101
14	Assessment Ratio		23.50%
15	Assessed Value		151,129
16	Property Tax Rate		12.7504%
17			
18	Property Tax		19,270
19	Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	$	19,270
22	Property Taxes in the test year		2,070
23	Change in Property Taxes	$	17,200
24			
25			
26	Adjustment to Revenues and/or Expenses	$	17,200
27			
28			

Goodman Water Company
Test Year Ended September 30, 2005
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Rate Case Expense		
2			
3	Estimated Rate Case Expense	$	100,000
4			
5	Estimated Amortization Period in Years		4
6			
7	Annual Rate Case Expense	$	25,000
8			
9	Test Year Rate Case Expense	$	55
10			
11	Increase(decrease) Rate Case Expense	$	24,945
12			
13	Adjustment to Revenue and/or Expense	$	24,945
14			
15			
16			
17			
18			
19			
20			

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	Revenue Annualization		
2			
3			
4	Revenue Annualization	$	32,746
5			
6			
7			
8	Total Revenue from Annualization	$	32,746
9			
10			
11	Adjustment to Revenue and/or Expense	$	32,746
12			
13	SUPPORTING SCHEDULES		
14	C-2 pages 5a to 5c		
15	H-1		
16			
17			
18			
19			
20			

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Line No.				Adjustment Label
1	Remove Other Income and Expenses to Eliminate Effects on Income Taxes			
2				
3				
4	Test Year Interest Income	$	(1,747)	5a
5	Test Year Interest Expense		90	5b
6				
7				
8	Total	$	(1,657)	
9				
10				
11	Adjustment to Revenue and/or Expense	$	(1,657)	
12				
13				
14				
15				
16				
17				
18				
19				
20				

Goodman Water Company
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Line No.			
1	Annualize power cost for additonal gallons from annualization of revenues		
2			
3	Test Year Power Costs	$	9,442
4	Gallons sold in Test Year (1,000's)		27,941
5	Cost per 1,000 gallons		0.33792
6	Additonal gallons from annualization (in 1,000's)		1,905
7			
8	Additional Expense	$	644
9			
10			
11	Adjustment to Revenue and/or Expense	$	644
12			
13			
14			
15			
16			
17			
18			
19			
20			

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Line No.					
1	Adjust Outside Service for New Rates From YL Technology				
2					
3					
4	Test Year Number of Bills		4,626		
5	Rate Per Bill During Test Year	$	7.75		
6	Total Cost for Billing Services During Test Year			$	35,852
7					
8	Test Year Number of Bills		4,626		
9	New Rate Per Bill	$	7.00		
10	Total Cost for Billing Services During Test Year			$	32,382
11					
12					
13	Increase (decrease) in Outside Services			$	(3,470)
14					
15	Adjustment to Outside Services			$	(3,470)
16					
17					
18					
19					
20	Adjustment to Revenue and/or Expense			$	(3,470)
21					
22					
23					
24					
25					
26					
27					

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Schedule C-2
Page 9
Witness: Bourassa

Line No.					
1	Annualize Outside Service Costs - Customer Billing and Collection				
2					
3					
4	Additional Bills from Revenue Annualization (1)		862		
5	Cost per Bill (2)	$	7.00		
6	Increase (decrease) in Outside Services (1) times (2)			$	6,034
7					
8	Adjustment to Outside Services			$	6,034
9					
10					
11					
12					
13	Adjustment to Revenue and/or Expense			$	6,034
14					
15					
16					
17					
18					
19					
20					

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Schedule C-2
Page 10
Witness: Bourassa

Line No.					Label
1	Adjust Salaries and Wages to Reflect Correct Annual Amount				
2					Label
3					
4	Correct Annual Salary of President/Manager		$	32,000	
5	Amount Recorded in Test Year			64,001	
6	Increase (decrease) in Salaries and Wages			(32,001)	
7					
8					
9	Adjustment to Revenue and/or Expense		$	(32,001)	9a
10					
11					
12	Adjust Payroll Taxes to refelect correct Salaries and Wages				
13					
14	FICA	6.02%	$	1,926	
15	Medicare	1.45%		464	
16	FUTA	0.80% (first $7,000 of wages)		56	
17	SUTA	2.70% (first $7,000 of wages)		189	
18	Total Payroll Taxes		$	2,635	
19					
20	Payroll Taxes Recorded in Test Year			5,324	
21					
22	Increase (decrease) in Payroll Taxes		$	(2,689)	
23					
24					
25	Adjustment to Revenue and/or Expense		$	(2,689)	9b
26					
27					
28					
29	Total Adjustment to Expenses		$	(34,690)	
30					
31					
32					
33					

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Schedule C-2
Page 11
Witness: Bourassa

Line No.			
1	Remove Capital Expenditures from Contractual Services		
2			
3			
4	Contractual Services - Blue Stake	$	10,755
5			
6			
7			
8	Adjustment to Revenue and/or Expense	$	(10,755)
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 11

Exhibit
Schedule C-2
Page 12
Witness: Bourassa

Line No.			
1	Remove Rate Case Expenses from Accounting Services		
2			
3			
4	Accounting Services - Ron Kozoman	$	3,929
5			
6			
7			
8	Adjustment to Revenue and/or Expense	$	(3,929)
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Goodman Water Company
Test Year Ended September 30, 2005
Adjustment to Revenues and Expenses
Adjustment Number 12

Exhibit
Schedule C-2
Page 13
Witness: Bourassa

Line No.			
1	Adjust Outside Services to Reflect Correct Annual Amount		
2			
3			
4	Annual Contract Amount for Outside Services - Jim Shiner	$	17,325
5	Amount Recorded During Test Year		31,550
6	Increase (decrease) in Outside Services	$	(14,225)
7			
8			
9			
10	Adjustment to Revenue and/or Expense	$	(14,225)
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Goodman Water Company
Test Year Ended September 30, 2005
Computation of Gross Revenue Conversion Factor

Exhibit
Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	28.17%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	35.14%
9		
10	Operating Income % = 100% - Tax Percentage	64.86%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.5418
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		A-1
20		

GOODMAN WATER COMPANY

SCHEDULE "D"

Goodman Water Company
Test Year Ended September 30, 2005
Summary of Cost of Capital

Exhibit
Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	End of Projected Year Dollar Amount	Percent of Total	(e) Cost Rate	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)	1,372,377	100.00%	10.50%	10.50%	1,506,324	100.00%	10.50%	10.50%
4									
5	Totals	1,372,377	100.00%		10.50%	1,506,324	100.00%		10.50%
6									
7									
8	(1) Increase Equity for A/D adjustment 1, B-2, page 1	$ 93,026							
9	(2) Increase Equity for expense reclassified to plant adjustment 2, B-2, page 1				$ 10,755				
10									
11	SUPPORTING SCHEDULES:								
12	D-1								
13	D-3								
14	D-4								
15	E-1								
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

RECAP SCHEDULES:
A-3

Goodman Water Company
Test Year Ended September 30, 2005
Cost of Long Term Debt

Exhibit
Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	End of Projected Year Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1									
2		-	-	0.00%	0.00%	-	-	0.00%	0.00%
3		-	-	0.00%	0.00%	-	-	0.00%	0.00%
4		-	-	0.00%	0.00%	-	-	0.00%	0.00%
5		-	-	0.00%	0.00%	-	-	0.00%	0.00%
6		-	-	0.00%	0.00%	-	-	0.00%	0.00%
7		-	-	0.00%	0.00%	-	-	0.00%	0.00%
8		-	-	0.00%	0.00%	-	-	0.00%	0.00%
9		-	-	0.00%	0.00%	-	-	0.00%	0.00%
10		-	-	0.00%	0.00%	-	-	0.00%	0.00%
11									
12									
13	Totals	$ -	-		0.00%	$ -	-		0.00%
14									
15	Supporting Schdules:								
16	E-2								
17									
18									
19									
20									
21									

Goodman Water Company
Test Year Ended September 30, 2005
Cost of Preferred Stock

Exhibit
Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	End of Test Year Shares Outstanding	End of Test Year Amount	End of Test Year Dividend Requirement	End of Projected Year Shares Outstanding	End of Projected Year Amount	End of Projected Year Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:			RECAP SCHEDULES:			
18	(a) E-1			(a) D-1			
19							
20							

Goodman Water Company
Test Year Ended September 30, 2005
Cost of Common Equity

Exhibit
Schedule D-4
Page 1
Witness: Bourassa

Line No.	
1	
2	The Company is proposing a cost of common equity of 10.5% .
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	SUPPORTING SCHEDULES: RECAP SCHEDULES:
18	(a) E-1 (a) D-1
19	
20	

Goodman Water Company
Selected Characteristics of Water Utilities

Schedule D-4.1
Witness: Bourassa

No.		% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1						
2						
3						
4	1. American States	87%	$ 231.8	$ 621.0	A-	A2
5	2. Aqua America	78%	$ 489.3	$ 1,890.3	AA-	NR
6	3. California Water	93%	$ 312.3	$ 856.7	NR	A2
7	4. Connecticut Water	97%	$ 51.8	$ 199.4	AA+	NR
8	5. Middlesex	94%	$ 73.5	$ 250.8	A	NR
9	6. SJW Corp.	97%	$ 164.3	$ 301.0	NR	NR
10						
11	Average	91%	$ 220.5	$ 686.5		
12						
13	Goodman Water Company	100%	$ 0.2	$ 2.2		
14						
15	Source: AUS Utility Reports (March 2006)					

Goodman Water Company
Stock Price Comparision

Schedule D-4.5
Witness: Bourassa

Line No.		Company	Price at 3/28/2005	Spot Price 3/28/2006	Difference Spot Price	Percent Increase
1	1.	American States (AWR)	$ 24.72	$ 36.78	$ 12.06	48.79%
2	2.	Aqua America (WTR)	17.85	27.48	9.63	53.95%
3	3.	California Water (CWT)	32.93	43.61	10.68	32.43%
4	4.	Connecticut Water (CTWS)	24.47	25.07	0.60	2.45%
5	5.	Middlesex (MSEX)	17.42	18.35	0.93	5.34%
6	6.	SJW Corp. (SJW)	17.35	26.63	9.28	53.49%
7						
8					$ 7.20	32.74%
9						
10	Sources:					
11		Yahoo Finance				
12		Zacks Investment Research				
13						
14						
15						

Goodman Water Company
Analysts Forecasts of Earnings Per Share Growth

Schedule D-4.6
Witness: Bourassa

Line No.		Company	(1) EPS GROWTH Zacks	(2) EPS GROWTH S&P	(3) EPS GROWTH Value Line	(4) Average Growth (G) (Cols 1-3)
7	1.	American States	6.00%	6.00%	12.00%	8.00%
8	2.	Aqua America	9.00%	9.00%	13.00%	10.33%
9	3.	California Water	9.00%	8.00%	8.50%	8.50%
10	4.	Connecticut Water				8.21%
11	5.	Middlesex	6.00%	6.00%		6.00%
12	6.	SJW Corp.				8.21%
15		GROUP AVERAGE	7.50%	7.25%	11.17%	8.21%
16		GROUP MEDIAN				8.21%

Sources:
Value Line Investment Survey Dated Jan 27, 2006
Zacks Investment Research Site Dated March 28, 2006
S&P Earnings Guide March 2006

Goodman Water Company
Estimates of Sustainable Growth

Schedule D-4.7
Witness: Bourassa

Line No.		Company	(1) Retention Ratio	(2) Rate of Return	(3) br Growth	(4) sv Growth	(5) Average Sustainable Growth (Cols 3+4)
7	1.	American States	0.54	12.00%	6.51%	2.60%	9.12%
8	2.	Aqua America	0.47	12.50%	5.83%	1.19%	7.02%
9	3.	California Water	0.42	11.00%	4.66%	4.44%	9.10%
10	4.	Connecticut Water					
11	5.	Middlesex					
12	6.	SJW Corp.					
15		GROUP AVERAGE	0.48	11.83%	5.67%	2.74%	8.41%
16		GROUP MEDIAN	0.47	12.00%	5.83%	2.60%	9.10%

Sources:
Value Line Data Reported January 27, 2006

Goodman Water Company
Estimates of sv Growth

Schedule D-4.8
Witness: Bourassa

Line No.		Company	(1) Stock Financing Rate	(2) Current Market to Book Ratio	(3) v	(4) sv Growth
7	1.	American States	4.55%	2.34	0.57	2.60%
8	2.	Aqua America	1.54%	4.36	0.77	1.19%
9	3.	California Water	7.02%	2.73	0.63	4.44%
10	4.	Connecticut Water				na
11	5.	Middlesex				na
12	6.	SJW Corp.				na
15		GROUP AVERAGE	4.37%	3.14	0.66	2.74%
16		GROUP MEDIAN	4.55%	2.73	0.63	2.60%

Sources:
Value Line data reported January 27, 2006

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Projected EPS Growth

Schedule D-4.9
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D_1)	(3) Dividend Yield	(4) (a) EPS Growth (g)	(5) Indicated Cost of Equity k=Div Yld + g (Cols 3+4)
1	1.	American States	36.78	0.90	2.45%	8.00%	10.4%
2	2.	Aqua America	27.48	0.44	1.60%	10.33%	11.9%
3	3.	California Water	43.61	1.15	2.64%	8.50%	11.1%
4	4.	Connecticut Water	25.07	0.86	3.43%	8.21%	11.6%
5	5.	Middlesex	18.35	0.69	3.76%	6.00%	9.8%
6	6.	SJW Corp.	26.63	0.56	2.10%	8.21%	10.3%
7		GROUP AVERAGE					10.9%
8		GROUP MEDIAN					10.8%

(a) See Schedules D-4.5

Sources:
Zacks Investment Research March 28, 2006
Value Line Data January 27, 2006

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Sustainable Growth

Schedule D-4.10
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Sustainable Growth(a) br	(5) vs	(6) br+sv Growth (g)	(7) Indicated Cost of Equity k=Div Yld + g (Cols 3+6)
7	1.	American States	36.78	0.90	2.45%	6.51%	2.60%	9.12%	11.6%
8	2.	Aqua America	27.48	0.44	1.60%	5.83%	1.19%	7.02%	8.6%
9	3.	California Water	43.61	1.15	2.64%	4.66%	4.44%	9.10%	11.7%
10	4.	Connecticut Water	25.07	0.86	3.43%			8.41%	11.8%
11	5.	Middlesex	18.35	0.70	3.81%			8.41%	12.2%
12	6.	SJW Corp.	26.63	0.55	2.07%			8.41%	10.5%
15		GROUP AVERAGE							11.1%
16		GROUP MEDIAN							11.7%

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

Sources:
Zacks Investment Research March 28, 2006
Value Line data Jauanry 27, 2006

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Two-Stage Growth - Projected

Schedule D-4.11
Witness: Bourassa

Line No.		Company	(1) Spot Price(P_0)	(2) Next Year's Div (D_1)	(3) Yield (D_1/P_0)	(4) Projected Growth Rates Near Term (a)	(5) Long Term (GDP)	(6) Average (b)	(7) Indicated Cost of Equity
7	1.	American States	36.78	0.90	2.45%	8.00%	6.80%	7.60%	10.1%
8	2.	Aqua America	27.48	0.44	1.60%	10.33%	6.80%	9.17%	10.8%
9	3.	California Water	43.61	1.15	2.64%	8.50%	6.80%	7.94%	10.6%
10	4.	Connecticut Water	25.07	0.86	3.43%	8.21%	6.80%	7.74%	11.2%
11	5.	Middlesex	18.35	0.70	3.81%	6.00%	6.80%	6.26%	10.1%
12	6.	SJW Corp.	26.63	0.55	2.07%	8.21%	6.80%	7.74%	9.8%
15		GROUP AVERAGE							10.4%
16		GROUP MEDIAN							10.3%

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

Sources:
Zacks Investment Research March 28, 2006
Value Line data Jauanry 27, 2006

Goodman Water Company
Risk Premium Equity Cost Analysis
Average Equity Returns of Sample Water Companies

Schedule D-4.12
Witness: Bourassa

Line No.		Actual Returns on Equity	Annual Average 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	10.04%	4.29%	5.75%
2	2004	8.95%	4.27%	4.68%
3	2003	8.75%	4.01%	4.74%
4	2002	10.25%	4.61%	5.64%
5	2001	10.05%	5.02%	5.03%
6	2000	9.62%	6.03%	3.59%
7	1999	11.20%	5.65%	5.55%
8	1998	10.62%	5.26%	5.36%
9	1997	11.52%	6.35%	5.17%
10	1996	11.67%	6.44%	5.23%
11	1995	10.93%	6.57%	4.36%
12				
13				
14	10 Year Average Premium			5.07%
15	5 Year Average Premium			5.17%
16				
17				
18	Forecasted Interest Rates for 2007-2008(c)			5.20%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.3%
22	5 Year Average			10.4%
23				
24				
25	Sources:			
26	Value Line data reported Jan 27, 2006			
27	Ibbotson Associates SBBI Valuation Edition 2005 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. Dec, 2005			
29	Federal Reserve			
30				

Test Year Ended Septmber 30, 2005
Returns on Equity of Nationally Traded Water
Utilities as Reported in AUS Utility Reports
March 2006

Exhibit
Schedule D-4.14
Page 1
Witness: Bourassa

Line No.		Authorized Rate of Return	Current Rate of Return
1	American States Water Co.	10.0%	9.4%
2	Aqua America	10.1%	12.5%
3	California Water	10.1%	8.6%
4	Connecticut Water Service	12.7%	12.1%
5	Middlesex Water Co.	10.0%	8.6%
6	SJW Corp.	9.9%	13.6%
7			
8			
9	Averages	10.5%	10.8%
10			
11			
12			
13			
14			
15			

Goodman Water Company
Risk Premium Equity Cost Analysis
Authorized Equity Returns of Sample Water Companies

Schedule D-4.13
Witness: Bourassa

Line No.		Authorized Returns on Equity	Average Annual 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	10.80%	4.29%	6.51%
2	2004	10.40%	4.27%	6.13%
3	2003	10.48%	4.01%	6.47%
4	2002	10.62%	4.61%	6.01%
5	2001	10.86%	5.02%	5.84%
6	2000	11.12%	6.03%	5.09%
7	1999	11.12%	5.65%	5.47%
8	1998	11.06%	5.26%	5.80%
9	1997	11.18%	6.35%	4.83%
10	1996	11.58%	6.44%	5.14%
11	1995	11.51%	6.57%	4.94%
12				
13				
14	10 Year Average Premium			5.57%
15	5 Year Average Premium			5.91%
16				
17				
18	Consensus Forecast Interest Rates for 2007-2008(c)			5.20%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.8%
22	5 Year Average			11.1%
23				
24				
25	Sources:			
26	AUS Utility Reports, issues for December various years			
27	Ibbotson Associates SBBI Valuation Edition 2005 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. Dec, 2005			
29				

Exhibit 1
Witness: Bourassa

Goodman Water Company

Discounted Cash Flow Analysis (Water)
Market Price

Line No.		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
								EXPECTED CASH FLOWS						
	Company		2006 Div	5 Year Historical Average Div. Growth	Recent Price	5 Year Historical Average Price Growth	Year 5 Price	Recent Price	Year 1 Div	Year 2 Div	Year 3 Div	Year 4 Div	Year 5 Div + Price	**Implied ROE** = Internal Rate of Return (Cols 7-12)
1.	American States		$ 0.91	0.69%	$ 36.78	7.30%	$ 52.32	$ (36.78)	$ 0.91	$ 0.92	$ 0.92	$ 0.93	$ 59.75	11.9%
2.	Aqua America		0.46	7.40%	27.48	16.33%	58.55	(27.48)	0.46	0.49	0.53	0.57	63.68	19.5%
3.	California Water		1.16	0.72%	43.61	10.42%	71.57	(43.61)	1.16	1.25	1.34	1.44	85.95	16.5%
4.	Connecticut Water		0.87	1.49%	25.07	5.39%	32.60	(25.07)	0.87	0.93	1.00	1.08	44.46	14.8%
5.	Middlesex		0.71	2.20%	18.35	4.31%	22.66	(18.35)	0.71	0.76	0.82	0.88	33.21	15.5%
6.	SJW Corp.		0.59	5.27%	26.63	7.17%	37.64	(26.63)	0.59	0.63	0.68	0.73	47.15	13.8%
	GROUP AVERAGE			2.96%		8.49%								15.3%
	GROUP MEDIAN			1.84%		7.23%								15.2%

Sources:
Value Line Investment Survey Dated Jan 27, 2006
Zacks Investment Research Jan 27, 2006
Yahoo Finance

Goodman Water Company
Historical Compound Annual Total Market Returns

Exhibit 2
Witness: Bourassa

	Company	3 Yr.** Return	5 Yr.** Return	10 Yr.*** Return
1.	American States	27.67%	16.84%	21.33%
2.	Aqua America	55.89%	34.37%	28.45%
3.	California Water	39.40%	23.55%	16.58%
4.	Connecticut Water	7.28%	16.34%	14.91%
5.	Middlesex	15.02%	12.92%	15.01%
6.	SJW Corp.	42.94%	17.68%	19.86%
	Average	31.37%	20.28%	19.36%

* 2003-2005
** 2001-2005
*** 1996-2005

Sources:
Value Line Data
Yahoo Finance

Goodman Water Company
Historical Compound Annual Capital Appreciation Returns

Exhibit 3
Witness: Bourassa

	Company	3 Yr.* Return	5 Yr.** Return	10 Yr.*** Return
1.	American States	13.90%	8.19%	13.25%
2.	Aqua America	32.99%	21.12%	27.11%
3.	California Water	21.10%	12.54%	13.65%
4.	Connecticut Water	2.09%	7.61%	11.68%
5.	Middlesex	6.11%	5.32%	11.55%
6.	SJW Corp.	23.91%	9.11%	17.76%
	Average	16.68%	10.65%	15.83%

* 2003-2005
** 2001-2005
*** 1996-2005

Sources:
Value Line Data
Yahoo Finance

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Analyst Estimates of DPS Growth

Exhibit 4
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Div. Growth	(5) Indicated Equity Cost k=Div Yld + G (Cols 1+4)
7	1.	American States	36.78	0.90	2.45%	1.50%	3.9%
8	2.	Aqua America	27.48	0.44	1.60%	8.00%	9.6%
9	3.	California Water	43.61	1.15	2.64%	1.50%	4.1%
10	4.	Connecticut Water	25.07	0.86	3.43%	Not Available	
11	5.	Middlesex	18.35	0.69	3.76%	Not Available	
12	6.	SJW Corp.	26.63	0.56	2.10%	Not Available	
15		GROUP AVERAGE					5.9%
16		GROUP MEDIAN					4.1%
18		Current Baa interest rate					6.4%
20		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Top 10					8.2%
21		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Bottom 10					6.1%
22		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Average					7.1%

Sources:
- Value Line data report on Jan 27, 2006
- Zacks Investment Research data for March 28, 2006
- Yahoo Finance
- Federal Reserve
- Blue Chip Financial Forecast Dec 2005

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using 5 Year Historical Dividend Growth

Exhibit 5
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D_1)	(3) Dividend Yield	(4) Historical Div. Growth	(5) Indicated Equity Cost k=Div Yld + G (Cols 1+4)
1	1.	American States	36.78	0.90	2.45%	0.69%	3.1%
2	2.	Aqua America	27.48	0.44	1.60%	7.40%	9.0%
3	3.	California Water	43.61	1.15	2.64%	0.72%	3.4%
4	4.	Connecticut Water	25.07	0.86	3.43%	1.49%	4.9%
5	5.	Middlesex	18.35	0.70	3.81%	2.20%	6.0%
6	6.	SJW Corp.	26.63	0.55	2.07%	5.27%	7.3%
7		GROUP AVERAGE					5.6%
8		GROUP MEDIAN					5.5%
9		Current Baa interest rate					6.4%
10		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Top 10					8.2%
11		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Bottom 10					6.1%
12		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Average					7.1%

* Indicated Equity Cost Below Cost of Debt

Sources:
- Value Line data report on Jan 27, 2006
- Zacks Investment Research data for March 28, 2006
- Yahoo Finance
- Federal Reserve
- Blue Chip Financial Forecast Dec 2005

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using 5 Year Historical EPS Growth

Exhibit 6
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Historical EPS Growth	(5) Indicated Equity Cost k=Div Yld + G (Cols 1+4)	(6) Indicated Equity Cost k=Div Yld + G (Cols 1+4)
7	1.	American States	36.78	0.90	2.45%	0.46%	2.9%	*
8	2.	Aqua America	27.48	0.44	1.60%	8.95%	10.5%	10.5%
9	3.	California Water	43.61	1.15	2.64%	4.58%	7.2%	7.2%
10	4.	Connecticut Water	25.07	0.86	3.43%	2.30%	5.7%	*
11	5.	Middlesex	18.35	0.70	3.81%	8.10%	11.9%	11.9%
12	6.	SJW Corp.	26.63	0.55	2.07%	2.82%	4.9%	*
15		GROUP AVERAGE					7.2%	**9.9%**
16		GROUP MEDIAN					6.5%	**10.5%**
18		Current Baa interest rate					6.4%	
20		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Top 10					8.2%	
21		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Bottom 10					6.1%	
22		Blue Chip Forecast Baa Corporate Bond Interest Rate 2007-2008 Average					7.1%	

24 * Indicated Equity Cost Below Current Cost of Debt

27 Sources:
28 Value Line data report on Jan 27, 2006
29 Zacks Investment Research data for March 28, 2006
30 Yahoo Finance
31 Federal Reserve
32 Blue Chip Financial Forecast Dec 2005

GOODMAN WATER COMPANY

SCHEDULE "E"

Goodman Water Company
Test Year Ended September 30, 2005
Comparative Balance Sheets

Exhibit
Schedule E-1
Page 1
Witness: Bourassa

Line No.		Test Year Ended 9/30/2005	Year Ended 12/31/2004	Year Ended 12/31/2003
1	**ASSETS**			
2	Plant In Service	$ 2,337,731	$ 2,044,029	$ 1,639,313
3				
4	Non-Utility Plant	-	-	-
5	Construction Work in Progress	-	193,946	-
6	Less: Accumulated Depreciation	(201,274)	(137,890)	(55,723)
7	Net Plant	$ 2,136,458	$ 2,100,085	$ 1,583,590
8				
9	Debt Reserve Fund	$ -	$ -	$ -
10				
11		$ -	$ -	$ -
12				
13	CURRENT ASSETS			
14	Cash and Equivalents	$ 8,679	$ 111,784	$ 89,671
15	Restricted Cash	-	-	-
16	Accounts Receivable, Net	16,292	2,121	1,839
17	Unbilled Revenues	-	-	-
18	Materials and Supplies	-	-	-
19	Prepayments	-	-	-
20	Other Current Assets	105,933	84,072	430
21	Total Current Assets	$ 130,904	$ 197,977	$ 91,940
22				
23	Deferred Debits	$ -	$ -	$ -
24				
25	Other Investments & Special Funds	$ -	$ -	$ -
26				
27	TOTAL ASSETS	$ 2,267,362	$ 2,298,062	$ 1,675,530
28				
29				
30	**LIABILITIES AND STOCKHOLDERS' EQUITY**			
31				
32	Common Equity	$ 1,268,596	$ 1,341,338	$ 1,024,018
33				
34	Long-Term Debt	$ -	$ -	$ -
35				
36	CURRENT LIABILITIES			
37	Accounts Payable	$ 9,157	$ 4,466	$ 2,990
38	Current Portion of Long-Term Debt	-	-	-
39	Payables to Associated Companies	-	-	-
40	Customer Meter Deposits, Current	-	-	-
41	Accrued Taxes	3,049	890	625
42	Accrued Interest	-	-	-
43	Other Current Liabilities	-	-	-
44	Total Current Liabilities	$ 12,207	$ 5,356	$ 3,615
45	DEFERRED CREDITS			
46	Customer Meter Deposits, less current	$ 14,864	$ 81,870	$ 50,117
47	Advances in Aid of Construction	971,695	869,498	597,780
48	Accumulated Deferred Income Taxes	-	-	-
49	Contributions In Aid of Construction, Net	-	-	-
50	Asset Retirement Obligations	-	-	-
51	Total Deferred Credits	$ 986,559	$ 951,368	$ 647,897
52				
53	Total Liabilities & Common Equity	$ 2,267,362	$ 2,298,062	$ 1,675,530
54				
55	SUPPORTING SCHEDULES:			
56	E-5			
57				

Goodman Water Company
Test Year Ended September 30, 2005
Comparative Income Statements

Exhibit
Schedule E-2
Page 1
Witness: Bourassa

Line No.		Test Year Ended 9/30/2005	Prior Year Ended 12/31/2004	Prior Year Ended 12/31/2003
1	**Revenues**			
2	Metered Water Revenues	$ 162,662	$ 162,452	$ 98,159
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	17,940	16,125	12,040
5	**Total Revenues**	$ 180,602	$ 178,577	$ 110,199
6	**Operating Expenses**			
7	Salaries and Wages	$ 64,001	$ 40,000	$ 50,000
8	Purchased Water	-	-	-
9	Purchased Power	9,442	5,551	1,794
10	Chemicals	-	-	-
11	Repairs and Maintenance	9,868	14,057	3,684
12	Office Supplies and Expense	778	679	267
13	Outside Services	104,451	81,686	32,458
14	Water Testing	3,639	1,729	1,333
15	Rents	-	-	-
16	Transportation Expenses	-	-	-
17	Insurance - General Liability	18,253	12,123	11,549
18	Insurance - Health and Life	-	-	-
19	Regulatory Commission Expense - Rate Case	55	45	-
20	Miscellaneous Expense	2,386	1,890	2,042
21	Depreciation Expense	86,268	82,167	53,823
22	Taxes Other Than Income	5,324	3,130	4,315
23	Property Taxes	2,070	354	300
24	Income Tax	-	-	45
25				
26	**Total Operating Expenses**	$ 306,535	$ 243,411	$ 161,610
27	**Operating Income**	$ (125,933)	$ (64,834)	$ (51,411)
28	**Other Income (Expense)**			
29	Interest Income	1,747	1,008	718
30	Other income	-	-	-
31	Interest Expense	(90)	(73)	(32)
32	Other Expense	-	(46)	-
33				
34	**Total Other Income (Expense)**	$ 1,657	$ 889	$ 686
35	**Net Profit (Loss)**	$ (124,276)	$ (63,945)	$ (50,725)
36				
37				

Goodman Water Company
Test Year Ended September 30, 2005
Operating Statistics

Exhibit
Schedule E-7
Page 1
Witness: Bouras

Line No.		Test Year Ended 9/30/2005	Prior Year Ended 12/31/2004	Prior Year Ended 12/31/2003
1	WATER STATISTICS:			
2				
3				
4				
5	Total Gallons Sold (in Thousands)	27,941	32,304	18,493
6				
7				
8				
9	Water Revenues from Customers:	$ 162,662	$ 162,452	$ 98,159
10				
11				
12				
13				
14	Year End Number of Customers	459	370	202
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	61	87	92
19				
20				
21				
22	Annual Revenue per Year End Customer	$ 354.38	$ 439.06	$ 485.94
23				
24	Pumping Cost Per 1,000 Gallons	$ 0.3379	$ 0.1718	$ 0.0970
25	Purchased Water Cost per 1,000 Gallons	$ -	$ -	$ -

Goodman Water Company
Test Year Ended September 30, 2005
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

The Company does conduct independent audits

GOODMAN WATER COMPANY

SCHEDULE "H"

Goodman Water Company
Revenue Summary
Test Year Ended September 30, 2005

Exhibit
Schedule H-1
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Addition Bills	Addition Gallons
1	5/8 x 3/4 Inch Residential	$124,765	$343,162	$ 218,397	175.05%		
2	3/4 Inch Residential	-	-	-	0.00%		
3	1 Inch Residential	10,839	27,362	16,523	152.44%		
4	2 Inch Residential	13,982	43,526	29,544	211.31%		
5	Construction Water	13,412	21,741	8,329	62.11%		
6		-	-	-			
7		-	-	-			
8							
9							
10	Subtotals of Revenues	$ 162,998	$ 435,791	$ 272,793	167.36%		
11							
12	Other Water Revenues	17,940	17,940	-	0.00%		
13							
14							
15	**Subtotals of Revenues**	$ 180,938	$ 453,731	$ 272,793	150.77%		
16	**Revenue Annualizations:**						
17	5/8 Inch residential	$ 14,345	$ 38,268	$ 23,923	166.76%	537	182,394
18	3/4 Inch Residential	-	-	-	0.00%	-	-
19	1 Inch Residential	18,401	45,948	27,547	149.70%	325	1,722,972
20	2 Inch Residential	-	-	-	0.00%	-	-
21	Construction Water	-	-	-	0.00%		
22	**Subtotal Revenue Annualization**	32,746	84,216	51,469	157.18%	862	1,905,366
23							
24	**Total Revenues Per Bill Count**	$ 213,684	$ 537,947	$ 324,263	151.75%		
25	**With Annualization**						
26							
27	**Subtotal of Revenues Above w/o Annualization**	**$ 180,938**					
28	**Revenues Per Annual Report**	**$ 180,602**					
29	**Difference in Dollars**	**$ 336**					
30	**Dfference in Percentage**	**0.19%**					
31	**Tolerance Allowed by ACC Staff**	**0.50%**					
32							
33							

Goodman Water Company
Analysis of Revenue by Detailed Class
Test Year Ended September 30, 2005

Exhibit
Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2004	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	5/8 x 3/4 Inch Residential	368	5,509	$ 124,765	$ 343,162	$ 218,397	175.05%	94.83%
2	3/4 Inch Residential	-	-	-	-	-	0.00%	0.00%
3	1 Inch Residential	17	3,816	10,839	27,362	16,523	152.44%	4.36%
4	2 Inch Residential	3	111,083	13,982	43,526	29,544	211.31%	0.77%
5	Construction Water	0	1,411,750	13,412	21,741	8,329	62.11%	0.04%
6								
7								
8								
9								
10								
11								
12								
13								
14	Totals	388						100.00%
15								
16	Actual Year End Number							
17	of Customers:	459						
18								
19								
20								
21								

Goodman Water Company
Present and Proposed Rates
Test Year Ended September 30, 2005

Exhibit
Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size (Residential and Commercial)		Present Rates	Proposed Rates (a)	Percent Change
1	**Monthly Usage Charge for:**				
2	5/8 x 3/4 Inch		$ 18.00	$ 44.78	148.80%
3	3/4 Inch		27.00	67.18	148.80%
4	1 Inch		45.00	111.96	148.80%
5	1 1/2 Inch residential or Commercial		90.00	223.92	148.80%
6	2 Inch Residential or Commercial		144.00	358.27	148.80%
7	3 Inch Residential or Commercial		270.00	671.76	148.80%
8	4 Inch Residential or Commercial		450.00	1,119.60	148.80%
9	6 Inch Residential or Commercial		900.00	2,239.20	148.80%
10	Construction Water/Standpipe		-	-	0.00%
11	Gallons included in Minimums 5/8 x 3/4 Inch				
12	Meter only		1,000	-	
13					
14	Tier 1: Gallons upper limit				
15	5/8 x 3/4 Inch	All	100,000,000	Please See	N/A
16	34 Inch	All	100,000,000	Page 2 &	N/A
17	1 Inch	All	100,000,000	Page 3	N/A
18	1.5 Inch	All	100,000,000		N/A
19	2 Inch	All	100,000,000		N/A
20	3 Inch	All	100,000,000		N/A
21	4 Inch	All	100,000,000		N/A
22	6 Inch	All	100,000,000		N/A
23	8 Inch	All	100,000,000		N/A
24					
25	Tier 2: (Gallon upper limit, up to, but not exceeding)				
26	5/8 x 3/4 Inch	All	100,000,000	Please See	N/A
27	3/4 Inch	All	100,000,000	Page 2 &	N/A
28	1 Inch	All	100,000,000	Page 3	N/A
29	1.5 Inch	All	100,000,000		N/A
30	2 Inch	All	100,000,000		N/A
31	3 Inch	All	100,000,000		N/A
32	4 Inch	All	100,000,000		N/A
33	6 Inch	All	100,000,000		N/A
34	8 Inch	All	100,000,000		N/A
35					

Goodman Water Company
Present and Proposed Rates
Test Year Ended September 30, 2005

Exhibit
Schedule H-3
Page 2
Witness: Bourassa

Line No.	Customer Classification and Meter Size		Present Rates	Proposed Rates	Percent Change
1	Tier 3: (Gallon upper limit, up to, but not exceeding)				
2	5/8 x 3/4 Inch	All	100,000,000	Please See	N/A
3	3/4 Inch	All	100,000,000	Page 2 &	N/A
4	1 Inch	All	100,000,000	Page 3	N/A
5	1.5 Inch	All	100,000,000		N/A
6	2 Inch	All	100,000,000		N/A
7	3 Inch	All	100,000,000		N/A
8	4 Inch	All	100,000,000		N/A
9	6 Inch	All	100,000,000		N/A
10	8 Inch	All	100,000,000		N/A
11					
12			Present	Proposed	
13	Commodity Rates (per 1,000 gallons in excess of gallons in Each Tier)				
14	All customer classes except Construction Water	Tier 1	$ 2.20	$ 5.00	127.27%
15	All customer classes except Construction Water	Tier 2	2.20	6.70	204.55%
16	All customer classes except Construction Water	Tier 3	2.20	7.70	250.00%
17					
18	Construction Water	All Water	$ 4.75	$ 7.70	62.11%
19					
20			Proposed Rates		
21			From	To	
22			Gallons	Gallons	
23	**5/8 and 3/4 Inch Meters**				Price
24	Tier 1		-	4,000	$ 5.00
25	Tier 2		4,001	10,000	$ 6.70
26	Tier 3		10,001		$ 7.70
27					
28					
29	**1 Inch Meter and Larger Meters**				
30	Tier 1		-	10,000	$ 5.00
31	Tier 2		10,001	25,000	$ 6.70
32	Tier 3		25,001		$ 7.70
33					
34					

Goodman Water Company
Present and Proposed Rates
Test Year Ended September 30, 2005

Exhibit
Schedule H-3
Page 3
Witness: Bourassa

Meter and Service Line Charges

	Present Service Line Charge	Present Meter Install-ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install-ation Charge	Total Proposed Charge
5/8 x 3/4 Inch			$ 225.00	$ 385.00	$ 135.00	$ 520.00
3/4 Inch			270.00	385.00	215.00	600.00
1 Inch			300.00	435.00	255.00	690.00
1 1/2 Inch			425.00	470.00	465.00	935.00
2 Inch Turbo			550.00	630.00	965.00	1,595.00
2 Inch, Compound			550.00	630.00	1,690.00	2,320.00
3 Inch Turbo			750.00	805.00	1,470.00	2,275.00
3 Inch, compound			750.00	845.00	2,265.00	3,110.00
4 Inch Turbo			1,375.00	1,170.00	2,350.00	3,520.00
4 Inch, compound			1,375.00	1,230.00	3,245.00	4,475.00
5 Inch			2,090.00			
6 Inch Turbo			2,800.00	1,730.00	4,545.00	6,275.00
6 Inch, compound			2,800.00	1,770.00	6,280.00	8,050.00
8 Inch			NA	At Cost	At Cost	At Cost
10 Inch			NA	At Cost	At Cost	At Cost
12 Inch			NA	At Cost	At Cost	At Cost

Other Charges:

Establishment	$ 50.00	$ 50.00	Establishment (R14-2-403.D.1)
Establishment (After Hours)	$ 75.00	$ 75.00	Establishment (After Hours) (R14-2-403.D.2)
Reconnection (Delinquent)	$ 75.00	$ 75.00	Meter Test (R14-2-408.F)
Reconnection (Delinquent) after hours			Deposit (R14-2-403.B)
Meter Test	$ 20.00	$ 20.00	Deposit Interest (R14-2-403.B.3)
Deposit	PER RULE	PER RULE	Re-establishment (R14-2-403.D.1)
Deposit Interest	PER RULE	PER RULE	NSF Check (R14-2-409.F.1)
Re-establishment (Within 12 months)	PER RULE	PER RULE	Deferred Payment (R14-2-409.G.6)
NSF Check	$ 15.00	$ 15.00	Meter Re-read (R14-2-408.C.2)
Deferred Payment	18%	18%	
Meter Re-read	$ 20.00	$ 20.00	
Late Fee	$ 10.00	$ 10.00	
Customer requested Meter Test	$ 20.00	$ 20.00	

(a) $ 5.00 minimum or 1.5% of unpaid balance whichever is greater.

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 5/8 Inch Meter
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 1
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 18.00	$ 44.78	$ 26.78	148.80%
1,000	18.00	49.78	$ 31.78	176.58%
2,000	20.20	54.78	$ 34.58	171.21%
3,000	22.40	59.78	$ 37.38	166.89%
4,000	24.60	64.78	$ 40.18	163.35%
5,000	26.80	71.48	$ 44.68	166.73%
6,000	29.00	78.18	$ 49.18	169.60%
7,000	31.20	84.88	$ 53.68	172.06%
8,000	33.40	91.58	$ 58.18	174.20%
9,000	35.60	98.28	$ 62.68	176.08%
10,000	37.80	104.98	$ 67.18	177.74%
12,000	42.20	120.38	$ 78.18	185.27%
14,000	46.60	135.78	$ 89.18	191.38%
16,000	51.00	151.18	$ 100.18	196.44%
18,000	55.40	166.58	$ 111.18	200.69%
20,000	59.80	181.98	$ 122.18	204.32%
25,000	70.80	220.48	$ 149.68	211.42%
30,000	81.80	258.98	$ 177.18	216.61%
35,000	92.80	297.48	$ 204.68	220.56%
40,000	103.80	335.98	$ 232.18	223.68%
45,000	114.80	374.48	$ 259.68	226.21%
50,000	125.80	412.98	$ 287.18	228.29%
60,000	147.80	489.98	$ 342.18	231.52%
70,000	169.80	566.98	$ 397.18	233.91%
80,000	191.80	643.98	$ 452.18	235.76%
90,000	213.80	720.98	$ 507.18	237.22%
100,000	235.80	797.98	$ 562.18	238.42%
Average Usage				
5,509	$ 27.92	$ 74.89	$ 46.97	168.25%
Median Usage				
4,500	$ 25.70	$ 68.13	$ 42.43	165.11%

Present Rates:

Monthly Minimum:		$ 18.00
Gallons in Minimum		1,000
Charge Per 1,000 Gallons		
Up to	100,000,000	$ 2.20
Up to	100,000,000	$ 2.20
Over	100,000,000	$ 2.20

Proposed Rates:

Monthly Minimum:		$ 44.78
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	4,000	$ 5.00
Up to	10,000	$ 6.70
Over	10,001	$ 7.70

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 1 Inch Meter
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 2
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 45.00	$ 111.96	$ 66.96	148.80%
1,000	47.20	116.96	$ 69.76	147.80%
2,000	49.40	121.96	$ 72.56	146.88%
3,000	51.60	126.96	$ 75.36	146.05%
4,000	53.80	131.96	$ 78.16	145.28%
5,000	56.00	136.96	$ 80.96	144.57%
6,000	58.20	141.96	$ 83.76	143.92%
7,000	60.40	146.96	$ 86.56	143.31%
8,000	62.60	151.96	$ 89.36	142.75%
9,000	64.80	156.96	$ 92.16	142.22%
10,000	67.00	161.96	$ 94.96	141.73%
12,000	71.40	175.36	$ 103.96	145.60%
14,000	75.80	188.76	$ 112.96	149.02%
16,000	80.20	202.16	$ 121.96	152.07%
18,000	84.60	215.56	$ 130.96	154.80%
20,000	89.00	228.96	$ 139.96	157.26%
25,000	100.00	262.46	$ 162.46	162.46%
30,000	111.00	300.96	$ 189.96	171.14%
35,000	122.00	339.46	$ 217.46	178.25%
40,000	133.00	377.96	$ 244.96	184.18%
45,000	144.00	416.46	$ 272.46	189.21%
50,000	155.00	454.96	$ 299.96	193.52%
60,000	177.00	531.96	$ 354.96	200.54%
70,000	199.00	608.96	$ 409.96	206.01%
80,000	221.00	685.96	$ 464.96	210.39%
90,000	243.00	762.96	$ 519.96	213.98%
100,000	265.00	839.96	$ 574.96	216.97%
Average Usage				
3,816	$ 53.39	$ 131.04	$ 77.64	145.42%
Median Usage				
500	$ 46.10	$ 114.46	$ 68.36	148.29%

Present Rates:

Monthly Minimum:		$ 45.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	100,000,000	$ 2.20
Up to	100,000,000	$ 2.20
Over	100,000,000	$ 2.20

Proposed Rates:

Monthly Minimum:		$ 111.96
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	10,000	$ 5.00
Up to	25,000	$ 6.70
Over	25,001	$ 7.70

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Residential 2 Inch
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 3
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 144.00	$ 358.27	$ 214.27	148.80%
1,000	146.20	364.97	$ 218.77	149.64%
2,000	148.40	371.67	$ 223.27	150.45%
3,000	150.60	378.37	$ 227.77	151.24%
4,000	152.80	385.07	$ 232.27	152.01%
5,000	155.00	391.77	$ 236.77	152.76%
6,000	157.20	398.47	$ 241.27	153.48%
7,000	159.40	405.17	$ 245.77	154.19%
8,000	161.60	411.87	$ 250.27	154.87%
9,000	163.80	418.57	$ 254.77	155.54%
10,000	166.00	425.27	$ 259.27	156.19%
12,000	170.40	440.67	$ 270.27	158.61%
14,000	174.80	456.07	$ 281.27	160.91%
16,000	179.20	471.47	$ 292.27	163.10%
18,000	183.60	486.87	$ 303.27	165.18%
20,000	188.00	502.27	$ 314.27	167.17%
25,000	199.00	540.77	$ 341.77	171.74%
30,000	210.00	579.27	$ 369.27	175.84%
35,000	221.00	617.77	$ 396.77	179.53%
40,000	232.00	656.27	$ 424.27	182.88%
45,000	243.00	694.77	$ 451.77	185.91%
50,000	254.00	733.27	$ 479.27	188.69%
60,000	276.00	810.27	$ 534.27	193.58%
70,000	298.00	887.27	$ 589.27	197.74%
80,000	320.00	964.27	$ 644.27	201.33%
90,000	342.00	1,041.27	$ 699.27	204.47%
100,000	364.00	1,118.27	$ 754.27	207.22%
150,000	474.00	1,503.27	$ 1,029.27	217.15%
200,000	584.00	1,888.27	$ 1,304.27	223.33%
250,000	694.00	2,273.27	$ 1,579.27	227.56%
300,000	804.00	2,658.27	$ 1,854.27	230.63%
350,000	914.00	3,043.27	$ 2,129.27	232.96%
400,000	1,024.00	3,428.27	$ 2,404.27	234.79%
450,000	1,134.00	3,813.27	$ 2,679.27	236.27%
500,000	1,244.00	4,198.27	$ 2,954.27	237.48%
Average Usage				
111,083	$ 388.38	$ 1,203.61	$ 815.23	209.90%
Median Usage				
-	$ 144.00	$ 358.27	$ 214.27	148.80%

Present Rates:

Monthly Minimum:		$ 144.00
Gallons in Minimum		
Charge Per 1,000 Gallons		
Up to	100,000,000	$ 2.20
Up to	100,000,000	$ 2.20
Over	100,000,000	$ 2.20

Proposed Rates:

Monthly Minimum:		$ 358.27
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	-	$ 5.00
Up to	10,001	$ 6.70
Over	25,001	$ 7.70

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Construction Water
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Schedule H-4
Page 4
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	0.00%
1,000	4.75	7.70	2.95	62.11%
2,000	9.50	15.40	5.90	62.11%
3,000	14.25	23.10	8.85	62.11%
4,000	19.00	30.80	11.80	62.11%
5,000	23.75	38.50	14.75	62.11%
6,000	28.50	46.20	17.70	62.11%
7,000	33.25	53.90	20.65	62.11%
8,000	38.00	61.60	23.60	62.11%
9,000	42.75	69.30	26.55	62.11%
10,000	47.50	77.00	29.50	62.11%
12,000	57.00	92.40	35.40	62.11%
14,000	66.50	107.80	41.30	62.11%
16,000	76.00	123.20	47.20	62.11%
18,000	85.50	138.60	53.10	62.11%
20,000	95.00	154.00	59.00	62.11%
25,000	118.75	192.50	73.75	62.11%
30,000	142.50	231.00	88.50	62.11%
35,000	166.25	269.50	103.25	62.11%
40,000	190.00	308.00	118.00	62.11%
45,000	213.75	346.50	132.75	62.11%
50,000	237.50	385.00	147.50	62.11%
60,000	285.00	462.00	177.00	62.11%
70,000	332.50	539.00	206.50	62.11%
80,000	380.00	616.00	236.00	62.11%
90,000	427.50	693.00	265.50	62.11%
100,000	475.00	770.00	295.00	62.11%

Present Rates:
Monthly Minimum: $ -
Gallons in Minimum
Charge Per 1,000 Gallons
Up to 100,000,000 $ 4.75

Proposed Rates:
Monthly Minimum: $ -
Gallons in Minimum -
Charge Per 1,000 Gallons
Up to 100,000,000 $ 7.70

Average Usage				
1,411,750	$ 6,705.81	$ 10,870.48	$ 4,164.66	62.11%
Median Usage				
1,411,750	$ 6,705.81	$ 10,870.48	$ 4,164.66	62.11%

Goodman Water Company
Test Year Ended September 30, 2005
Customer Classification 5/8 Inch Meter

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
0	0	24	18	53	39	38	52	36	31	31	28	24	19	393
1	1,000	27	35	39	35	54	31	41	42	45	36	50	43	478
1,001	2,000	46	32	33	34	22	14	18	29	26	27	34	38	353
2,001	3,000	25	26	11	31	45	19	22	26	30	32	34	27	328
3,001	4,000	26	28	33	42	53	47	40	34	28	28	59	39	457
4,001	5,000	39	37	51	46	52	37	44	39	29	28	53	42	497
5,001	6,000	38	42	28	27	38	44	42	41	32	39	33	40	444
6,001	7,000	26	34	29	33	15	42	26	26	28	27	36	24	346
7,001	8,000	20	9	14	17	12	21	28	28	21	31	25	30	256
8,001	9,000	12	14	16	11	3	13	14	20	27	15	17	20	182
9,001	10,000	8	6	10	5	3	10	11	15	21	16	7	11	123
10,001	11,000	10	4	9	4	2	6	7	12	11	11	9	10	95
11,001	12,000	3	1	-	4	3	3	8	8	14	14	6	15	79
12,001	13,000	4	2	1	3	1	6	3	4	7	9	3	21	64
13,001	14,000	3	2	2	-	-	2	3	4	11	6	2	4	39
14,001	15,000	5	2	2	-	3	1	1	4	3	13	8	6	48
15,001	16,000	4	1	3	1	-	3	3	4	6	6	3	1	35
16,001	17,000	-	-	-	2	1	1	5	7	5	9	3	4	37
17,001	18,000	1	-	-	1	-	2	3	7	4	4	1	-	23
18,001	19,000	1	1	-	1	3	2	-	4	6	1	-	5	24
19,001	20,000	-	-	1	-	1	-	2	3	2	2	1	2	14
20,001	21,000	-	1	2	-	1	1	1	-	1	1	1	3	12
21,001	22,000	-	-	-	-	-	-	1	2	1	2	-	3	9
22,001	23,000	1	1	-	2	-	1	-	2	2	1	-	-	10
23,001	24,000	-	-	-	1	1	1	4	-	3	3	-	-	13
24,001	25,000	-	-	-	-	-	-	-	1	1	2	-	-	4
25,001	26,000	-	-	2	-	-	-	-	1	1	2	1	-	7
26,001	27,000	1	1	-	-	-	-	-	1	-	-	-	-	3
27,001	28,000	-	-	-	-	-	-	-	1	1	-	-	1	3
28,001	29,000	-	-	-	-	-	-	-	-	1	1	1	-	3
29,001	30,000	2	1	1	-	-	-	1	-	3	-	-	1	9
30,001	31,000	-	-	-	-	-	-	2	1	1	1	-	-	5
31,001	32,000	-	-	-	-	-	-	-	-	1	-	-	-	1
32,001	33,000	-	1	-	-	-	-	-	-	-	-	-	1	2
33,001	34,000	-	1	-	-	-	-	-	-	-	-	-	-	1
34,001	35,000	-	-	-	-	-	1	-	-	-	-	-	1	2
35,001	36,000	-	-	-	-	-	-	-	1	-	-	-	-	1
36,001	37,000	-	-	-	-	-	1	-	-	-	1	-	1	3
37,001	38,000	1	-	-	-	-	-	-	-	-	-	-	-	1
38,001	39,000	-	-	-	-	-	-	-	-	-	-	-	-	0
39,001	40,000	-	-	-	-	-	-	-	-	1	-	-	-	1
40,001	41,000	-	-	-	-	-	-	-	-	-	-	-	-	0

Goodman Water Company
Test Year Ended September 30, 2005
Customer Classification 5/8 Inch Meter

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
41,001	42,000	-	-	-	-	-	-	-	-	-	-	-	-	0
42,001	43,000	-	-	-	-	-	-	-	-	-	1	-	-	1
43,001	44,000	-	-	-	-	1	-	-	-	-	-	-	-	1
44,001	45,000	-	-	-	-	-	-	1	-	-	-	-	-	1
45,001	46,000	-	-	-	-	-	1	-	-	-	-	-	-	1
46,001	47,000	1	-	-	-	-	-	-	-	-	-	1	-	2
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	0
48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	0
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	0
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	0
51,001	52,000	-	-	-	-	-	-	-	-	1	-	-	-	1
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	1	1
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	0
54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	0
55,001	56,000	-	-	-	-	-	-	-	-	-	1	-	-	1
56,001	57,000	-	-	-	-	-	-	-	1	-	-	-	-	1
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	0
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	0
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	0
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	0
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	0
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	0
63,001	64,000	-	-	-	-	-	-	-	-	1	-	-	-	1
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	0
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	0
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	0
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	0
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	0
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	0
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	0
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	0
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	0
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	0
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	0
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	0
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	0
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	0
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	0
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	0
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	0
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	0
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	0

Goodman Water Company
Test Year Ended September 30, 2005
Customer Classification 5/8 Inch Meter

Exhibit
Schedule H-5
Page 1
Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year	
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-		0
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-		0
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-		0
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-		0
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-		0
88,001	89,000	-	-	-	1	-	-	-	-	-	-	-	-		1
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-		0
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-		0
91,001	92,000	-	-	-	-	-	-	-	-	-	1	-	-		1
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-		0
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-		0
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-		0
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-		0
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-		0
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-		0
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-		0
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-		0
327,800	327,800	-	-	1											1
															0
Totals		328	300	341	340	352	362	367	399	406	399	412	413	4,419	

Average Usage	5,509
Median Usage	4,500
Average # Customers	368
Change in Number of Customers	85

Goodman Water Company
Test Year Ended September 30, 2005
Customer Classification 1 Inch Meter

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
0	0	-	-	-	1	0	15	16	3	0	2	11	8	56
1	1,000	-	2	-	-	-	-	-	5	12	21	15	23	78
1,001	2,000	-	-	-	-	-	1	-	8	8	2	2	6	27
2,001	3,000	-	-	-	-	-	-	-	-	2	-	2	1	5
3,001	4,000	-	-	-	-	-	-	-	-	-	3	-	-	3
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	0
5,001	6,000	-	-	-	-	-	-	-	1	-	1	1	-	3
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	0
7,001	8,000	-	-	-	-	2	-	-	-	-	1	-	1	4
8,001	9,000	-	-	1	-	-	-	-	-	-	-	-	-	1
9,001	10,000	-	-	-	1	-	-	-	-	-	-	-	-	1
10,001	11,000	-	-	-	-	-	-	-	-	-	-	-	1	1
11,001	12,000	-	-	1	-	-	1	-	-	-	-	1	-	3
12,001	13,000	-	-	1	1	-	-	1	-	-	-	-	-	3
13,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	0
14,001	15,000	-	1	-	-	-	-	-	-	-	-	-	1	2
15,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	0
16,001	17,000	-	-	-	-	-	-	1	-	-	-	1	-	2
17,001	18,000	-	-	-	-	-	-	-	1	1	-	-	-	2
18,001	19,000	-	-	-	-	-	-	-	-	-	1	-	1	2
19,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	0
20,001	21,000	1	-	-	-	-	-	-	-	-	-	-	1	2
21,001	22,000	-	-	-	-	-	-	-	-	-	1	-	-	1
22,001	23,000	-	-	-	-	-	-	-	-	-	-	-	-	0
23,001	24,000	-	-	-	-	-	-	-	-	-	-	-	-	0
24,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	0
25,001	26,000	-	-	-	-	-	-	-	-	-	-	-	-	0
26,001	27,000	-	-	-	-	-	-	-	-	-	-	-	-	0
27,001	28,000	-	-	-	-	-	-	-	-	-	-	-	-	0
28,001	29,000	-	-	-	-	-	-	-	-	-	-	-	-	0
29,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	0
30,001	31,000	-	-	-	-	-	-	-	-	-	-	-	-	0
31,001	32,000	-	-	-	-	-	-	-	-	-	-	-	-	0
32,001	33,000	-	-	-	-	-	-	-	-	-	-	-	-	0
33,001	34,000	-	-	-	-	-	-	-	-	-	-	-	-	0
34,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	0
35,001	36,000	-	-	-	-	-	-	-	-	-	-	1	-	1
36,001	37,000	-	-	-	-	-	-	-	-	-	-	-	-	0
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	0
38,001	39,000	-	-	-	-	-	-	-	1	-	-	-	1	2

Goodman Water Company
Test Year Ended September 30, 2005
Customer Classification 1 Inch Meter

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
39,001	40,000	-	-	-	-	-	-	-	-	-	1	-	-	1
40,001	41,000	-	-	-	-	-	-	-	-	-	-	-	-	0
41,001	42,000	-	-	-	-	-	-	-	-	1	-	-	-	1
42,001	43,000	-	-	-	-	-	-	-	-	-	-	-	-	0
43,001	44,000	-	-	-	-	-	-	-	-	-	-	-	-	0
44,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	0
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	0
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	0
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	0
48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	0
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	0
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	0
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	0
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	0
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	0
54,001	55,000	-	-	-	-	1	-	-	-	-	-	-	-	1
55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	0
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	0
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	0
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	0
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	0
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	0
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	0
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	0
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	0
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	0
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	0
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	0
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	0
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	0
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	0
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	0
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	0
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	0
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	0
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	0
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	0
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	0
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	0
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	0

Goodman Water Company
Test Year Ended September 30, 2005
Customer Classification 1 Inch Meter

Exhibit
Schedule H-5
Page 2
Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	0
80,001	81,000	-	-	-	-	-	-	-	-	1	-	-	-	1
81,001	82,000	-	-	-	-	-	-	-	-	-	-	-	-	0
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	0
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	0
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	0
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	0
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	0
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	0
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	0
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	0
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	0
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	0
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	0
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	0
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	0
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	0
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	0
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	0
98,001	99,000	-	-	-	-	-	-	-	-	-	-	-	-	0
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	0
														0
Totals		1	3	3	3	3	17	18	19	25	33	34	44	203

Average Usage	3,816
Median Usage	500
Average # Customers	17
Change in Number of Customers	43

Goodman Water Company
Test Year Ended September 30, 2005
Customer Classification Residential 2 Inch

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
0	0	-	2	2	2	2	2	1	-	-	1	1	1	14
1	1,000	-	-	-	-	-	-	-	1	1	1	1	1	5
1,001	2,000	1	-	-	-	-	-	-	-	-	-	-	-	1
2,001	3,000	-	-	-	-	-	-	-	-	-	-	-	-	0
3,001	4,000	-	-	-	-	-	-	-	-	-	-	-	-	0
4,001	5,000	-	-	-	-	-	-	-	-	-	-	-	-	0
5,001	6,000	-	-	-	-	-	-	-	-	-	-	-	-	0
6,001	7,000	-	-	-	-	-	-	-	-	-	-	-	-	0
7,001	8,000	-	-	-	-	-	-	-	-	-	-	-	-	0
8,001	9,000	-	-	-	-	-	-	-	-	-	-	-	-	0
9,001	10,000	-	-	-	-	-	-	-	-	-	-	-	-	0
10,001	11,000	-	-	-	-	-	-	-	-	-	-	-	-	0
11,001	12,000	-	-	-	-	-	-	-	-	-	-	-	-	0
12,001	13,000	-	-	-	-	-	-	-	-	-	-	-	-	0
13,001	14,000	-	-	-	-	-	-	-	-	-	-	-	-	0
14,001	15,000	-	-	-	-	-	-	-	-	-	-	-	-	0
15,001	16,000	-	-	-	-	-	-	-	-	-	-	-	-	0
16,001	17,000	-	-	-	-	-	-	-	-	-	-	-	-	0
17,001	18,000	-	-	-	-	-	-	-	-	-	-	-	-	0
18,001	19,000	-	-	-	-	-	-	-	-	-	-	-	-	0
19,001	20,000	-	-	-	-	-	-	-	-	-	-	-	-	0
20,001	21,000	-	-	-	-	-	-	-	-	-	-	-	-	0
21,001	22,000	-	-	-	-	-	-	-	-	-	-	-	-	0
22,001	23,000	-	-	-	-	-	-	-	-	-	-	-	-	0
23,001	24,000	-	-	-	-	-	-	-	-	-	-	-	-	0
24,001	25,000	-	-	-	-	-	-	-	-	-	-	-	-	0
25,001	26,000	-	-	-	-	-	-	-	-	-	-	-	-	0
26,001	27,000	-	-	-	-	-	-	-	-	-	-	-	-	0
27,001	28,000	-	-	-	-	-	-	-	-	-	-	-	-	0
28,001	29,000	-	-	-	-	-	-	-	-	-	-	-	-	0
29,001	30,000	-	-	-	-	-	-	-	-	-	-	-	-	0
30,001	31,000	-	-	-	-	-	-	-	-	-	-	-	-	0
31,001	32,000	-	-	-	-	-	-	-	-	-	-	-	-	0
32,001	33,000	-	-	-	-	-	-	-	-	-	-	-	-	-
33,001	34,000	-	-	-	-	-	-	-	-	-	-	-	-	-
34,001	35,000	-	-	-	-	-	-	-	-	-	-	-	-	-
35,001	36,000	-	-	-	-	-	-	-	-	-	-	-	-	-
36,001	37,000	-	-	-	-	-	-	-	-	-	-	-	-	-
37,001	38,000	-	-	-	-	-	-	-	-	-	-	-	-	-
38,001	39,000	-	-	-	-	-	-	-	-	-	-	-	-	-
39,001	40,000	-	-	-	-	-	-	-	-	-	-	-	-	-
40,001	41,000	-	-	-	-	-	-	-	-	-	-	-	-	-
41,001	42,000	-	-	-	-	-	-	-	-	-	-	-	-	-
42,001	43,000	1	-	-	-	-	-	-	-	-	-	-	-	1
43,001	44,000	-	-	-	-	-	-	-	-	-	-	-	-	-

Goodman Water Company
Test Year Ended September 30, 2005
Customer Classification Residential 2 Inch

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
44,001	45,000	-	-	-	-	-	-	-	-	-	-	-	-	-
45,001	46,000	-	-	-	-	-	-	-	-	-	-	-	-	-
46,001	47,000	-	-	-	-	-	-	-	-	-	-	-	-	-
47,001	48,000	-	-	-	-	-	-	-	-	-	-	-	-	-
48,001	49,000	-	-	-	-	-	-	-	-	-	-	-	-	-
49,001	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-
50,001	51,000	-	-	-	-	-	-	-	-	-	-	-	-	-
51,001	52,000	-	-	-	-	-	-	-	-	-	-	-	-	-
52,001	53,000	-	-	-	-	-	-	-	-	-	-	-	-	-
53,001	54,000	-	-	-	-	-	-	-	-	-	-	-	-	-
54,001	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-
55,001	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-
56,001	57,000	-	-	-	-	-	-	-	-	-	-	-	-	-
57,001	58,000	-	-	-	-	-	-	-	-	-	-	-	-	-
58,001	59,000	-	-	-	-	-	-	-	-	-	-	-	-	-
59,001	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-
60,001	61,000	-	-	-	-	-	-	-	-	-	-	-	-	-
61,001	62,000	-	-	-	-	-	-	-	-	-	-	-	-	-
62,001	63,000	-	-	-	-	-	-	-	-	-	-	-	-	-
63,001	64,000	-	-	-	-	-	-	-	-	-	-	-	-	-
64,001	65,000	-	-	-	-	-	-	-	-	-	-	-	-	-
65,001	66,000	-	-	-	-	-	-	-	-	-	-	-	-	-
66,001	67,000	-	-	-	-	-	-	-	-	-	-	-	-	-
67,001	68,000	-	-	-	-	-	-	-	-	-	-	-	-	-
68,001	69,000	-	-	-	-	-	-	-	-	-	-	-	-	-
69,001	70,000	-	-	-	-	-	-	-	-	-	-	-	-	-
70,001	71,000	-	-	-	-	-	-	-	-	-	-	-	-	-
71,001	72,000	-	-	-	-	-	-	-	-	-	-	-	-	-
72,001	73,000	-	-	-	-	-	-	-	-	-	-	-	-	-
73,001	74,000	-	-	-	-	-	-	-	-	-	-	-	-	-
74,001	75,000	-	-	-	-	-	-	-	-	-	-	-	-	-
75,001	76,000	-	-	-	-	-	-	-	-	-	-	-	-	-
76,001	77,000	-	-	-	-	-	-	-	-	-	-	-	-	-
77,001	78,000	-	-	-	-	-	-	-	-	-	-	-	-	-
78,001	79,000	-	-	-	-	-	-	-	-	-	-	-	-	-
79,001	80,000	-	-	-	-	-	-	-	-	-	-	-	-	-
80,001	81,000	-	-	-	-	-	-	-	-	-	-	-	-	-
81,001	82,000	-	-	-	-	-	-	-	1	-	-	-	-	1
82,001	83,000	-	-	-	-	-	-	-	-	-	-	-	-	-
83,001	84,000	-	-	-	-	-	-	-	-	-	-	-	-	-
84,001	85,000	-	-	-	-	-	-	-	-	-	-	-	-	-
85,001	86,000	-	-	-	-	-	-	-	-	-	-	-	-	-
86,001	87,000	-	-	-	-	-	-	-	-	-	-	-	-	-
87,001	88,000	-	-	-	-	-	-	-	-	-	-	-	-	-
88,001	89,000	-	-	-	-	-	-	-	-	-	-	-	-	-

Goodman Water Company
Test Year Ended September 30, 2005
Customer Classification Residential 2 Inch

Exhibit
Schedule H-5
Page 3
Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
89,001	90,000	-	-	-	-	-	-	-	-	-	-	-	-	-
90,001	91,000	-	-	-	-	-	-	-	-	-	-	-	-	-
91,001	92,000	-	-	-	-	-	-	-	-	-	-	-	-	-
92,001	93,000	-	-	-	-	-	-	-	-	-	-	-	-	-
93,001	94,000	-	-	-	-	-	-	-	-	-	-	-	-	-
94,001	95,000	-	-	-	-	-	-	-	-	-	-	-	-	-
95,001	96,000	-	-	-	-	-	-	-	-	-	-	-	-	-
96,001	97,000	-	-	-	-	-	-	-	-	-	-	-	-	-
97,001	98,000	-	-	-	-	-	-	-	-	-	-	-	-	-
98,001	99,000	1	-	-	-	-	-	-	-	-	-	-	-	1
99,001	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-
101,900	101,900				-	-	-	1	-	-	-	-	-	1
105,900	105,900				-	-	-	-	-	-	-	-	1	1
108,100	108,100				-	-	-	-	-	-	-	-	-	-
116,000	116,000				-	-	-	-	-	-	-	1	-	1
127,800	127,800				-	-	-	-	-	-	-	-	-	-
174,200	174,200				-	-	-	-	-	-	-	-	-	-
213,800	213,800				-	-	-	-	-	1	-	-	-	1
242,900	242,900	-	-	-	-	-	-	-	-	-	-	-	-	-
253,300	253,300				-	-	-	1	-	-	-	-	-	1
253,500	253,500				-	-	-	-	-	-	1	-	-	1
273,300	273,300				-	-	1	-	-	-	-	-	-	1
277,400	277,400				-	-	-	-	1	-	-	-	-	1
321,000	321,000	-	-	1										1
321,000	321,000				-	1	-	-	-	-	-	-	-	1
324,700	324,700	-	1	-										1
324,700	324,700				1	-	-	-	-	-	-	-	-	1
886,980	886,980				-	-	-	-	-	1	-	-	-	1
														-
														-
Totals		3	3	3	3	3	3	3	3	3	3	3	3	36

Average Usage	111,083
Median Usage	-
Average # Customers	3
Change In Number of Customers	-

Goodman Water Company
Test Year Ended September 30, 2005
Customer Classification Construction Water

Exhibit
Schedule H-5
Page 4
Witness: Bourassa

Usage From:	Usage To:	Month of Oct.	Month of Nov.	Month of Dec.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Total Year
0	0													-
1	1,000													-
1,001	2,000													-
2,001	3,000													-
3,001	4,000													-
4,001	5,000													-
5,001	6,000													-
6,001	7,000													-
7,001	8,000													-
8,001	9,000													-
9,001	10,000													-
10,001	12,000													-
12,001	14,000													-
14,001	16,000													-
16,001	18,000													-
18,001	20,000													-
20,001	25,000													-
25,001	30,000													-
30,001	35,000													-
35,001	40,000													-
40,001	50,000													-
50,001	60,000													-
60,001	70,000													-
70,001	80,000													-
80,001	90,000													-
90,001	100,000													-
200,400	200,400	1												1
2,623,100	2,623,100												1	1
	-													-
Totals		1	-	-	-	-	-	-	-	-	-	-	1	2

Average Usage	1,411,750
Median Usage	1,411,750
Average # Customers	0
Change in Number of Customers	-

GOODMAN WATER COMPANY
SUPPLEMENTAL INFORMATION

197652.1

SUPPLEMENTAL INFORMATION

Company Name:	Goodman Water	Test Year Ended:	2005

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
55-610541	75	440	700	12	8	1982
55-595528	100	800	618	16	8	2004

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)

BOOSTER PUMPS

Horsepower	Quantity
5HP-1	40HP-2
10HP-1	50HP-2
20HP-2	75HP-1
30HP-1	

FIRE HYDRANTS

Quantity Standard	Quantity Other
25	

STORAGE TANKS

Capacity	Quantity
400,000	1

PRESSURE TANKS

Capacity	Quantity
5,000	4

Company Name:	Goodman Water	Test Year Ended:	2005

WATER COMPANY PLANT DESCRIPTION CONTINUED

MAINS

Size (in inches)	Material	Length (in feet)
2		
3		
4		
5		
6	PVC	2750
8	PVC	3770
10		
12	PVC	7720
12	DIP	208

CUSTOMER METERS

Size (in inches)	Quantity
5/8 x ¾	430
¾	
1	45
1½	
2	3
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, please list the utility owned assets in each category.

TREATMENT EQUIPMENT:

STRUCTURES:

OTHER: Telemetry system

WATER USE DATA SHEET

NAME OF COMPANY	Goodman Water
ADEQ Public Water System Number:	11130

MONTH/YEAR (12 Months of Test Year)	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)
1. Jan	382	2223	2601
2. Feb	377	1872	2300
3. Mar	439	1760	2118
4. Apr	438	2160	2628
5. May	437	2501	3028
6. Jun	449	2903	3417
7. Jul	474	4095	4545
8. Aug	473	3360	3727
9. Sept	474	4882	5231
10. Oct	479	6909	7391
11. Nov	479	6682	6812
12. Dec	479	5463	5597
TOTAL	NA	44811	49395

Is the water utility located in an ADWR Active Management Area ("AMA")?

☒ YES ☐ NO

Does the Company have an ADWR gallons per capita day ("GPCD") requirement?

☐ YES ☒ NO

If Yes, please provide the GPCD amount: _____

Note: If you are filing for more than one system, please provide separate data sheets for each system. For explanation of any of the above, please contact the Engineering Section Director at 602-542-7277.

** Gallons pumped cannot ever be less than the gallons sold.*

Revised 6/23/03

Arizona Department of Environmental Quality
Water Quality Compliance Assurance Unit
1110 W. Washington Street, 5415B-1
Phoenix, AZ 85007

Drinking Water Compliance Status Report

Public Water System Name: Goodman Water Company

Public Water System ID #: 11-130

Public Water System Type: [X] CO [] Non-transient Non-community [] Transient Non-community

Overall Compliance Status: [X] No Major Deficiencies [ ] Major Deficiencies

Monitoring and Reporting Status: [X] No Major Deficiencies [ ] Major Deficiencies
Comments:

Operation and Maintenance Status: [X] No Major Deficiencies [ ] Major Deficiencies
Comments:

Major unresolved/ongoing operation and maintenance deficiencies:

[ ] unable to maintain 20psi
[ ] cross connection/backflow problems
[ ] treatment deficiencies
[ ] certified operator
[ ] inadequate storage
[ ] surface water treatment rule
[ ] approval of construction
[ ] other

Date of last inspection / sanitary survey: 11-22-02

Administrative Orders:
Is an ADEQ administrative order in effect? [ ] Yes [X] No
Comments:

System Information:

Number of Points of Entry 1 Number of Sources 1 Population Served 1300

Service Connections 466 Initial Monitoring Year 2004 Initial MAP Year 2004

Evaluation completed by: Jim Puckett

Phone: 602-771-4649 **Date:** 3-31-06

Based upon data submitted by the water system, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. This compliance status report does not guarantee the water quality for this system in the future. This compliance status report does not reflect the status of any other water system owned by this utility company.

Post-it® Fax Note 7671	Date 5-7-06	# of pages ▸ 1
To Debbie	From Marianne	
Co./Dept.	Co. ADEQ	
Phone #	Phone # 771-4624	
Fax # 520-529-8012	Fax # 771-4505	

n.wpd

Revised 12/26/03

GOODMAN WATER COMPANY

BALANCE SHEET

1976521

Goodman Water Company
Balance Sheet
December 31, 2001

ASSETS

Current Assets			
B of A - Money Market	$ 1,302.13		
B of A - Checking	1,750.89		
Security Pacific - CD	5,000.00		
Officer Loans	100.00		
Due from DRHI	14,657.23		
Capitalized Water Co Cost	94,595.91		
Customer Accts Receivable	(4,339.44)		
Prepaid State Income Tax	50.00		
Total Current Assets			113,116.72
Property and Equipment			
Total Property and Equipment			0.00
Other Assets			
Total Other Assets			0.00
Total Assets		$	113,116.72

LIABILITIES AND CAPITAL

Current Liabilities			
Total Current Liabilities			0.00
Long-Term Liabilities			
Western Continental	$ 309,500.00		
Total Long-Term Liabilities			309,500.00
Total Liabilities			309,500.00
Capital			
Beginning Balance Equity	(173,386.00)		
Beginning Equity	100.00		
Net Income	(23,097.28)		
Total Capital			(196,383.28)
Total Liabilities & Capital		$	113,116.72

Goodman Water Company
Balance Sheet
September 30, 2002

ASSETS

Current Assets			
B of A - Money Market	$ 36,724.90		
B of A - Checking	589.80		
Security Pacific - CD	5,000.00		
Officer Loans	100.00		
Due from DRHI	270.00		
Capitalized Water Co Cost	94,595.91		
Customer Accts Receivable	930.30		
Prepaid State Income Tax	100.00		
Total Current Assets			138,310.91
Property and Equipment			
Meters & Meter Installations	5,080.09		
Total Property and Equipment			5,080.09
Other Assets			
Refundable Money Market	11,291.38		
Total Other Assets			11,291.38
Total Assets		$	154,682.38

LIABILITIES AND CAPITAL

Current Liabilities			
Accounts Payable	$ 353.54		
Refundable Customer Deposits	1,938.00		
Refundable Installation Fees	9,325.00		
Sales Tax Payable	300.86		
Muni Tax Payable	5.29		
Total Current Liabilities			11,922.69
Long-Term Liabilities			
Western Continental	309,500.00		
Total Long-Term Liabilities			309,500.00
Total Liabilities			321,422.69
Capital			
Capitol Stock	(100.00)		
Beginning Balance Equity	(173,236.00)		
Beginning Equity	(4,471.39)		
Net Income	11,067.08		
Total Capital			(166,740.31)
Total Liabilities & Capital		$	154,682.38

Unaudited - For Management Purposes Only

Goodman Water Company
Balance Sheet
September 30, 2003

ASSETS

Current Assets			
B of A - Money Market	$ 58,609.10		
B of A - Checking	9,055.09		
Security Pacific - CD	5,000.00		
Officer Loans	100.00		
Due from DRHI	330.00		
Customer Accts Receivable	1,493.89		
Total Current Assets			74,588.08
Property and Equipment			
Reservoirs/Storage Tanks	251,475.98		
Wells & Springs	776,682.12		
Transmission Lines	402,267.79		
Services	160,177.28		
Meters & Meter Installations	19,989.32		
Fire Hydrants	24,975.00		
Accumulated Depreciation	(16,414.33)		
Total Property and Equipment			1,619,153.16
Other Assets			
Refundable Money Market	47,634.56		
Total Other Assets			47,634.56
Total Assets		$	1,741,375.80

LIABILITIES AND CAPITAL

Current Liabilities			
Accounts Payable	$ 1,403.69		
Refundable Customer Deposits	8,333.80		
Refundable Installation Fees	39,082.50		
Sales Tax Payable	1,264.66		
Muni Tax Payable	30.51		
Total Current Liabilities			50,115.16
Long-Term Liabilities			
Advances for Construction	597,779.78		
Total Long-Term Liabilities			597,779.78
Total Liabilities			647,894.94
Capital			
Capitol Stock	107.03		
Additional Paid In Capital	1,230,475.23		
Beginning Balance Equity	(173,386.00)		
Beginning Equity	5,324.69		
Net Income	30,959.91		
Total Capital			1,093,480.86
Total Liabilities & Capital		$	1,741,375.80

Unaudited - For Management Purposes Only

GOODMAN WATER COMPANY

INCOME STATEMENT

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Goodman Water Company
Income Statement
For the Four Months Ending October 31, 2001

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 21.21	100.00	$ 100.01	100.00
Total Revenues	21.21	100.00	100.01	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	21.21	100.00	100.01	100.00
Expenses				
Maintenance	50.00	235.74	220.22	220.20
Management Service	0.00	0.00	1,500.00	1,499.85
Accounting Services	896.87	4,228.52	1,321.87	1,321.74
Insurance Expense	0.00	0.00	237.00	236.98
Miscellaneous Expenses	0.00	0.00	184.87	184.85
Bank Charges	9.88	46.58	17.52	17.52
Property Tax	523.96	2,470.34	523.96	523.91
Total Expenses	1,480.71	6,981.19	4,005.44	4,005.04
Net Income	$ (1,459.50)	(6,881.19	$ (3,905.43)	(3,905.04

Goodman Water Company
Income Statement
For the Five Months Ending November 30, 2001

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 22.20	100.00	$ 122.21	100.00
Total Revenues	22.20	100.00	122.21	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	22.20	100.00	122.21	100.00
Expenses				
Maintenance	50.00	225.23	270.22	221.11
Management Service	0.00	0.00	1,500.00	1,227.40
Accounting Services	0.00	0.00	1,321.87	1,081.64
Insurance Expense	250.00	1,126.13	487.00	398.49
Miscellaneous Expenses	0.00	0.00	184.87	151.27
Bank Charges	11.25	50.68	28.77	23.54
Property Tax	0.00	0.00	523.96	428.74
Total Expenses	311.25	1,402.03	4,316.69	3,532.19
Net Income	$ (289.05)	(1,302.03	$ (4,194.48)	(3,432.19

Goodman Water Company
Income Statement
For the Six Months Ending December 31, 2001

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 16.89	100.00	$ 139.10	100.00
Total Revenues	16.89	100.00	139.10	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	16.89	100.00	139.10	100.00
Expenses				
Interest Expense	16,848.08	99,751.8	16,848.08	12,112.2
Maintenance	50.00	296.03	320.22	230.21
Management Service	2,000.00	11,841.3	3,500.00	2,516.18
Accounting Services	0.00	0.00	1,321.87	950.30
Insurance Expense	0.00	0.00	487.00	350.11
Miscellaneous Expenses	50.38	298.28	235.25	169.12
Bank Charges	(28.77)	(170.34)	0.00	0.00
Property Tax	0.00	0.00	523.96	376.68
Total Expenses	18,919.69	112,017.	23,236.38	16,704.8
Net Income	$ (18,902.80)	(111,917.	$ (23,097.28)	(16,604.8

Goodman Water Company
Income Statement
For the Seven Months Ending January 31, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 16.42	0.14	$ 155.52	1.34
Metered Industrial Customers	11,483.60	99.86	11,483.60	98.66
Total Revenues	11,500.02	100.00	11,639.12	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	11,500.02	100.00	11,639.12	100.00
Expenses				
Interest Expense	0.00	0.00	16,848.08	144.75
Maintenance	50.00	0.43	370.22	3.18
Contractual Services	180.00	1.57	180.00	1.55
Management Service	500.00	4.35	4,000.00	34.37
Accounting Services	0.00	0.00	1,321.87	11.36
Insurance Expense	0.00	0.00	487.00	4.18
Regulatory Commission Expense	45.00	0.39	45.00	0.39
Miscellaneous Expenses	12.00	0.10	247.25	2.12
Bank Charges	8.00	0.07	8.00	0.07
Property Tax	0.00	0.00	523.96	4.50
Total Expenses	795.00	6.91	24,031.38	206.47
Net Income	$ 10,705.02	93.09	$ (12,392.26)	(106.47)

Goodman Water Company
Income Statement
For the Eight Months Ending February 28, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 19.18	0.40	$ 174.70	1.06
Metered Industrial Customers	4,750.00	99.60	16,233.60	98.94
Total Revenues	4,769.18	100.00	16,408.30	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	4,769.18	100.00	16,408.30	100.00
Expenses				
Interest Expense	0.00	0.00	16,848.08	102.68
Maintenance	50.00	1.05	420.22	2.56
Contractual Services	401.80	8.42	581.80	3.55
Management Service	500.00	10.48	4,500.00	27.43
Accounting Services	375.00	7.86	1,696.87	10.34
Insurance Expense	0.00	0.00	487.00	2.97
Regulatory Commission Expense	130.00	2.73	175.00	1.07
Miscellaneous Expenses	170.07	3.57	417.32	2.54
Bank Charges	0.00	0.00	8.00	0.05
Property Tax	0.00	0.00	523.96	3.19
Total Expenses	1,626.87	34.11	25,658.25	156.37
Net Income	$ 3,142.31	65.89	$ (9,249.95)	(56.37)

Goodman Water Company
Income Statement
For the Nine Months Ending March 31, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 31.26	0.67	$ 205.96	0.98
Metered Industrial Customers	4,632.20	99.33	20,865.80	99.02
Total Revenues	4,663.46	100.00	21,071.76	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	4,663.46	100.00	21,071.76	100.00
Expenses				
Interest Expense	0.00	0.00	16,848.08	79.96
Purchased Power	47.50	1.02	47.50	0.23
Maintenance	50.00	1.07	470.22	2.23
Contractual Services	0.00	0.00	581.80	2.76
Management Service	500.00	10.72	5,000.00	23.73
Legal Fees	8,127.44	174.28	8,127.44	38.57
Accounting Services	1,217.75	26.11	2,914.62	13.83
Testing Expense	55.00	1.18	55.00	0.26
Insurance Expense	0.00	0.00	487.00	2.31
Regulatory Commission Expense	0.00	0.00	175.00	0.83
Miscellaneous Expenses	0.00	0.00	417.32	1.98
Bank Charges	10.00	0.21	18.00	0.09
Dues & Subscription Expense	30.00	0.64	30.00	0.14
Property Tax	0.00	0.00	523.96	2.49
Total Expenses	10,037.69	215.24	35,695.94	169.40
Net Income	$ (5,374.23)	(115.24)	$ (14,624.18)	(69.40)

Goodman Water Company
Income Statement
For the Ten Months Ending April 30, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 31.64	0.73	$ 237.60	0.94
Metered Industrial Customers	4,307.78	99.27	25,173.58	99.06
Total Revenues	4,339.42	100.00	25,411.18	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	4,339.42	100.00	25,411.18	100.00
Expenses				
Interest Expense	0.00	0.00	16,848.08	66.30
Purchased Power	0.00	0.00	47.50	0.19
Maintenance	75.00	1.73	545.22	2.15
Contractual Services	0.00	0.00	581.80	2.29
Management Service	500.00	11.52	5,500.00	21.64
Legal Fees	0.00	0.00	8,127.44	31.98
Accounting Services	0.00	0.00	2,914.62	11.47
Testing Expense	15.00	0.35	70.00	0.28
Insurance Expense	0.00	0.00	487.00	1.92
Regulatory Commission Expense	0.00	0.00	175.00	0.69
Miscellaneous Expenses	0.00	0.00	417.32	1.64
Bank Charges	10.00	0.23	28.00	0.11
Dues & Subscription Expense	0.00	0.00	30.00	0.12
Property Tax	523.96	12.07	1,047.92	4.12
Total Expenses	1,123.96	25.90	36,819.90	144.90
Net Income	$ 3,215.46	74.10	$ (11,408.72)	(44.90)

Goodman Water Company
Income Statement
For the Eleven Months Ending May 31, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 34.83	0.94	$ 272.43	0.94
Metered Industrial Customers	3,684.10	99.06	28,857.68	99.06
Total Revenues	3,718.93	100.00	29,130.11	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	3,718.93	100.00	29,130.11	100.00
Expenses				
Interest Expense	0.00	0.00	16,848.08	57.84
Purchased Power	30.00	0.81	77.50	0.27
Maintenance	75.00	2.02	620.22	2.13
Contractual Services	0.00	0.00	581.80	2.00
Management Service	500.00	13.44	6,000.00	20.60
Legal Fees	0.00	0.00	8,127.44	27.90
Accounting Services	225.00	6.05	3,139.62	10.78
Testing Expense	15.00	0.40	85.00	0.29
Insurance Expense	0.00	0.00	487.00	1.67
Regulatory Commission Expense	0.00	0.00	175.00	0.60
Miscellaneous Expenses	0.00	0.00	417.32	1.43
Bank Charges	10.00	0.27	38.00	0.13
Dues & Subscription Expense	0.00	0.00	30.00	0.10
Property Tax	0.00	0.00	1,047.92	3.60
Total Expenses	855.00	22.99	37,674.90	129.33
Net Income	$ 2,863.93	77.01	$ (8,544.79)	(29.33)

Goodman Water Company
Income Statement
For the Twelve Months Ending June 30, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 41.19	0.72	$ 313.62	0.90
Metered Industrial Customers	4,201.85	73.81	33,059.53	94.94
Other Charges	1,450.00	25.47	1,450.00	4.16
Total Revenues	5,693.04	100.00	34,823.15	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	5,693.04	100.00	34,823.15	100.00
Expenses				
Interest Expense	0.00	0.00	16,848.08	48.38
Purchased Power	15.00	0.26	92.50	0.27
Maintenance	75.00	1.32	695.22	2.00
Contractual Services	105.20	1.85	687.00	1.97
Management Service	500.00	8.78	6,500.00	18.67
Legal Fees	934.00	16.41	9,061.44	26.02
Accounting Services	110.00	1.93	3,249.62	9.33
Testing Expense	0.00	0.00	85.00	0.24
Insurance Expense	0.00	0.00	487.00	1.40
Regulatory Commission Expense	0.00	0.00	175.00	0.50
Miscellaneous Expenses	10.44	0.18	427.76	1.23
Bank Charges	(30.00)	(0.53)	8.00	0.02
Dues & Subscription Expense	0.00	0.00	30.00	0.09
Property Tax	0.00	0.00	1,047.92	3.01
Total Expenses	1,719.64	30.21	39,394.54	113.13
Net Income	$ 3,973.40	69.79	$ (4,571.39)	(13.13)

Goodman Water Company
Income Statement
For the Three Months Ending September 30, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 50.52	1.06	$ 142.93	0.94
Metered Residential Customers	880.22	18.54	1,802.48	11.85
Metered Industrial Customers	3,667.00	77.24	12,721.45	83.60
Other Charges	150.00	3.16	550.00	3.61
Total Revenues	4,747.74	100.00	15,216.86	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	4,747.74	100.00	15,216.86	100.00
Expenses				
Purchased Power	20.20	0.43	71.80	0.47
Materials & Supplies	0.00	0.00	11.83	0.08
Maintenance	0.00	0.00	1,298.16	8.53
Contractual Services	0.00	0.00	86.80	0.57
Management Service	500.00	10.53	1,500.00	9.86
Legal Fees	0.00	0.00	155.40	1.02
Engineering Service	0.00	0.00	947.50	6.23
Testing Expense	15.00	0.32	60.00	0.39
Telephone	48.34	1.02	288.29	1.89
Total Expenses	583.54	12.29	4,419.78	29.05
Net Income	$ 4,164.20	87.71	$ 10,797.08	70.95

Goodman Water Company
Income Statement
For the Four Months Ending October 31, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 47.53	0.86	$ 190.46	0.92
Metered Residential Customers	947.53	17.09	2,750.01	13.25
Metered Industrial Customers	3,999.50	72.13	16,720.95	80.54
Other Water Revenue	550.00	9.92	1,100.00	5.30
Total Revenues	5,544.56	100.00	20,761.42	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	5,544.56	100.00	20,761.42	100.00
Expenses				
Purchased Power	20.20	0.36	92.00	0.44
Materials & Supplies	0.00	0.00	11.83	0.06
Maintenance	0.00	0.00	1,028.16	4.95
Contractual Services	70.00	1.26	156.80	0.76
Management Service	500.00	9.02	2,000.00	9.63
Legal Fees	1,476.93	26.64	1,632.33	7.86
Accounting Services	225.50	4.07	225.50	1.09
Engineering Service	695.00	12.53	1,642.50	7.91
Testing Expense	20.00	0.36	80.00	0.39
Bank Charges	38.00	0.69	38.00	0.18
Office Expense	257.11	4.64	257.11	1.24
Property Tax	306.74	5.53	306.74	1.48
Telephone	48.34	0.87	336.63	1.62
Total Expenses	3,657.82	65.97	7,807.60	37.61
Net Income	$ 1,886.74	34.03	$ 12,953.82	62.39

Goodman Water Company
Income Statement
For the Five Months Ending November 30, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 36.65	0.52	$ 227.11	0.82
Metered Residential Customers	1,426.86	20.16	4,176.87	15.00
Metered Industrial Customers	4,750.00	67.10	21,470.95	77.12
Other Water Revenue	865.53	12.23	1,965.53	7.06
Total Revenues	7,079.04	100.00	27,840.46	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	7,079.04	100.00	27,840.46	100.00
Expenses				
Purchased Power	31.40	0.44	123.40	0.44
Materials & Supplies	0.00	0.00	11.83	0.04
Maintenance	0.00	0.00	1,028.16	3.69
Contractual Services	0.00	0.00	156.80	0.56
Management Service	500.00	7.06	2,500.00	8.98
Legal Fees	0.00	0.00	1,632.33	5.86
Accounting Services	0.00	0.00	225.50	0.81
Engineering Service	0.00	0.00	1,642.50	5.90
Testing Expense	20.00	0.28	100.00	0.36
Bank Charges	0.00	0.00	38.00	0.14
Dues & Subscription Expense	35.00	0.49	35.00	0.13
Office Expense	0.00	0.00	257.11	0.92
Property Tax	0.00	0.00	306.74	1.10
Telephone	0.00	0.00	336.63	1.21
Total Expenses	586.40	8.28	8,394.00	30.15
Net Income	$ 6,492.64	91.72	$ 19,446.46	69.85

Goodman Water Company
Income Statement
For the Six Months Ending December 31, 2002

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 36.75	0.63	$ 263.86	0.78
Metered Residential Customers	1,525.49	25.95	5,702.36	16.91
Metered Industrial Customers	3,116.03	53.01	24,586.98	72.92
Other Water Revenue	1,200.00	20.41	3,165.53	9.39
Total Revenues	5,878.27	100.00	33,718.73	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	5,878.27	100.00	33,718.73	100.00
Expenses				
Purchased Power	15.00	0.26	138.40	0.41
Materials & Supplies	0.00	0.00	11.83	0.04
Maintenance	0.00	0.00	1,028.16	3.05
Contractual Services	0.00	0.00	156.80	0.47
Management Service	500.00	8.51	3,000.00	8.90
Legal Fees	0.00	0.00	1,632.33	4.84
Accounting Services	0.00	0.00	225.50	0.67
Engineering Service	0.00	0.00	1,642.50	4.87
Testing Expense	20.00	0.34	120.00	0.36
Regulatory Commission Expense	45.00	0.77	45.00	0.13
Miscellaneous Expenses	407.80	6.94	407.80	1.21
Bank Charges	0.00	0.00	38.00	0.11
Dues & Subscription Expense	0.00	0.00	35.00	0.10
Office Expense	0.00	0.00	257.11	0.76
Property Tax	0.00	0.00	306.74	0.91
Telephone	96.68	1.64	433.31	1.29
Total Expenses	1,084.48	18.45	9,478.48	28.11
Net Income	$ 4,793.79	81.55	$ 24,240.25	71.89

Goodman Water Company
Income Statement
For the Twelve Months Ending June 30, 2003

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 62.65	1.27	$ 550.54	0.96
Metered Residential Customers	3,739.42	75.51	22,780.50	39.68
Metered Industrial Customers	0.00	0.00	25,379.57	44.21
Other Water Revenue	1,150.00	23.22	8,698.53	15.15
Total Revenues	4,952.07	100.00	57,409.14	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	4,952.07	100.00	57,409.14	100.00
Expenses				
Depreciation Expense	16,414.33	331.46	16,414.33	28.59
Purchased Power	15.00	0.30	624.07	1.09
Materials & Supplies	0.00	0.00	72.82	0.13
Maintenance	150.00	3.03	1,898.16	3.31
Contractual Services	0.00	0.00	156.80	0.27
Management Service	1,305.72	26.37	8,313.55	14.48
Legal Fees	180.00	3.63	3,382.33	5.89
Accounting Services	0.00	0.00	725.50	1.26
Engineering Service	0.00	0.00	1,944.35	3.39
Testing Expense	0.00	0.00	210.00	0.37
Insurance Expense	11,549.11	233.22	11,549.11	20.12
Regulatory Commission Expense	0.00	0.00	45.00	0.08
Interest Expense	11.64	0.24	11.64	0.02
Miscellaneous Expenses	50.00	1.01	569.28	0.99
Bank Charges	0.00	0.00	57.00	0.10
Dues & Subscription Expense	0.00	0.00	65.00	0.11
Office Expense	0.00	0.00	257.11	0.45
Property Tax	0.00	0.00	306.74	0.53
Telephone	94.72	1.91	860.27	1.50
Total Expenses	29,770.52	601.17	47,463.06	82.68
Net Income	$ (24,818.45)	(501.17)	$ 9,946.08	17.32

Goodman Water Company
Income Statement
For the Three Months Ending September 30, 2003

	Current Month		Year to Date	
Revenues				
Interest & Dividend Income	$ 64.26	0.27	$ 172.17	0.41
Metered Residential Customers	6,618.41	27.61	16,140.99	38.90
Metered Industrial Customers	15,738.65	65.66	21,375.95	51.51
Other Water Revenue	1,550.00	6.47	3,809.00	9.18
Total Revenues	23,971.32	100.00	41,498.11	100.00
Cost of Sales				
Total Cost of Sales	0.00	0.00	0.00	0.00
Gross Profit	23,971.32	100.00	41,498.11	100.00
Expenses				
Purchased Power	404.34	1.69	404.34	0.97
Materials & Supplies	193.69	0.81	193.69	0.47
Maintenance	890.00	3.71	1,240.00	2.99
Management Service	1,458.63	6.08	4,171.17	10.05
Legal Fees	266.60	1.11	383.10	0.92
Accounting Services	2,000.00	8.34	2,000.00	4.82
Engineering Service	428.50	1.79	774.75	1.87
Testing Expense	520.00	2.17	560.00	1.35
Miscellaneous Expenses	0.00	0.00	500.00	1.20
Telephone	119.43	0.50	311.15	0.75
Total Expenses	6,281.19	26.20	10,538.20	25.39
Net Income	$ 17,690.13	73.80	$ 30,959.91	74.61

LEWIS AND ROCA LLP LAWYERS

Lewis and Roca, LLP
Michael F. McNulty (No. 005107)
One South Church Avenue, Suite 700
Tucson, Arizona 85701
Attorneys for Goodman Water Company

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
COMMISSIONER

WILLIAM A. MUNDELL
COMMISSIONER

JEFF HATCH-MILLER
CHAIRMAN

MIKE GLEASON
COMMISSIONER

MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF GOODMAN WATER 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	)	No. W-02500A- DIRECT TESTIMONY

DIRECT TESTIMONY OF

CHRISTOPHER W. HILL

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Christopher Hill, and I am the owner of CWH2 Services, LLC. My business address is PO Box 70022, Tucson, Arizona 85737.

Q. WHAT IS YOUR PROFESSION AND BACKGROUND?

A. I am a certified Grade IV Water and Wastewater Operator, and have been in this field of work for over thirty (30) years. Along with my present position as the Deputy Manager at Metropolitan Domestic Water Improvement District ("MDWID"), I serve as Manager for Goodman Water Company, performing this service as an Independent Contractor since 2004.

Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND REGULATORY EXPERIENCE?

A. Yes. Prior to working at the MDWID, I was employed by the City of Dixon, Illinois, and served as Water and Street Superintendent. Prior to working for the City of Dixon, I worked as a Utility Superintendent for the City of Anitgo, Wisconsin. Before that, I was employed as the County of Du Page, Illinois, where I was Chief Operator

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying in this proceeding on behalf of the applicant, Goodman Water Company ("Goodman" or "the Company"). Goodman is seeking increases in its rates and charges for water utility service in its certificated service area, which is located in Pinal County, Arizona.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I will testify in support of the Company's proposed adjustments to its rates and charges for water utility service, and to provide a general overview to the current regulatory status of the Company.

Q. WHERE IS THE COMPANY LOCATED?

A. The Company is located in Section 32, Township 10 South, Range 14 East, in Pinal County, Arizona.

Q. PLEASE PROVIDE US WITH AN OVERVIEW OF THE COMPANY, AND ADDRESS THE COMPANY'S CUSTOMER GROWTH OVER THE LAST FOUR YEARS.

A. The Company, since inception, experiences robust growth. The end of 2002 indicated 71 customers; 2003 indicated 202 customers; 2004 indicated 361 customers; and 2005 indicated 477 customers.

Q. WHY IS THE COMPANY FILING FOR RATE INCREASES AT THIS TIME?

A. The Company's rates for water utility service have not been increased since its Certificate of Convenience and Necessity ("CC&N) was approved in 1988 (Decision No. 56118, October 1, 1988). The Company's net income in the most recent calendar year, 1995, was (-)$13,671.02, and there is no chance that the economics of this utility will improve in the future without a rate increase.

Q. CAN YOU PROVIDE A GENERAL DESCRIPTION OF THE MANAGEMENT AND STAFFING OF THE COMPANY?

A. I provide management services to the Company through CWH2 Services, LLC, which is wholly-owned by me. Certified Operator services, compliance sampling and billing services are provided by yl Technology, LLC. Both entities are located in Pima County.

Q. COULD YOU DESCRIBE THE STATUS OF THE WELLS, RESERVOIRS, AND IS THE SYSTEM CURRENTLY AT CAPACITY?

A. Two wells supply a main reservoir. Each well is capable of 650 gallons per minute, or 1.83 million gallons per day. The main reservoir has a capacity of 400,000 gallons. Four booster pumps provide water to the distribution system from

the reservoir. The reservoir, wells, and booster pumps have sufficient capacity to provide day-to-day demands, plus fire protection for the Company's service area.

Q. DO YOU HAVE ANY CONCERNS THAT THE SYSTEM IS OVERBUILT FOR THE EXISTING CUSTOMER BASE?

A. On the contrary, the system is being expanded now because it is at capacity. During the test year, the infrastructure was fully utilized for the test year customer base. The Company has never constructed more facilities than were required under the rules of the Arizona Department of Environmental Quality.

Q. TO YOUR KNOWLEDGE, IS THE COMPANY CURRENTLY IN COMPLIANCE WITH THE LAWS AND REGULATIONS OF THE ARIZONA DEPARTMENT OF WATER RESOURCES?

A. Yes.

Q. TO YOUR KNOWLEDGE, IS THE COMPANY CURRENTLY IN COMPLIANCE WITH THE LAWS AND REGULATIONS OF THE ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY?

A. Yes.

Q. HAS ARSENIC BEEN DETECTED IN THE GROUNDWATER WITHDRAWN BY THE COMPANY?

A. The highest amount of arsenic that has ever been detected in the groundwater withdrawn from the Company's wells is 0.0027 milligrams/liter, or 2.7 ppb, well below the most current regulatory limits.

Q. TO YOUR KNOWLEDGE IS THE COMPANY CURRENT IN THE PAYMENT OF ITS TAXES AS ASSESSED BY THE ARIZONA DEPARTMENT OF REVENUE?

A. Yes.

Q. DO YOU KNOW OF ANY UNRESOLVED CUSTOMER COMPLAINTS?

A. I am unaware of any customer complaints.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

ORIGINAL AND thirteen (13) copies
of the foregoing delivered VIA DHL
this 25 day of April, 2006

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

COPY of the foregoing delivered VIA
U.S. MAIL this 25 day of April, 2006

Goodman Water Company
6340 North Campbell Avenue, Suite 278
Tucson, AZ 85718

LEWIS AND ROCA LLP LAWYERS

APPLICANT'S EXHIBIT A-2

APPLICANT'S REBUTTAL TESTIMONY

LEWIS AND ROCA LLP LAWYERS

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BEFORE THE ARIZONA CORPORATION COMMISSION

2006 DEC 21 P 2: 10

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CHAIRMAN

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COMMISSIONER

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COMMISSIONER

IN THE MATTER OF THE APPLICATION OF **GOODMAN WATER COMPANY** FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICES BASED THEREON	No. W-02500A- 06-0281 FILING OF APPLICANT'S REBUTTAL TESTIMONY, INCORPORATING ITS RESPONSE TO STAFF'S DIRECT TESTIMONY

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

I. <u>INTRODUCTION AND QUALIFICATIONS</u>.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

A. Yes, my direct testimony was submitted in support of the initial application in this docket by Goodman Water Company ("Goodman" or "Company").

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

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

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

A. The Company is proposing a total revenue requirement of $538,812, which constitutes an increase in revenues of $325,463, or 152.55% over test year revenues.

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

A. In the direct filing, the Company requested a total revenue requirement of $537,955, an increase in revenues of $324,607, or 152.15%.

Q. WHY IS THE REQUESTED REVENUE INCREASE MARGINALLY HIGHER IN THE COMPANY'S REBUTTAL FILING?

A. In its rebuttal filing, Goodman has adopted a number of adjustments recommended by Staff, as well as proposed a number of adjustments of its own. The net result of these adjustments is a $1,547 decrease in the proposed level of operating expenses compared to the adjusted test year expense and a net increase in Original Cost Rate Base ("OCRB") and Fair Value Rate Base ("FVRB") of $16,368 from the direct filing. Notably, the Company continues to propose that its OCRB be used as its FVRB for purposes of setting rates in this proceeding.

Q. TO WHAT DO YOU ATTRIBUTE THE INCREASE IN RATE BASE FROM THE DIRECT FILING TO THIS REBUTTAL FILING?

A. The Company has accepted Staff's adjustment to plant-in-service for $17,325. The Company has adjusted accumulated depreciation by $263 as a result of the increase to plant-in-service. Finally, the Company's proposed working capital has been reduced by $694 as a result of adjustments to operating expenses.

Q. PLEASE SUMMARIZE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF THE PROCEEDING?

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

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$537,955	$324,607	152.15%
Staff	$446,411	$233,063	109.24%
Company Rebuttal	$538,812	$325,463	152.55%

Q. WHY IS STAFF'S REVENUE REQUIREMENT AND RECOMMENDED INCREASE LOWER RELATIVE TO THE COMPANY'S PROPOSALS?

A. This is primarily due to Staff's adjustment to remove over $47,000 of operating expenses the Company which the Company disagrees. Staff has also proposed an income tax calculation which includes interest synchronization which results in an understatement of income taxes by over $8,000. The balance of the difference is due to differences in each of the party's respective rate bases and rates of return.

Q. THE COMPANY IS STILL SEEKING A SUBSTANTIAL INCREASE IN ITS RATES IN THIS PROCEEDING?

A. Yes, and it remains primarily plant investment driven. Goodman has invested over $2.35 million of dollars in its water utility plant to serve ratepayers in the past couple of years and it is entitled to a return on and of the fair value of that utility plant.

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II. RATE BASE.

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

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

	OCRB	FVRB
Company-Direct	$ 1,275,683	$ 1,275,683
Staff	$ 1,279,589	$ 1,270,589
Company Rebuttal	$ 1,292,051	$ 1,292,051

A. Expensed Plant.

Q. HAVE YOU MADE A REBUTTAL ADJUSTMENT CONCERNING CAPITALIZED EXPENSED PLANT?

A. Yes. Following the Applicant's Rebuttal Exhibits, you will find the Applicant's revised Rebuttal Schedules A-1, B-1, B-2, B-5, C-1, C-2, C-3, D-1, H-1, H-2, H-3 and H-4. Rebuttal Schedule B-2, adjustment number 1 reflects the increase to plant-in-service of $17,325 for capitalized expensed plant. Staff correctly pointed out the Company failed to include this amount in rate base (plant-in-service) in its direct filing. *See* Direct Testimony of Charles R. Myhlhousen ("Myhlhousen DT") at 5. Both Staff and the Company agree on the amount of plant-in-service included in rate base.

B. Accumulated Depreciation.

Q. HAVE YOU MADE A REBUTTAL ADJUSTMENT CONCERNING ACCUMULATED DEPRECIATION?

A. Yes. B-2 rebuttal adjustment number 2 reflects the increase to accumulated depreciation for the additional plant added in rebuttal adjustment number 1. The Company's resulting accumulated depreciation balance at the end of the test year is $152 lower than the amount proposed by Staff. *See* Company Rebuttal Schedule B-1 at $108,511 versus Staff Direct Schedule CRM-3, page 3 at $108,663. The $152 difference is related to account no. 334 for meters and appears to be related to the

difference in the depreciation computation for the meter account for the 9 months ended September 30, 2005. The Company computes $1,014 of depreciation (using half-year convention) for meters whereas Staff computes $1,165. The Company believes its computation is correct and recommends adopting the Company's proposed level of accumulated depreciation.

C. **Working Capital.**

Q. HAVE YOU MADE A REBUTTAL ADJUSTMENT CONCERNING WORKING CAPITAL?

A. Yes. Rebuttal Schedule B-2, adjustment number 3, reflects working capital at the rebuttal level of operating expenses. The Company does not agree with Staff's removal of working capital. *See* Myhlhousen DT at 5.

The formula method does produce positive working capital, but that is not sufficient reason to dismiss its use. *Id* at 5-6. No method of computing working capital, including a lead-lag study, is precisely correct. The purpose of any working capital computation is to produce an amount of working capital allowance that is reasonable and the cost of the calculation should not exceed the benefits. This is true regardless of the size of the utility. Lead-lag studies are costly to prepare and disagreement between the parties is common which in turn exacerbates rate case expense further. In my experience the costs to prepare and defend lead-lag studies can increase rate case expense by $10,000 to $15,000 or more. The costs of lead-lag studies generally far exceed the benefits. Finally, the formula method is simple and can readily be adjusted for the effects of pro forma adjustments.

Working capital would not necessarily be negative if a lead-lag study were prepared in the instant case despite Staff's generalization that 'proper lead-lag studies usually produce negative cash working capital'. *See* Myhlhousen DT at 6. Staff appears have a black letter policy of allowing the formula method to be used only in the case of Class D and E utilities. *See* Myhlhousen DT a 5-6. Staff policy

is much too restrictive and limiting to be fair. The use of the formula method should be based on the merits and applicability in each case. Relegating the allowance for working capital based on the formula method to Class D and E utilities effectively disallows working capital using the formula method for any utility, regardless of size because Class D and E utilities use the short-form application as prescribed by the Commission. There is no schedule for a rate base or provision for working capital allowance in the short-form application. Even if Staff were to claim that it includes working capital in its analysis and recommendations, Class D and E utility rate cases are operating margin driven and working capital ultimately has no impact in the determination of the revenue requirement. Putting this aside, in the instant case, the Company, while classified as a Class C utility for purposes of this proceeding, is quite small with only 459 customers at the end of the test year. The adjusted test year revenues were approximately $213,000, well below the $250,000 limit for Class D utilities. It is because proposed revenue requirement exceeds the $250,000 limit that the Company is classified as a Class C utility.

In general, working capital represents the invested capital used to support inventories, petty cash, prepayments, minimum bank balances, and costs of providing services. When these funds have come from investor sources, they are legitimate investments to provide service and should be reflected in rate base. The rate base in the instant case, as shown on the Company's rebuttal schedule B-1 is significantly less than the amount of common equity as shown on the Company's rebuttal schedule D-1. In fact, the common equity is higher by over $95,000. While the rate base and common equity amounts are generally not the same, they should be within a reasonable amount such that when the authorized rate of return is applied to rate base, the resulting return on investor capital is not unreasonably depressed. To apply a return to rate base which does not provide for total common equity investment to be serviced does not maintain the integrity of that capital and

does not enable the company to attract capital. Even including a working capital allowance, the Company's rate base in the instant case is still significantly below the amount of common equity.

Q. HOW DO YOU ACCOUNT FOR THE DIFFERENCE BETWEEN RATE BASE AND COMMON EQUITY AMOUNTS IN THIS CASE?

A. The difference is primarily the result of the cash the Company has set aside in a restricted cash account for customer and advance refunds. The amount at the end of the test year totaled nearly $106, 000 and is not part of rate base. Arguably, the Company's management is being prudent by setting aside funds for its anticipated obligations. It has done this, in part, in lieu of paying dividends. The Company has deposited these amounts in an interest being account and the Company has accrued interest earned in the restricted cash account. The interest earned on this cash hardly compensates investors. Interest earned on the restricted cash account is relatively small. In fact, during the test year the amount of interest earned was less than $1,800 and based on the average cash balance amounted to approximately 1.9%. This hardly compensates investors for their capital.

Ideally, the Company should include the entire restricted cash balance in rate base. Putting this aside, Staff's recommended exclusion of working capital in the instant case only exacerbates the problem.

III. <u>INCOME STATEMENT</u>.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?

A. Yes. The Company rebuttal adjustments are detailed on Rebuttal Schedule C-2, pages 1-6. The rebuttal income statement with adjustments is shown on Rebuttal Schedule C-1, pages 1-2.

In rebuttal adjustment number 1, the Company proposes to remove $174 for meals from Outside Services expense. The Company's adjustment agrees with Staff

on this amount. *See* Myhlhousen DT at 7. As discussed below, the Company disagrees with Staff's proposal to remove an additional $17,693 from Outside services expense.

Rebuttal adjustment 2 removes $1,875 from annual rate case expense. This adjustment agrees with Staff's recommendation. *See* Myhlhousen DT at 7. The Company's proposed adjustment is in response to Staff's recommendation to reduce the recommended total rate case expense from the Company's initial request of $100,000 to $92,500. *See* Staff Direct Schedule CRM-13. Both the Company and Staff agree to a 4 year amortization of rate case expense and the $1,875 represents one fourth of the $7,500 reduction proposed by Staff. Although the Company believes that rate case expense is on track to meet or exceed its original estimate of $100,000, the Company has agreed to Staff's proposed reduction to eliminate issues between the parties.

Rebuttal adjustment number 3 increases property tax expense by $16 and reflects the rebuttal proposed revenues. The Company and Staff are in agreement on the method of computing property taxes. This method utilizes the ADOR formula and inputs two years of adjusted revenues plus one year of proposed revenues. I computed the property taxes based on the Company's proposed revenues, and then used the property tax rate that was used in the direct filing. The difference between Staff and the Company on the proposed level of property taxes are due to differences in the party's respective proposed revenue

Rebuttal adjustment number 4 removes $140 for the cost of lunches from miscellaneous expense. This adjustment agrees with Staff's proposed adjustment. *See* Myhlhousen DT at 7.

Finally, rebuttal adjustment 5 adjusts income taxes based on the Company's proposed revenues, operating expense and depreciation. The Company does not agree with Staff's interest synchronization with rate base methodology to compute an interest expense deduction in its computation of income taxes. Interest

synchronization is not appropriate in this case as there is no long-term debt. Interest synchronization results in approximately $8,000 less income tax expense than is required. Staff agrees the Company has no debt and also agrees that interest synchronization is not appropriate in the instant case. *See* Staff Response to Company Data Request 1.2 and 1.3, attached hereto as Rebuttal Exhibit No. 1. Based on Staff's responses to Company data requests on this subject, I expect Staff will correct and/or revise its income tax computation.

Q. WOULD YOU PLEASE IDENTIFY AND DISCUSS ANY REVENUE AND EXPENSE ADJUSTMENTS PROPOSED BY STAFF WHICH THE COMPANY DISAGREES?

A. The Company disagrees with Staff's proposal to reduce salaries and wages by $25,600. *See* Myhlhousen DT at 6. The Company's proposed level of wages and salaries of $32,000 is reasonable given the services provided by Mr. Sears. In addition to the responsibility of providing for the overall long-term management of the financial and strategic planning of the Company, Mr. Sears oversees the preparation of and reviews of monthly and annual financial results, provides for cash management as it relates to capital expenditures as well as operating expenses, reviews, authorizes payment of Company expenditures, and supervises the preparation of income tax returns. Mr. Sears is assisted in some of these duties by Mr. Shiner, as I will discuss below. Staff's recommendation for removing $25,600 of wages is based on what Staff considered necessary for the 'day-to-day' operations of the Company. *See* Staff Response to Company Data Request 1.9, attached hereto as Rebuttal Exhibit No. 1. However, while Mr. Sears may be involved to some extent in the day-to-day operations, his responsibilities encompass more than just 'day-to-day' operations and it is unreasonable for Staff or the Commission to expect that only the costs of day-to-day operations should be recovered from rate payers. Goodman is a financially sound and well managed Company and it is no accident that it is so. Sound financial and strategic

management is essential to any successful business and rate payers ultimately benefit from all the services provided by Mr. Sears.

The Company also disagrees with Staff's proposal to reduce outside services expense by $17,693. *See* Myhlhousen DT at 6. There are two parts to Staff's adjustment. The first part, Staff removes $11,916 of costs from CWH2 based on the unsupported claim that CHW2 services are similar to and duplicated by another outside service contractor YL Technologies. The fact is, these two contractors provide different types and levels of service. YL Technologies provides for more of the 'day-to-day' operations including customer billing and customer service, while CWH2 provides management support which includes consulting services to: 1) assist management in regulatory matters, assist management of staffing requirements; 2) assist management in developing and review of company policies and procedures; 3) assist management in planning for customer growth; 4) provide advice on matters related to maintaining a well run water system; and, 5) assist management in monitoring the progress and activities of other professionals that may from time to time be contracted by the Company to perform work – this includes the work performed by YL Technologies. CWH2 has considerable knowledge regarding the plant and equipment at Goodman and is a valuable resource in the management of Goodman.

Staff analysis of the services provided by CWH2 is sorely inadequate. It its response to a Company data request, Staff made its determinations on the basis that Mr. Hill of CWH2 only spends 4-8 hours per month performing work for Goodman. In addition, Staff concluded Mr. Hill performs some tests on a weekly basis that YL Technologies performs on a monthly basis. *See* Staff Response to Company Data Request 1.6, attached hereto as Rebuttal Exhibit No. 1. This hardly represents a complete and sound analysis. First, Staff was provided a list of the services provided by CWH2 and YL Technologies. *See* Company Responses to Staff Data Requests 3.4 and 3.10 attached hereto as Rebuttal Exhibit "B". There is

little, if any, overlap of services. As I testified above, YL Technologies provides for more of the 'day-to-day' operations while CWH2 provides management support. While the advice CWH2 provides to management may involve recommendations pertaining to the day-today operations, they are hardly the same services as what YL technologies provides. Further, the costs of the services provided by CWH2 are not out of line. CWH2 is an unrelated third-party and charges fees at market rates. In fact, it would be far more costly to rate payers for Goodman to have employed Mr. Hill directly than the approximately $12,000 charged to Goodman during the test year. Management is being prudent by obtaining Mr. Hill's services by contract.

In the second part of Staff's adjustment to outside services expense, Staff removes $5,777 of costs paid to Mr. Shiner. *See* Myhlhousen DT at 7. Again, Staff's analysis is sorely inadequate. *See* Staff Response to Company Data Request 1.7, attached hereto as Rebuttal Exhibit No. 1. Once again, Staff's determination rests on what duties provided by Mr. Shiner Staff determined was related to 'day-to-day' operations. Mr. Shiner does provide services which directly relate to the day-today operations such as over-site of the work performed by CWH2 and YL Technologies as well as the Company's engineers, Westland Resources. However, Mr. Shiner also supervises the work by outside counsel, Lewis and Roca, LLP, on regulatory matters, negotiating line extension agreements with developers, and corporate planning including capital financing and extensions of the Company's CC&N. Among other duties, Mr. Shiner also assists Mr. Sears on reviewing financial and operational results, provides input on the long-term financial and operational needs of the Company to adequately address system growth, water supplies and water usage. Staff's adjustment is based on the amount Staff determined to be 'appropriate', but like Staff's adjustments to salaries and wages and other outside services, Staff has not adequately substantiated the level of expense for Mr. Shiner it is recommending.

Q. CAN YOU PROVIDE PERSPECTIVE ON THE REASONABLENESS OF THE COMPANY'S PROPOSED EXPENSES FOR SALARIES AND WAGES AND OUTSIDE SERVICES?

A. Yes. Perspective can be gained by Staff's own analysis of small water companies conducted in a pending case for Sabrosa Water Company ("Sabrosa"), Docket Number W-20111A-06-0361. In the Staff report for Sabrosa dated November 30, 2006, Staff concluded that $26 per customer per month was a reasonable level of expense for small water companies for salaries and wages, outside services, rents, insurance and office expense. *See* Excerpt From Staff Report on Sabrosa Water, attached hereto as Rebuttal Exhibit No. 2. The cost per customer per month for these expenses at the Company's proposed levels of expense is less than $24. In the Valley Utilities Water Company ("Valley") case, Decision 68309, November 14, 2005, the Commission approved levels of these expenses translated to a cost per customer per month of over $23. Valley had 2 ½ times the number of customers at year-end in that case than Goodman in this case.

At Staff's recommended levels of these expenses the cost per customer per month for Goodman *translates* to approximately $15.50. This is a level of cost I would expect to find in a much larger utility where economies of scale have a significant impact. In fact, in the Chaparral City Water Company ("Chaparral") case (Decision 68176, dated September 30, 2005), the Commission approved levels of these expenses was about $15 per customer per month. Chaparral had over 12,000 customers at the end of the test year in that case. As I testified, one would expect economies of scale for much larger utilities. Is it reasonable to conclude that Goodman has achieved the economies of a company 26 times larger in terms the customer levels? The answer is obviously 'No'.

Q. SHOULDN'T THE REASONABLENESS OF THE LEVELS OF THESE EXPENSES BE EXAMINED ON A CASE-BY-CASE BASIS?

A. In general, I would agree. The expense levels for utilities can vary from case to case. However, there are certain levels of expense are required to provide for a well managed and financially sound utility. The Company believes the costs related to salaries and wages are prudent and necessary for the provision of service. It is, therefore, not unreasonable to examine other water utilities for comparison, especially when, in the Company's opinion, Staff's recommendations do not reflect all the costs necessary to effectively and efficiently run a utility. The level of salaries and wages and outside services proposed by the Company are the expected levels that will be incurred on a going forward basis.

Q. DO YOU HAVE ANY OTHER DISAGREEMENTS WITH STAFF?

A. Yes. The Company disagrees with Staff's adjustment to repairs and maintenance expense. Staff proposes to remove $4,130 of repairs and maintenance expense on the basis of a change of vendors during the test year. *See* Myhlhousen DT at 6. Regardless of whether the same contractor is providing the repairs and maintenance services to the Company, the Company is expected to incur a full 12 months of expense. Staff's adjustment results in less than a full 12 months of repairs and maintenance expense during the test year. Staff apparently agrees. *See* Staff Response to Company Data Request 1.10, attached hereto as Rebuttal Exhibit No. 1. Based on Staff's response I would expect Staff to revise its proposed adjustment to repairs and maintenance expense.

IV. COST OF CAPITAL.

A. Overview and Summary.

Q. PLEASE SUMMARIZE THE COMPANY'S REBUTTAL POSITION REGARDING COST OF CAPITAL?

A. The Company continues to recommend 10.5% as its cost of capital and rate of return on original cost rate base, which Goodman accepts as the fair value of its utility property for purposes of this rate case. The 10.5% rate of return is based on a capital structure consisting of 100% common equity.

A return on equity of 10.5% is extremely conservative when the small size and the operational and business risks related to Goodman's water operations are considered.

Q. HOW DOES THE RETURN OF 10.5% YOU ARE RECOMMENDING COMPARE TO STAFF?

A. The rates of return on equity ("ROE") recommended by Staff is 9.60%. This is simply too low given the risks faced by Goodman. The rates of return recommended by Staff is simply too low given the Company's extremely small size, limited revenue and cash flow, small customer base, lack of diversification, lack of liquidity, and other characteristics. Moreover, Staff's revenue requirement will actually result in a return on equity of **only 8.83%.** This rate of return will not produce sufficient operating income to pay a dividend on the Company's book equity equal to what is being paid by the publicly traded utilities used by Staff.

Q. DOES STAFF PROPOSE A FINANCIAL RISK ADJUSTMENT IN ITS COST OF EQUITY RECOMMENDATION?

A. No. *See* Irvine DT at 32. Neither does the Company.

B. Response to Staff's Testimony on Unique Risks.

Q. DO YOU HAVE ANY RESPONSE TO THE TESTIMONY MR. IRVINE PRESENTS AT PAGE 41 OF HIS DIRECT TESTIMONY ABOUT THE RISKS FACED BY SMALL ARIZONA UTILITIES LIKE GOODMAN COMPARED TO SAMPLE WATER UTILITY COMPANIES?

A. Yes. Mr. Irvine's position is based on financial theory. At the core of the financial theory is the so-called "Modern Portfolio Theory" ("MPT") which deals with the management of stocks and other securities that are publicly traded on national stock exchanges. Like any theory, the MPT makes certain assumptions, such as the assumption that all investors hold fully diversified portfolios of stocks. As explained by Mr. Irvine, market risk is the only relevant risk to investors holding

diversified portfolios. Firm-specific risk ("unique risk") can be eliminated by holding a diversified portfolio. *See* Irvine DT at 10-11.

Accepting for argument sake that the abstract proposition that all investors hold diversified portfolios and that there is no debate about what constitutes a diversified portfolio, I am sure Mr. Irvine would agree that the risks of the sample water utilities would be priced by investors holding diversified portfolios. We know this to be true because it would be nonsense to say that investors do not care about stock prices and values of equity being lower because a utility has risks not faced by other utilities. Such risks may be the risks priced by investors holding diversified portfolios, if beta is relevant to investors. Each of the publicly traded utility companies in Mr. Irvine's water utility sample has a market beta, but not all of the betas are the same. *See* Staff Schedule SPI-6. Arguably, the risks for each of the sample water utilities have been priced differently by investors, otherwise, the betas would all be the same.

Based on the foregoing, and also assuming for argument sake that MPT applies to small non-publicly traded companies like Goodman, I would also expect that Mr. Irvine would agree that the risks for small privately held utilities in Arizona would be priced by investors holding diversified portfolios. 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. We do not have market data for small water utilities and thus we do not have a beta estimate based on the market for Goodman, but I expect it is higher than the average beta of Mr. Irvine's sample companies. Mr. Irvine simply assumes that Goodman has the same level of risk as do the utilities in his sample and assumes the average beta for his sample water utilities is the beta for Goodman. *See* Irvine DT at 26. Ultimately he recommends the average of his cost of equity ("COE") results from his water utility sample as the COE for Goodman. He does this without any evidence that Goodman has the same risks as the water utility sample companies.

Q. DO OTHER COMMISSIONS SHARE THE VIEW THAT SMALL UTILITIES HAVE HIGHER RISKS NOT CAPTURE BY THE MARKET DATA?

A. Yes. The California Public Utilities Commission ("CPUC"), for example, recognizes that since market data is not available for smaller water utilities higher rates on returns are necessary. Based on a study prepared by the CPUC Staff and adopted by the CPUC (CPUC Decision 92-03-093, March 21, 1992), the CPUC concluded that smaller utilities are more risky than larger ones and required higher equity returns. Accordingly, the CPUC employs alternative methods for different classes of utilities. Attached at Rebuttal Exhibit No. 3 is a copy of a memo from the CPUC Staff to the Director of the Water Division. This memo explains the CPUC's approach to determining the returns on the various classes of water utilities as defined by the CPUC. The CPUC classifies water utilities based on the number of customers - Class D (<500), Class C (500-1,999), Class B (2,000-9,999) and Class A (>10,000). As the memo shows, the CPUC provides guidelines on returns for Class C and D water utilities in the range of 11.65% to 13.40%. For Class B, it averages the most recently authorized Class C and Class A returns. Goodman would be classified as a Class D utility by the CPUC. According to the memo, an appropriate range for Goodman would be in the 12.4% to 13.4% range.

Q. WHAT HAS HAPPENED TO INTEREST RATES SINCE THIS MEMO WAS WRITTEN IN 2004?

A. The have generally increased. The fact that interest rates have increased indicates the cost of equity has increased since 2004 when this memo was prepared. However, I could not find a more recent memo and assume the CPUC guidelines have not changed and/or not been updated since 2004.

Q. DO STUDIES BY OTHERS SUPPORT THE VIEW THAT SMALLER UTILTIES ARE MORE RISKY THAN LARGER ONES?

A. Yes. In a study conducted by Dr. Thomas Zepp (hereinafter "Zepp"), he showed that, on average, smaller publicly traded water utilities had a COE 99 basis points higher than the average COE for larger publicly traded utilities.[1]

Q. DOES THE FACT THAT THE COMMISSION IN THE TWO CASES CITED BY MR. IRVINE ON PAGE 41 OF HIS DIRECT TESTIMONY REJECTING THE FIRM SIZE FACTOR IN ARIZONA RATE SETTING CHANGE YOUR VIEW THAT SMALL UTILITIES ARE MORE RISKY THAN LARGER ONES?

A. No. In the Black Mountain Gas Company ("Black Mountain") case (Decision 64727, April 17, 2002), the Commission did not conclude the "firm size phenomenon" did not exist. The order merely summarized the argument made by Staff which said "Staff argues that a study has shown the firm 'size phenomenon' does not exits for regulated utilities, and that therefore there is no need to adjust risk for small firm size in utility regulation'. *Id* at 16. This statement was not a conclusion of the Commission. What the Commission concluded in that order was that Staff "...performed a rigorous cost of capital analysis, and [the Commission finds] that its recommendations on that analysis are reasonable and withstand the Company's critique." *Id.* There is no meaningful explanation and/or reasoning provided by the order that would lead me to conclude there was an explicit rejection of the "firm size phenomenon". Black Mountain is a much larger utility than is Goodman and was classified as a Class A utility for purposes of that case. *Id* at 2. Also, Black Mountain did not prepare a COE study to support its proposed return on equity and I do not know what evidence Black Mountain provided, if any, in support of its position on the firm size premium. *Id* at 15. At best, one can infer that the Commission was not swayed by Black Mountain's arguments and

[1] Zepp, Thomas M. (2002, August). Utility Stocks and the size effect – revisited. *The Quarterly Review of Economics and Finance*, 578-582.

concluded that no size premium applied to Black Mountain. But, this conclusion does not extend to all Arizona regulated utilities.

In the Arizona Water Company ("Arizona Water") case (Decision 64282, December 28, 2001), the Commission concluded that for Arizona Water a size premium was not warranted. *Id* at 19. It did not conclude this for all Arizona regulated utilities as Mr. Irvine implies. Arizona Water was also classified as a Class A utility in that case and is much larger than is Goodman. It owns and operates 18 water systems in Arizona and at the time of the case had over 60,000 customers. *Id* at 1. Arguably, the risks faced by Arizona Water are not comparable to Goodman.

C. <u>Response to Staff's Testimony on Comparable Earnings and Risk Premium</u>.

Q. DO YOU AGREE THAT COMPARABLE EARNINGS ANALYSIS AND THE RISK PREMIUM ANALYSIS ARE INVALID BECAUSE THEY ARE NOT "MARKET BASED"?

A. No, I disagree with Mr. Irvine on this point. First, as I have testified, the risk premium approach is founded on directly observable *market* interest rates. This assures that the risk premium estimates of the COE begin with a sound basis and are tied to current capital market costs. *See* Bourassa DT at 40.

Second, in the instant case, we are attempting to establish a fair and reasonable return on equity for Goodman which will in turn be used to establish a rate of return on the fair value of Goodman property devoted to public service. That rate base is an accounting or book rate base. The rate base has not been adjusted to reflect the current market value of the utility plant and assets devoted to public service. In other words, Mr. Irvine is applying a *market* return derived from a finance model to the Company's *book* equity, which in turn is financing a *book* rate base. Thus, Mr. Irvine is ignoring the fact that a firm's earnings, whether they are reported as the return on equity or as earnings per share, are also based on

accounting data, as opposed to market data. For example, earning per share ("EPS") is calculated by dividing net income into the number of shares outstanding. The current market price of those shares is irrelevant to that calculation.

Third, risk premium model I employ is similar to the model routinely used by the California Office of Ratepayer Advocate Staff to estimate estimates of the COE for water utilities. The important characteristics of the California Ratepayer Advocate Staff model are (1) the use of earned returns as the proxies for equity costs and (2) the use of forecasted interest rates. In my opinion, authorized returns on equity ("ROEs") are expected to provide a conservative measure of the current cost of equity for the water utilities sample. Since 2003 and 2004, when some of those ROEs were set by regulators, interest rates have increased and thus the cost of equity has increased. The authorized ROEs may also be conservative measures of the current cost of equity because some of them are the result of settlements. Thus, to the extent that the reported ROEs in my direct schedule D-4.14 are the result of settlements, they probably understate the COE. I have a preference for the proxies for equity costs to be authorized ROEs, not realized ROEs, for the reasons I listed above, even though authorized ROEs may understate the COE.

Fourth, Staff contends that actual returns on equity should be ignored, notwithstanding the comparable earnings standard. Instead, Staff asserts that finance models should be the exclusive means of determining the COE.

Q. WHAT WOULD BE THE RESULT USING A COMPARABLE EARNINGS ANALYSIS WITH MARKET DATA?

A. Using sample group of publicly traded water utilities used by both the Company and Mr. Irvine, the historical market returns are much *higher* than the 10.5% I recommend. For example, the following "total" returns, which take into account both dividend payments and increases in stock price, are reported in Value Line:

Utility	5 Years	Annual Average
Amer. States	81.8%	16.4%
Aqua America	92.9%	18.6%
Cal. Water	65.6%	13.1%
Conn. Water	-6.2%	-1.2%
Middlesex	38.5%	7.7%
SJW Corp.	152.4%	30.5%
Average	70.8%	14.2%

Data from Value Line (October 27, 2006). The 5-year historical compound annual return for the water utilities sample companies is 14.3%.

Q. WOULD INVESTORS CONSIDER THE TOTAL MARKET RETURNS OF A STOCK?

A. Yes. From the standpoint of an investor, a true market rate of return would take into account *both* anticipated dividends *and* capital gains resulting from future changes in the price of stock. I expect Mr. Irvine to agree when he testifies that "the cost of equity is the compensation investors expect for bearing the risk of ownership of a stock." *See* Irvine DT at 7. The historical market returns are important to gaining perspective on investor expectations.

Q. DO INVESTORS CARE ABOUT THE RETURN ON EQUITY THAT A COMPANY IS EARNING AND IS PROJECTED TO EARN?

A. Only if they are looking to make sound investments. Returns on equity, earnings per share, and stock price/earnings ratios are widely followed and reported by investment services, business magazines, and other financial media outlets. A company's earnings play a major role in any investment decision – a far greater role, I believe, than the results of a CAPM or DCF model. The higher the return on equity, the greater the company's earnings and funds are available to pay dividends and to reinvest in capital projects.

Q. DO YOU RELY ON THE COMPARABLE EARNINGS APPROACH BECAUSE IT INDICATES A HIGHER RATE OF RETURN?

A. No. As I have testified, my comparable earnings and risk premium analyses serve as a check of reasonableness for the DCF results. *See* Bourassa DT at 15. Regardless of the particular finance model being used, the results of the model should be reasonable and generally consistent with the returns on equity actually being earned.

Amazingly Staff has not included a consideration of either actual, authorized returns on equity nor has it included a consideration of past price growth, book value growth, or actual market returns of the companies in the water utility sample. *See* Staff Response to Company Data Requests 2.3 and 2.4, attached hereto as Rebuttal Exhibit No. 1. Staff admits than total market returns influence investor expectations and admits that investors place differing degrees of importance to market returns, EPS and DPS growth. *See* Irvine DT at 34 and Response to Company Data Request 2.7 and 2.8, attached hereto as Rebuttal Exhibit No. 1. Amazingly, Staff does not consider other historical information as a check of reasonableness of the growth rates they select and the results of their financial models. This hardly reflects a balance approach.

Q. DOESN'T STAFF CONSIDER TOTAL MARKET RETURNS IN ITS HISTORICAL MARKET RISK PREMIUM CAPM?

A. Yes. But the historical market risk premium Staff uses is based on the S&P 500 consisting mainly of very large U.S. companies. Mr. Irvine's water utility sample consists of mostly Micro-Cap companies. The largest company, Aqua America would be considered a Mid-Cap. As I have testified, the financial data shows that mid-cap, low-cap and micro-cap companies historical have higher returns than large-cap companies. As we have seen, the historical returns on the water utility sample are consistent with this historical financial data.

Q. PLEASE CONTINUE.

A. The basic idea of the standard constant growth DCF approach to estimating the COE is to infer the COE from the current share price and from an estimate of investors' expected future growth. Exactly what prospective measure of growth should be used (trends in earnings per share, dividends per share, book value per share) and how the information contained in these various measures used by investors is important to in order to infer the investors' true expected return. Although the growth rate in the DCF model is the expected rate of growth in dividends, it is assumed that earnings, book value, and stock price all growth at the same constant rate as dividends. Historically price, book value, earnings and dividends have not grown at the same rate. *See* Bourassa DT at 34. Further, the investors' return and the cost of equity capital for an application to original cost rate base (book value) are identical only when the market price is equal to book value. In fact, the DCF model understates the COE when price and book are not close to unity (the market-to-book ratio of the water utilities sample companies averages over 2.6).

Q. ARE THE RESPECTIVE PARTIES APPLYING A MARKET BASED RETURN TO A BOOK VALUE EQUITY AND RATE BASE?

A. Yes. As I have already alluded to, if we were to be technically correct, equity and rate base should be stated at market value. Because we are applying a market based COE to book value is another reason why actual and authorized returns of the water utilities sample companies are relevant as checks of reasonableness to a cost of capital analysis in this case. Mr. Irvine argues that historical DPS and EPS information is relevant to investors. *See* Irvine DT at 35. Why wouldn't the same apply to actual and authorized earnings? After all, his historical EPS and sustainable growth are based on book results and there is no evidence in this case to suggest that investor expectations do not include consideration of the actual and authorized earnings of the sample water utility companies.

Q. PLEASE RESPOND TO MR. IRVINE'S CRITICISM OF YOUR RELIANCE ON PROJECTED INTEREST RATES IN YOUR RISK PREMIUM ANALYSIS ON PAGE 39 OF HIS DIRECT TESTIMONY?

A. Using current rates to predict future rates, as Staff has done in its CAPM, does not avoid the problem of predicting interest rates in 2007-2008, when Goodman's rates will be in effect. Staff's use of today's interest rates effectively assumes that those interest rates will remain unchanged in the future. The COE should be determined when new rates will be in effect, not a single point in time prior to new rates being established.

Q. HAVE YOU PREPARED A DIFFERENT MARKET RISK PREMIUM ANALYSIS THAT IS ENTIRELY MARKET BASED?

A. Yes. Preliminarily I would like to state that I believe my risk premium analysis to be valid. Putting this aside, I have prepared a bond risk premium analysis which is entirely market based. *See* Rebuttal Exhibit No. 4.

The average bond risk premium over the most recent 5 year period is 12.21%. The current yield on a long-term U.S. Treasury Bond is 4.8%, suggesting a current indicated COE of 17.0%. The Blue Chip <u>forecasted</u> yield for long-term U.S. Treasury Bonds is 5.3%, suggesting a current indicated COE of 17.5%. The 10 and 15 year average risk premiums are far greater at 14.99% and 14.11%, and using either current or forecasted interest rates, the indicated COEs well are above 18%.

Q. PLEASE EXPLAIN YOUR EQUITY RISK PREMIUM ANALYSIS?

A. As a proxy for a risk premium applicable to my water utility sample, a historical risk premium for the sample is estimated with an annual time series analysis as applied to my water utility sample companies. The risk premium is estimated by computing the annual return on equity capital for the composite of the water utility sample companies for each year using the actual stock prices and dividends of the water utility sample companies, and then subtracting the long-term government

bond for that year. The composite of the water utility sample companies is a value weighted index which means that each company in the index receives a weight proportional to the market value of its equity. Value-weighted indexes have the useful property of tracking the performance of a buy and hold investments in the underlying stocks. The S&P 500, for example, is a value weighted index.

Q. WHAT IS SUGGESTED BY YOUR BOND RISK PREMIUM ANALYSIS?

A. It suggests that the true cost of capital may be much higher than any of the parties have recommended in this case. It also confirms my conclusion that a 10.5% ROE is extremely conservative.

D. <u>Response to Staff's Testimony on Use of Analyst Forecasts for Estimating Growth Rates.</u>

Q. PLEASE RESPOND TO MR. IRVINE'S COMMENTS ABOUT THE GORDON, MYRON AND GOULD STUDY YOU CITED IN YOUR DIRECT IN SUPPORT OF THE USE OF ANALYST ESTIMATES?

A. I did not claim that the study by Gordon, Myron, and Gould[2] concluded that investors ignore past growth rates. The authors note that all four estimates of growth[3] evaluated in the study rely on past data, but in the case of the analyst earnings forecasts, a larger body of past data is used, filtered through a group of security analysts who adjust for abnormalities that are not considered relevant for future growth. *Id.* The authors conclude that because of this, "the superior performance of the cost of equity estimates based on earnings forecasts should come as no surprise." *Id.* The authors also note that forecasts are widely accepted by investors and the study does, in fact, support the sole use of analyst forecasts. *Id.*

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[2] David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55.

[3] The four estimates of long-run growth evaluated in the Gordon, Myron, and Gould study were: 1) historical dividend growth; 2) historical earnings growth; 3) analyst forecasts of earnings growth; and, 4) historical retention growth.

As I testified in my direct testimony, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information. Any further recognition of the past will double count what has already occurred. *See* Bourassa DT at 37. The Gordon, Myron, and Gould study supports this assertion.

Q. HOW DID YOU DERIVE AN ESTIMATE OF THE GROWTH RATE FOR YOUR DCF MODEL?

A. I used analysts' forecasts of EPS growth from several sources, not just Value Line. I used forecasts published by Zack's Investment Research, Standard & Poor's Earning Guide, and Value Line Investment Survey. *See* Bourassa DT at 36. In my opinion, using analysts' forecasts from several reputable sources offsets potentially overly optimistic or overly pessimistic projections from one source. Further, unlike investment banking firms and stock brokerage firms, independent research firms like Value Line and Standard and Poor's have no incentive to distort earnings growth estimates in order to bolster interest in common stocks.

Q. WHY IS EARNINGS GROWTH A MEANINGFUL GUIDE TO INVESTORS' LONG-TERM GROWTH EXPECTATIONS?

A. It is growth in earnings, after all, that will support future dividends and share prices. There is an abundance of evidence attesting to the importance of earnings in assessing investor expectations. The sheer volume of earnings forecasts available from the investment community relative to the scarcity of dividend forecasts attests to their importance. Value Line, Zacks, S&P, Thompson First Call, to name a few, all provide comprehensive information on investor's earnings forecasts. Value Line's principle investment rating assigned to individual stocks, Timeliness Rank, is based primarily on earnings. These investment information providers focus on earnings growth rather that dividend growth which indicates the investment community places greater importance to earnings as a measure on future long-term growth.

Q. DO YOU HAVE A COMMENT ON PAGE 36 and 37 OF MR. IRVINE'S TESTIMONY CONCERNING OTHER EXPERTS WHO SUGGEST SOLE RELIANCE ON ANALSYST ESTIMATES ARE INADVISABLE?

A. Yes. Mr. Irvine's reliance on the study by David Dreman is puzzling. Irvine DT at 36. Even though Mr. Dreman has criticized analysts' growth rates as being too optimistic, Mr. Dreman also says investors rely on those forecasts.

> We have also seen that in spite of high error rates being recognized for decades, neither analysts nor investors who religiously depend on them have altered their methods in any way.[4]

Mr. Irvine's reliance on Burton Malkiel is also puzzling. *See* Irvine DT at 36. Mr. Malkiel without doubt critical of analysts' forecast of earnings. However, based on his comments even the past provides no help in predicting the future.

> ...Calculations of past earning growth are no help in predicting the future.....
>
> Bluntly stated, the careful estimates of securities analysts (based on industry studies, plant visits, etc.) do little better than those that would be obtained by simple extrapolation of ***past trends, which we have already seen are no help at all.*** [Emphasis supplied][5]

In other words, if we follow Mr. Malkiel's logic, investors would be no worse off using an investment strategy of throwing darts at a board. If neither analyst forecasts nor historical information are of use to investors, there is no reason to believe that Mr. Irvine's use of historical information in combination with analysts' estimates is any better at measuring investor expectations.

If investors rely on analysts' growth rate forecasts, those are the forecasts of relevance to the determination of equity costs. Despite the claims by Dreman and Malkiel about growth forecasts being overly optimistic, growth forecasts still

[4] David Dreman, Contrarian Investment Strategies: The Next Generation. 1998. Simon & Schuster. New York. page 115-116.
[5] Burton G. Malkiel. A Random Wall Down Wall Street. 2003. W.W. Norton & Co. New York. p. 173-174.

perform best for utility stocks when estimating the COE. *See* Gordon, Myron, and Gould. Those growth rates influence the prices investors will pay for stocks and thus impact the dividend yields. The dividend yields change until the sum of the dividend yield plus those growth rates equal the investors' perceived COE. Had the growth forecasts been lower – as Mr. Irvine suggests they should be – the stock prices would be lower and dividend yields would be higher but there would not necessarily be any difference in the ultimate estimate of the COE.

Q. IS THE USE OF HISTORICAL GROWTH RATES ANY LESS SUBJECTIVE THAN USING ANALYST EXPECTATIONS OF GROWTH?

A. No, but Mr. Irvine seems to think so. *See* Irvine DT at 38. However, use of historical growth rates in a prospective financial model like the DCF makes the historical growth rates no less subjective in developing measures of investor's expectations.

Q. ON PAGE 38, MR. IRVINE CRITICIZES YOU FOR NOT USING FORECASTS OF DIVIDEND GROWTH IN YOUR GROWTH ESTIMATES. DO YOU HAVE A RESPONSE?

A. Yes. First, as I testified in my direct testimony, the constant growth DCF result using projected DPS growth was at or below the cost of debt. *See* Bourassa DT at 38. Even using the somewhat higher DPS forecasts form the October 27, 2006 Value Line, two of the three sample company indicated COE are far below the current cost of debt. These results are not reasonable or rational and would distort the DCF model's result.

Second, I do not use projected DPS estimates, in part, because of the three sources for analysts estimates that I employ, Zack's, Value Line, Standard and Poor, only one provides projected DPS growth estimates.

Third, earnings growth provides a more meaningful guide to investors' long-term growth expectations. After all, it is growth in earnings that will support future dividends and share prices. There is an abundance of evidence attesting to the

importance of earnings in assessing investor expectations. The sheer volume of earnings forecasts available from the investment community relative to the scarcity of dividend forecasts attests to their importance. Value Line, Zacks, S&P, Thompson First Call, to name a few, all provide comprehensive information on investor's earnings forecasts. Value Line's principle investment rating assigned to individual stocks, Timeliness Rank, is based primarily on earnings. These investment information providers focus on earnings growth rather that dividend growth which indicates the investment community places greater importance to earnings as a measure on future long-term growth.

E. Staff's DCF Estimates Are Unreasonably Low Due to Staff's Biased Selection of Inputs.

Q. PLEASE EXPLAIN WHY YOU BELIEVE STAFF'S CONSTANT GROWTH DCF MODEL PRODUCES A COST OF EQUITY THAT IS UNREALISTICALLY LOW.

A. In Staff's constant growth (single growth stage) DCF model, Staff relies heavily on historical DPS and EPS growth. As I explained in my direct testimony, one of the reasons I did not use historical DPS and EPS growth is because the indicated COE produced by the DCF model using these growth rates is *less than the current cost of debt*. *See* Bourassa DT at 38. Staff uses 10-year historical DPS and EPS growth rates. However, the results are not much better than using the 5-year historical data.

Q. WHAT ARE THE GROWTH RATES USED BY STAFF?

A. The following table shows the growth rates Mr. Irvine uses in implementing the constant growth DCF model (*see* Staff Schedule SPI-7):

Type of Growth	Historic	Projected
Dividends per Share ("DPS") Growth	2.7%	5.0%
Earning per Share (EPS") Growth	4.2%	7.9%
Intrinsic (Sustainable) Growth	5.7%	8.4%

Type of Growth	Historic	Projected
Average	**4.2%**	**7.1%**

Staff's gives the historical growth rates 50% weight in its model. Using the overall historical average growth rate, the indicated COE is at or below the projected cost of Baa bonds (6.9%). As shown below, the historical growth DCF model using Staff's overall average produces an indicated COE of 6.9%:

(1) Staff DCF – Historical Growth

D_1/P_o	+	G	=	K
2.7%		4.2%		6.9%

Q. WHAT ARE THE INDICATED COSTS OF EQUITY JUST USING STAFF'S HISTORICAL DPS GROWTH?

A. The result is 5.1% as shown below.

(2) Staff DCF - Historical DPS growth

D_1/P_o	+	g	=	K
2.7%		2.7%		5.4%

Q. WHAT ARE THE INDICATED COSTS OF EQUITY JUST USING STAFF'S HISTORICAL EPS GROWTH?

A. The result is 6.9%, as shown below:

(3) Staff DCF - Historical EPS growth

D_1/P_o	+	g	=	K
2.7%		4.2%		6.9%

Perhaps even more revealing is that Staff excludes an EPS growth rate for one of its water utility sample companies because it is negative. *See* Schedule SPI-4. Mr. Irvine would like us to believe that his analysis is less subjective. See

Irvine DT at 38. But if a negative growth rate can be excluded because it is not realistic, then why shouldn't the other growth rates be eliminated on a similar basis. If investors view historical information just as important as forecasts of growth, as Mr. Irvine claims, then why should a negative growth rate be excluded? There is no requirement on the DCF model that negative growth rate cannot be used. Common sense tells us a negative growth rate should not be used because it is unrealistic. But a negative growth rate is no more unrealistic than the growth rates that produce indicated COEs below the cost of debt.

Q. EXCUSE ME MR. BOURASSA, BUT I DON'T RECALL SEEING INDIVIDUAL COMPUTATIONS LIKE THESE IN STAFF'S SCHEDULES OR TESTIMONY. WHY IS THAT?

A. Because Staff does not show the individual results of their selected growth rates. Staff has "hidden the ball" so to speak. I have prepared rebuttal exhibits, attached hereto as Rebuttal Exhibits No. 5 and 6, which show that Staff's individual results for the sample utilities show indicated costs of equity as low as 3.1%! Further, a significant number are below 4.9%, i.e., the current yield on 30-day Treasuries. Two-thirds of the indicated costs of equity are below the current cost of debt. This is truly remarkable.

Q. PLEASE COMMENT ON STAFF'S COMPUTATION OF THE GROWTH RATES USED IN THEIR MODELS.

A. Staff growth rates are based on the compound average annual growth. Staff admits this. *See* Staff Response to Company Data Request 2.12, attached hereto as Rebuttal Exhibit No. 1. In statistical parlance, the compound average is also called the geometric mean, or sometimes the geometric average. Staff uses geometric means for both the historical and projected growth rates. Mr. Irvine's choice to use geometric means bias downward the COE estimates. A geometric average annual growth is the correct method to express what has happened in the past but is not an appropriate choice for prospective (forward-looking) model like the DCF.

Statistically speaking, the arithmetic average is the unbiased measure of the expected value of repeated observations of a random variable, not the geometric mean. The arithmetic mean answers the question of what growth rate is the best estimate of the future amount of money that will be produced by continually reinvesting in the stock market.[6] If an investor expects growth and variability in growth that occurred in the past to continue in the future, the required ROE must be based on the arithmetic annual average. If an ROE set to earn on the geometric average annual growth, the expected growth cannot be achieved if there is any variability in annual growth.

Q. DOES STAFF USE ARITHMETIC BASED AVERAGES OR MEANS ELSEWHERE IN ITS MODELS?

A. Yes. The historical market risk premium used in its historical market risk premium CAPM is an arithmetic mean risk premium of the S&P 500 total returns over intermediate government bonds. *See* Irvine DT at 28 and Response to Company Data Request 3.11, attached hereto as Rebuttal Exhibit No. 1.

Q. DOESN'T THE USE OF ARITHMETIC MEANS AND GEOMETRIC MEANS PROVIDE A BALANCED APPROACH?

A. No, although Staff apparently thinks so. *See* Staff Response to Company Data Request 3.12, attached hereto as Rebuttal Exhibit No. 1. I have stated the reasons why the geometric mean is not appropriate earlier and will not repeat them. The use of the geometric mean does not provide balance. What is does do is to skew Staff's DCF results downward.

Q. EARLIER YOU SHOWED THAT STAFF'S PROJECTED GROWTH RATES AVERAGED 7.1%. HOW DOES STAFF COMPUTE THE PROJECTED GROWTH RATES FOR DPS GROWTH AND EPS GROWTH?

[6] Roger A. Morin. New Regulatory Finance. 2006. Public Utility Reports, Inc. p. 133.

A. Using the Value Line data they compute a growth rate which is really a geometric average. I do not quite understand why Staff does this because Value Line provides a 3-5 year growth rate on in the Value Line report for each company. Staff's computed values are lower than the stated growth rates on Value Line reports for each company. Using the Value Line reported 3-5 year growth rates, the average growth rates for DPS and EPS would be 4.8% and 9.0%, respectively and Staff's the average projected growth rate would be 7.4%. Compare this to 7.1% in the table above.

Q. WHAT WOULD BE THE IMPACT ON STAFF'S DCF RESULTS USING ARITHMETIC MEANS RATHER THAN GEOMETRIC MEANS FOR THE GROWTH RATES?

A. Staff's DCF result would be at least 20 basis points higher at 9.2%. If we exclude the lowest and least realistic of the growth rates, the historical DPS growth rate of 2.7%, Staff's DCF result would be at least 60 basis points higher at 9.6%. Compare this to Staff's 9.0% as shown on Staff Schedule SPI-2.

F. <u>Staff CAPM Estimates Underestimate the Current Cost of Equity.</u>

Q. LET'S MOVE ON TO STAFF CAPM ESTIMATES. WHAT IS THE ESTIMATED BETA FOR GOODMAN STAFF HAS USED IN ITS CAPM?

A. Staff used an average of the betas estimated by Value Line for each utility in its sample group to implement the CAPM. Staff computed an average beta of 0.82 for the six water utilities in its sample group. *See* Irvine DT 27.

As I have testified, Staff has not presented any evidence or data suggesting that Goodman, if it were publicly traded, would have a beta equal to that of their utility sample group. They have made no attempt to analyze the particular risks associated with an investment in Goodman and to compare those risks with the publicly traded water utilities in their sample groups. They have simply assumed that all water utilities, regardless of a particular utility's size and other firm-specific characteristics, have the same beta as the publicly traded water utilities.

Q. HOW DOES STAFF COMPUTE THE MARKET RISK PREMIUMS USED IN ITS CAPM?

A. Staff does not compute an historical MRP. Staff's historical MRP is based on the S&P 500 market returns from 1926 to 2004 reported by Ibbotson and is 7.5%. *See* Irvine DT at 28. Staff's current MRP is derived by solving a CAPM, Staff's equation (8) as shown on page 25 of Mr. Irvine's testimony, for the MRP using Staff's derived market based DCF ROE of 10.48%, a 30-year Treasury note of 4.68%, and a beta of 1.0. Staff's current MRP in the instant case is 5.8%. Aside from this method being extremely unstable, Staff using median values of dividend yield and growth for its market based DCF ROE which skew the CAPM results significantly downward.

Q. EXCUSE ME, MR. BOURASSA, DID YOU TESTIFY THAT STAFF USES <u>MEDIAN</u> VALUES INSTEAD OF <u>AVERAGE</u> VALUES IN DERIVING THE CURRENT MRP?

A. Yes. *See* Staff Response to Company Data Request 3.1 and 3.6, attached hereto as Rebuttal Exhibit No. 1. Staff uses median values for the dividend yield and the growth rate in the DCF method used to compute a current market ROE. The dividend yield is the median dividend yield for the next 12 months of the Value Line Index dividend paying stocks. The growth rate is based on the median price appreciation potential for the next 3-5 years of the 1700 stocks in the Value Line Index. The use of the median values is some what confusing as Staff uses an arithmetic average based growth rate in its historical market risk premium CAPM. What is further disturbing is that the median values are considerably less than the average values. For example, the average dividend yield for the Value Line Index for the next 12 months of the Value Line Index dividend paying stocks is 2.15%. Compare this to the 1.7% used by Staff. The average price appreciation is over 10.75%. Compare this to the 8.78% used by Staff.

Q. WHAT DOES STAFF HAVE TO SAY ABOUT THE USE OF MEDIAN VALUES?

A. Staff finds the median values fair and reasonable. *Id.* Yet, Staff has not even attempted to ascertain what the average values are and whether those values are more or less reasonable than the median values. *See* Staff Response to Company Data Request 3.2, 3.3 and 3.4, attached hereto as Rebuttal Exhibit No. 1.

Q. ARE YOUR COMPARISONS CONSISTENT WITH THE DATES UPON WHICH STAFF PREPARED ITS CURRENT MRP?

A. Yes. Staff acquired its median values for dividend yield and price appreciation and prepared its current MRP using the Value Line reports published on October 27, 2006. The data upon which I computed the average dividend and price appreciation values for the Value Line Index are from the October 31, 2006 Value Line Analyzer Software database. So, the comparisons are valid.

Q. WHAT WOULD BE THE IMPACT ON STAFF'S CAPM RESULTS USING THE AVERAGES RATHER THAN THE MEDIANS AS INPUTS INTO THE CURRENT MARKET RISK PREMIUM CAPM?

A. The current market risk premium CAPM would produce an indicated COE of 11.4%. Compare this to 9.4% as shown on Staff's Schedule SPI-2. Staff's average CAPM result would be 11.1%. Compare this to Staff's 10.1% as shown on Staff Schedule SPI-2.

G. <u>Restatement of Staff Cost of Equity Results.</u>

Q. BASED ON THE USE OF ARITHMETIC MEANS RATHER THAN GEOMETRIC MEANS FOR STAFF'S DCF GROWTH AND EMPLOYING MEANS RATHER THAN MEDIANS TO DERIVE A MARKET RISK PREMIUM FOR THE CAPM, WHAT WOULD STAFF'S OVERALL RESULTS BE?

A. Staff's over all COE result would be 10.2%, over 60 basis points higher than its recommended 9.6%. The 10.2% result includes the use of the low DPS and EPS

growth rates. Thus, the 60 basis points is the minimum bias I believe is present in Staff's models in the instant case. A significant problem with Staff's application of the DCF and CAPM is in the choice of the inputs it employs and the reasonableness of their assumptions. When they are examined in detail, it becomes apparent that their respective choices skew the results of models downward.

V. RATE DESIGN.

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

A. As a preliminary matter, I would like to point out that during discovery and after a discussion with Mr. Myhlhousen regarding his rate design schedule (Staff Schedule CRM -18) I understand that the monthly minimums above the 5/8 inch meter size as shown on Staff's rate design schedule are incorrect. According to Mr. Myhlhousen, the monthly minimums should have been more closely aligned with the minimums scaled on the 5/8 inch meter flow rates and the minimums shown on this schedule. Also, Mr. Myhlhousen informs me that he intended for the ¾ inch metered customers to have the same monthly minimum as the 5/8 inch metered customers. Base on my understanding, the monthly minimums for Staff should be as follows:

Meter Size	Monthly Minimum	Gallons included in Monthly Minimum
5/8	$39.00	0
3/4	$39.00	0
1	$95.00	0
1 1/2	$195.00	0
2	$305.00	0
3	$624.00	0
4	$975.00	0
6	$1,170.00	0

I will address Staff's rate design for purposes of rebuttal based on this understanding. If I have misunderstood Staff's intended rate design, I apologize in advance for any criticisms of Staff design based on this misunderstanding.

Q. PLEASE CONTINUE.

A. The primary difference between Staff and the Company's rate design is that Staff is recommending a three tier design for the 5/8 inch metered customers and two-tier designs for larger meters. Each size meter larger than 5/8 inch meter have distinct two-tier design whereas the Company has proposed three tier designs for all meter sizes and has only two separate tier structures - one for the ¾ inch and smaller meters and one for the 1 inch and larger meters.

Both Staff and the Company's monthly minimums are scaled on the 5/8 inch meter with the exception that Staff's ¾ inch meter monthly minimum is not scaled. Rather, it is the same as the 5/8 inch meter.

Q. DO YOU AGREE THAT THE ¾ INCH METERS SHOULD HAVE THE SAME MONTHLY MINIMUM AS THE 5/8 IMCH METERS?

A. No. The ¾ inch meters should be scaled on the 5/8 inch meter as are Staff's other size meters. The ¾ inch meters have a higher potential demand on the water system due to higher flow capacity and accordingly should have a higher minimum charge. The Company's present monthly minimums reflect the demand potential differential and there is no reason to change the basic design.

Q. DOES IT MAKE SENSE TO HAVE THE SAME MONTHLY MINIMUMS FOR THE 5/8 INCH METERS AND ¾ INCH METERS IN LIGHT OF THE FACT THAT STAFF'S PROPOSES A SEPARATE TWO-TIER DESIGN RATHER THAN A THREE-TIER DESIGN FOR THE ¾ INCH METERS?

A. No. If the Commission decides to set the 5/8 inch meter and ¾ inch meter monthly minimums the same, then the ¾ inch meters should be on the same tier structure as the 5/8 inch meters. This is not the case under Staff's design (as I understand it). *See* Staff Schedule CRM-18.

Q. DOES IT MAKE SENSE TO HAVE SEPARATE TIER STRUCTURES OR BREAK OVER POINTS FOR EACH SIZE METER?

A. It depends. In the instant case, there Company only has 5/8 inch metered customers, 1 inch metered customers, and 2 inch metered customers. Most of the customer base consists of 5/8 inch metered customers. The Company's proposed rate design is less complex and easier to understand - important factors in a rate design for a small water utility.

Additionally, until the patterns of use for the various larger meters are available it is not wise to establish break over points over all meter sizes. There were only 34 - 1 inch metered customers and 3 - 2 inch metered customers at the end of the test year. At the beginning of the test year, there was only 1 - 1 inch metered customer and most of the growth took place during the last half of the year. This compounds any meaningful analysis of usage patterns for this customer class.

Q. DOES A BREAK OVER POINT OF 75,000 GALLONS MAKE SENSE FOR THE 1 INCH METERS?

A. No. The final break over point for the 5/8 inch meter is 9,000 gallons under Staff's proposed design. Based on relative flow rates to the 5/8 inch meter, the logical break over point on a two-tier structure for the for the 1 inch meter should be 22,500 gallons, not 75,000 gallons.

The average use for the 1 inch metered customers was approximately 3,800 gallons – which was less than that of the 5/8 inch metered customers. Staff's rate design allows for 75,000 gallons in the first tier and if the test year provides any indication of the usage pattern for the 1 inch metered customers these customers will likely not or rarely receive a conservation price signal – which is after all the purpose of an inverted tier design.

Q. DOES THE COMPANY RECOMMEND ANY CHANGES AT THIS TIME TO ITS RATE DESIGN?

A. No.

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

A. The rebuttal proposed rates for customers with a water meter size of:

Meter Size	Monthly Minimum	Gallons included in Monthly Minimum
5/8	$44.87	0
3/4	$67.31	0
1	$112.19	0
1 1/2	$224.37	0
2	$358.99	0
3	$673.11	0
4	$1,121.85	0
6	$2,243.70	0

The commodity charges and tiers by meter size are:

Meter Size	**Tier (gallons)**	**Charge per 1,000 gallons**
⅝ and ¾ Inch	1 to 4,000	$ 5.02
	4,001 to 10,000	$ 6.72
	Over 10,000	$ 7.72
1 Inch and larger	1 to 10,000	$ 5.02
	10,001 to 25,000	$ 6.72
	Over 25,000	$ 7.72

The proposed construction meter and standpipe rate is $7.72 per 1,000 gallons with no minimum monthly charge.

Q. DOES STAFF AGREE TO THE COMPANY'S PROPOSED CHANGES TO ITS OTHER RATES AND CHARGES?

A. Yes, except for the late charge. The Company recommends a $10.00 late charge while Staff recommends a late charge of 1.5% per month. *See* Myhlhousen DT at 11. The Company proposes a compromise of 1.5% per month or $5.00 which ever

is greater. A late charge should encourage prompt and timely payment of customer bills. A late fee of 1.5% on a $50.00 unpaid bill amounts to 75 cents. This hardly sends a proper signal to customers to pay their bills on time.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

RESPECTFULLY SUBMITTED this 20th day of December, 2006.

LEWIS AND ROCA

Michael F. McNulty
Lewis and Roca, LLP
One South Church Avenue, Suite 700
Tucson, Arizona 85701-1611
Attorneys for Goodman Water Company

LEWIS AND ROCA LLP LAWYERS

ORIGINAL AND thirteen (13) copies
of the foregoing delivered VIA DHL
this 6th day of December, 2006

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

COPY of the foregoing delivered VIA
U.S. MAIL this 6th day of December, 2006

Goodman Water Company
6340 North Campbell Avenue, Suite 278
Tucson, AZ 85718

By: _____
Hope I. Bracken
Secretary to Michael F. McNulty

Rebuttal Exhibit No. 1

The Arizona Corporation Commission Utilities Division Staff's
Responses To the First Set Of Data Requests
From Goodman Water Company
Docket No. W-02500A-06-0281
December 12, 2006

REQUEST 1.1 **Workpapers – Please provide a copy of all work papers including electronic copies of schedules, copies of articles, studies, and/or references used in the rate case that support the Staff's recommendations for rate base adjustments, operating statement adjustment, and cost of capital.**

Response: Electronic copies sent to Tom Bourassa on December 4, 2006.
Respondent: Charles R. Myhlhousen, Public Utility Analyst III.

Response: Electronic copies sent to Tom Bourassa on December 6, 2006. Hard copy of references are being provided herein.
Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 1.2 **Income tax Computation and Interest Synchronization – Please explain the basis for Staff's interest expense synchronization computation in the determination of income tax expense. Please provide supporting data and computation for the 2.10% weighted cost of debt used. Please provide the actual amounts of debt and equity used by Staff, and not simply percentages.**

Response: Staff error, the Company has no interest expense or long term debt. This will be corrected in Staff's surrebuttal testimony.

Respondent: Charles R. Myhlhousen, Public Utility Analyst III.

REQUEST 1.3 **Please acknowledge that the Company has no long-term debt in its capital structure.**

Response: Staff is not aware of any long-term debt held by the company.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 1.4 **Please acknowledge that he Staff has not proposed long-term debt in the Company's capital structure.**

Response: Staff does not recommend any debt in the company's capital structure for this rate case.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 1.5 **Please acknowledge that the Commission has accepted the formula method for computing working capital for Class C utilities in the past.**

Response: I personally do not know of any companies however, the formula method may have been allowed on rare occasions. The formula method for computing working capital is not recommended for class C and above utilities when it is not supported by a lead/lag study.

Respondent: Charles R. Myhlhousen, Public Utility Analyst III.

REQUEST 1.6 **Outside Services- Please identify what services provided by CWH2 and YL Technology are duplicative. Please be specific. (Refer to page 7, line 9-10 of Mr. Myhlhousen's direct testimony.) As part of your response, please specify what portion of the services provided by each of these contractors that Staff deems to the duplicated. How did Staff determine that portion what was duplicated? Please provide basis, computation, and/or detailed analysis.**

Response: In response to Staff's third set of data requests, the information furnished stated that Mr. Christopher Hill provides on the average only 1 to 2 hours per week in managing YL Technology. That would only be 4 to 8 hours per month for a yearly fee of approximately twelve thousand dollars. In Staff's on-site visit on August 16, 2006, Mr. Hill stated that on a weekly basis he performs the same tests that YL Technology performs on a monthly basis which is all that is required.

Respondent: Charles R. Myhlhousen, Public Utility Analyst III.

REQUEST 1.7 **Outside Services – Please provide the rationale and basis for the amount of expense Staff deemed "appropriate for the services of Mr. J.A. Shiner. (ref to page 7,line 14-15 of Mr. Myhlhousen's direct testimony) Please include any computation made in determining the amount of services Staff to be appropriate.**

Response: In response to Staff's third set of data requests, the Company stated that no time cards are kept or tracking of time. No written reports are prepared. No written contract with the Company was furnished. Staff just received a listing of duties performed. From this list Staff made a determination of which duties might be day to day and which did not pertain to day to day operations. Mr. Shiner is a co-owner of the Company and this is not an arms length transaction.

Respondent: Charles R. Myhlhousen, Public Utility Analyst III.

The Arizona Corporation Commission Utilities Division Staff's
Responses To the First Set Of Data Requests
From Goodman Water Company
Docket No. W-02500A-06-0281
December 12, 2006

REQUEST 1.8 **Please define "day to day operations' as referred to by Mr. Myhlhousen on page 6, line 20 of his direct testimony.**

Response: Day to day operations would include the items necessary to provide service to the present ratepayers.

Respondent: Charles R. Myhlhousen, Public Utility Analyst III.

REQUEST 1.9 **Salaries and Wages – Please describe how Staff determined the portion of the employee's duties that were dedicated to "day to day" operations? Please provide basis, computation, and/or detailed analysis. (Refer to page 6, line 19-20 of Mr. Myhlhousen's direct testimony.)**

Response: In response to Staff's third set of data requests, the Company stated that no time cards are kept or tracking of time. No written reports are prepared. No written employment contract. Staff just received a listing of duties performed. From this list Staff made a determination of which duties might be considered day to day and which did not pertain to day to day operations. Mr. Alexander is a co-owner of the Company and this is not an arms length transaction.

Respondent: Charles R. Myhlhousen, Public Utility Analyst III

REQUEST 1.10 **Repairs and Maintenance – Please respond to the following**

a. Were the services provided by P&H Contracting the same types of services later provided by other contractors? If not, please explain.

Response: Staff agrees that this amount should not have been removed. It will be addressed in Staff's surrebuttal testimony.

Respondent: Charles R. Myhlhousen, Public Utility Analyst III

b. Were the services provided by P&H Contracting duplicated by other contractors? If so, please explain.

Response: See (a) above answer.

Respondent: Charles R. Myhlhousen, Public Utility Analyst III

c. **Regardless of whether the same contractor(s) is (are) providing the repairs and maintenance services to the Company, is the Company expected to incur a full 12 months of expenses. If not, please explain.**

Response: See (a) above answer.

Respondent: Charles R. Myhlhousen, Public Utility Analyst III

d. Response: The Company did not supply a subsection (d) question.

e. **Does Staff's recommended repairs and maintenance expense include a full 12 months of test year expense? If so, please explain.**

Response: See (a) above answer.

Respondent: Charles R. Myhlhousen, Public Utility Analyst III

f. **Please identify the specific type of service for repairs and maintenance expense that will not be recurring on a going forward basis, whether those services were preformed by P&H Contracting or by other contractors.**

Response: See (a) answer above.

Respondent: Charles R. Myhlhousen, Public Utility Analyst III

REQUEST 1.11 **Please provide a proof of revenue using Staff proposed rates and the Company's bill counts.**

Response: Staff has furnished Tom Bourassa the electronic copy of proof of revenue on December 4, 2006.

Respondent: Charles R. Myhlhousen, Public Utility Analyst III

REQUEST 1.1 **Workpapers – Please provide a copy of all work papers including electronic copies of schedules, copies of articles, studies, and/or references used in the rate case that support the Staff's recommendations for rate base adjustments, operating statement adjustment, and cost of capital.**

Response: Electronic copies sent to Tom Bourassa on December 6, 2006. **Hard copy of references are being provided herein.**

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 2.1 **Please indicate whether the Staff believes that the cost of equity equals the compensation that investors expect for bearing the risk of ownership of a stock? If so, please explain the basis for your response.**

Response: The answer is provided on page 7 of my direct testimony.

Respondent: Steve Irvine, Public Utility Analyst III

REQUEST 2.2 **Does Staff maintain that the six sample water utilities selected for comparison by Mr. Irvine are comparable to the Company --**

- **in terms of investment risk?**
- **in terms of market risk?**
- **in terms of the level of risk posed by an investment in the common equity?**
- **in terms of the risk associated with an investment in the common stock of each? Has that risk increased or decreased? Explain the basis for your response, including each factor or characteristic Staff considered in its selection process.**

Response: Staff maintains that the sample companies used as a proxy for Goodman are comparable in terms of market risk. Staff's analysis only measures the market risk because it is the only risk relevant to cost of equity.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 2.3 **Please provide the average annual total market returns for each utility in Staff's sample group for the historical 1, 3 and 5 year periods.**

Response: Staff has not performed this analysis.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 2.4 **Please provide the historical 5 and 10 year average stock price growth and book growth for the six publicly traded water utilities in Staff's sample group. Are these growth rates the same as the historical DPS and EPS growth rates? If they are not the same, how are they different?**

Response: Staff has not performed this analysis.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 2.5 Is the Staff's proposed cost of equity acknowledge investor expectations?

Response: Staff's proposed cost of equity is an estimation of investor's expectations.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 2.6 **Is the return that investors expect for a given stock equal to the level of return that other firms with equivalent levels of risk also yield? Explain the basis for your answer.**

Response: Expectations do not equate to yields.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 2.7 **Please indicate whether Staff believes that historical annual total market returns influence investor expectations? If so, please indicate to what extent they do, and if not, please explain why Staff believes it not to be the case.**

Response: Staff does believe that historical annual total market returns influence investor expectations. This is recognized as an input in Staff's use of the historical market risk premium. It is reasonable to expect that the extent to which individual investors give consideration to historical returns differs.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 2.8 Are total historical market returns more or less important than historical EPS and DPS growth in developing estimates of investor expectations?

Response: It is reasonable to expect that individual investors place differing degrees of importance on each growth factor.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 2.9 **Please provide any studies, reports or other supporting reference materials that concludes the analysts' estimates for the water utility industry from Value Line, and/or the S&P Earnings Guide, and/or Zacks are overly optimistic.**

Response: Staff's testimony makes reference to articles that describe the tendency for analysts as a whole to be overly optimistic, but does not make reference to reference material that speaks specifically to analysts from Value Line, S&P Earnings Guide, or Zacks.

Respondent: Steve Irvine, Public Utility Analyst III

REQUEST 2.10 **Please state the assumptions of the DCF constant growth model.**

Response: Investors evaluate common stocks in the classical economic framework. Investors discount the expected cash flows at the same rate (k) in every future period. K corresponds only to the specific stream of future cash flows. Dividends, rather than earnings, constitute the source of value. The discount rate (k) must exceed the growth rate (g). As g approaches k, the stock price becomes infinite ($P_0 = D_1/k\text{-}g$). The constant growth rate will continue for an indefinite future. Investors require the same k each year. There is no external financing – growth is provided only by the retention of earnings. The dividend payout ratio remains constant. The price/earnings ratio remains constant. The stock price grows proportionately to the growth rate.

Respondent: Steve Irvine, Public Utility Analyst III

REQUEST 2.11 **Does Staff believe that the estimated betas published by Value Line:**

- **provide a useful measure of investment risk?**
- **provide a useful measure of market risk?**

Please, explain the basis for your answers, including the relationship between beta and investment risk, between beta and market risk, and between market and investment risk?

Response: Beta is a measure of market risk and not investment risk.

Respondent: Steve Irvine, Public Utility Analyst III

REQUEST 2.12 **Discounted Cash Flow - With regards to the Dividends Per Share (DPS) and the Earnings Per Share (EPS) for six sample water utilities selected by Mr. Irvine, please indicate:**

- **the historical 5 and 10 year arithmetic means of DPS and EPS growth**
- **the historical 5 and 10 year geometric means for DPS and EPS growth**

Response: Staff calculated 10 year geometric means as shown below and in the workpapers provided in response to the company's first data request. Staff did not calculate 5 year geometric means or arithmetic means for DPS and EPS.

American States Water	DPS	1.1	EPS	2.5
California Water		1.1		2.3
Aqua America		6.2		9.4
Connecticut Water		1.3		-0.9
Middlesex Water		2.2		0.4
SJW Corp		4.2		6.6

Respondent: Steve Irvine, Public Utility Analyst III

REQUEST 2.13 **Discounted Cash Flow – In connection with the geometric mean and the arithmetic mean of historical DPS and EPS growth rates:**

- **which methodology does Staff rely upon, and why?**
- **which methodology does Staff rely upon in estimating the cost of capital, and why?**

Response: Staff relies on geometric means when calculating DPS and EPS growth rates. Staff uses both geometric and arithmetic means in estimation of cost of capital. Use of both arithmetic and geometric growth rates provides a balanced approach to cost of equity estimation.

Respondent: Steve Irvine, Public Utility Analyst III

The Arizona Corporation Commission Utilities Division Staff's
Responses To the Third Set Of Data Requests
From Goodman Water Company
Docket No. W-02500A-06-0281
December 18, 2006

REQUEST 3.1 **CAPM – Current Market Risk Premium – Does Staff use Value Line Investment Survey 3-5 year estimated median price appreciation potential as the basis for computing the growth rate used in Staff's DCF current market cost of equity computation? If yes, what is the computed growth rate? Also, please explain why the median price appreciation is used and not the average price appreciation. Also, please explain 1) why the projected 3-5 year total return for the stocks in the Value Line Investment Survey is not used 2) why the projected 3-5 year annual DPS growth rate is not used: and, 3) why the projected 3-5 year annual EPS growth rate is not used. If no, please explain.**

Response: Estimated median price appreciation potential from Value Line is a component of the calculation used to compute the growth rate used in Staff's calculation of the current market cost of equity. See page 28 of direct testimony of staff witness Steve Irvine for the computed growth rate. Median measures have the benefit of being affected less by statistical outliers. 1) That would be inefficient as growth information is already available in Value Line's appreciation potential. 2) and 3) Sole reliance on DPS or EPS growth would be incomplete as they are single indicators of growth.

Respondent: Steve Irvine, Public Utility Analyst III

REQUEST 3.2 **CAPM – Current Market Risk Premium – Please provide the average projected 3-5 year price appreciation for the 1700 stocks followed in the Value Line Investment Survey. Is this higher or lower than the median price appreciation potential used by Staff?**

Response: Staff does not have that information and it would be burdensome to calculate.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 3.3 **CAPM – Current Market Risk Premium – Please provide the average projected 3-5 year total return for the 1700 stocks followed in the Value Line Investment Survey. Is this higher or lower than the median price appreciation potential used by Staff?**

Response: Staff does not have that information and it would be burdensome to calculate.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 3.4 **CAPM – Current Market Risk Premium – Please provide average projected 3-5 year DPS growth rate for the 1700 stocks followed in the Value Line Investment Survey. Is this higher or lower than the Staff's computed growth rate based on the median price appreciation potential?**

Response: Staff does not have that information and it would be burdensome to calculate.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 3.5 **CAPM – Current Market Risk Premium – Please provide average projected 3-5 year EPS growth rate for the 1700 stocks followed in the Value Line Investment Survey. Is this higher or lower than the Staff's computed growth rate based on the median price appreciation potential?**

Response: Staff does not have that information and it would be burdensome to calculate.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 3.6 **CAPM – Current Market Risk Premium – Does Staff use Value Line Investment Survey median of estimated dividend yields (next 12 months) of all dividend paying stocks as the basis for dividend yield used in Staff's DCF current market cost of equity computation? If yes, please explain why the median dividend yield is used and not the average dividend yield.**

Response: Estimated dividend yields from Value Line is used for the dividend yield component used in Staff's calculation of the current market cost of equity. See page 28 of direct testimony of staff witness Steve Irvine. Staff finds median of estimated dividend yields a fair and reasonable measure of expected dividend yield. Median measures have the benefit of being affected less by statistical outliers.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 3.7 **CAPM – Current Market Risk Premium – Does Staff include 3-5 year income growth (dividend growth) potential in computing the growth rate used in Staff's DCF current market cost of equity computation? Please explain.**

Response: Staff has interpreted this question to ask if there is a dividend growth component in Value Line's appreciation potential. This depends on the underlying assumptions of Value Line's calculation and Staff is not certain of Value Line's inputs.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 3.8 **CAPM – Current Market Risk Premium – Is Staff's computed growth rate based on Value Line Investment Survey 3-5 year estimated median price appreciation potential and used in Staff's DCF current market cost of equity computation a geometric average growth rate?**

Response: Yes. See direct testimony of Staff witness Steve Irvine at page 28.

Respondent: Steve Irvine, Public Utility Analyst III.

REQUEST 3.9 **CAPM – Current Market Risk Premium – Does Staff's current market risk premium include a 3-5 year income (dividend) growth potential? If the current market risk premium does not include a 3-5 year income growth potential, isn't Staff's current market risk premium understated. If not, why not.**

Response: No. Dividend growth isn't a component of the CAPM. Staff's CAPM ROE result is whole and nothing is omitted.

Respondent: Steve Irvine, Public Utility Analyst III

REQUEST 3.10 **CAPM – Current Market Risk Premium – Is the historical market risk premium of 7.5% employed in Staff's historical market risk premium CAPM computed by averaging the historical arithmetic difference between S&P 500 total returns and intermediate-term government bond income returns from 1926 through 2005 as reported in Ibbotson Associates 2006 Yearbook? If not, please explain.**

Response: Yes. This is described on pages 27 and 28 of direct testimony of staff witness Steve Irvine. Staff's testimony incorrectly cites the 2005 yearbook and should refer to the 2006 yearbook.

Respondent: Steve Irvine, Public Utility Analyst III

REQUEST 3.11 **CAPM – Current Market Risk Premium – Is the Ibbotson Associates historical equity risk premium used by Staff an arithmetic mean or a geometric mean?**

Response: The Ibbotson's risk premium is based on an Arithmetic mean. This is described on pages 27 and 28 of direct testimony of staff witness Steve Irvine.

Respondent: Steve Irvine, Public Utility Analyst III

REQUEST 3.12 **Please explain why Staff uses the geometric mean for it historical DPS and EPS growth rates and the arithmetic mean for the historical equity risk premium.**

Response: Staff uses both geometric and arithmetic means in estimation of cost of capital to provide a balanced approach to cost of equity estimation.

Respondent: Steve Irvine, Public Utility Analyst III

REQUEST 3.13 **Do the Ibbotson Associates historical total market returns used to compute the historical intermediate-horizon equity risk premium include both capital (price) appreciation and income returns? If not, please explain.**

Response: The intermediate horizon expected equity risk premium used by Staff is derived by subtracting large company stock total returns minus intermediate term government bond income returns.

Respondent: Steve Irvine, Public Utility Analyst III

REQUEST 3.14 **Describe how increases in yields on U.S. Treasury instruments and other publicly-available interest rates have affected Staff's cost of equity recommendations for Arizona water and wastewater utilities during the past three years.**

Response: Staff's has not performed this analysis.

Respondent: Steve Irvine, Public Utility Analyst III

REQUEST 3.15 **Indicate whether an investor would expect the cost of equity of the publicly traded water utilities in Staff's sample group to exceed the interest rates (yields) of the following:**

a. 10-year Treasury note
b. 20-year Treasury note
c. Investment grade (Baa) corporate bonds

Response: a) As shown in Mr. Irvine's testimony and workpapers the cost of equity of the publicly traded water utilities is greater than the 10-year Treasury note.
b) Staff has not conducted this analysis.
c) Staff has not conducted this analysis.

Respondent: Steve Irvine, Public Utility Analyst III

Rebuttal Exhibit No. 2

MEMORANDUM

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AZ CORP COMMISSION
DOCUMENT CONTROL

DEC 2006

TO: Docket Control Center

THRU: Ernest G. Johnson
Director
Utilities Division

FROM: Darron W. Carlson
Public Utilities Analyst Manager
Utilities Division

DATE: November 30, 2006

RE: SUPPLEMENT TO STAFF REPORT FOR SABROSA WATER COMPANY'S APPLICATION FOR ESTABLISHMENT OF PERMANENT RATES (DOCKET NO. W-02111A-06-0361)

Prior to resigning from his position as an Arizona Corporation Commission Staff Public Utilities Analyst III, Jim Beechey completed the attached Staff Report. Mr. Carlson has reviewed Mr. Beechey's Staff Report dated November 30, 2006, and adopts it for filing on behalf of Staff.

EGJ:DWC:red

Originator: Darron W. Carlson

Service List for: Sabrosa Water Company
Docket No. W-02111A-06-0361

Mr. Michael W. Patten
ROSHKA, DEWULF & PATTEN, PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

Mr. Dennis Schumacher
123 West Sabrosa Drive
Phoenix, Arizona 85087

Mr. Christopher C. Kempley
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utility Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

STAFF REPORT
UTILITY DIVISION
ARIZONA CORPORATION COMMISSION

SABROSA WATER COMPANY

DOCKET NO. W-02111A-06-0361

APPLICATION FOR A PERMANENT RATE INCREASE

NOVEMBER 30, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Sabrosa Water Company, Docket No. W-02111A-06-0361 was the responsibility of the Staff members listed below. Jim Beechey was responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base, and rate design. Dorothy Hains was responsible for the engineering and technical analysis. Bradley Morton was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.

Jim Beechey
Public Utilities Analyst III

Dorothy Hains
Utilities Engineer

Bradley Morton
Public Utilities Consumer Analyst II

STAFF ADJUSTMENTS

A -	METERED WATER REVENUE - Per Company	$43,501	
	Per Staff	58,458	$14,957

Increased metered water revenue by $15,401 to reflect a full twelve month test year at the present interim emergency rates; and to reflect the current 51 customer level from the test year average of 58.

5/8 (54 cust per bill count = 61,072) - (8 cust x's 89.13 ave cost=8,556) =52,516
3/4 (1 cust = 2,394)
1" (3 cust = 2,696) + (1 cust x's 70.50 ave cost x's 12=852)=3,548
52,516+2,394+3,548=58,458

B -	OUTSIDE SERVICES - Per Company	$110,843	
	Per Staff	15,912	($94,931)

Decreased outside services expense by $94,931 as follows:
- reclassified $2,180 in legal expense to Regulatory Commission expense.
- decreased Company's unsubstantiated remaining asserted expenses from $108,663 to $15,912, an amount considered by Staff to be fair and reasonable based on the averaged costs of 35 small water companies, @ $26.00 per customer per month. for 51 current customers. (26x51x12=15,912). Averaged costs include salaries, outside services, rent, office & supplies, telephone, insurance, and transportation expense.

C -	WATER TESTING - Per Company	$1,814	
	Per Staff	3,909	$2,095

Increased water testing costs by $2,095 to reflect Staff's recommended annual monitoring expense reflecting the Company's mandatory participation in the Monitoring Assistance Program.

D -	REGULATORY COMMISSION EXPENSE - RATE CASE		
	- Per Company	$0	
	Per Staff	7,790	$7,790

Recorded Regulatory Commission Expense of $7,790 reflecting amortization over four years of $30,296 in rate case related legal expenses that were incorrectly capitalized by the Company to plant in service and outside services expense.

Rebuttal Exhibit No. 3

State of California

Memorandum

Date: May 21, 2004

To: Izetta C. R. Jackson, Director – Water Division

From: **Public Utilities Commission—**
San Francisco –
Seaneen M. Wilson, FEIV

Subject: *Concerns regarding how Rates of Return and Returns on Equity are determined for Class A, B, C, and D Water Utilities*

Overview

I would like to address two issues in this memorandum – 1) Concerns regarding the determination of a Rate of Return (ROR) for Del Oro Water Company, and 2) Explanation of the specific methods used to determine the ROR for the various classes of water utilities.

Concerns Regarding Del Oro ROR

Prior to the May 6th Commission meeting, an advisor raised concerns regarding the determination of the Rate of Return (ROR) of 8.53% for Del Oro Water Company (Del Oro) (Agenda Item 16 at May 6th Commission Meeting). There was a concern that the ROR for this Class B water utility was 100 basis points lower than ROR's recently authorized for Class A water utilities.

First of all, the recommended ROR for Del Oro is not 100 basis points less than the ROR's most recently authorized for Class A water utilities. In particular, at the May 6th meeting, California-American Water was authorized a ROR of 6.74% (D.04-05-023) and the next most recent authorized ROR is 8.79% for Southern California Water (D.04-03-039). Not only are these returns not 100 basis points greater than that recommended for Del Oro, in the case of California-American, its ROR is 179 basis points lower than that recommended for Del Oro.

Second, as described below, there is a particular method for determining the ROR for each Class of water utility. If the suggested adjustment of a 100 basis point increase is made to the ROR, the Return on Equity (ROE) for this Class B water utility would be greater than that authorized for a Class D water utility, which is not appropriate. (see detailed discussion below)

Methods for determining ROR for Different Classes of Water Utilities

One of the duties of this Commission is to authorize the ROR and ROE for Class A, B, C, and D water utilities. Given the different characteristics of and risks faced by each class of water utility, the ROR and ROE are calculated differently for each.

Class A – 10,000 or more customers

The ROR for Class A water utilities is determined by summing the weighted cost of each component of the capital structure (cost factor times percentage of capital structure). This capital structure is normally made up of long-term debt and common equity. The long-term debt cost is based on the rates each company pays its lenders and the ROE is determined by the Commission after assessing the results of market based models run on a comparable group of water utilities. (Example attached at p. 4 – Table 1-1)

Class B – 2,000 – 9,999 customers

The ROR for Class B water utilities is determined in a similar fashion, except for the calculation of the ROE. Since market data is not available for water utilities comparable to Class B (companies of this size are not publicly traded), staff averages the most recently authorized Class A and Class C ROE's in order to determine the appropriate ROE for a Class B company (see attached tables at p.5 – Class B Tables). The company specific capital structure and cost of long-term debt[1] are then combined with this Class A & C average ROE to determine the overall ROR for the Class B water utility.

Del Oro ROR

As the first Class B Table shows (page 5), the ROR calculated for Del Oro is 8.53%. This is based on a combination of the company specific capital structure and cost of long-term debt and the average of the recently authorized Class A and C returns. A suggestion has been made that this company receive a ROR of 9.50%. If this ROR is plugged into that calculation, the resulting ROE would be 13.57%, which is greater than the highest ROE currently being recommended for Class D water utilities of 13.4% (page 6).

Class C & D – C = 500- 1,999 customers / D = 1 – 499 customers

The ROR for Class C and D water utilities is determined based on procedures adopted in

1 D.92-03-093, p. 30, "As to rate of return, we will continue to deal with Class B utilities on a case by case basis."

D.92-03-093.[2] Since most Class C and D water utilities do not have any long-term debt, (or, if they do it is covered by a principal and interest surcharge and not included in rates) their total capital structure consists of common equity. The ROE that is determined for Class C and D water utilities is also the ROR. Per D.92-03-093, each year the Water Division reviews the movement of interest rates in the past year as well as ROEs authorized for Class A water utilities to determine the appropriate ROEs for the Class C and D water utilities. (See attached March 1, 2004 memo) If there is material movement up or down in interest rates or the authorized Class A ROE's, then the range of ROEs recommended for Class C and D water utilities is adjusted in the same direction. A range of ROE's is provided so that the analyst can consider the specific risks faced by each individual company in a particular class.[3]

If you have any questions or would like to learn more about cost of capital for water utilities, please contact me at 415-703-1818 or smw@cpuc.ca.gov.

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2 D.92-03-093, p. 29, "Because we recognize that Class C and Class D water utilities are fundamentally different from Class A water utilities in terms of the operational and financial risks they face, it is not appropriate to tie the range of returns to those of Class A utilities. Instead, we will have CACD prepare an annual recommendation to the Commission on the appropriate range of returns fro Class C and D utilities. Consideration will be given to changes in financial conditions and substantial changes in operational conditions meriting adjustment to the range of reasonable returns."

3 D.92-03-093, p. 29, "Use of a range allows for acknowledgement of differences in water quality, service, and management.".

Table 1-1

	Capital Structure	Cost Factor	Weighted Cost
Test Year 2003			
Long-Term Debt	55.92%	7.39%	4.13%
Common Equity	44.08%	9.54%	4.20%
Total	100.00%		8.34%
Test Year 2004			
Long-Term Debt	57.56%	7.28%	4.19%
Common Equity	42.44%	9.54%	4.05%
Total	100.00%		8.24%
Test Year 2005			
Long-Term Debt	58.35%	7.16%	4.18%
Common Equity	41.65%	9.54%	3.97%
Total	100.00%		8.15%
Test Year 2006			
Long-Term Debt	58.40%	7.46%	4.36%
Common Equity	41.60%	9.54%	3.97%
Total	100.00%		8.32%

Class B Tables

Del Oro Group of Companies
Cost of Capital

Description	Capital Ratios	Cost Factors	Weighted Cost Factors
Long Term Debt	67.20%	7.57%	5.09%
Common Equity	32.80%	10.98%	3.60%
Rate of Return	100%		8.69%

Del Oro Group of Companies
Class B Water ROE

Description	ROE
Most Recently Authorized Class A ROE	9.80%
Average of Range of Class C ROE's recommended by Water Division	12.15%
Average	**10.98%**

State of California

Memorandum

Date: March 1, 2004

To: The Commission

From: **Kenneth K Louie, Chief, Audit & Compliance Branch**
Izetta Jackson, Director, Water Division

Subject: *Rate of Return for Small Water Utilities (Class C and Class D)*

This memorandum updates the Water Division's recommended rates of return for Class C (<2,000 customers) and Class D (<500 customers) water companies, as required by D.92-03-093 in Phase I of I.90-11-033 (Water Risk OII).

Based on our analysis of financial market changes within the last year and the high operational risks faced by Class C and Class D water companies, we are recommending no change in the return ranges for Class C and Class D water utilities informal general rate cases. For 2004, we are recommending Return on Equity (ROE) ranges of:

Class C – 11.65% to 12.65% (no change from last year)
Class D – 12.40% to 13.40% (no change from last year)

In setting rates of return for other utilities, the Commission has recognized changes in interest rates as well as the economy generally. At the same time, the Commission has cautioned against lock-step conformity to these factors. The Water Division's Audit & Compliance staff has developed its recommendations accordingly.

- Financial Market Outlook: Overall, interest rates have decreased since last year. As of February 2004:
  - The average yield on 90-day Treasury Bills is .92%, as compared to 1.03% for 2003, representing an 11 basis point decrease;
  - The average yield on a 1-Year Treasury is 1.25%, as compared to 1.24% for 2003, representing a 1 basis point increase;
  - The average yield on a 5-Year Treasury is 3.10%, as compared to 2.97% in 2003, representing a 13 basis point increase: and
  - The average Long-term Treasury is 5.03%, as compared to 4.96% in 2003,

representing a 7 basis point increase.

- It should also be noted that the interest rate forecasts for 2004 are somewhat higher than those experienced in 2003:
  - 90-day Treasury bill is forecast to be 1.10%,
  - 1-Year Treasury is forecast to be 1.57%,
  - 5-Year Treasury is forecast to be 3.39%, and
  - Long-Term Treasury is forecast to be 5.30%.

In developing its ROE recommendations, Water Division's Audit & Compliance staff also observes any changes from the previous years authorized returns for Class A water companies.

- Authorized ROE's for Class A water utilities have remained fairly constant since last year, averaging 9.93% in 2003.

Water Division staff also evaluates the high risk factors inherent in the Class C and Class D water companies, taking into account that:

- ROE should be high enough to encourage rate base investment, and
- ROE should be well above the cost of debt. This compensates owners of small water companies for financing water plant with personal borrowings, which is risky. Small water companies are still prone to business failures and uncompensated takeovers.

In D.92-03-093, the Commission has allowed rate of return to be set at a level above or below the recommended ranges if warranted by the facts of a particular case and established the 1992 standard returns shown for Class C and Class D water utilities. Thus, our recommended returns are stated as "ranges" so that Water Division staff may recognize differences in such items as water and service quality and management effectiveness, on a case-by-case basis. Since that time, several risk-reducing Commission policies have been added, including Automatic CPI offset procedure, Extraordinary expense memo accounts, Catastrophic Event Memorandum Account, Service Guarantee Plan, and Purchased Power/Water balancing accounts.

The table below provides a historical perspective on the recommended return on equity for the small water companies. Any questions regarding this recommendation may be directed to Sean Wilson of the Water Division (1-415-703-1818, smw@cpuc.ca.gov).

Year	Recommended ROE Range		Federal Reserve Statistics			
	Class C Water	Class D Water	90-day Treasuries	1-Year Treasuries	5-Year Treasuries	Long-Term Treasuries
1994	11.30% - 11.80%	13.60% - 14.10%	4.37%	5.32%	6.69%	7.37%
1995	13.00% - 13.50%	14.00% - 14.50%	5.66%	5.94%	6.38%	6.88%
1996	12.00% - 13.00%	12.75% - 13.75%	5.15%	5.52%	6.18%	6.71%
1997	12.50% - 13.50%	13.50% - 14.50%	5.20%	5.63%	6.22%	6.61%
1998	12.00% - 13.00%	12.75% - 13.75%	4.91%	5.05%	5.15%	5.58%
1999	12.00% - 13.00%	12.75% - 13.75%	4.78%	5.08%	5.55%	5.87%
2000	12.25% - 13.25%	13.00% - 14.00%	6.00%	6.11%	6.16%	5.94%
2001	12.00% - 13.00%	12.75% - 13.75%	3.48%	3.49%	4.56%	5.49%
2002	11.75% - 12.75%	12.50% - 13.50%	1.64%	2.00%	3.82%	5.43%
2003	11.65% - 12.65%	12.40% - 13.40%	1.03%	1.24%	2.97%	4.96%
2004	11.65% - 12.65%	12.40% - 13.40%	0.92%	1.25%	3.10%	5.03%

NOTE: 2003 Average Interest Rates as of February 2004

State of California

Memorandum

Date: March 1, 2004

To: The Commission

From: **Kenneth K Louie, Chief, Audit & Compliance Branch**
Izetta Jackson, Director, Water Division

Subject: *Rate of Return for Small Water Utilities (Class C and Class D)*

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  - The average Long-term Treasury is 5.03%, as compared to 4.96% in 2003, representing a 7 basis point increase.

- It should also be noted that the interest rate forecasts for 2004 are somewhat higher than those experienced in 2003:
  - 90-day Treasury bill is forecast to be 1.10%,
  - 1-Year Treasury is forecast to be 1.57%,
  - 5-Year Treasury is forecast to be 3.39%, and
  - Long-Term Treasury is forecast to be 5.30%.

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Year	Recommended ROE Range		Federal Reserve Statistics			
	Class C Water	Class D Water	90-day Treasuries	1-Year Treasuries	5-Year Treasuries	Long-Term Treasuries
1994	11.30% - 11.80%	13.60% - 14.10%	4.37%	5.32%	6.69%	7.37%
1995	13.00% - 13.50%	14.00% - 14.50%	5.66%	5.94%	6.38%	6.88%
1996	12.00% - 13.00%	12.755 - 13.75%	5.15%	5.52%	6.18%	6.71%
1997	12.50% - 13.50%	13.50% - 14.50%	5.20%	5.63%	6.22%	6.61%
1998	12.00% - 13.00%	12.75% - 13.75%	4.91%	5.05%	5.15%	5.58%
1999	12.00% - 13.00%	12.75% - 13.75%	4.78%	5.08%	5.55%	5.87%
2000	12.25% - 13.25%	13.00% - 14.00%	6.00%	6.11%	6.16%	5.94%
2001	12.00% - 13.00%	12.75% - 13.75%	3.48%	3.49%	4.56%	5.49%
2002	11.75% - 12.75%	12.50% - 13.50%	1.64%	2.00%	3.82%	5.43%
2003	11.65% - 12.65%	12.40% - 13.40%	1.03%	1.24%	2.97%	4.96%
2004	11.65% - 12.65%	12.40% - 13.40%	0.92%	1.25%	3.10%	5.03%

NOTE: 2003 Average Interest Rates as of February 2004

Rebuttal Exhibit No. 4

Goodman Water Company
Water Utility Sample Common Stocks
over Long-Term Treasury Bonds
Annual Long-Term Term Risk Premium Analysis

Exhibit ____
Rebuttal
Witness: Bourassa

Line No.	Year	(1) Long-Term Term Gov't Bond Yield	(2) 20 Year Maturity Bond Value	(3) Gain (Loss)	(4) Interest	(5) Bond Total Return	(6) Water Utility Sample Composite Stock Index[1]	(7) Dividend Index[1]	(8) Capital Gain (Loss) % Growth	(9) Yield	(10) Stock Total Return	(11) Equity Risk Premium
1	2005	4.61%	1,029.84	29.84	48.40	7.82%	28.06	0.83	27.36%	3.76%	31.12%	23.30%
2	2004	4.84%	1,034.35	34.35	51.10	8.54%	22.03	0.82	19.12%	4.42%	23.54%	15.00%
3	2003	5.11%	966.42	(33.58)	48.40	1.48%	18.50	0.81	23.27%	5.39%	28.66%	27.18%
4	2002	4.84%	1,115.77	115.77	57.50	17.33%	15.00	0.80	-3.61%	5.16%	1.55%	-15.78%
5	2001	5.75%	979.95	(20.05)	55.80	3.57%	15.57	0.80	9.30%	5.62%	14.92%	11.34%
6	2000	5.58%	1,148.30	148.30	68.20	21.65%	14.24	0.79	4.74%	5.80%	10.53%	-11.12%
7	1999	6.82%	848.41	(151.59)	54.20	-9.74%	13.60	0.78	9.32%	6.29%	15.60%	25.34%
8	1998	5.42%	1,072.71	72.71	60.20	13.29%	12.44	0.77	11.57%	6.90%	18.47%	5.18%
9	1997	6.02%	1,081.92	81.92	67.30	14.92%	11.15	0.76	38.62%	9.47%	48.09%	33.17%
10	1996	6.73%	923.67	(76.33)	60.30	-1.60%	8.04	0.75	23.19%	11.47%	34.67%	36.27%
11	1995	6.03%	1,225.98	225.98	79.90	30.59%	6.53	0.74	17.48%	13.40%	30.88%	0.29%
12	1994	7.99%	856.40	(143.60)	65.40	-7.82%	5.56	0.72	-16.44%	10.83%	-5.61%	2.21%
13	1993	6.54%	1,079.70	79.70	72.60	15.23%	6.65	0.70	18.57%	12.57%	31.13%	15.90%
14	1992	7.26%	1,004.19	4.19	73.00	7.72%	5.61	0.69	24.55%	15.23%	39.78%	32.06%
15	1991	7.30%	1,118.94	118.94	84.40	20.33%	4.50	0.67	14.57%	16.98%	31.55%	11.22%
16	1990	8.44%	1,000.00				3.93	0.65				
17												
18												
19												
20	5 Year Average					7.75%			15.09%	4.87%	19.96%	12.21%
21	10 Year Average					7.73%			16.29%	6.43%	22.72%	14.99%
22	15 Year Average					9.55%			14.77%	8.89%	23.66%	14.11%
23												
24	Forecast Long-Term Treasury (2007-2008)											5.30%
25												
26	20 year Treasury (December 14, 2006)											4.81%
27												
28	Indicated Cost of Equity Using Forecasted Interest Rates											
29	5 Year											17.51%
30	10 Year											20.29%
31	15 Year											19.41%
32												
33	Indicated Cost of Equity Using Current Interest Rates											
34	5 Year											17.02%
35	10 Year											19.80%
36	15 Year											18.92%
37												
38												

39 Sources:
40 Ibbotson Associates Stocks, Bonds, Bills and Inflation 2006 Yearbook Table B-9 Long-Term Government Bond Yields December Each year
41 Blue Chip Financial Forecast December 2006
42 Yahoo Finance December Stock Prices and Dividends
43 Value Line
44 Utility Sample Company Composite is value wieghted index. It includes American States, Aqua America, California Water, Connecticut Water, Middlesex Water,
45 and SJW Corp.
46
47 (1) Utility Sample Composite is a value-weighted index.

Rebuttal Exhibit No. 5

Far West Sewer Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using Staff Historical EPS Growth

Exhibit ___
Rebuttal
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) 10 Yr. Historical EPS Growth	(5) Indicated Equity Cost k=Div Yld + G (Cols 1+4)	
7	1.	American States	40.69	0.94	2.31%	2.51%	4.8%	*
8	2.	Aqua America	23.55	0.47	1.98%	9.37%	11.3%	
9	3.	California Water	37.58	1.20	3.19%	2.31%	5.5%	*
10	4.	Connecticut Water	22.00	0.87	3.96%	-0.87%	3.1%	*
11	5.	Middlesex	18.85	0.72	3.81%	0.40%	4.2%	*
12	6.	SJW Corp.	32.31	0.59	1.82%	6.62%	8.4%	
15		GROUP AVERAGE					6.2%	*
16		GROUP MEDIAN					5.2%	
18		Current Baa interest rate					6.3%	
20		Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Top 10					7.7%	
21		Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Bottom 10					6.3%	
22		Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Consensus					6.9%	

* Indicated Equity Cost Below Cost of Debt

Sources:
- Staff Workpapers
- Federal Reserve December 14, 2006
- Blue Chip Financial Forecast December 2006

Rebuttal Exhibit No. 6

Far West Sewer Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using Staff Historical Dividend Growth

Exhibit ___
Rebuttal
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) 10 Yr. Historical DPS Growth	(5) Indicated Equity Cost k=Div Yld + G (Cols 1+4)	
1	1.	American States	40.69	0.94	2.31%	1.06%	3.4%	*
2	2.	Aqua America	23.55	0.47	1.98%	6.16%	8.1%	
3	3.	California Water	37.58	1.20	3.19%	1.12%	4.3%	*
4	4.	Connecticut Water	22.00	0.87	3.96%	1.26%	5.2%	*
5	5.	Middlesex	18.85	0.72	3.81%	2.18%	6.0%	*
6	6.	SJW Corp.	32.31	0.59	1.82%	4.24%	6.1%	*
7		GROUP AVERAGE					5.5%	*
8		GROUP MEDIAN					5.6%	
9		Current Baa interest rate					6.3%	
10		Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Top 10					7.7%	
11		Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Bottom 10					6.3%	
12		Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Consensus					6.9%	

* Indicated Equity Cost Below Cost of Debt

Sources:
Staff Workpapers
Federal Reserve December 14, 2006
Blue Chip Financial Forecast December 2006

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Goodman Water Company

Rebuttal Schedules A-1, B-1, B-2, B-5, C-1, C-2, C-3, D-1, H-1, H-2, H-3 and H-4

Goodman Water Company
Test Year Ended September 31, 2005
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate Base	$ 1,292,051
2		
3	Adjusted Operating Income	(75,050)
4		
5	Current Rate of Return	-5.81%
6		
7	Required Operating Income	$ 135,665
8		
9	Required Rate of Return on Fair Value Rate Base	10.50%
10		
11	Operating Income Deficiency	$ 210,715
12		
13	Gross Revenue Conversion Factor	1.5446
14		
15	Increase in Gross Revenue	
16	Requirement	$ 325,463
17		
18	% Increase	152.55%

	Customer Classification (Residential Commercial, Irrigation)	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
19					
20					
21					
22					
23					
24	5/8 x 3/4 Inch Residential	$ 124,765	$ 344,047	$ 219,282	175.76%
25	3/4 Inch Residential	-	-	-	0.00%
26	1 Inch Residential	10,839	27,423	16,584	153.00%
27	2 Inch Residential	13,982	43,113	29,131	208.35%
28	Construction Water	13,412	21,797	8,386	
29				-	0.00%
30	Revenue Annualization	32,746	84,425	51,678	157.81%
31	**Subtotal**	$ 195,744	$ 520,805	$ 325,061	166.06%
32					
33	Other Water Revenues	17,940	17,940	-	0.00%
34				-	0.00%
35	**Total of Water Revenues (a)**	$ 213,684	$ 538,745	$ 325,061	152.12%

36
37
38
39
40
41
42 SUPPORTING SCHEDULES:
43 Rebuttal B-1
44 Rebuttal C-1
45 Rebuttal C-3
46 Rebuttal H-1
47

Goodman Water Company
Test Year Ended September 31, 2005
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 2,365,811	$ 2,365,811
3	Less: Accumulated Depreciation	108,511	108,511
4			
5	Net Utility Plant in Service	$ 2,257,300	$ 2,257,300
6			
7	Less:		
8	Advances in Aid of		
9	Construction	971,695	971,695
10	Contributions in Aid of		
11	Construction	-	-
12	Accumulated Amortization of CIAC	-	-
13			
14	Customer Meter Deposits	14,864	14,864
15	Deferred Income Taxes & Credits	-	-
16	Deferred Assets	-	-
17			
18			
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Prepaids	-	-
23	Deferred Assets	21,310	21,310
24	Allowance for Working Capital	-	-
25			
26			
27	Total Rate Base	$ 1,292,051	$ 1,292,051
28			
29			
30			
31	SUPPORTING SCHEDULES:		
32	Rebuttal B-2		
33	Rebuttal B-5		
34			
35			
36			

Goodman Water Company
Test Year Ended September 31, 2005
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa
REVISED

Line No.		Adjusted at End of Test Year	Adjustments	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 2,348,486	17,325	$ 2,365,811
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	108,248	263	108,511
7				
8				
9	Net Utility Plant			
10	in Service	$ 2,240,239	$ 17,062	$ 2,257,300
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	971,695	-	971,695
15				
16	Contributions in Aid of			
17	Construction (CIAC)	-	-	-
18				
19				
20	Accum. Amortization of CIAC	-	-	-
21				
22				
23	Customer Meter Deposits	14,864	0	14,864
24	Deferred Income Taxes	-	-	-
25	Investment Tax Credits	-	-	-
26				
27				
28	**Plus:**			
29	Unamortized Finance	0		
30	Charges	-	0	-
31	Prepaids	-	-	-
32	Allowance for Working Capital	22,003	(694)	21,310
33		-		-
34				
35	Total	$ 1,275,683	$ 16,368	$ 1,292,051
36				
37				
38				
39				
40				
41	SUPPORTING SCHEDULES:			
42	Rebuttal B-2, pages 2			
43				
44				
45				
46				
47				
48				

Goodman Water Company
Test Year Ended September 31, 2005
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Adjusted at End of Test Year	1 Expensed Plant	2 Accumulated Depreciation	3 Working Capital	4	5	Rebuttal Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 2,348,486	17,325					$ 2,365,811
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	108,248		263				108,511
7								
8								
9	Net Utility Plant							
10	in Service	$ 2,240,239	$ 17,325	$ (263)	$ -	$ -	$ -	$ 2,257,300
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	971,695						971,695
15								
16	Contributions in Aid of							
17	Construction (CIAC)	-						-
18								
19								
20	Accum. Amortization of CIAC	-						-
21								
22								
23	Customer Meter Deposits	14,864						14,864
24	Deferred Income Taxes	-						-
25	Investment Tax Credits	-						-
26								
27								
28	**Plus:**							
29	Unamortized Finance	-						
30	Charges	-						-
31								-
32	Allowance for Working Capital	22,003			(694)			21,310
33								
34								
35	Total	$ 1,275,683	$ 17,325	$ (263)	$ (694)	$ -	$ -	$ 1,292,051
36								
37								
38								
39								
40								
41	SUPPORTING SCHEDULES:							
42	Rebuttal B-2, pages 3-7							
43								

Goodman Water Company
Test Year Ended September 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment 1

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Line No.			
1	Capitalized Expenses		
2			
3	Staff Adjustment #1 (CRM-5) Transmission and Distribution Mains	$	17,325
4			
5			
6	Increase (Decrease) to Plant-in-Service	$	17,325
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

Goodman Water Company
Test Year Ended September 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment 2

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

Line No.			
1	Accumulated Depreciation		
2			
3			
4	Accumulated Depreciation per Rebuttal Filing	$	108,511
5	Adjusted Accumulated Depreciation per Direct Filing		108,248
6			
7	Difference	$	263
8			
9			
10	Increase (Decrease) to Accumulated Dpreciation	$	263
11			
12			
13	SUPPORTING SCHEDULES		
14	Rebuttal B-2, page 2a-2f		
15			
16			
17			
18			
19			
20			

Goodman Water Company
Test Year Ended September 31, 2005
Original Cost Rate Base Proforma Adjustments
Adjustment #2

Exhibit
Rebuttal Schedule B-2
Page 7
Witness: Bourassa

Line No.			
1	Working Capital		
2			
3	Working Capital Per Rebuttal Filing	$	21,310
4	Working Capital Per Direct Filing		22,003
5			
6			
7	Increase (Decrease) to Working Capital	$	(694)
8			
9			
10			
11			
12	SUPPORTING SCHEDULES		
13	Rebuttal Schedule B-5		
14			
15			
16			
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Goodman Water Company
Test Year Ended September 31, 2005
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	21,310
3	Pumping Power (1/24 of Pumping Power)		-
4	Purchased Water Treatment (1/24 of Purchased Water)		-
5			
6			
7			
8			
9	Total Working Capital Allowance	$	21,310
10	Working Capital per Direct Filing	$	22,003
11			
12	Increase (Decrease) in Working Capital	$	(694)
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16		Rebuttal B-1	
17			

Goodman Water Company
Test Year Ended September 31, 2005
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Book Results	Adjustments	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 195,408	$ -	$ 195,408	$ 325,463	$ 520,872
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	17,940	-	17,940		17,940
5		$ 213,348	$ -	$ 213,348	$ 325,463	$ 538,812
6	**Operating Expenses**					
7	Salaries and Wages	$ 32,000	-	$ 32,000		$ 32,000
8	Purchased Water	-	-	-		-
9	Purchased Power	10,086	-	10,086		10,086
10	Chemicals	-	-	-		-
11	Repairs and Maintenance	9,868	-	9,868		9,868
12	Office Supplies and Expense	778	-	778		778
13	Outside Services	78,106	(174)	77,932		77,932
14	Water Testing	3,639	-	3,639		3,639
15	Rents	-	-	-		-
16	Transportation Expenses	-	-	-		-
17	Insurance - General Liability	18,253	-	18,253		18,253
18	Insurance - Health and Life	-	-	-		-
19	Regulatory Commission Expense - Ra	25,000	(1,875)	23,125		23,125
20	Miscellaneous Expense	2,386	(140)	2,246		2,246
21	Depreciation Expense	129,418	-	129,418		129,418
22	Taxes Other Than Income	2,635	-	2,635		2,635
23	Property Taxes	19,270	17	19,287		19,287
24	Income Tax	(41,497)	627	(40,870)	114,748	73,879
25						
26	**Total Operating Expenses**	$ 289,943	$ (1,545)	$ 288,398	$ 114,748	$ 403,147
27	**Operating Income**	$ (76,594)	$ 1,545	$ (75,050)	$ 210,715	$ 135,665
28	**Other Income (Expense)**					
29	Interest Income	-		-		-
30	Other income	-		-		-
31	Interest Expense	-		-		-
32	Other Expense	-		-		-
33						
34	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (76,594)	$ 1,545	$ (75,050)	$ 210,715	$ 135,665
36						
37						
38						
39	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
40	Rebuttal C-1, Page 2				Rebuttal A-1	
41	Rebuttal C-2					

Goodman Water Company
Test Year Ended September 31, 2005
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->>		1	2	3	4	5	6	7	8			
			Adjusted Book Results	Outside Services	Rate Case Expense	Property Taxes	Miscellaneous Expese	Income Tax				Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**													
2	Metered Water Revenues		$ 195,408									$ 195,408	$ 325,463	$ 520,872
3	Unmetered Water Revenues		-									-		-
4	Other Water Revenues		17,940									17,940		17,940
5			$ 213,348	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 213,348	$ 325,463	$ 538,812
6	**Operating Expenses**													
7	Salaries and Wages		$ 32,000									$ 32,000		$ 32,000
8	Purchased Water		-									-		-
9	Purchased Power		10,086									10,086		10,086
10	Chemicals		-									-		-
11	Repairs and Maintenance		9,868									9,868		9,868
12	Office Supplies and Expense		778									778		778
13	Outside Services		78,106	(174)								77,932		77,932
14	Water Testing		3,639									3,639		3,639
15	Rents		-									-		-
16	Transportation Expenses		-									-		-
17	Insurance - General Liability		18,253									18,253		18,253
18	Insurance - Health and Life		-									-		-
19	Regulatory Commission Expense - Rate Case		25,000		(1,875)							23,125		23,125
20	Miscellaneous Expense		2,386				(140)					2,246		2,246
21	Depreciation Expense		129,418									129,418		129,418
22	Taxes Other Than Income		2,635									2,635		2,635
23	Property Taxes		19,270			17						19,287		19,287
24	Income Tax		(41,497)					627				(40,870)	114,748	73,879
25			-									-		-
26	**Total Operating Expenses**		$ 289,943	$ (174)	$ (1,875)	$ 17	$ (140)	$ 627	$ -	$ -	$ -	$ 288,398	$ 114,748	$ 403,147
27	**Operating Income**		$ (76,594)	$ 174	$ 1,875	$ (17)	$ 140	$ (627)	$ -	$ -	$ -	$ (75,050)	$ 210,715	$ 135,665
28	**Other Income (Expense)**													
29	Interest Income		-									-		-
30	Other Income		-									-		-
31	Interest Expense		-									-		-
32	Other Expense		-									-		-
33			-									-		-
34	**Total Other Income (Expense)**		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**		$ (76,594)	$ 174	$ 1,875	$ (17)	$ 140	$ (627)	$ -	$ -	$ -	$ (75,050)	$ 210,715	$ 135,665
36														
37														
38														
39	SUPPORTING SCHEDULES:													
40	Rebuttal C-2													
41														

RECAP SCHEDULES:
Rebuttal A-1

Goodman Water Company
Test Year Ended September 31, 2005
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Outside Services	2 Rate Case Expense	3 Property Taxes	4 Miscellaneous Expense	5 Income Tax	6	Subtotal
1								
2								
3	Revenues							-
4								
5	Expenses	(174)	(1,875)	17	(140)	627	-	(1,545)
6								
7	Operating							
8	Income	174	1,875	(17)	140	(627)	-	1,545
9								
10	Interest							-
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	174	1,875	(17)	140	(627)	-	1,545
17								
18								

Adjustments to Revenues and Expenses

		7	8	9	10	11	12	Subtotal
19								
20								
21								
22								
23	Revenues							-
24								
25	Expenses							(1,545)
26								
27	Operating							
28	Income	-	-	-	-	-	-	1,545
29								
30	Interest							
31	Expense							-
32	Other							
33	Income /							-
34	Expense							
35								
36	Net Income	-	-	-	-	-	-	1,545
37								
38								

Adjustments to Revenues and Expenses

		13	14	15	16	17	18	Total
39								
40								
41								
42								
43	Revenues							-
44								
45	Expenses							(1,545)
46								
47	Operating							
48	Income	-	-	-	-	-	-	1,545
49								
50	Interest							
51	Expense							-
52	Other							
53	Income /							-
54	Expense							
55								
56	Net Income	-	-	-	-	-	-	1,545

Goodman Water Company
Test Year Ended September 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Line No.			
1	Outside Services		
2			
3			
4	Remove amounts for lunch with J. Shiner	(174)	
5	(per Staff CRM-12)		
6			
7			
8	Total		$ (174)
9			
10			
11			
12	Adjustment to Revenues/Expenses		$ (174)
13			
14			
15	SUPPORTING SCHEDULE		
16			
17			
18			
19			
20			

Goodman Water Company
Test Year Ended September 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Rate Case Expense		
2			
3			
4	Amount Requested per Direct Filing	$ 100,000	
5	Staff proposed reduction per CRM-13	(7,500)	
6	Amount Requested Per Rebuttal Filing		$ 92,500
7			
8	Amortization Period (years)		4
9			
10	Annual Amortization of Rate Case Expense		$ 23,125
11			
12	Annual Amount Requested Per Direct Filing		25,000
13			
14	Increase (decrease) in Rate Case Expense		$ (1,875)
15			
16			
17	Adjustment to Revenues/Expenses		$ (1,875)
18			
19			
20			
21			
22			
23			
24			
25			

Test Year Ended September 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 3

Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended 09/30/2005	$	213,348
4	Adjusted Revenues in year ended 09/30/2005		213,348
5	Proposed Revenues		538,812
6	Average of three year's of revenue	$	321,836
7	Average of three year's of revenue, times 2	$	643,672
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		-
12			
13	Full Cash Value	$	643,672
14	Assessment Ratio		23.50%
15	Assessed Value		151,263
16	Property Tax Rate		12.7504%
17			
18	Property Tax		19,287
19	Tax on Parcels		0
20			
21	Total Property Tax at Proposed Rates	$	19,287
22	Property Taxes per Direct Filing		19,270
23	Change in Property Taxes	$	17
24			
25			
26	Adjustment to Revenues and/or Expenses	$	17
27			
28			

Goodman Water Company
Test Year Ended September 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	Miscellaneous Expense		
2			
3			
4	Remove amounts for lunch with J. Shiner	(140)	
5	(per Staff CRM-14)		
6			
7			
8	Total		$ (140)
9			
10			
11			
12	Adjustment to Revenues/Expenses		$ (140)
13			
14			
15			
16			
17			
18			
19			
20			

Goodman Water Company
Test Year Ended September 31, 2005
Adjustment to Revenues and Expenses
Income Tax Calculation
Adjustment 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Line No.		Test Year Book Results	Test Year Adjusted Results		Adjusted with Rate Increase	
1						
2	**Net Income**		$ (75,050)		$ 135,665	
3	**Plus:**					
4	Income Taxes		$ (40,870)		$ 73,879	
5	Operating Lease		$ -		$ -	
6	Synchronized Interest with Rate Base		$ -		$ -	
7	Taxable Income	(118,091)	$ (115,919)		$ 209,544	
8						
9						
10						
11	Income Before Taxes	(118,091)	(115,919)		209,544	
12	Arizona Income Before Taxes	(118,091)	(115,919)		209,544	
13						
14	Less Arizona Income Tax	(8,229)	(8,077)		14,601	
15	R: 6.97%					
16						
17	Arizona Taxable Income	(109,862)	(107,842)		194,943	
18	Arizona Income Taxes	(8,229)	(8,077)		14,601	
19						
20	Federal Income Before Taxes	(118,091)	(115,919)		209,544	
21						
22	Less Arizona Income Taxes	(8,229)	(8,077)		14,601	
23						
24	Federal Taxable Income	(109,862)	(107,842)		194,943	
25						
26						
27						
28	FEDERAL INCOME TAXES:					
29	15% BRACKET	(16,479)	(16,176)		7,500	
30	25% BRACKET	-	-		6,250	
31	34% BRACKET	-	-	Federal	8,500	Federal
32	39% BRACKET	-	-	Effective	37,028	Effective
33	34% BRACKET	-	-	Tax	-	Tax
34				Rate		Rate
35	Federal Income Taxes	(16,479)	(16,176)	13.95%	59,278	28.29%
36						
37						
38	Total Income Tax	[illegible]	[illegible]		[illegible]	
39						
40	Overall Tax Rate	20.92%	20.92%		35.26%	
41						
42	Income Tax at Proposed Rates Effective Rate		(40,870)			
43						
44						
45						

Goodman Water Company
Test Year Ended September 31, 2005
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	28.29%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	35.26%
9		
10	Operating Income % = 100% - Tax Percentage	64.74%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.5446
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rebuttal A-1
20		

Goodman Water Company
Test Year Ended September 31, 2005
Summary of Cost of Capital

Exhibit
Rebuttal 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)	1,389,702	100.00%	10.50%	10.50%	1,389,702	100.00%	10.50%	10.50%
4									
5	Totals	1,389,702	100.00%		10.50%	1,389,702	100.00%		10.50%
6									
7									
8									
9	**(1) Increase Equity for expense reclassified to plant rebuttal adjustment 1, B-2, page 1**			**$ 17,325**					
10									
11	SUPPORTING SCHEDULES:								RECAP SCHEDULES:
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

Goodman Water Company
Revenue Summary
Test Year Ended September 30, 2005

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Addition Bills	Addition Gallons
1	5/8 x 3/4 Inch Residential	$124,765	$344,047	$ 219,282	175.76%		
2	3/4 Inch Residential	-	-	-	0.00%		
3	1 Inch Residential	10,839	27,423	16,584	153.00%		
4	2 Inch Residential	13,982	43,113	29,131	208.35%		
5	Construction Water	13,412	21,797	8,386	62.53%		
6		-	-	-			
7		-	-	-			
8							
9							
10	Subtotals of Revenues	$ 162,998	$ 436,381	$ 273,383	167.72%		
11							
12	Other Water Revenues	17,940	17,940	-	0.00%		
13							
14							
15	**Subtotals of Revenues**	$ 180,938	$ 454,321	$ 273,383	151.09%		
16	**Revenue Annualizations:**						
17	5/8 Inch residential	$ 14,345	$ 38,370	$ 24,024	167.47%	537	182,394
18	3/4 Inch Residential	-	-	-	0.00%	-	-
19	1 Inch Residential	18,401	46,055	27,654	150.29%	325	1,722,972
20	2 Inch Residential	-	-	-	0.00%	-	-
21	Construction Water	-	-	-	0.00%		
22	**Subtotal Revenue Annualization**	32,746	84,425	51,678	157.81%	862	1,905,366
23							
24	**Total Revenues Per Bill Count**	$ 213,684	$ 538,745	$ 325,061	152.12%		
25	**With Annualization**						
26							
27	**Subtotal of Revenues Above w/o Annualization**	**$ 180,938**					
28	**Revenues Per Annual Report**	**$ 180,602**					
29	**Difference in Dollars**	**$ 336**					
30	**Dfference in Percentage**	**0.19%**					
31	**Tolerance Allowed by ACC Staff**	**0.50%**					
32							
33							

Goodman Water Company
Analysis of Revenue by Detailed Class
Test Year Ended September 30, 2005

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2004	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	5/8 x 3/4 Inch Residential	368	5,509	$ 124,765	$ 344,047	$ 219,282	175.76%	94.83%
2	3/4 Inch Residential	-	-	-	-	-	0.00%	0.00%
3	1 Inch Residential	17	3,816	10,839	27,423	16,584	153.00%	4.36%
4	2 Inch Residential	3	111,083	13,982	43,113	29,131	208.35%	0.77%
5	Construction Water	0	1,411,750	13,412	21,797	8,386	62.53%	0.04%
6								
7								
8								
9								
10								
11								
12								
13								
14	Totals	388						100.00%
15								
16	Actual Year End Number							
17	of Customers:	459						
18								
19								
20								
21								

Goodman Water Company
Present and Proposed Rates
Test Year Ended September 30, 2005

Docket No.
W-02500A-06-0281

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size (Residential, Commercial, Irrigation)		Present Rates	Proposed Rates (a)	Percent Change
1	**Monthly Usage Charge for:**				
2	5/8 x 3/4 Inch		$ 18.00	$ 44.87	149.30%
3	3/4 Inch		27.00	67.31	149.30%
4	1 Inch		45.00	112.19	149.30%
5	1 1/2 Inch		90.00	224.37	149.30%
6	2 Inch		144.00	358.99	149.30%
7	3 Inch		270.00	673.11	149.30%
8	4 Inch		450.00	1,121.85	149.30%
9	5 Inch		N/A	N/A	
10	6 Inch		900.00	2,243.70	149.30%
11	Fire Hydrant		15.00	-	
12	Bulk Water		-	-	0.00%
13					
14	Gallons included in Minimums 5/8 x 3/4 Inch				
15	Meter Only		1,000	-	
16					
17	**Tier 1:** (Gallon upper limit, up to, but not exceeding)				
18	5/8 x 3/4 Inch	Residential, Commercial, Irrigation	All gallons over min.	Please See	
19	34 Inch	Residential, Commercial, Irrigation	All gallons over min.	Page 2	
20	1 Inch	Residential, Commercial, Irrigation	All gallons over min.		
21	1.5 Inch	Residential, Commercial, Irrigation	All gallons over min.		
22	2 Inch	Residential, Commercial, Irrigation	All gallons over min.		
23	3 Inch	Residential, Commercial, Irrigation	All gallons over min.		
24	4 Inch	Residential, Commercial, Irrigation	All gallons over min.		
25	6 Inch	Residential, Commercial, Irrigation	All gallons over min.		
26	8 Inch	Residential, Commercial, Irrigation	All gallons over min.		
27					
28	**Tier 2:** (Gallon upper limit, up to, but not exceeding)				
29	5/8 x 3/4 Inch	Residential, Commercial, Irrigation		Please See	
30	3/4 Inch	Residential, Commercial, Irrigation		Page 2	
31	1 Inch	Residential, Commercial, Irrigation			
32	1.5 Inch	Residential, Commercial, Irrigation			
33	2 Inch	Residential, Commercial, Irrigation			
34	3 Inch	Residential, Commercial, Irrigation			
35	4 Inch	Residential, Commercial, Irrigation			
36	6 Inch	Residential, Commercial, Irrigation			
37	8 Inch	Residential, Commercial, Irrigation			
38					

Goodman Water Company
Present and Proposed Rates
Test Year Ended September 30, 2005

Docket No.
W-02500A-06-0281

Exhibit
Rebuttal Schedule H-3
Page 2
Witness: Bourassa

Line No.	Customer Classification and Meter Size		Present Rates	Proposed Rates
1	**Tier 3:** (Gallon upper limit, up to, but not exceeding)			
2	5/8 x 3/4 Inch	Residential, Commercial, Irrigation		Please See
3	3/4 Inch	Residential, Commercial, Irrigation		Page 2
4	1 Inch	Residential, Commercial, Irrigation		
5	1.5 Inch	Residential, Commercial, Irrigation		
6	2 Inch	Residential, Commercial, Irrigation		
7	3 Inch	Residential, Commercial, Irrigation		
8	4 Inch	Residential, Commercial, Irrigation		
9	6 Inch	Residential, Commercial, Irrigation		
10	8 Inch	Residential, Commercial, Irrigation		
11				
12			**Present**	**Proposed**	**Percent Change**
13	Commodity Rates (per 1,000 gallons in excess of gallons in Each Tier)				
14	All customer classes except Bulk Water	Tier 1	$ 2.20	$ 5.02	128.18%
15	All customer classes except Bulk Water	Tier 2	2.20	6.72	205.45%
16	All customer classes except Bulk Water	Tier 3	2.20	7.72	250.91%
17					
18	Bulk Water	All Water	$ 4.75	$ 7.72	62.53%
19					
20			**Proposed Rates**		
21			**From Gallons**	**To Gallons**	
22					**Price**
23	**5/8 and 3/4 Inch Meters**				
24	Tier 1	over	-	up to 4,000	$ 5.02
25	Tier 2	over	4,001	up to 10,000	$ 6.72
26	Tier 3	over	10,001		$ 7.72
27					
28					
29	**1 Inch Meter and Larger Meters**				
30	Tier 1	over	-	up to 10,000	$ 5.02
31	Tier 2	over	10,001	up to 25,000	$ 6.72
32	Tier 3	over	25,001		$ 7.72
33					
34					

Goodman Water Company
Present and Proposed Rates
Test Year Ended September 30, 2005

Exhibit
Rebuttal Schedule H-3
Page 3
Witness: Bourassa

Meter and Service Line Charges

Line No.		Present Service Line Charge	Present Meter Install-ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install-ation Charge	Total Proposed Charge
7	5/8 x 3/4 Inch			$ 225.00	$ 385.00	$ 135.00	$ 520.00
8	3/4 Inch			270.00	385.00	215.00	600.00
9	1 Inch			300.00	435.00	255.00	690.00
10	1 1/2 Inch			425.00	470.00	465.00	935.00
11	2 Inch Turbo			550.00	630.00	965.00	1,595.00
12	2 Inch, Compound			550.00	630.00	1,690.00	2,320.00
13	3 Inch Turbo			750.00	805.00	1,470.00	2,275.00
14	3 Inch, compound			750.00	845.00	2,265.00	3,110.00
15	4 Inch Turbo			1,375.00	1,170.00	2,350.00	3,520.00
16	4 Inch, compound			1,375.00	1,230.00	3,245.00	4,475.00
17	5 Inch			2,090.00			
18	6 Inch Turbo			2,800.00	1,730.00	4,545.00	6,275.00
19	6 Inch, compound			2,800.00	1,770.00	6,280.00	8,050.00
20	8 Inch			NA	At Cost	At Cost	At Cost
21	10 Inch			NA	At Cost	At Cost	At Cost
22	12 Inch			NA	At Cost	At Cost	At Cost

Other Charges:

Establishment	$ 50.00	$ 50.00	Establishment (R14-2-403.D.1)
Establishment (After Hours)	$ 75.00	$ 75.00	Establishment (After Hours) (R14-2-403.D.2)
Reconnection (Delinquent)	$ 75.00	$ 75.00	Meter Test (R14-2-408.F)
Reconnection (Delinquent) after hours			Deposit (R14-2-403.B)
Meter Test	$ 20.00	$ 20.00	Deposit Interest (R14-2-403.B.3)
Deposit	PER RULE	PER RULE	Re-establishment (R14-2-403.D.1)
Deposit Interest	PER RULE	PER RULE	NSF Check (R14-2-409.F.1)
Re-establishment (Within 12 months)	PER RULE	PER RULE	Deferred Payment (R14-2-409.G.6)
NSF Check	$ 15.00	$ 15.00	Meter Re-read (R14-2-408.C.2)
Deferred Payment	18%	18%	
Meter Re-read	$ 20.00	$ 20.00	
Late Fee (a)	$ 10.00	1.50%	
Customer requested Meter Test	$ 20.00	$ 20.00	

(a) $ 5.00 minimum or 1.5% of unpaid balance whichever is greater.

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 5/8 Inch Meter
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Rebuttal Schedule H-4
Page 1
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 18.00	$ 44.87	$ 26.87	149.30%
1,000	18.00	49.89	$ 31.89	177.19%
2,000	20.20	54.91	$ 34.71	171.85%
3,000	22.40	59.93	$ 37.53	167.56%
4,000	24.60	64.95	$ 40.35	164.04%
5,000	26.80	71.67	$ 44.87	167.44%
6,000	29.00	78.39	$ 49.39	170.32%
7,000	31.20	85.11	$ 53.91	172.80%
8,000	33.40	91.83	$ 58.43	174.95%
9,000	35.60	98.55	$ 62.95	176.84%
10,000	37.80	105.27	$ 67.47	178.50%
12,000	42.20	120.71	$ 78.51	186.05%
14,000	46.60	136.15	$ 89.55	192.18%
16,000	51.00	151.59	$ 100.59	197.24%
18,000	55.40	167.03	$ 111.63	201.51%
20,000	59.80	182.47	$ 122.67	205.14%
25,000	70.80	221.07	$ 150.27	212.25%
30,000	81.80	259.67	$ 177.87	217.45%
35,000	92.80	298.27	$ 205.47	221.42%
40,000	103.80	336.87	$ 233.07	224.54%
45,000	114.80	375.47	$ 260.67	227.07%
50,000	125.80	414.07	$ 288.27	229.15%
60,000	147.80	491.27	$ 343.47	232.39%
70,000	169.80	568.47	$ 398.67	234.79%
80,000	191.80	645.67	$ 453.87	236.64%
90,000	213.80	722.87	$ 509.07	238.11%
100,000	235.80	800.07	$ 564.27	239.30%
Average Usage				
5,509	$ 27.92	$ 75.09	$ 47.17	168.96%
Median Usage				
4,500	$ 25.70	$ 68.31	$ 42.61	165.81%

Present Rates:

Monthly Minimum:		$ 18.00
Gallons in Minimum		1,000
Charge Per 1,000 Gallons		
		$ 2.20

Proposed Rates:

Monthly Minimum:		$ 44.87
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	4,000	$ 5.02
Up to	10,000	$ 6.72
Over	10,001	$ 7.72

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 1 Inch Meter
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Rebuttal Schedule H-4
Page 2
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 45.00	$ 112.19	$ 67.19	149.30%
1,000	47.20	117.21	$ 70.01	148.32%
2,000	49.40	122.23	$ 72.83	147.42%
3,000	51.60	127.25	$ 75.65	146.60%
4,000	53.80	132.27	$ 78.47	145.85%
5,000	56.00	137.29	$ 81.29	145.15%
6,000	58.20	142.31	$ 84.11	144.51%
7,000	60.40	147.33	$ 86.93	143.92%
8,000	62.60	152.35	$ 89.75	143.36%
9,000	64.80	157.37	$ 92.57	142.85%
10,000	67.00	162.39	$ 95.39	142.37%
12,000	71.40	175.83	$ 104.43	146.25%
14,000	75.80	189.27	$ 113.47	149.69%
16,000	80.20	202.71	$ 122.51	152.75%
18,000	84.60	216.15	$ 131.55	155.49%
20,000	89.00	229.59	$ 140.59	157.96%
25,000	100.00	263.19	$ 163.19	163.19%
30,000	111.00	301.79	$ 190.79	171.88%
35,000	122.00	340.39	$ 218.39	179.00%
40,000	133.00	378.99	$ 245.99	184.95%
45,000	144.00	417.59	$ 273.59	189.99%
50,000	155.00	456.19	$ 301.19	194.31%
60,000	177.00	533.39	$ 356.39	201.35%
70,000	199.00	610.59	$ 411.59	206.83%
80,000	221.00	687.79	$ 466.79	211.21%
90,000	243.00	764.99	$ 521.99	214.81%
100,000	265.00	842.19	$ 577.19	217.81%
Average Usage				
3,816	$ 53.39	$ 131.34	$ 77.95	145.98%
Median Usage				
500	$ 46.10	$ 114.70	$ 68.60	148.80%

Present Rates:

Monthly Minimum:		$ 45.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
		$ 2.20

Proposed Rates:

Monthly Minimum:		$ 112.19
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	10,000	$ 5.02
Up to	25,000	$ 6.72
Over	25,001	$ 7.72

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Residential 2 Inch
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Rebuttal Schedule H-4
Page 3
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 144.00	$ 358.99	$ 214.99	149.30%
1,000	146.20	364.01	$ 217.81	148.98%
2,000	148.40	369.03	$ 220.63	148.67%
3,000	150.60	374.05	$ 223.45	148.37%
4,000	152.80	379.07	$ 226.27	148.08%
5,000	155.00	384.09	$ 229.09	147.80%
6,000	157.20	389.11	$ 231.91	147.53%
7,000	159.40	394.13	$ 234.73	147.26%
8,000	161.60	399.15	$ 237.55	147.00%
9,000	163.80	404.17	$ 240.37	146.75%
10,000	166.00	409.19	$ 243.19	146.50%
12,000	170.40	422.63	$ 252.23	148.02%
14,000	174.80	436.07	$ 261.27	149.47%
16,000	179.20	449.51	$ 270.31	150.84%
18,000	183.60	462.95	$ 279.35	152.15%
20,000	188.00	476.39	$ 288.39	153.40%
25,000	199.00	509.99	$ 310.99	156.28%
30,000	210.00	548.59	$ 338.59	161.23%
35,000	221.00	587.19	$ 366.19	165.70%
40,000	232.00	625.79	$ 393.79	169.74%
45,000	243.00	664.39	$ 421.39	173.41%
50,000	254.00	702.99	$ 448.99	176.77%
60,000	276.00	780.19	$ 504.19	182.68%
70,000	298.00	857.39	$ 559.39	187.72%
80,000	320.00	934.59	$ 614.59	192.06%
90,000	342.00	1,011.79	$ 669.79	195.85%
100,000	364.00	1,088.99	$ 724.99	199.17%
150,000	474.00	1,474.99	$ 1,000.99	211.18%
200,000	584.00	1,860.99	$ 1,276.99	218.66%
250,000	694.00	2,246.99	$ 1,552.99	223.77%
300,000	804.00	2,632.99	$ 1,828.99	227.49%
350,000	914.00	3,018.99	$ 2,104.99	230.31%
400,000	1,024.00	3,404.99	$ 2,380.99	232.52%
450,000	1,134.00	3,790.99	$ 2,656.99	234.30%
500,000	1,244.00	4,176.99	$ 2,932.99	235.77%
Average Usage				
111,083	$ 388.38	$ 1,174.55	$ 786.17	202.42%
Median Usage				
-	$ 144.00	$ 358.99	$ 214.99	149.30%

Present Rates:

Monthly Minimum:		$ 144.00
Gallons in Minimum		
Charge Per 1,000 Gallons		
		$ 2.20

Proposed Rates:

Monthly Minimum:		$ 358.99
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	10,000	$ 5.02
Up to	25,000	$ 6.72
Over	25,001	$ 7.72

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Construction Water
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Rebuttal Schedule H-4
Page 4
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	0.00%
1,000	4.75	7.72	2.97	62.53%
2,000	9.50	15.44	5.94	62.53%
3,000	14.25	23.16	8.91	62.53%
4,000	19.00	30.88	11.88	62.53%
5,000	23.75	38.60	14.85	62.53%
6,000	28.50	46.32	17.82	62.53%
7,000	33.25	54.04	20.79	62.53%
8,000	38.00	61.76	23.76	62.53%
9,000	42.75	69.48	26.73	62.53%
10,000	47.50	77.20	29.70	62.53%
12,000	57.00	92.64	35.64	62.53%
14,000	66.50	108.08	41.58	62.53%
16,000	76.00	123.52	47.52	62.53%
18,000	85.50	138.96	53.46	62.53%
20,000	95.00	154.40	59.40	62.53%
25,000	118.75	193.00	74.25	62.53%
30,000	142.50	231.60	89.10	62.53%
35,000	166.25	270.20	103.95	62.53%
40,000	190.00	308.80	118.80	62.53%
45,000	213.75	347.40	133.65	62.53%
50,000	237.50	386.00	148.50	62.53%
60,000	285.00	463.20	178.20	62.53%
70,000	332.50	540.40	207.90	62.53%
80,000	380.00	617.60	237.60	62.53%
90,000	427.50	694.80	267.30	62.53%
100,000	475.00	772.00	297.00	62.53%

Present Rates:
Monthly Minimum: $ -
Gallons in Minimum
Charge Per 1,000 Gallons
$ 4.75

Proposed Rates:
Monthly Minimum: $ -
Gallons in Minimum -
Charge Per 1,000 Gallons
$ 7.72

Average Usage				
1,411,750	$ 6,705.81	$ 10,898.71	$ 4,192.90	62.53%
Median Usage				
1,411,750	$ 6,705.81	$ 10,898.71	$ 4,192.90	62.53%

LEWIS AND ROCA LLP LAWYERS

APPLICANT'S EXHIBIT A-3

APPLICANT'S REJOINDER

LEWIS AND ROCA LLP LAWYERS

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
CHAIRMAN

COPY

KRISTIN K. MAYES
COMMISSIONER

WILLIAM A. MUNDELL
COMMISSIONER

MIKE GLEASON
COMMISSIONER

GARY PIERCE
COMMISSIONER

RECEIVED
JAN 22 2007
ARIZONA CORP. COMM
400 W CONGRESS STE 218 TUCSON AZ 85701

IN THE MATTER OF THE APPLICATION OF **GOODMAN WATER COMPANY** FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICES BASED THEREON	No. W-02500A- 06-0281 **FILING OF APPLICANT'S REJOINDER TESTIMONY, INCORPORATING ITS RESPONSE TO STAFF'S SUREBUTTAL TESTIMONY**

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

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

A. Yes, my direct and rebuttal testimony was submitted in support of the initial application in this docket by Goodman Water Company ("Goodman" or "Company").

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

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

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

A. The Company's proposed total revenue requirement has not changed since its rebuttal filing. The Company proposes a total revenue requirement of $538,812, which constitutes an increase in revenues of $325,463, or 152.55% over test year revenues.

Q. PLEASE SUMMARIZE THE PROPOSED REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF THE PROCEEDING?

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

	Revenue Requirement	Revenue Incr.	% 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%
Company Rejoinder	$538,812	$325,463	152.55%

Q. WHY IS STAFF'S REVENUE REQUIREMENT AND RECOMMENDED INCREASE HIGHER IN ITS SURREBUTTAL FILING?

A. There are two primary reasons for an increase in Staff's recommended revenue requirement. First, Staff has agreed that its interest synchronization in its computation of income taxes was an error. *See* Surrebuttal Testimony of Charles

R. Myhlhousen ("Myhlhousen SB") at 5. The correction of this error has resulted in an increase in Staff's proposed income taxes. Second, Staff has adopted the Company's proposed level of expense for repairs and maintenance which is higher than the Staff proposed level in its direct filing. Although Staff did not present any written testimony regarding its change in position regarding repairs and maintenance, Staff's surrebuttal schedules now reflect the same level of repairs and maintenance expense as proposed by the Company. *See* Staff Surrebuttal Schedule CRM-8.

II. RATE BASE.

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

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

	OCRB	FVRB
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
Company Rejoinder	$ 1,292,051	$ 1,292,051

A. Plant-in-Service.

Q. DO STAFF AND THE COMPANY AGREE AS TO THE AMOUNT OF PLANT-IN-SERVICE INCLUDED IN RATE BASE?

A. Yes. Both Staff and the Company agree to plant-in-service in the amount of $2,365,811.

B. Accumulated Depreciation.

Q. DO STAFF AND THE COMPANY AGREE AS TO THE AMOUNT OF ACCUMULATED DEPRECIATION?

A. Yes. Both Staff and the Company now agree to accumulated depreciation in amount of $108,511. Staff has accepted the Company's rebuttal proposed level of accumulated depreciation and has made the appropriate adjustment. *See* Myhlhousen SB at 4.

C. **Working Capital.**

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

A. No. The Company continues to propose a cash working capital allowance in the instant case. Since the Company has not proposed any further changes to operating expenses, there is no change to the Company's proposed cash working capital allowance. The cash working capital allowance proposed by the Company is $21,310. Staff continues to propose zero working capital.

Q. PLEASE RESPOND TO THE SURREBUTAL TESTIMONY OF MR. MYHLHOUSEN ON PAGE 4 OF HIS TESTIMONY REGARDING WORKING CAPITAL?

A. Mr. Myhlhousen claims that Staff is not aware of any Class C utility given working capital without a lead-lag study. *See* Myhlhousen SB at 4. Mr. Myhlhousen's assertion that the Commission has not authorized working capital for Class C utilities is incorrect. There have been cases in the past few years where a Class C utility was granted a cash working capital allowance based on the formula method. *E.g.* Pine Water Company (A.C.C. Decision 67166, August 10, 2004) and Rio Rico Utilities, Inc. (A.C.C. Decision 67279, October 5, 2004). In both of these cases, Staff recommended cash working capital allowances based on the formula method. *See* Direct Testimony of Dennis Rogers, page 13, Docket No. SW-02676A-03-434, and Direct Testimony of Claudio Fernandez, page 10, Docket No. W-03512A-03-0279.

I have previously testified why the formula method is an appropriate method and why a cash working capital allowance should be allowed in the instant case and I will not repeat that testimony here. *See* Rebuttal Testimony of Thomas J. Bourassa ("Bourassa RB") at 6-7. Based on my involvement in numerous rate proceedings in the past couple of years it appears that Staff has adopted a black letter 'policy' of opposing any cash working capital allowance unless accompanied by a lead-lag study. This 'black letter policy, which applies to all Class C and above utilities, is interesting given that Staff asserts that each company should be examined on a case-by-case basis. *See* Myhlhousen SB at 7. An inflexible policy such as this one seems to me to be both contradictory to Staff's approach to rate making and arbitrary. The Commission rules do contemplate the use of the formula method. *See* Arizona Administrative Code 14-2-103. Schedule B-5, for example, explicitly provides for the formula method for computing working capital. Further, it is required to be filed by all utilities regardless of size.

III. INCOME STATEMENT.

Q. PLEASE RESPOND TO MR. MYHLHOUSEN'S COMMENTS ON PAGE 5 AND 6 OF HIS SURREBUTTAL TESTIMONY REGARDING THE APPROPRIATE LEVEL OF SALARIES AND WAGES AND OUTSIDE SERVICE COSTS FOR MR. SEARS AND MR. SHINER?

A. While both Mr. Sears and Mr. Shiner are owners of the Company, together they fulfill the duties and responsibilities of managing the Company. Mr. Sears receives compensation for his services through a salary. Mr. Shiner receives compensation for his services through consulting fees. Mr. Myhlhousen asserts the Company cannot justify the costs for these two individuals and then proposes a level of expense Mr. Myhlhousen has determined to be reasonable. *See* Myhlhousen SB at 5 and 6. However, Mr. Myhlhousen has yet to provide any support by way of evidence, analysis, or computations for how he determined what is a reasonable of

expense. *See* Bourassa RB at 9. I can only assume that the levels of salaries and wages and outside services expense for Mr. Sears and Mr. Shiner proposed by Mr. Myhlhousen is his own best guess of what a reasonable level of expense is. This should not be the basis upon which an adjustment should be made and Staff's adjustment should be rejected on this alone.

Q. DOES THE FACT THAT NEITHER MR. SEARS NOR MR. SHINER KEEP TIMESHEETS BOTHER YOU?

A. No. Mr. Myhlhousen would agree that some time must be spent managing Goodman. Both Mr. Sears and Mr. Shiner are involved to some extent in the day-to-day operations. Even Mr. Myhlhousen admits this. *See* Bourassa RB at 9. Additionally, the function of management encompasses more than the day-to-day operations. *Id.* Let's assume, for arguments sake, that these two individuals together spend together on average 10-12 hours per week performing their respective responsibilities. That's on average 5 to 6 hours each per week. At an average 10-12 hours per week, the time spent represents 25 to 30 percent of a full-time employee based on a 40 hour work week. The Company proposed level of salaries and wages and outside service expense for both Mr. Sears and Mr. Shiner total less than $50,000 annually ($32,000 for Mr. Sears plus $17,325 for Mr. Shiner). Based on the American Water Works Association ("AWWA") compensation survey, a top executive working for a private utility earns an average of $176,982. *See* Top Executive – All Participants AWWA Water Utility Compensation Survey -2006, attached hereto as Rejoinder Exhibit No. 1. $50,000 is less than 30 percent of the salary of a top executive.

Putting aside the amount of time spent by these two individuals, their services to the Company are available through out any given week and at the same cost regardless of whether they spend 5, 10, 20, or 40 hours on utility business in a week. In my experience, it would be highly unlikely the Company could find a top executive will to work part-time, never-mind one-third time. And, if the Company

were fortunate to find such a person, they would only be available when they were scheduled to work. These two individuals are available as the need arises regardless of when that need may arise.

Q. HOW DO YOU RESPOND TO MR. MYHLHOUSEN'S SURREBUUTAL TESTIMONY ON THE COSTS FOR THE SERVICES PROVIDED BY CWH2?

A. Mr. Myhlhousen states that there "appears" to be a duplication of services. *See* Myhlhousen SB at 6. This is Mr. Myhlhousen's opinion and is unsupported by the evidence. Mr. Hill has a contract which outlines the services he provides and which I have previously testified to. *See* CWH2 Services Contract, attached hereto as Rejoinder Exhibit No. 2. *See* also Bourassa RB at 10-11.

Mr. Myhlhousen also takes issue with the basis of the billing (based on number of connections). *See* Myhlhousen SB at 6. This is not sufficient to disallow the costs. YL Technology's monthly charges to Goodman are also based on the number of connections, yet Mr. Myhlhousen does not take issue with the costs from YL Technology.

Q. IS MR. HILL'S COSTS SOLELY BASED ON THE NUMBER OF CONNECTIONS?

A. No. The contract explicitly states that the cost is also based on a maximum of 5 hours per month which can be carried over up to 12 months if unused. Any time spent above the 5 hours per month is billed at a rate of $75.00 per hour. In my experience, the billing rate is not out of line for the consulting services Mr. Hill provides.

Q. CAN YOU RESPOND TO MR. MYHLHOUSEN'S ASSERTION THAT THE INVOICES FROM MR. HILL ONLY STATE "TAKE READINGS AND CHECK SITES"?

A. It is not clear to me why he believes these are the only services provided to the Company. Mr. Hill does provide some operation and maintenance services in

addition to consulting services per the contract. The "other" service costs are recorded in the materials and supplies account. During the test year approximately $1,518 was recorded in the materials and supplies account for "other" services provided by Mr. Hill. Under the CWH2 contract, approximately $9,674 was recorded in the outside services management account. The amounts associated with taking readings and checking sites to which Mr. Myhlhousen refers only amounts to $1,518. Mr. Myhlhousen proposes to remove $11,916. *See* Staff Surrebuttal Schedule CRM-12.

Q. MR. BOURASSA, THE $9,674 and the $1,518 TOTAL $11,192, NOT $11,916 AS MR. MYHLHOUSEN PROPOSES TO REMOVE. CAN YOU EXPLAIN?

A. My only explanation is that Mr. Myhlhousen incorrectly computed the total of the costs associated with CWH2 Services. Putting this aside, if the Commission was to determine that Mr. Hill's services for the taking of readings and checking sites is a duplication of the services performed by YL Technology, the most the Commission should disallow is $1,518.

Q. HOW DO YOU RESPOND TO MR. MYHLHOUSEN'S ASSERTION ON PAGE 7 OF HIS SURREBUTTAL TESTIMONYTHAT EVEN YOU ADMIT THAT COMPANIES SHOULD BE EXAMINED ON A CASE-BY-CASE BASIS?

A. Mr. Myhlhousen fails to see the point. That is, he did not provide any evidence, support, or computations to support his recommendations. He conveniently dismisses Staff's own analysis from the Sabrosa Water Company case on what reasonable costs. *See* Myhlhousen SB at 7. He also dismisses the comparisons with Valley Utilities and Chaparral City Water Company. *Id.* at 7. Yet, he has yet to offer any support for his position. In my opinion, the Company has met its burden, while Staff has not.

IV. COST OF CAPITAL.

A. Overview and Summary.

Q. PLEASE SUMMARIZE THE COMPANY'S REJOINDER POSITION REGARDING COST OF CAPITAL?

A. The Company continues to recommend 10.5% as its cost of capital and rate of return on original cost rate base, which Goodman accepts as the fair value of its utility property for purposes of this rate case. The 10.5% rate of return is based on a capital structure consisting of 100% common equity.

A return on equity of 10.5% is extremely conservative when the small size and the operational and business risks related to Goodman's water operations are considered.

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL SCHEDULES?

A. Yes. I have updated my cost of capital analysis using more recent data. My updated schedules are attached to this testimony as rebuttal D schedules and the table below summarizes the results.

DCF Analysis	Range	Midpoint
Constant Growth (earnings growth)	9.9% - 12.8%	11.4%
Constant Growth (sustainable growth)	8.7% - 10.8%	9.8%
Two-Stage Growth Model	9.6% - 11.7%	10.7%
Risk Premium Analysis		
Actual Returns	10.1% - 10.2%	10.2%
Authorized Returns	10.8% - 11.3%	11.1%
Comparable Earnings		
Actual Returns	4.0% - 11.7%	7.9%
Authorized Returns	9.9% - 12.7%	11.3%
Value Line Industry Composite (2006)		9.5%
Value Line Industry Composite (2007)		10.5%
Value Line Industry Composite (2009)		11.5%

Based on these results, I continue to believe that 10.5% is a reasonable rate of return for Goodman, especially in light of the additional risk associated with an equity investment in Goodman.

Q. HOW DOES THE RETURN OF 10.5% YOU ARE RECOMMENDING COMPARE TO STAFF SURREBUTAL RECOMMENDATION?

A. The rates of return on equity ("ROE") recommended by Staff is 9.30%. This is 30 basis points lower than Staff's recommendation in its direct filing. I continue to believe the rates of return recommended by Staff is simply too low given the Company's extremely small size, limited revenue and cash flow, small customer base, lack of diversification, lack of liquidity, and other characteristics.

B. <u>Response to Staff's Testimony on Unique Risks</u>.

Q. PLEASE RESPOND TO THE TESTIMONY MR. IRVINE AT PAGE 3 OF SURREBUTTAL TESTIMONY REGARDING UNIQUE AND FIRM SIZE?

A. I am a bit confused by Mr. Irvine's testimony. Mr. Irvine testifies that unique risk can be diversified away by investors holding diversified portfolios. I have not testified in opposition to this view point. It is apparent Mr. Irvine is disregarding my Rebuttal Testimony on this subject. *See* Bourassa RB at 14-15. Mr. Irvine's arguments assume that the market data for the large publicly traded water utility companies captures the risks for small water utilities like Goodman. That is, the publicly traded water utility sample group is directly comparable to Goodman. It is not. Therefore, I am not speaking of unique risks with respect to Goodman.

The risks associated with small size, lack of diversification, limited revenue and cash flow, small customer base, lack of liquidity, as well as regulatory and construction risk are common to small water utilities. These risks are unique only in the sense that the large publicly traded water utilities do not possess these same levels of risk. As I testified, investors would price the risks differently in the market. *Id.*

Both Staff and I use a sample of publicly traded water utility companies as a starting point in our respective cost of equity analyses. However, unlike Mr. Irvine, who starts and ends that analysis, I recognize that the Goodman, like other small water utilities in Arizona, is not directly comparable. The problem is, we simply do not have market data for small water utilities to directly assess how an investor would price those risks.

Firm size is not a unique risk as Mr. Irvine asserts. *See* Surrebuttal Testimony of Steven P. Irvine ("Irvine SB") at 4. The size phenomenon is well documented in the financial literature. I have previously testified to studies by Dr. Zepp and the California Public Utilities Commission ("CPUC"). *See* Bourassa RB at 16 and 17. Small companies have very different returns than large ones and on average those returns have been higher. Ibbotson Associates' widely used compilation of historical returns from 1926 to the present reinforces the evidence (*See* Stocks, Bonds, Bills and Inflation 2006 Year Book, Ibbotson Associates, Chicago, 2005). Ibbotson Associates' well-known historical return series covering the period from 1926 to the present shows the average annual return of 12.3% is for large company stocks while returns for micro-cap, low-cap and mid-cap stocks are 18.8%, 15.7%, and 14.2%, respectively, significantly higher than those for large company stocks. The size effect is particularly relevant for small utilities. Not only do these small utilities possess higher risks than their larger counterparts, they are subjected to a significant size effect, strongly suggesting that their cost of equity is higher.

The view that small water utilities are not directly comparable to the large publicly traded water utilities does not violate any tenet of modern financial theory. Modern financial theory of investment behavior rests on the notion that the specific risk component not explained by the market can be diversified away by the investor. In the instant case, we are not talking about the specific risks to Goodman

per se, but the market risk associated with small water utilities like Goodman which we unable to measure.

Q. PLEASE RESPOND TO MR. IRVINE'S COMMENTS ON PAGE 4 OF HIS SURREBUTTAL TESTIMONY THAT THE COMMISSION IS NOT BOUND BY DECISIONS, POLICIES, OR STAFF MEMORANDUMS OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION.

A. I never testified this Commission was bound by any action of the California Public Utilities Commission ("CPUC"). Once again, Mr. Irvine misses the point. My point in referencing the returns allowed by the CPUC for small utilities is four-fold. First, others, like the CPUC, recognize that large utility companies are not directly comparable to small ones and that there is no market data for small water utilities. Second, others, like the CPUC, recognize that there is a distinct difference between large and small utilities in terms of business and operational risks. Third, because the business and operational risks associated with small water utilities is higher, small water utilities require higher returns. And fourth, the CPUC guidelines provide for returns for small water utilities far in excess of the return I recommend in the instant case. Should this lead us to conclude that the regulatory risks associated with operating a utility in California are less than a utility operating in Arizona?

Q. PLEASE RESPOND TO MR. IRVINE'S REFERENCES TO THE ANNIE WONG STUDY ON THE FIRM SIZE EFFECT FOR WATER UTLITIES ON PAGE 5 OF HIS SURREBUTTAL TESTIMONY.

A. Mr. Irvine has referred to this study before. Ms. Wong's study and her conclusions have been disputed and called into question by Dr. Zepp[1]. Dr. Zepp concluded:

[1] Zepp, Thomas M. (2002, August). Utility Stocks and the size effect – revisited. *The Quarterly Review of Economics and Finance*, 578-582.

> Wong's concluding remarks should be re-examined and placed into perspective. She noted that industrial betas tend to decrease with increases in firm size but the same relationship is not found in every period for utilities. Had longer time intervals been used to estimate betas, as was done in Table 1, she may have found the same inverse relationship between size and beta risk for utilities in other periods. She also concludes "there is some weak evidence that firm size is a missing factor from the CAPM for the industrial but not the utility stocks" (Wong, 1993, p. 98), but the weak evidence provides little support for a small firm effect existing or not existing in the in either the industrial or utility sector. Two other studies discussed here support a conclusion that smaller water utilities are more risky than larger ones. To the extent that water utilities are representative of all utilities, there is support for smaller utilities being more risky than larger ones. *Id.* at 582

Regardless of whether one chooses to accept Ms. Wong's conclusions, Ms. Wong's study encompassed the utility industry which included both electric and gas utilities and did not focus on water utilities. Further, the average market value of the smallest utility portfolio in her study in 1993 was $62 million – 40 to 50 times larger than is Goodman. When I speak about the various risks associated with Goodman's small size, limited revenue, limited customer growth and lack of liquidity, I am talking about risks which have not been priced by investors and are not reflected in any available market data. Ms. Wong's study does not apply in the instant case.

But consider that if Goodman has a well failure or a transmission main break, the impact on the Company is far more serious than if Aqua American or California Water Service experiences a similar problem. Indeed, Goodman's earnings could be wiped out as available cash flow is diverted to repair or replace the well. For this reason, an investor would view an equity investment in Goodman much differently than an equity investment in the stock of a large publicly traded water utility, and would require a higher return on that investment. Otherwise, the investor would instead purchase Aqua America's stock, which would have less risk while promising a greater return.

C. **Response to Staff's Testimony on Comparisons to Actual and Authorized Returns.**

Q. PLEASE RESPOND TO MR. IRVINE'S COMMENTS ON PAGE 6 AND 7 OF HIS SURREBUTTAL TESTIMONY CONCERNING THE ROLE OF ACTUAL AND AUTHORIZED EARNINGS?

A. It is appears from his testimony that Mr. Irvine doesn't understand the basis for the comparable earnings method. As I previously discussed in my Direct Testimony, the comparable earnings approach is rooted in U.S. Supreme Court decisions, including *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944), and *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923). *See* Direct Testimony of Thomas Bourassa ("Bourassa DT") at 24 and 30.

Given these requirements, it would be myopic at best to simply ignore actual and authorized returns on equity. The goal is to authorize a return on equity that is equal to the return on investments with similar risk. Mr. Irvine is exclusively advocating that the results of his finance models should be used without regard to whether the results of those models are consistent with the actual and authorized earnings of the companies he has used to implement his finance models. I am not surprised. Mr. Irvine does not even acknowledge the criteria set forth by *Hope* and *Bluefield* anywhere in his testimony. The basis of his entire testimony is that expected returns may only be estimated with market based models such as the DCF and CAPM. This simply ignores reality. If a company has consistently earned returns on equity between 10% and 11% during the past 5 years, and is projected to continue to earn a return on equity within that range, why would an investor reject that information and, instead, choose to rely solely on a finance model? In fact, why would investment services such as Value Line and Standard & Poor's publish historic information regarding a company's earnings if expected returns can only be

estimated by using finance models? They wouldn't have much of a market for their products.

Q. DO YOU AGREE WITH MR. IRVINE THAT INCREASES IN INTEREST RATES DO NOT NECESSARILY AFFECT THE COST OF CAPITAL?

A. No. Equity costs move in the same direction as interest rates. Mr. Irvine would agree. *See* Irvine DT at 7 and 9. Staff's models do not bear this out. I have prepared the table below, which shows the comparison of the key cost of capital determinants and Staff's cost of equity results since 2003.

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

Testimony Date	Arizona Water Utility	Average Beta[2]	Risk-Free Rate[3]	Staff ROE[4]
7/8/03	Arizona. Water	0.59	3.3%	9.2%
9/5/03	Arizona-American	0.59	3.3%	9.2%
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%

[2] 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.
[3] Average of 10, 7 and 5-year Treasury notes used in Staff's CAPM in each case.
[4] The result produced by Staff's DCF and CAPM models in each case, unadjusted for risk.

Testimony Date	Arizona Water Utility	Average Beta[2]	Risk-Free Rate[3]	Staff ROE[4]
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%

As the table shows, interest rates have risen significantly since mid-2003. Staff's estimate of the risk free rate has risen by 140 basis points. Yet, Staff's recommended cost of equity is exactly the same as the ROE produced by Staff's models (using the *same* approaches and the *same* sample water utilities) in the Arizona Water and Arizona American rate cases in 2003. A closer look at the data for Arizona-American in 2003 and Rio Rico Utilities in 2004 show that the cost of equity produced by Staff DCF and CAPM models actually fell while the interest rates were rising.

What is also disturbing, as the table shows, beta has also increased significantly since 2003, increasing from .59 in 2003 to .82 in the instant case. Beta is a measure of a stock's riskiness relative to the market as a whole. Mr. Irvine would agree that as risk increases, so does the cost of equity. *See* Irvine DT at 9. While I have problems with the CAPM and the beta used by both Staff, beta itself is valid measure of the relative riskiness of a stock, a higher beta means more risk.

Q. WHAT DOES THE DATA IN THE TABLE ABOVE SHOW?

A. Although both interest rates and the average beta of Staff's sample group have increased substantially since 2003, Staff's DCF and CAPM models ignore the increased risk. Increases in both beta risk and interest rates since 2003 indicate the cost of equity is much higher today. As both interest rates and beta risk increase, so should the cost of equity. Yet, Staff's finance models suggest otherwise. I can only conclude there is something seriously wrong with Staff's models.

Q. IS THE AVERAGE BETA AND THE RISK FREE RATE THE ONLY DETERMINANTS OF THE COST OF EQUITY AND WHY HAVE YOU NOT SHOWN OTHERS?

A. No. There are numerous components of and calculations required to implement the DCF and CAPM models. But, unlike the risk free rate and beta, which are objective, the other determinants of the cost of capital are subjective.

Q. PLEASE EXPLAIN.

A. Beta and the risk free rates are objectively determined from publicly available information. The risk free rates are published by the Federal Reserve. Betas are published by Value Line. Wherever a subjective determination is required, however, Staff chooses the approach that result in the lowest ROE. For example, when computing the current market risk premium for Staff's current market risk premium CAPM, Staff uses median values for the dividend yield and price appreciation potential which significantly understates the cost of equity. See Bourassa RB at 33-34.

D. <u>Response to Staff's Testimony on the Use of Analyst Forecasts.</u>

Q. PLEASE COMMENT ON MR. IRIVINE'S TESTIMONY AND PAGE 8 OF HIS SURREBUTTAL THAT HISTORICAL GROWTH RATES ARE LESS SUBJECTIVE BECAUSE THEY ARE BASED ON CALCULATIONS?

A. Mr. Irvine's assertion that historical growth rates are less subjective because they are based on calculations is puzzling. A calculation of historical growth rates are

what they are. The point is, when estimating investor expectations using those growth rates in a prospective model is subjective and provides no more a balanced approach than using only analyst expectations. I have already testified to the reasons why I chose to use analyst expectations and the superiority of the use of analyst expectations in estimating the cost of equity and will not repeat them here. *See* Bourassa RB at 25-28.

Q. CAN YOU COMMENT ON MR. IRVINE' SURREBUTTAL TESTIMONY CONCERNING YOUR EXCLUSION OF HISTORICAL DPS AND EPS GROWTH RATES FROM THE DCF MODEL?

A. Mr. Irvine defends the use of historical DPS and EPS growth rates asserting that this provides a balanced and reasonable outcome, which is supposedly Staff's objective. *See* Irvine SB at 9. Mr. Irvine goes on to testify that if the low growth rates were to be excluded from Staff's growth estimate then it would also be appropriate to exclude the highest growth estimates. *Id.* The difference is that there is a sound basis for excluding the historical growth rates, but not the projected growth rates. As I previously testified, the indicated costs of equity using historical DPS growth estimates are at or below the cost of debt. *See* Bourassa DT at 38. In addition, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information. These were the reasons why I excluded the historical growth rates from my analysis. *See* Bourassa DT at 37 and Bourassa RB at 24.

The highest growth rates by either Staff or Goodman actually produce results within the ranges of my risk premium approaches and my comparable earnings approaches. Thus, there is no reason to exclude them.

Q. PLEASE EXPLAIN.

A. In Rejoinder Schedule D-4.5, the highest projected average EPS growth estimates are from Value Line at 9.0 percent. The average dividend yield of the water utilities sample is 2.7 percent. The indicated cost of equity using the constant

growth DCF model is 11.7 percent. Looking at it from Staff's perspective, Staff's highest growth rates are 7.9% and 8.4% for projected EPS growth and projected sustainable growth, respectively. The average of these two is 8.2 percent. Staff's average dividend yield is 2.8 percent. The indicated cost of equity using the constant growth DCF model is 11.0%.

I have also shown that the average total market returns for the water utilities sample during the past 5 years have been 14.2 percent (14.3 percent compounded). *See* Bourassa RB at 20. In addition, I have shown that a market based bond risk premium based on the water utility sample and the current yield on long-term government bonds indicates a cost of equity of over 17 percent. Historically investors have received returns far greater than Staff's recommend 9.3 percent and far greater than my recommendation for Goodman of 10.5%. As the evidence shows, the highest growth rates should not be excluded because there is no rational basis to do so.

Q. DOES MR. IRVINE CRITICIZE YOUR COMPUTATION OF THE 14.2 PERCENT TOTAL MARKET RETURNS?

A. Yes, Mr. Irvine finds the computation of the number unclear. *See* Irvine SB at 7. The basis for the average 5 year total market returns is based on Value Line data published on October 27, 2006 and the 14.2 percent is a simple average. These reports are attached hereto as Rejoinder Exhibit No. 3. Putting this aside, Mr. Irvine then criticizes the 14.2 percent because it doesn't recognize compounding and the compounded growth would be much lower. *Id.* But, in fact, the average and the compound returns in the instant case happen to be nearly identical.

E. <u>Response to Staff's Testimony on the Staff's Inputs.</u>

Q. PLEASE COMMENT ON MR. IRVINE'S TESTIMONY THAT STAFF DOES NOT EXCLUDE INPUTS BECAUSE THEY ARE AT OR BELOW A

SELECTED BENCHMARK AND ARE VIEWED AS TOO HIGH OR TOO LOW?

A. Mr. Irvine's comments reinforce my point that Staff does not provide for a reality check on the results of their models. *See* Bourassa RB at 21-22. Mr. Irvine mechanically applies his finance models and accepts the results without applying any critical analysis.

F. <u>Response to Staff's Testimony on the CAPM.</u>

Q. IS IT INCORRECT TO CONCLUDE THAT CHANGES IN STAFF'S CURRENT MRP OVER TIME SIGNIFY INSTABILITY IN STAFF'S METHOD FOR DETERMINING THE MRP AS MR. IRIVE ASSERTS ON PAGE 10 OF HIS SURREBUTTAL TESTIMONY?

A. Yes. Staff's current MRP methodology is very unstable. The fact that the current MRP is a reflection of changes in the market does not change that fact. Statistically, it is better to use estimates based on period-by-period time-series of data rather than a point-in-time estimate. Time-series estimate are less vulnerable to the vagaries of any one particular capital market environment.[5]

Q. HAVE YOU PREPARED DATA TO FURTHER ILLUSTRATE THE VOLATILITY OF STAFF'S "CURRENT" MRP CALCULATION?

A. Yes. I have prepared the table that shows the key determinants of Staff's current MRP calculation and the resulting MRP for selected dates from December 2005 to December 2006:

Date	Long-Term Treasury Rate	Value Line Dividend Yield	Value Line Appreciation Potential	Current MRP	Indicated Cost of equity
12/22/2005	4.63%	1.6%	40%	5.75%	8.9%
01/24/2006	4.63%	1.6%	35%	4.76%	8.2%
02/24/2006	4.52%	1.6%	35%	4.87%	8.1%

[5] Roger A. Morin. New Regulatory Finance. 2006. Public Utility Reports, Inc. p. 131.

Date	Long-Term Treasury Rate	Value Line Dividend Yield	Value Line Appreciation Potential	Current MRP	Indicated Cost of equity
03/24/2006	4.70%	1.6%	35%	4.69%	8.2%
04/24/2006	5.10%	1.6%	40%	5.28%	9.0%
06/16/2006	5.17%	1.7%	50%	7.20%	10.5%

The data show Staff's current MRP has varied over 250 basis points in this short time period, dropping from 5.75% in December to 4.76% in January, then dropping further to 4.69% in March, before increasing over 250 basis points to 7.20% in June. Obviously, this volatility raises serious questions about the use of the cost of equity estimate produced with this input. In the instant case, and in just the few months between Staff's Direct and Surrebuttal filings, the current MRP has decreased by 110 basis points and the indicated cost of equity has decreased by 90 basis points. What will the MRP be at the time Goodman's rates will go into effect using Staff's formula?

Irrespective of whether Staff intentionally or unintentionally selects the dates upon which it determines the current MRP and computes a CAPM COE, the fact is the method is very unstable and a more stable method should be employed. The current cost of equity for purposes of setting rates should be the cost of equity expected when Goodman's new rates will be in effect, not at a single point in time.

Q. DO YOU AGREE WITH MR. IRVINE THAT THE MEDIAN VALUES FOR THE DIVIDEND YIELD AND THE PRICE APPRECIATION POTENTIAL ARE MORE APPROPRIATE BECAUSE THEY ARE MORE ACCESSIBLE TO INVESTORS?

A. No. Value Line publishes the projected EPS and DPS growth rates for the water utility sample companies and these are readily available to investors. Yet, Staff makes a calculation of its own rather than use the published growth rates. Interestingly, and as I pointed out in my Rebuttal Testimony, the published rates

produce projected DPS and EPS growth rates significantly higher than Staff's computed growth rates. *See* Bourassa RB at 32. Clearly, Mr. Irvine has made choices in the selection of inputs which are not premised on whether the inputs are readily available to investors. Putting this aside, Mr. Irvine's choices ultimately skew his results downward. *See* Bourassa RB at 34.

Q. DO YOU AGREE WITH MR. IRVINE THAT THE SELECTION OF THE MEDIANS RATHER THAN THE AVERAGE IS NOT MEANT TO REDUCE STAFF'S COE ESTIMATION BECAUSE ONE CANNOT KNOW IN ADVANCE WHETHER A RANDOM SET OF DATA WILL HAVE A HIGHER MEDIAN OR AVERAGE?

A. No. Mr. Irvine has admitted that he never computed the averages to see what differences between the two sets of values were. Yet, he concludes without any evident basis that his choice is fair and reasonable. *See* Bourassa RB at 34.

V. <u>RATE DESIGN</u>.

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

A. The primary difference between Staff and the Company's rate design is that Staff is recommending a three tier design for the 5/8 inch and ¾ inch metered customers and two-tier designs for the larger meters. Each size meter larger than 5/8 inch meter have distinct two-tier design whereas the Company has proposed three tier designs for all meter sizes and has only two separate tier structures - one for the ¾ inch and smaller meters and one for the 1 inch and larger meters.

Both Staff and the Company's monthly minimums are scaled on the 5/8 inch meter.

Q. DOES THE COMPANY RECOMMEND ANY CHANGES AT THIS TIME TO ITS RATE DESIGN?

A. No.

Attached to this Rejoinder as Exhibit No. 4 are the Company's revised Rejoinder Schedules A-1 through H-4.

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

A. The rejoinder proposed rates for customers with a water meter size of:

Meter Size	Monthly Minimum	Gallons included in Monthly Minimum
5/8	$ 44.87	0
3/4	$ 67.31	0
1	$ 112.19	0
1 ½	$ 224.37	0
2	$ 358.99	0
3	$ 673.11	0
4	$1,121.85	0
6	$2,243.70	0

The commodity charges and tiers by meter size are:

Meter Size	Tier (gallons)	Charge per 1,000 gallons
⅝ and ¾ Inch	1 to 4,000	$ 5.02
	4,001 to 10,000	$ 6.72
	Over 10,000	$ 7.72
1 Inch and larger	1 to 10,000	$ 5.02
	10,001 to 25,000	$ 6.72
	Over 25,000	$ 7.72

The proposed construction meter and standpipe rate is $7.72 per 1,000 gallons with no minimum monthly charge.

Q. DOES STAFF AGREE TO THE COMPANY'S PROPOSED CHANGES TO ITS OTHER RATES AND CHARGES?

A. Yes, except for the late charge. The Company recommends a $10.00 late charge while Staff recommends a late charge of 1.5% per month. *See* Myhlhousen RB at 9. The Company proposes a compromise of 1.5% per month or $5.00 which ever is greater. As I previously testified, a late charge should encourage prompt and timely payment of customer bills. A late fee of 1.5% on a $50.00 unpaid bill amounts to 75 cents and hardly encourages prompt payment.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

RESPECTFULLY SUBMITTED this 22nd day of January, 2007.

LEWIS AND ROCA

Michael F. McNulty
(520) 629-4459
Lewis and Roca, LLP
One South Church Avenue, Suite 700
Tucson, Arizona 85701-1611
Attorneys for Goodman Water Company

LEWIS AND ROCA LLP LAWYERS

ORIGINAL AND thirteen (13) copies of the foregoing delivered VIA DHL this 22nd day of January, 2007:

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

COPY of the foregoing delivered VIA U.S. MAIL this 22nd day of January, 2007

Goodman Water Company
6340 North Campbell Avenue, Suite 278
Tucson, AZ 85718

Christopher Kempley, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Interveners
Graciela Peschard-Abkin
39705 S. Mountain Shadow Drive
Tucson, AZ 85739

Patricia Friedrich
PO Box 8165
Tucson, AZ 85738

Dean and Raynelle Duhl
60895 Rock Ledge Loop
Tucson, AZ 85739

LEWIS AND ROCA LLP LAWYERS

Interveners Continued

Heather Robinson
60368 E. Loose Reins Pl.
Tucson, AZ 85739

Stewart Wallace
60901 East Rock Ledge Loop
Tucson, AZ 85739

Lawrence Wawrzyniak
39485 S. Mountain Shadow Drive
Tucson, AZ 85739

Louis and Pauline Gurrieri
39261 S. Mountain Shadow Drive
Tucson, AZ 85739

Joy Vincent
39460 S. Mountain Shadow Drive
Tucson, AZ 85739

Michael D. Oaks
39443 S. Cinch Strap Place
Tucson, AZ 85739

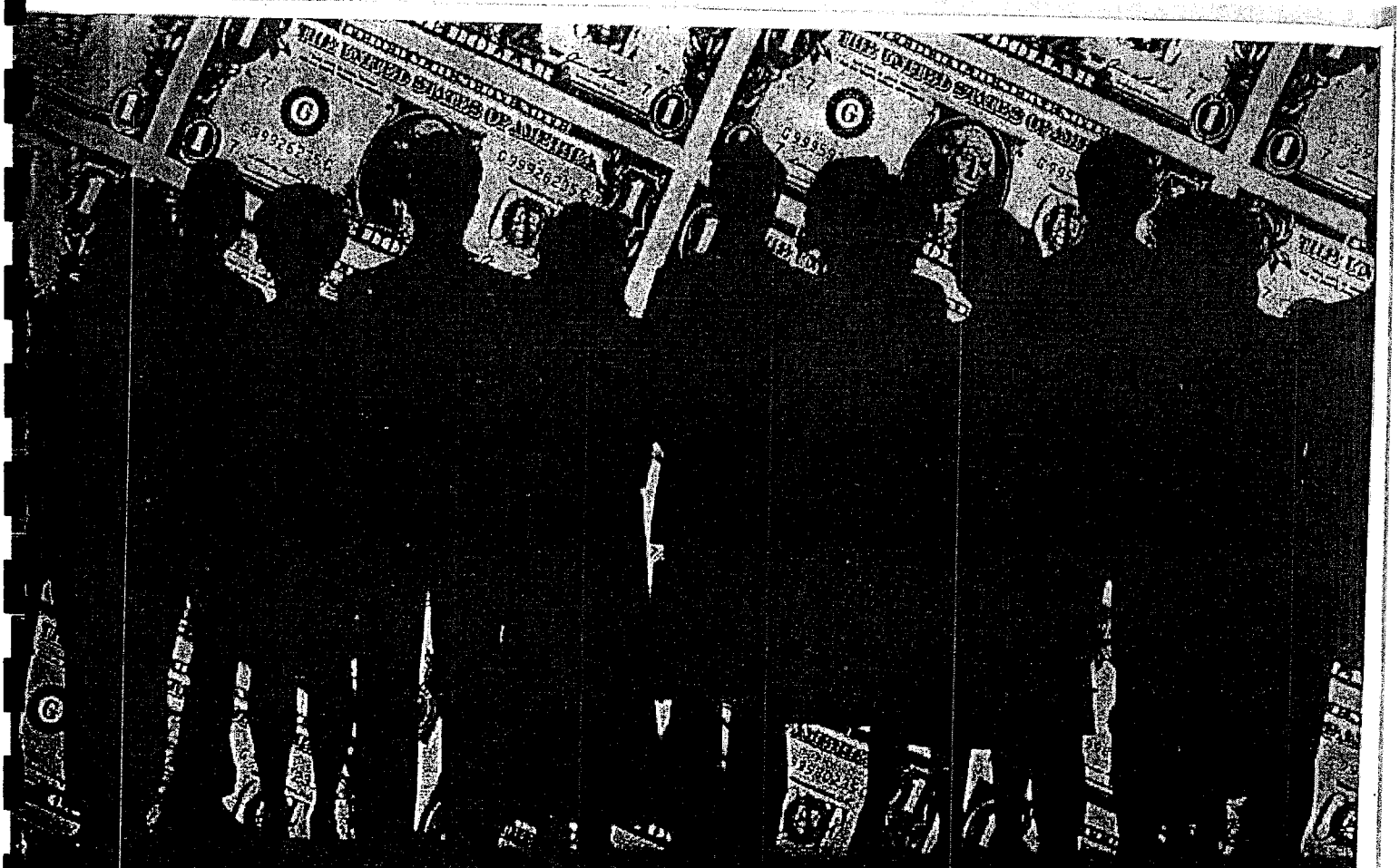
John H. Reese
39436 S. Mountain Shadow Drive
Tucson, AZ 85739

Ellen Kirton
39327 S. Mountain Shadow Drive
Tucson, AZ 85739

Kevin Hernandez
39249 S. Mountain Shadow Drive
Tucson, AZ 85739

By: _____
Hope I. Bracken
Secretary to Michael F. McNulty

EXHIBIT 1



2006 AWWA Water Utility Compensation Survey

American Water Works Association

Advocacy
- **Communications**

Conferences
Education and Training
Science and Technology
Sections

JOB DESCRIPTIONS

1 **Top Executive**
Under general direction of the city, managing Board of Directors, mayor, or Board of Water Commissioners, is responsible for managing, planning, coordinating and administering all activities of the Water Department and/or water company. Responsible for the short and long range strategy of the organization subject to review by the Board.

2 **Top Planning Executive**
Responsible for functions relating to raw water development planning, protection and operation; hydraulic system planning; demographics, land use and plan review; and capital program development, both long and short range.

3 **Top Operations & Maintenance Executive**
Directs and administers the Operations/Maintenance Division functions of Source and Supply, Water Treatment, Water Quality, Water Control, Transmission and Distribution, Maintenance and Process Control.

4 **Top Engineering Executive**
Responsible for administering all engineering/construction programs, including special projects and the design and construction of Departmental facilities.

5 **Top Internal Audit Executive**
Responsible for the internal audit function, including the analysis and auditing of divisional and sectional operations.

6 **Top Public Affairs Executive**
Responsible for the public affairs function, which includes the areas of: media relations; conservation; intergovernmental relations; environmental coordination, and community affairs. Reviews, analyzes and recommends Board policy.

7 **Top Finance Executive**
Responsible for management of the Department's financial resources, including acting as the dispersing authority for the Top Executive. Directs and manages the Accounting, Treasury and Budget Operations, Rate Administration, Contract and Information Services Sections.

8 **Top Administration Executive**
Under general direction of the Top Executive, is responsible for all administrative functions, including Human Resources, the Affirmative Action Program, Customer Services, General Services, Administrative Services and Property Administration.

9 **Top Legal Executive**
Responsible for providing legal advice to the Board and Top Executive on all matters submitted, and rendering opinions on their legal implications. Manages a staff which is skilled in legal research, litigation, legal counseling, and contract and property matters.

10 **Top Human Resources Executive**
Responsible for the formulation, administration and direction of all human resource programs including: recruitment, selection and employment, compensation, benefits, training and employee relations.

11 **Conservation Manager**
Designs, directs, administers and ensures operation of the Department's Conservation Program. Serves as the Department's representative on all local, state or federal conservation organizations.

12 **Information Services Manager**
Responsible for all Information Services activities including: equipment selection, systems analysis, and programming and operations. Provides liaison with authorized users of information processing services, and develop techniques and methods for improving Departmental activities.

13 **Water Resource Planning Manager**
Responsible for the analysis, implementation, internal coordination and direction necessary for development of present and future raw water resources, including hydropower, and for the protection of water rights associated with these water resources.

14 **Water Operations Manager**
Responsible for the operation of the water distribution system, and control of the flow of filtered water into and throughout the system; plans and supervises the operation of all pumping stations and distribution reservoirs; supervises leak detection activities and 24-hour service department.

15 **Water Maintenance Manager**
Responsible for the construction and maintenance of the finished water distribution system and related facilities.

16 **Fleet/Building Maintenance Manager**
Plans, manages, directs and supervises the operation and maintenance activities of the various skilled craft shops in the Section, and the fleet maintenance, transportation, and building and grounds maintenance functions.

17 **Procurement Manager**
Responsible for planning, managing, coordinating and administering the Purchasing function.

Water Utility Compensation Survey - 2006

All Participants

Job 01 - Top Executive

Under general direction of the city, managing Board of Directors, mayor, or Board of Water Commissioners is responsible for managing, planning, coordinating and administering all activities of the Water Department and/or water company. Responsible for the short and long range strategy of the organization subject to review by the Board.

Summary of All Reported Data by Ownership/Management Type

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range		
							Min	Mid	Max
Board Operated	304	303	77	$95,074	$108,383	$106,360	$83,063	$100,246	$120,518
City/County	262	247	167	$93,650	$96,297	$96,297	$77,004	$93,813	$109,418
Private	11	11	270	$138,000	$176,982	$176,982	*	*	*
Other	22	22	69	$91,655	$112,645	$112,645	$118,458	$142,989	$168,100
All	599	583	116	$94,905	$103,655	$103,566	$80,715	$98,760	$118,165

Summary of All Reported Data by Population Size

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range		
							Min	Mid	Max
Over 250,000	62	58	656	$142,220	$168,118	$168,118	$118,037	$146,449	$173,846
100 - 250,000	67	66	233	$118,500	$124,681	$124,681	$91,516	$112,645	$131,987
50 - 100,000	90	84	86	$107,658	$115,910	$115,910	$82,435	$98,510	$117,386
25 - 50,000	123	120	56	$94,905	$100,008	$100,008	$74,884	$92,036	$106,604
10 - 25,000	151	151	27	$83,353	$87,603	$88,179	$69,660	$81,065	$98,514
< 10,000	106	104	16	$69,250	$71,205	$71,205	$55,586	$66,025	$77,350

Summary of All Reported Data by Average Gallons Managed

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range		
							Min	Mid	Max
Over 250	21	20	799	$147,689	$165,539	$165,539	$117,795	$159,689	$191,812
100 - 250 Mil	21	21	564	$139,774	$151,748	$151,748	$104,822	$122,409	$150,063
50 - 100 Mil	31	30	417	$131,244	$153,917	$153,917	$107,782	$129,803	$157,498
25 - 50 Mil	60	57	168	$120,159	$131,160	$131,160	$93,702	$115,825	$134,383
10 - 25 Mil	81	77	129	$101,256	$108,830	$108,830	$82,397	$98,746	$118,730
< 10 Mil	382	375	32	$83,055	$87,640	$88,066	$69,205	$83,398	$97,888

Summary of All Reported Data by Total Employment

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range		
							Min	Mid	Max
Over 500	35	34	1,040	$177,815	$190,452	$190,452	$136,342	$160,981	$205,516
200 - 500	52	48	297	$116,248	$133,633	$133,633	$96,593	$123,186	$144,189
100 - 200	80	79	149	$107,000	$117,620	$117,620	$82,251	$98,786	$118,839
50 - 100	100	95	77	$103,002	$109,553	$109,553	$82,746	$101,718	$118,646
25 - 50	112	108	36	$90,841	$93,889	$93,889	$71,293	$83,724	$101,926
< 25	220	219	12	$75,289	$80,298	$80,860	$66,659	$77,241	$92,455

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Water Utility Compensation Survey - 2006

All Participants

Job 01 - Top Executive

Summary of All Reported Data by AWWA Section

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range Min	Mid	Max
AKA	1	1	*	*	*	*	*	*	*
ALA	18	18	71	$82,014	$87,380	$87,380	$61,831	$73,537	$88,693
ARI	8	8	*	$124,259	$127,821	$127,821	$98,883	*	$144,491
CAL	68	61	81	$138,732	$147,061	$147,061	$115,078	$134,705	$149,045
CHS	6	5	*	$139,774	$141,362	$141,362	$90,505	*	$130,044
CON	2	2	*	*	*	*	*	*	*
FLA	27	25	218	$107,999	$106,153	$106,153	$77,086	$104,522	$120,130
GEO	19	19	150	$96,600	$93,780	$93,780	$72,339	$90,704	$109,795
HWI	2	2	*	*	*	*	*	*	*
ILL	17	15	25	$96,000	$99,244	$99,244	$74,863	$88,042	$107,637
IND	9	6	26	$59,448	$66,379	$66,379	*	*	*
INT	7	7	122	$105,000	$100,883	$100,883	$76,489	$102,463	$121,606
IWA	16	21	36	$104,260	$100,530	$101,594	$82,084	$89,567	$113,348
KAN	13	13	*	$74,953	$87,459	$87,459	$87,479	$121,512	$124,016
KNT	32	32	121	$72,879	$84,659	$84,659	$63,952	$75,649	$95,513
MIC	18	16	66	$90,428	$91,644	$91,644	$73,757	$83,571	$96,009
MIN	12	11	13	$75,750	$85,747	$85,747	*	*	*
MOU	14	14	323	$92,683	$121,322	$121,322	$111,898	$176,159	$183,224
MTN	2	2	*	*	*	*	*	*	*
NDK	3	3	*	*	*	*	*	*	*
NEB	3	3	*	*	*	*	*	*	*
NEJ	6	6	*	$115,026	$139,082	$139,082	*	*	*
NEW	22	22	19	$77,002	$84,583	$84,583	$64,248	$78,132	$93,113
NEY	15	15	60	$90,144	$99,879	$99,879	$75,103	$84,574	$93,124
NOC	19	18	268	$97,012	$104,695	$104,695	$77,242	$99,027	$120,030
OHO	29	29	128	$76,756	$80,495	$80,495	$58,781	$78,524	$85,474
PAC	32	31	61	$103,000	$102,568	$102,568	$77,343	$95,785	$111,667
PEN	27	27	52	$83,200	$94,593	$94,593	*	*	*
RMT	28	26	227	$102,790	$107,070	$107,070	$85,061	$107,699	$126,219
RTM	1	1	*	*	*	*	*	*	*
SCR	13	13	67	$100,077	$103,999	$103,999	$67,781	$82,469	$99,993
SDK	10	9	10	$74,950	$80,433	$80,433	*	*	*
SOW	22	22	146	$75,500	$105,440	$105,440	$84,629	*	$118,859
TEX	46	46	238	$99,751	$108,040	$108,040	$71,523	$86,860	$105,251
VIR	13	13	149	$108,910	$108,013	$108,013	$72,748	$90,988	$111,166
WEV	2	2	*	*	*	*	*	*	*
WIS	16	16	38	$93,045	$95,840	$95,840	$74,194	$92,095	$105,910

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Water Utility Compensation Survey - 2006

All Participants

Job 03 - Top Operations & Maintenance Executive

Directs and administers the Operations/Maintenance Division functions of Source and Supply, Water Treatment, Water Quality, Water Control, Transmission and Distribution, Maintenance and Process Control.

Summary of All Reported Data by Ownership/Management Type

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range Min	Mid	Max
Board Operated	153	147	51	$89,700	$92,399	$92,399	$77,079	$93,581	$109,639
City/County	162	147	60	$77,000	$80,177	$80,177	$65,613	$78,635	$92,120
Private	8	8	303	$114,670	$138,298	$138,298	*	*	*
Other	10	9	44	$85,300	$96,092	$96,092	$80,376	$95,880	$111,900
All	333	311	61	$82,178	$87,909	$87,909	$71,314	$85,978	$100,956

Summary of All Reported Data by Population Size

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range Min	Mid	Max
Over 250,000	50	48	199	$118,707	$122,407	$122,407	$90,719	$114,134	$135,197
100 - 250,000	53	51	89	$91,665	$96,429	$96,429	$74,782	$91,794	$108,440
50 - 100,000	55	51	44	$89,000	$92,391	$92,391	$71,081	$82,330	$98,734
25 - 50,000	64	59	17	$77,244	$80,542	$80,542	$65,096	$77,921	$90,826
10 - 25,000	74	66	14	$67,938	$72,231	$72,231	$62,734	$72,619	$86,372
< 10,000	37	36	13	$61,057	$64,312	$64,312	$52,830	$63,108	$70,399

Summary of All Reported Data by Average Gallons Managed

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range Min	Mid	Max
Over 250	13	13	376	$115,910	$115,167	$115,167	$102,623	$132,853	$157,090
100 - 250 Mil	18	18	215	$123,114	$130,324	$130,324	$93,033	$115,930	$138,589
50 - 100 Mil	23	22	94	$103,634	$116,703	$116,703	$82,147	$97,666	$116,832
25 - 50 Mil	42	38	77	$97,537	$98,900	$98,900	$77,761	$84,889	$111,649
10 - 25 Mil	56	51	40	$87,216	$88,184	$88,184	$71,206	$84,457	$99,328
< 10 Mil	179	167	16	$71,000	$74,584	$74,584	$61,953	$73,569	$85,802

Summary of All Reported Data by Total Employment

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range Min	Mid	Max
Over 500	33	32	308	$123,229	$128,584	$128,584	$101,369	$127,148	$151,442
200 - 500	37	33	80	$96,408	$103,419	$103,419	$77,652	$95,239	$113,401
100 - 200	56	54	45	$90,001	$93,992	$93,992	$70,526	$83,996	$100,189
50 - 100	68	61	28	$81,254	$83,776	$83,776	$66,191	$80,457	$93,346
25 - 50	46	44	18	$80,838	$81,316	$81,316	$65,502	$75,506	$90,418
< 25	93	87	12	$65,645	$69,523	$69,523	$59,131	$69,700	$81,860

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Job 03 - Top Operations & Maintenance Executive

Summary of All Reported Data by Ownership/Management Type

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range Min	Mid	Max
Board Operated	73	69	37	$88,200	$89,899	$89,899	$78,182	$94,116	$109,621
City/County	36	33	101	$84,968	$82,247	$82,247	$72,235	$86,029	$101,827
Private	5	5	*	$116,500	$137,480	$137,480	*	*	*
Other	4	4	*	*	*	*	*	*	*
All	118	111	57	$87,192	$89,924	$89,924	$75,989	$91,850	$107,168

Summary of All Reported Data by Population Size

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range Min	Mid	Max
Over 250,000	22	21	139	$112,099	$120,841	$120,841	$92,096	$115,202	$134,984
100 - 250,000	14	14	98	$102,078	$98,698	$98,698	$83,721	$101,080	$112,200
50 - 100,000	20	17	63	$89,700	$101,433	$101,433	$77,331	$95,451	$107,440
25 - 50,000	24	24	11	$76,872	$79,539	$79,539	$61,795	$73,489	$89,587
10 - 25,000	27	24	11	$74,612	$73,528	$73,528	$66,757	$74,118	$90,541
< 10,000	11	11	4	$54,000	$60,378	$60,378	*	*	*

Summary of All Reported Data by Average Gallons Managed

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range Min	Mid	Max
Over 250	5	5	*	$100,700	$99,187	$99,187	*	*	*
100 - 250 Mil	8	8	193	$123,177	$133,975	$133,975	$99,765	$120,799	$142,987
50 - 100 Mil	11	10	79	$111,050	$128,134	$128,134	$91,364	$114,659	$129,652
25 - 50 Mil	14	13	80	$108,750	$105,341	$105,341	$80,636	$98,918	$116,993
10 - 25 Mil	17	15	35	$89,700	$91,081	$91,081	$77,798	$93,703	$101,023
< 10 Mil	63	60	12	$73,078	$73,281	$73,281	$61,281	$72,340	$86,488

Summary of All Reported Data by Total Employment

Type	# of Utilities	# of Employees	Avg. # of Ees Sup	50th Percentile	Co Wtd Avg Pay	Employee Wtd Avg Pay	Average Salary Range Min	Mid	Max
Over 500	10	9	348	$129,881	$126,966	$126,966	$124,623	$156,650	$178,972
200 - 500	13	13	80	$103,576	$115,392	$115,392	$83,094	$102,577	$116,486
100 - 200	12	12	54	$104,398	$109,597	$109,597	$74,356	$90,835	$109,032
50 - 100	18	15	42	$104,435	$95,285	$95,285	$81,570	$107,410	$112,262
25 - 50	15	15	17	$86,388	$84,643	$84,643	$65,499	$73,585	$94,035
< 25	50	47	9	$69,510	$70,355	$70,355	$61,336	$70,776	$84,089

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EXHIBIT 2

CWB.A

CWH2 Services, LLC, 2831 W. Lambert Lane, Tucson AZ 85742

CWH2 Services, LLC

5/10/2004

Re; Management Agreement - Goodman Water Company
Attn; James Shiner
520-297-9217 via fax
From: Christopher W. Hill, CWH2 Services
297-2185, Cell 904-0741

CWH2 Services is pleased to offer professional management services to Goodman Water Company (Company). Management services will be provided by CWH2 Services, in the person of Christopher Hill serving in the capacity as General Manager for the Company. The relationship of CWH2 Services and the Company will be an independent contractor – client relationship. It is understood any additions to the management team require approval by the Company.

CWH2 Services responsibilities and duties include, but are mot limited to:

1 – Review and comment on proposed plans, design and construction management.

2 – Assist in regulatory matters, i.e., ADEQ, ACC and any other regulatory, statutory and local.

3 – Establish or assist on work plan for system growth, i.e. future staffing, job descriptions, etc.

4 - Provide input (as requested and as observed) on any matters related to maintaining the highest standards of a professionally run water system.

5 – Monitor progress and activities of other professionals, as requested by the Company.

CWB

6 – Act as liaison representing Company in affairs associated with operation, design and construction of the Company.

7 – Provide flexibility in a professional environment to complete tasks as accepted by the Company.

8 – Work with Company's owners and Board of Directors, as needed.

9 – Supervise Company's certified operators on plant and distribution, governmental compliance, billing, water usage, etc.

10 – This agreement shall commence on full execution by the parties and terminate 90 days following written notice by either party to the other of termination.

11 – All notices shall be postage pre-paid and addressed:

CWH2 Services, LLC:
2831 W. Lambert Lane
Tucson, AZ 85742

Company:
3567 E. Sunrise Drive
Tucson, AZ 85718

Goodman Water Company

By: _____ 5-17-04
James Shiner Date

CWH2 Services, LLC

By: _____ 5-17-04
Christopher W. Hill Date

CWH2 Services, LLC, 2831 W. Lambert Lane, Tucson AZ 85742

Compensation

Base Rate - $400 Monthly, based on 200 Connections @ $2.00 per Connection – Incremental changes for each lot of 50 connections as follows:

Connections	Base per Month
200 – 249	$400
250 – 299	$500
300 - 349	$600
350 – 399	$700
.....	
1000	$2000

Counts shall be determined by monthly billing register.

Additional Compensation – Any services above Five Hours per Month (included time)* - $50 per hour till August, 2004; $75 per hour thereafter.

- Subject to the 12 month limit below, if less than 5 hours of serviced are utilized in any month, the unused portion will be added to the 5 hours of included time during any of the next 12 months.

Start up fee $500 DAS

CWH

AM3.10

yl Technology
HC #70 Box 3601 Sahuarita Az 85629 (520) 625-1671

Management Agreement

To operate and manage the Ground Water Distribution System and to provide Certified Operator Services at the Grade required for GOODMAN WATER COMPANY, an Arizona Corporation. The plant is located in Catalina, Arizona and is in Pinal County.

yl Technology, LLC, will provide services as General Manager and Certified Operator for Goodman Water Company. The parties agree as follows:

1. DESCRIPTION OF SERVICES.
   - 1.1 Administrating the field operation which encompasses monthly meter reading, meters will be read during the time frame as specified by the ACC, turn on and shutoff, well chlorination (as required), monitoring of well and associated equipment including the oil dripper, well production, and proper system pressure. Respond to call outs and general troubleshooting. Records of all plant visits, system preventive and corrective maintenance will be kept on file. Goodman Water Company will supply the necessary tools for the maintenance of the service area. An example of such tools could include leak detection equipment, line locators, meal detector, meter valve keys and hydrant wrenches whether the equipment is rented or purchased. All treatment plant chemicals, rental equipment, and outside contractors will be paid for by Goodman Water Company.
   - 1.2 Organize and contract out repairs as needed to the system, including meter installations, blue stakes, backhoes or other equipment such as a water main location device. It is understood that any repair to the system equipment or replacement of system equipment will be the financial responsibility of Goodman Water Company.
   - 1.3 Monitor and maintain water quality as required by ADEQ and EPA. All laboratory analysis will be performed on a timely basis, all records will be kept in a readily accessible manner. Site sampling plans, Emergency Operation Plans, Backflow Prevention Plans, and Consumer Confidence Reports will be kept current and filed with ADEQ. Laboratory costs are to be paid for by Goodman Water Company.
   - 1.4 Provide Certified Operator Services at the grade specified by the ADEQ requirements. Certified Operator Services include monthly sampling and annual sampling as required. We will keep the system in compliance with all ADEQ sampling requirements.
   - 1.5 At regulatory inspections, *yl Technology*, will be present to represent Goodman Water Company, to answer any questions and explain the system. Goodman Water Company will be responsible for fees paid to keep well site(s) and booster station(s) clean and ready for inspections
   - 1.6 Assistance with applications for rate increases, main line extension agreements, approval to construct, and other related documents required for water companies.
   - 1.7 Maintain accounting system including accounts payable, accounts receivable, general ledger, and fixed assets. Review and prepare cash flow projections and budgets. File monthly sales and muni tax reports. Furnish Goodman Water Company with monthly

yl Technology
HC #70 Box 3601 Sahuarita Az 85629 (520) 625-1671

reports including accounts payable, accounts receivable, customer usage, base cost, water charge, sales tax, muni tax, payment receipts, deposit receipts, bank statements and customer totals. Work with water company's administrative staff and support personnel (accountant, attorney, etc) to provide necessary information as needed in a timely manner.

1.8 Maintain billing system for water customers. billing system will include required tax parcel ID and any other information as required by the ACC. Maintain records of information required by ACC, ADEQ, ADWR, CAGRD and other regulatory agencies. Send bills to customers within the time frame as required by ACC. Goodman Water Company will be required to provide the billing cards and any associated special letterhead. If no special letterhead is required, yl Technology will use the attached sample letterhead.

1.9 Respond to customer queries/complaints. Set up new service installations and transfers.

2.0 Prepare annual ADWR, CAGRD, and Unclaimed Property reports, provide information to accountant or attorney in a timely matter, assist with annual ACC report and income tax preparation.

2.1 Verify that any contractor or sub-contractor is a licensed contractor and require all contractors and sub-contractor to provide Goodman Water Company with Certificates of Insurance listing Goodman Water Company as an additional insured.

2. PERFORMANCE OF SERVICES. The manner in which the Services are to be performed and the specific hours to be worked by *yl Technology* shall be determined by *YL Technology*. It is understood that *yl Technology* will be on call 24 hours/day, 365 days a year for Emergency Responses.

3. PAYMENT. In return for their services and responsibilities, *yl Technology* is seeking compensation for those services. The fees for the services are based on the number of service connections and is listed in the attached fee schedule. The fees charged shall be payable monthly, no later than the twentieth day of the month following the period during which the Services were performed. Upon termination of this Agreement, payments under this paragraph shall cease; provided, however, that *yl Technology* shall be entitled to payments for periods or partial periods that occurred prior to the date of termination and for which *yl Technology* has not yet been paid.

4. BONDS. If a bond is required, Goodman Water Company will be responsible for the cost of a company specific Fidelity Bond in the amount the company determines necessary from time to time..

5. SUPPORT SERVICES. Goodman Water Company will not provide the following support services, office space and secretarial services, for the benefit of *yl Technology*. Goodman Water Company will provide yl Technology with an answering service for nights, holidays, and weekends.

yl Technology
HC #70 Box 3601 Sahuarita Az 85629 (520) 625-1671

6. TERM/TERMINATION. This agreement may be terminated by either party upon 30 day written notice to the other party.
7. RELATIONSHIP OF PARTIES. It is understood by the parties that *yl Technology* is an independent contractor with respect to Goodman Water Company and not an employee of Goodman Water Company. Goodman Water Company will not provide fringe benefits, including health insurance benefits, paid vacation, or any other employee benefit, for the benefit of *yl Technology*
8. INJURIES. *yl Technology* acknowledges *yl Technology's* obligation to obtain appropriate insurance coverage for the benefit of *yl Technology* (and *yl Technology's* employee's, if any). *yl Technology* waives any rights to recovery from Goodman Water Company for any injuries that *yl Technology* (and/or *yl Technology's* employee's) may sustain while performing services under this Agreement, that are a result of the negligence of *yl Technology* or *yl Technology's* representatives.
9. ASSIGNMENT. *yl Technology's* obligations under this Agreement may not be assigned or transferred to any other person, firm, or corporation without the prior written consent of Goodman Water Company.
10. RETURN OF RECORDS. Upon termination of this Agreement, *yl Technology* shall deliver all records, notes, data, memorandum, and equipment of any nature that are in *yl Technology's* possession or under *yl Technology's* control and that are Goodman Water Company's property or relate to Goodman Water Company's business. With the exception with records pertaining to water quality testing and ADEQ inspections. yl Technology, will keep copies of water quality and inspection reports for the required 10 years, at which time the records will be destroyed.
11. NOTICES. All notices required or permitted under this Agreement shall be in writing and shall be deemed delivered when delivered in person or deposited in the United States mail, postage prepaid, addressed as follows:

Company:

Goodman Water Company
Jim Shiner
3567 E Sunrise Drive Suite 119
Tucson, Arizona 85718

Manager:

yl Technology, LLC
Karen Hartwell
HC #70 Box 3601
Sahuarita, Arizona 85629

Such address may be changed from time to time by either party by providing written notice to the other in the manner set forth above.

yl Technology
HC #70 Box 3601 Sahuarita Az 85629 (520) 625-1671

12. ENTIRE AGREEMENT. This Agreement contains the entire agreement of the parties and there are not other promises or conditions in any other agreement whether oral or written. This Agreement supersedes any prior written or oral agreements between the parties.
13. AMENDMENT. This Agreement may be modified or amended if the amendment is made in writing and is signed by both parties.
14. SEVERABILITY. If any provision of this Agreement shall be held to be invalid or unenforceable for any reason, the remaining provisions shall continue to be valid and enforceable. If a court finds that any provision of this Agreement is invalid or unenforceable, but that by limiting such provision it would become valid and enforceable, then such provision shall be deemed to be written, construed, and enforces as so limited.
15. WAIVER OF CONTRACTUAL RIGHT. The failure of either party to enforce any provision of this Agreement shall not be construed as a waiver or limitation of that party's right to subsequently enforce and compel strict compliance with every provision of this Agreement.
16. APPLICABLE LAW. This Agreement shall be governed by the laws of the State of Arizona.

Goodman Water Company

By: _____ 4-5-01
James A Shiner, Vice-President Date

yl Technology, LLC.

By: Karen Hartwell 30 March 01
Karen Hartwell, President Date

yl Technology
HC #70 Box 3601 Sahuarita Az 85629 (520) 625-1671

FEE SCHEDULE

1-55	service connections	500.00	per month
56-200	service connections	8.50	per connection
201-575	service connections	7.00	per connection
576 and above	service connections	4000.00	per month

This fee schedule is based on service connections, once the higher service connection fee is reached the fee will change to the next fee. At no time will a fee be charged in addition to the previous fee.

Postage will be included in the above fees at the current rate of $0.20 per billing card and $0.34 per letter.

The above cost would be reduced by $0.50 per connection if electronic meters are installed.

EXHIBIT 3

Despite better regulatory backing, most of the water utility companies covered in the next few pages have continued to struggle in recent months. Unseasonably wet weather conditions and escalating infrastructure costs remain at the heart of the problem, pressuring margins and limiting bottom-line growth. As a result, these perennial market laggards continue to rank at the bottom of the *Value Line* investment universe for Timeliness. Although we suspect that more-normal weather conditions will eventually resume, the growing need for infrastructure renovations remains a major concern going forward. Higher spending poses a threat to the industry's long-term prospects, especially given the capital constraints that most companies are facing. As a result, none of the issues in this industry hold worthwhile 3- to 5-year appreciation potential at this time. Meanwhile, dividend yields have lost some appeal, as well.

INDUSTRY TIMELINESS: 96 (of 97)

Regulatory Landscape

Regulatory authorities, designed to keep a balance of power between consumers and providers, have long been a nemesis to water utility companies. Rate case decisions have been unfavorable and untimely, sometimes taking as long as two years to complete. However, the tide appears to have turned more recently, particularly in California, where a few of the utilities in this *Survey* generate a fair portion of their revenues. The California Public Utilities Commission, for example, behind the efforts of Governor Schwarzenegger, has been handing down more-favorable and timely decisions. He has replaced members thought to be adversaries of rate relief with more-lenient constituents. The changes provide a healthy backdrop for utility companies that request a step-up in rates each year.

Drowning In Expenses

Although regulators appear to be more business-friendly with case decisions, they are becoming increasingly more stringent with infrastructure demands. Many of the current infrastructures are more than 100 years old, and in need of serious upkeep and even complete renovation in some cases. Meanwhile, the Environmental Protection Agency (EPA) continues to increase its water purification standards, given the geopolitical volatility worldwide and the threat of bio-terrorist actions on U.S. water systems. In all, infrastructure repair costs are expected to climb into the hundreds of millions of dollars over the next two decades. However, these increasing costs will make it very difficult for water utility companies to maintain the earnings momentum that we the expect the improved regulatory landscape to produce this year out to late decade.

Opportunity???

With limited resources to fund rising capital expenditures, many smaller companies in this industry are being forced to shop their businesses, presenting an opportunity for larger suitors with the resources to foot the bill. No company exemplifies this better than *Aqua America*, the largest water utility in our *Survey*. It has made well over 100 acquisitions in the past five years, using the aforementioned weakness of smaller players to improve their operations and increase their presence. It has drastically increased its customer base and clearly improved its longer-term prospects, and therefore holds the best 3- to 5-year appreciation potential of all the stocks in this industry. We expect that the consolidation trend will continue as water standards continue to climb.

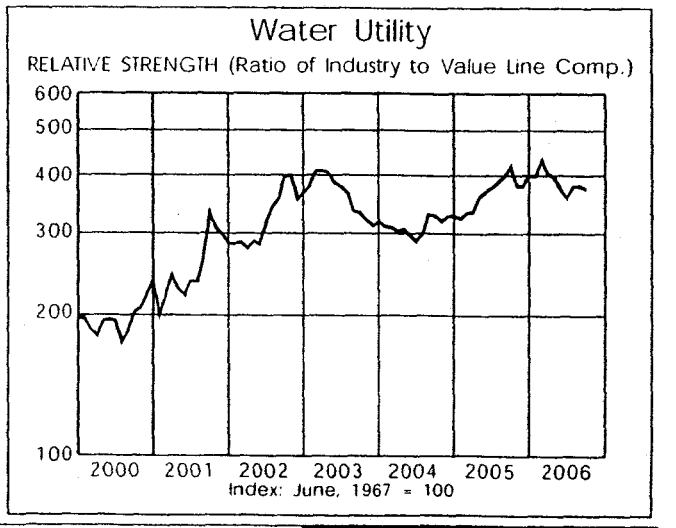
Investment Advice

This is not an industry that most investors will want to emphasize. Not one of the stocks here stand out for Timeliness or 3- to 5-year appreciation potential. Making matters worse, higher interest rates have increased the income-producing appeal of alternative investments, making the yields found in this industry modestly attractive at best. Thus, most will want to avoid this untimely industry for now. However, *California Water* is ranked 2 for Safety. This, along with its historically steady stream of income, may appeal to more-conservative investors. As always, though, we recommend that investors study the individual reports of each company in the next few pages before making any financial commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2002	2003	2004	2005	2006	2007		09-11
925.2	1030.0	1173.6	1256.9	*1350*	*1485*	Revenues ($mill)	*2025*
107.8	112.6	105.7	148.3	*150*	*185*	Net Profit ($mill)	*265*
38.6%	39.7%	39.1%	40.5%	*39.0%*	*39.0%*	Income Tax Rate	*39.0%*
.2%	1.9%	1.0%	1.1%	*1.0%*	*1.0%*	AFUDC % to Net Profit	*1.0%*
54.1%	51.0%	49.1%	50.4%	*50.0%*	*50.0%*	Long-Term Debt Ratio	*50.0%*
45.7%	48.8%	50.7%	49.5%	*50.0%*	*50.0%*	Common Equity Ratio	*50.0%*
2116.4	2449.1	2785.6	3057.5	*3300*	*3800*	Total Capital ($mill)	*4565*
2995.1	3405.6	3836.9	4194.7	*4475*	*4750*	Net Plant ($mill)	*5650*
6.9%	5.9%	6.0%	6.3%	*7.5%*	*8.0%*	Return on Total Cap'l	*9.0%*
11.1%	8.8%	9.0%	9.8%	*9.5%*	*10.5%*	Return on Shr. Equity	*11.5%*
11.1%	8.8%	9.0%	9.8%	*9.5%*	*10.5%*	Return on Com Equity	*11.5%*
4.0%	2.7%	3.1%	3.7%	*4.0%*	*4.5%*	Retained to Com Eq	*5.0%*
64%	70%	66%	62%	*60%*	*55%*	All Div'ds to Net Prof	*55%*
21.6	25.6	25.4	29.4	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*18.0*
1.18	1.46	1.34	1.57			Relative P/E Ratio	*1.20*
3.0%	2.7%	2.6%	2.1%			Avg Ann'l Div'd Yield	*2.5%*



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AQUA AMERICA NYSE-WTR

RECENT PRICE 23.36 | P/E RATIO 31.6 (Trailing: 33.9 Median: 23.0) | RELATIVE P/E RATIO 1.73 | DIV'D YLD 2.0% | VALUE LINE

TIMELINESS 5 Lowered 5/12/06
SAFETY 3 Lowered 8/1/03
TECHNICAL 4 Raised 10/20/06
BETA .85 (1.00 = Market)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
High:	4.1	5.7	8.5	11.5	11.5	12.0	14.8	15.0	16.8	18.5	29.2	29.8
Low:	3.3	3.9	4.4	7.2	7.6	6.3	9.4	9.6	11.8	14.2	17.5	20.1

Target Price Range 2009 | 2010 | 2011

2009-11 PROJECTIONS

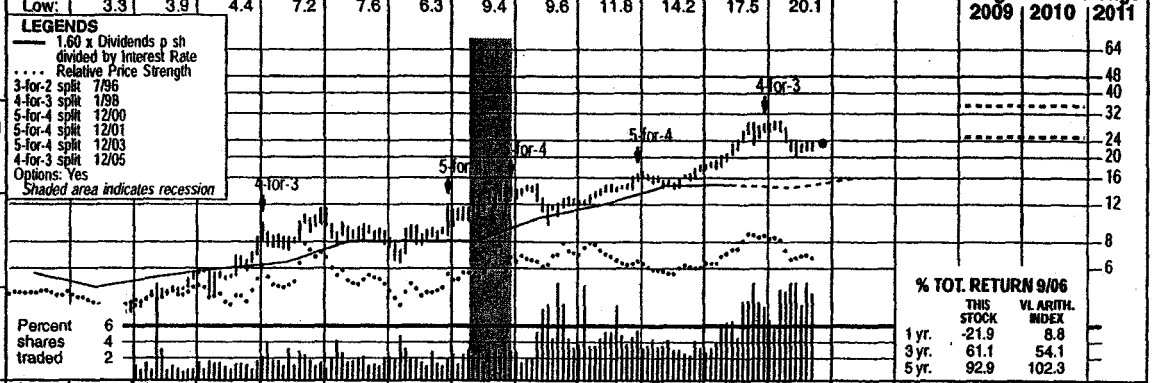
	Price	Gain	Ann'l Total Return
High	35	(+50%)	13%
Low	25	(+5%)	5%

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	0	0	0	0	0
Options	1	2	2	0	1	0	0	1	0
to Sell	1	2	1	0	1	0	0	1	0

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	112	111	131
to Sell	123	93	105
Hld's(000)	37756	39210	40896



% TOT. RETURN 9/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	-21.9	8.8
3 yr.	61.1	54.1
5 yr.	92.9	102.3

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
2.02	2.14	1.82	1.70	1.82	1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.10	4.65	Revenues per sh	6.55
.43	.45	.39	.42	.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.25	1.40	"Cash Flow" per sh	1.95
.24	.25	.24	.24	.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.85	Earnings per sh A	1.25
.19	.19	.20	.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.45	.50	Div'd Decl'd per sh B■	.72
.76	.54	.60	.47	.46	.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	1.90	2.15	Cap'l Spending per sh	2.60
2.10	2.07	2.09	2.29	2.41	2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.60	7.00	Book Value per sh	8.90
40.64	41.42	51.20	59.40	59.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	130.00	131.00	Common Shs Outst'g C	134.00
10.2	10.8	12.5	14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	Bold figures are		Avg Ann'l P/E Ratio	23.0
.76	.69	.76	.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.70	Value Line		Relative P/E Ratio	1.55
7.7%	7.2%	6.8%	5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	estimates		Avg Ann'l Div'd Yield	2.4%

CAPITAL STRUCTURE as of 6/30/06
Total Debt $1060.1 mill. Due in 5 Yrs $280.0 mill.
LT Debt $907.2 mill. LT Interest $50.0 mill.
(LT interest earned: 5.2x; total interest coverage: 2.8x) (51% of Cap'l)

Pension Assets-12/05 $117.7 mill. Oblig. $179.7 mill.

Pfd Stock None
Common Stock 131,396,751 shares as of 7/26/06

MARKET CAP: $3.1 billion (Mid Cap)

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		09-11
122.5	136.2	151.0	257.3	275.5	307.3	322.0	367.2	442.0	496.8	535	610	Revenues ($mill)	875
19.8	23.2	28.8	45.0	50.7	58.5	62.7	67.3	80.0	91.2	90	110	Net Profit ($mill)	170
41.4%	40.6%	40.5%	38.4%	38.9%	39.3%	38.5%	39.3%	39.4%	38.4%	39.0%	39.0%	Income Tax Rate	39.0%
--	--	--	--	--	--	--	--	2.9%	2.6%	2.5%	2.6%	AFUDC % to Net Profit	2.9%
54.1%	54.4%	52.7%	52.9%	52.0%	52.2%	54.2%	51.4%	50.0%	52.0%	51.5%	51.5%	Long-Term Debt Ratio	51.5%
44.0%	44.8%	46.6%	46.7%	47.8%	47.7%	45.8%	48.6%	50.0%	48.0%	48.5%	48.5%	Common Equity Ratio	48.5%
401.7	427.2	496.6	782.7	901.1	990.4	1076.2	1355.7	1497.3	1690.4	1770	1905	Total Capital ($mill)	2450
502.9	534.5	609.8	1135.4	1251.4	1368.1	1490.8	1824.3	2069.8	2280.0	2410	2545	Net Plant ($mill)	3010
6.8%	7.4%	7.6%	7.6%	7.4%	7.8%	7.6%	6.4%	6.7%	6.9%	6.5%	7.0%	Return on Total Cap'l	8.5%
10.7%	11.9%	12.3%	12.2%	11.7%	12.3%	12.7%	10.2%	10.7%	11.2%	10.5%	12.0%	Return on Shr. Equity	14.5%
11.2%	12.0%	12.4%	12.3%	11.7%	12.4%	12.7%	10.2%	10.7%	11.2%	10.5%	12.0%	Return on Com Equity	14.5%
2.8%	3.6%	4.5%	4.3%	4.7%	5.1%	5.2%	4.2%	4.6%	4.9%	3.0%	5.0%	Retained to Com Eq	6.0%
75%	70%	64%	65%	60%	59%	59%	59%	57%	56%	66%	60%	All Div'ds to Net Prof	56%

CURRENT POSITION ($MILL.)	2004	2005	6/30/06
Cash Assets	13.1	11.9	9.3
Receivables	64.5	62.7	67.9
Inventory (AvgCst)	6.9	7.8	8.5
Other	5.6	7.6	20.2
Current Assets	90.1	90.0	105.9
Accts Payable	23.5	55.5	40.2
Debt Due	135.3	163.1	152.9
Other	58.6	44.7	47.5
Current Liab.	217.4	263.3	240.6
Fix. Chg. Cov.	364%	377%	280%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	7.0%	8.0%	11.0%
"Cash Flow"	9.5%	9.5%	10.0%
Earnings	9.0%	8.5%	12.0%
Dividends	6.0%	6.5%	12.0%
Book Value	9.5%	11.0%	7.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	80.5	83.4	102.1	101.2	367.2
2004	99.8	106.5	120.3	115.4	442.0
2005	114.0	123.1	136.8	122.9	496.8
2006	117.9	131.7	145	140.4	535
2007	140	150	165	155	610

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	.11	.14	.18	.14	.57
2004	.13	.14	.20	.17	.64
2005	.15	.17	.22	.17	.71
2006	.13	.17	.22	.18	.70
2007	.17	.20	.25	.23	.85

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.08	.08	.08	.084	.32
2003	.084	.084	.084	.09	.34
2004	.09	.09	.09	.098	.37
2005	.098	.098	.098	.108	.40
2006	.108	.108	.115		

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately 2.5 million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '05: residential, 59%; commercial, 15%; industrial & other, 26%. Officers and directors own 1.2% of the common stock (4/06 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America's third-quarter prospects have worsened due to poor weather conditions. The company reported that an increased number of days with rainfall, in several of Aqua's regions, likely hurt profitability in the third quarter. Management stated that the Midwest (parts of Illinois and Ohio) was hit especially hard; the number of rainy days there increased 33% during the September interim. We have, accordingly, reduced our third-quarter share-earnings estimate by $0.03, and our 2006 estimate by $0.05.

A string of recent acquisitions should help fuel earnings growth in 2007. The water utilities giant recently announced that it has closed five acquisitions so far this year. New York Water Service, one of these purchases, cost the company roughly $50 million and should enhance Aqua's total customer count by 135,000 (5%), or about $0.02 a share in annual earnings contributions. New York has become the company's seventh-largest state as a result of the deal. Another recent purchase, Bregande Excavating, should help expand Aqua's wastewater presence in southeastern Pennsylvania. The highly fragmented nature of the water industry facilitates industry consolidation by big players like Aqua. The company seems to be making good progress on this front in 2006, and should start to see returns by early 2007.

Growing infrastructure needs ought to help boost top-line growth over the coming years. Based on a recent report by the EPA, basic infrastructure needs of public water-supply systems in the United States are estimated to be about $280 billion over the next two decades. This figure is 60% higher than the administration's previous tally. Higher capital spending allows water utilities like Aqua to justify higher rate requests. In the long run, the steady revenue associated with increased rate relief more than offsets near-term capital spending. That said, earnings growth in the short run will likely be pressured by the heavy spending.

These shares are ranked Lowest (5) for year-ahead relative performance. Moreover, total return potential for the years out to 2009–2011 seems limited given the stock's current quotation.

Praneeth Satish *October 27, 2006*

(A) Primary shares outstanding through '96; diluted thereafter. Excl. nonrec. gains (losses): '90, (38¢); '91, (34¢); '92, (38¢); '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due early November. (B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount). (C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	95
Earnings Predictability	100

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AMER. STATES WATER NYSE-AWR

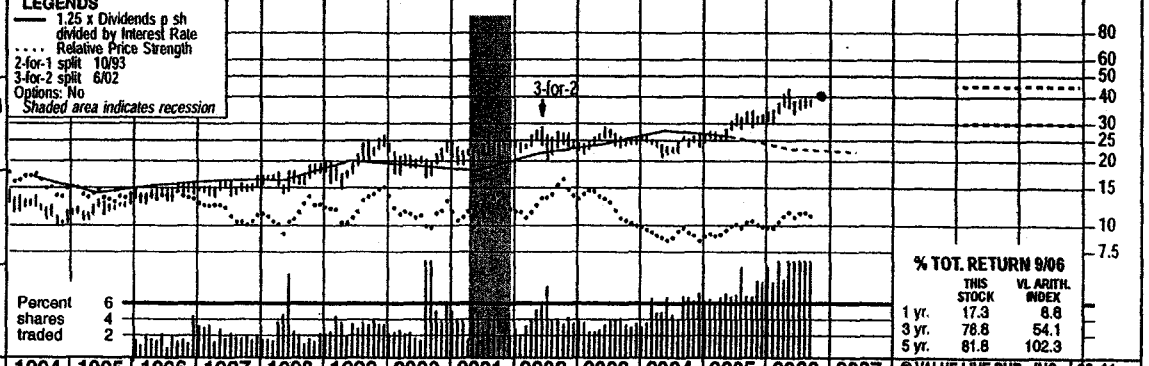
RECENT PRICE 40.54 | P/E RATIO 27.8 (Trailing: 27.4 / Median: 17.0) | RELATIVE P/E RATIO 1.52 | DIV'D YLD 2.2% | VALUE LINE

TIMELINESS 3 Raised 3/24/06
SAFETY 3 New 2/4/00
TECHNICAL 3 Lowered 10/20/06
BETA .80 (1.00 = Market)

High:	14.0	16.1	17.1	19.5	26.5	25.3	26.4	29.0	29.0	26.8	34.6	43.8	
Low:	10.5	12.5	13.5	14.1	14.8	16.7	19.0	20.3	21.6	20.8	24.3	30.3	

Target Price Range 2009 | 2010 | 2011

LEGENDS
— 1.25 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 10/93
3-for-2 split 6/02
Options: No
Shaded area indicates recession



2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+10%)	5%
Low	30	(-25%)	-5%

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	1	0	0	0	0	0
Options	0	0	0	0	0	5	3	0	2
to Sell	0	0	0	0	0	5	3	0	2

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	48	51	67
to Sell	41	44	44
Hld's(000)	6273	7223	8042

% TOT. RETURN 9/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	17.3	8.6
3 yr.	76.8	54.1
5 yr.	81.8	102.3

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
9.58	9.15	10.10	9.27	10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	*14.85*	*15.35*	Revenues per sh	*18.05*
1.49	1.78	1.81	1.67	1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	*3.05*	*3.05*	"Cash Flow" per sh	*3.60*
.94	1.19	1.15	1.11	.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.32	*1.50*	*1.60*	Earnings per sh A	*1.90*
.72	.73	.77	.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	*.91*	*.92*	Div'd Decl'd per sh B■	*.96*
2.53	2.77	2.31	1.90	2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	*4.00*	*4.10*	Cap'l Spending per sh	*4.50*
7.54	8.39	8.85	9.95	10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	*16.70*	*17.70*	Book Value per sh	*20.00*
9.43	9.91	9.96	11.71	11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	*17.50*	*18.25*	Common Shs Outst'g C	*20.50*
10.2	8.8	10.6	13.4	12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	*Bold figures are*		Avg Ann'l P/E Ratio	*19.5*
.76	.56	.64	.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	*Value Line*		Relative P/E Ratio	*1.25*
7.5%	7.0%	6.3%	5.3%	6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	*estimates*		Avg Ann'l Div'd Yield	*2.6%*
						151.5	153.8	148.1	173.4	184.0	197.5	209.2	212.7	228.0	236.2	*260*	*280*	Revenues ($mill)	*370*
						13.5	14.1	14.6	16.1	18.0	20.4	20.3	11.9	16.5	22.5	*26.0*	*30.0*	Net Profit ($mill)	*40.0*
						43.3%	41.1%	40.9%	46.0%	45.7%	43.0%	38.9%	43.5%	37.4%	47.0%	*38.0%*	*40.0%*	Income Tax Rate	*42.0%*
						--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
						41.9%	43.0%	43.6%	51.0%	47.5%	54.9%	52.0%	52.0%	47.7%	50.4%	*51.0%*	*51.0%*	Long-Term Debt Ratio	*52.0%*
						57.3%	56.3%	55.7%	48.4%	51.9%	44.7%	48.0%	48.0%	52.3%	49.6%	*49.0%*	*49.0%*	Common Equity Ratio	*48.0%*
						256.0	268.4	277.1	328.2	371.1	447.6	444.4	442.3	480.4	532.5	*590*	*660*	Total Capital ($mill)	*850*
						357.8	383.6	414.8	449.6	509.1	539.8	563.3	602.3	664.2	713.2	*765*	*810*	Net Plant ($mill)	*950*
						6.9%	6.9%	7.0%	6.6%	6.4%	6.1%	6.5%	4.6%	5.2%	5.4%	*6.0%*	*6.5%*	Return on Total Cap'l	*6.5%*
						9.0%	9.2%	9.4%	10.0%	9.2%	10.1%	9.5%	5.6%	6.6%	8.5%	*9.0%*	*9.5%*	Return on Shr. Equity	*10.0%*
						9.0%	9.2%	9.4%	10.1%	9.3%	10.1%	9.5%	5.6%	6.6%	8.5%	*9.0%*	*9.5%*	Return on Com Equity	*10.0%*
						2.4%	1.8%	2.1%	2.9%	3.0%	3.6%	3.3%	NMF	1.0%	2.8%	*3.5%*	*4.0%*	Retained to Com Eq	*5.0%*
						73%	80%	78%	72%	68%	65%	65%	113%	84%	67%	*61%*	*56%*	All Div'ds to Net Prof	*50%*

CAPITAL STRUCTURE as of 6/30/06
Total Debt $296.8 mill. **Due in 5 Yrs** $30.0 mill.
LT Debt $268.2 mill. **LT Interest** $20.0 mill.
(LT interest earned: 4.4x: total interest coverage: 4.1x) (49% of Cap'l)

Leases, Uncapitalized: None
Pension Assets-12/05 $56.6 mill.
Oblig. $83.2 mill.
Pfd Stock None. **Pfd Div'd** None.

Common Stock 16,981,858 shs.
MARKET CAP: $700 million (Small Cap)

CURRENT POSITION ($MILL.)	2004	2005	6/30/06
Cash Assets	4.3	13.0	9.4
Receivables	14.3	13.3	13.2
Inventory (Avg Cst)	1.5	1.4	1.6
Other	32.9	41.2	44.5
Current Assets	53.0	68.9	68.7
Accts Payable	18.2	19.7	20.9
Debt Due	45.9	27.6	28.6
Other	22.2	30.3	27.2
Current Liab.	86.3	77.6	76.7
Fix. Chg. Cov.	246%	325%	335%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	3.0%	3.0%	*4.5%*
"Cash Flow"	3.0%	1.5%	*7.5%*
Earnings	--	-2.5%	*10.5%*
Dividends	1.0%	1.0%	*1.5%*
Book Value	4.0%	4.5%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2003	46.7	51.8	63.7	50.5	212.7
2004	46.7	59.3	69.0	53.0	228.0
2005	49.8	60.5	68.1	57.8	236.2
2006	60.6	62.1	*75.0*	*62.3*	*260*
2007	*63.0*	*70.0*	*80.0*	*67.0*	*280*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2003	.20	.19	.51	d.12	.78
2004	.08	.30	.52	.15	1.05
2005	.22	.34	.47	.29	1.32
2006	.35	.30	*.53*	*.32*	*1.50*
2007	*.31*	*.39*	*.56*	*.34*	*1.60*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.217	.217	.217	.221	.87
2003	.221	.221	.221	.221	.88
2004	.221	.221	.221	.225	.89
2005	.225	.225	.225	.225	.90
2006	.225	.225	.225		

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to approximately 23,000 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00); 11,400 customers. Has roughly 515 employees. Off. & dir. own 3.1% of common stock (4/06 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Incorporated: CA. Add.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel.: 909-394-3600. Web: www.aswater.com.

An improving regulatory environment augurs well for American States Water. Although cool weather conditions have continued to thwart water consumption, more-favorable regulatory rulings have enabled the company to continue increasing revenues at a decent clip for years. Indeed, the top line climbed 3% in the second quarter, despite 6% lower consumption. We suspect that such will remain the case going forward thanks to recent changes to the makeup of the California Public Utilities Commission (CPUC), the Golden State's utilities regulatory body. Historically an antagonist to utility companies looking for rate relief, the board has been redesigned and is, subsequently, more business friendly, handing down more timely and favorable verdicts. American should continue to reap the benefits of such backing for years to come.

Nevertheless, we remain concerned that bottom-line growth will be sluggish looking ahead. Although it appears at first blush that American posted solid results in the second quarter, things get a little cloudier upon further inspection. Indeed, excluding a $0.06 tax benefit that we deem a one-time gain, the company reported a 12% earnings decline in the period, due to higher infrastructure costs. Water systems are eroding rather quickly, and are subject to increasingly more upkeep. In fact, maintenance costs increased by roughly 31% in the most recent period, causing operating profits to decline by 8% on a year-over-year basis. Infrastructure costs will likely continue to increase, as the EPA demands higher water quality and better safety measures. As a result, we have lowered our full-year 2006 earnings estimate by a dime, to $1.50 a share. We are leaving our 2007 share-net figure untouched, however, looking for 6%-7% growth.

Most investors will want to take a pass on this issue. American stock does not stand out as a means of income and offers below-average 3- to 5-year appreciation potential, owing to the infrastructure costs that we anticipate. Making matters worse, the company does not have the means in hand to foot the bill, and will likely have to look to the debt and/or equity market in order to do so.

Andre J. Costanza *October 27, 2006*

(A) Primary earnings. Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢; '05, 25¢; '06, 6¢. Quarterly earnings may not sum due to change in share count. Next earnings report due early November.
(B) Dividends historically paid in early March, June, September, December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	B++
Stock's Price Stability	80
Price Growth Persistence	80
Earnings Predictability	60

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CALIFORNIA WATER NYSE-CWT

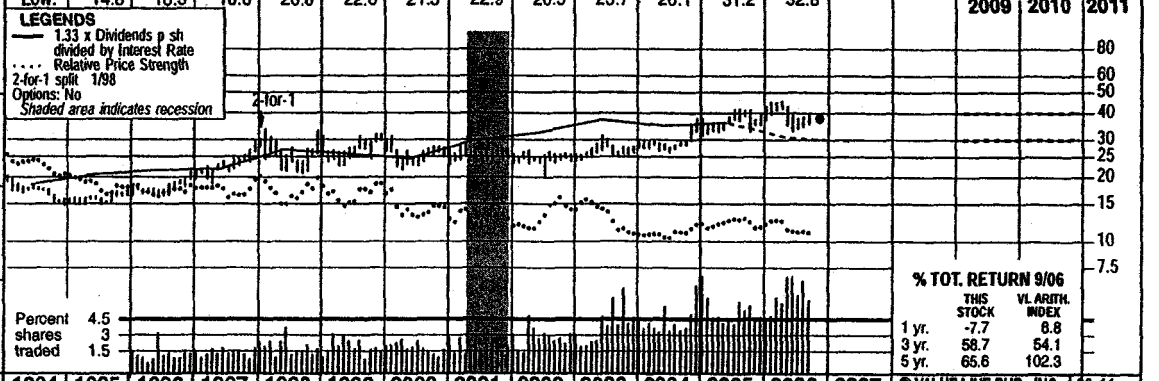
RECENT PRICE 37.79 | P/E RATIO 26.4 (Trailing: 27.4 Median: 19.0) | RELATIVE P/E RATIO 1.44 | DIV'D YLD 3.0% | VALUE LINE

TIMELINESS 5 Lowered 8/11/06
SAFETY 2 Lowered 8/11/95
TECHNICAL 4 Lowered 10/13/06
BETA .85 (1.00 = Market)

High:	17.6	21.9	29.6	33.8	32.0	31.4	28.6	26.9	31.4	37.9	42.1	45.8
Low:	14.8	16.3	18.6	20.8	22.6	21.5	22.9	20.5	23.7	26.1	31.2	32.8

Target Price Range 2009 | 2010 | 2011

LEGENDS
— 1.33 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 1/98
Options: No
Shaded area indicates recession



2009-11 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+5%)	4%
Low	30	(-20%)	-2%

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	1	1	0	0	0	0	0
to Sell	0	0	2	2	0	1	0	0	0

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	39	36	42
to Sell	32	35	39
Hld's(000)	4959	5618	5714

% TOT. RETURN 9/06

	THIS STOCK	VL ARITH. INDEX
1 yr.	-7.7	8.8
3 yr.	58.7	54.1
5 yr.	65.6	102.3

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
10.93	11.18	12.29	13.34	12.59	13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	17.44	*16.35*	*16.90*	Revenues per sh	*20.65*
1.97	1.98	1.92	2.25	2.02	2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.83	3.04	*3.00*	*3.20*	"Cash Flow" per sh	*3.55*
1.25	1.21	1.09	1.35	1.22	1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.46	1.47	*1.40*	*1.60*	Earnings per sh A	*1.80*
.87	.90	.93	.96	.99	1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	1.14	*1.15*	*1.16*	Div'd Decl'd per sh B ■	*1.22*
2.36	3.03	3.09	2.53	2.26	2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.73	5.14	*5.25*	*5.30*	Cap'l Spending per sh	*4.50*
10.04	10.35	10.51	10.90	11.56	11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.66	15.98	*18.05*	*18.55*	Book Value per sh C	*20.35*
11.38	11.38	11.38	11.38	12.49	12.54	12.62	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.37	18.39	*20.50*	*21.00*	Common Shs Outst'g D	*23.00*
10.4	11.2	14.1	13.6	14.1	13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	*Bold figures are*		Avg Ann'l P/E Ratio	*19.0*
.77	.72	.86	.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.30	*Value Line*		Relative P/E Ratio	*1.25*
6.7%	6.6%	6.1%	5.2%	5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	*estimates*		Avg Ann'l Div'd Yield	*3.5%*
						182.8	195.3	186.3	206.4	244.8	246.8	263.2	277.1	315.6	320.7	*335*	*355*	Revenues ($mill)	*475*
						19.1	23.3	18.4	19.9	20.0	14.4	19.1	19.4	26.0	27.2	*27.0*	*34.0*	Net Profit ($mill)	*42.0*
						38.9%	37.4%	36.4%	37.9%	42.3%	39.4%	39.7%	39.9%	39.6%	42.4%	*41.5%*	*41.5%*	Income Tax Rate	*41.5%*
						--	--	--	--	--	--	--	10.3%	--	--	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
						47.4%	45.4%	44.2%	46.9%	48.9%	50.3%	55.3%	50.2%	48.6%	48.0%	*44.0%*	*45.5%*	Long-Term Debt Ratio	*47.5%*
						51.4%	53.5%	54.7%	52.0%	50.2%	48.8%	44.0%	49.1%	50.8%	51.4%	*55.5%*	*54.0%*	Common Equity Ratio	*52.0%*
						299.9	306.7	308.6	333.8	388.8	402.7	453.1	498.4	565.9	571.6	*665*	*725*	Total Capital ($mill)	*900*
						443.6	460.4	478.3	515.4	582.0	624.3	697.0	759.5	800.3	856.7	*915*	*980*	Net Plant ($mill)	*1150*
						8.3%	9.4%	7.8%	7.8%	6.8%	5.3%	5.9%	5.6%	6.1%	6.4%	*5.5%*	*6.0%*	Return on Total Cap'l	*5.5%*
						12.1%	13.9%	10.7%	11.2%	10.0%	7.2%	9.4%	7.8%	8.9%	9.1%	*7.5%*	*8.5%*	Return on Shr. Equity	*9.0%*
						12.3%	14.1%	10.8%	11.4%	10.1%	7.2%	9.5%	7.9%	9.0%	9.3%	*7.5%*	*8.5%*	Return on Com Equity	*9.0%*
						3.8%	6.0%	2.8%	3.5%	1.8%	NMF	1.0%	.7%	2.1%	2.1%	*1.0%*	*2.5%*	Retained to Com Eq	*3.0%*
						69%	58%	74%	70%	82%	119%	90%	91%	77%	77%	*87%*	*72%*	All Div'ds to Net Prof	*67%*

CAPITAL STRUCTURE as of 6/30/06
Total Debt $300.8 mill. **Due in 5 Yrs** $9.0 mill.
LT Debt $273.7 mill. **LT Interest** $19.5 mill.

(LT interest earned: 3.5x; total int. cov.: 3.2x)

Pension Assets-12/05 $70.2 mill.
Oblig. $103.2 mill.
Pfd Stock $3.5 mill. **Pfd Div'd** $.15 mill.
139,000 shares, 4.4% cumulative ($25 par).

Common Stock 18,406,963 shs.
as of 7/31/06
MARKET CAP: $700 million (Small Cap)

CURRENT POSITION ($MILL.)	2004	2005	6/30/06
Cash Assets	18.8	9.5	2.2
Other	51.6	42.7	48.5
Current Assets	70.4	52.2	50.7
Accts Payable	19.8	36.1	34.2
Debt Due	1.1	1.1	27.1
Other	36.3	39.6	43.5
Current Liab.	57.2	76.8	104.8
Fix. Chg. Cov.	338%	361%	375%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	3.0%	2.0%	*3.0%*
"Cash Flow"	2.5%	-.5%	*4.0%*
Earnings	.5%	-4.0%	*4.5%*
Dividends	1.5%	1.0%	*1.0%*
Book Value	2.5%	1.5%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	51.3	68.0	88.2	69.6	277.1
2004	60.2	88.9	97.1	69.4	315.6
2005	60.3	81.5	101.1	77.8	320.7
2006	65.2	81.1	*107.7*	*81.0*	*335*
2007	*70.0*	*90.0*	*110*	*85.0*	*355*

Cal-endar	EARNINGS PER SHARE A E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2003	d.05	.30	.53	.41	1.21
2004	.08	.59	.59	.20	1.46
2005	.03	.41	.71	.32	1.47
2006	.04	.31	*.72*	*.33*	*1.40*
2007	*.07*	*.44*	*.74*	*.35*	*1.60*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.28	.28	.28	.28	1.12
2003	.281	.281	.281	.281	1.12
2004	.283	.283	.283	.283	1.13
2005	.285	.285	.285	.285	1.14
2006	.2875	.2875	.2875		

BUSINESS: California Water Service Group provides regulated and nonregulated water service to over 2 million people (456,700 customers) in 75 communities in California, Washington, and New Mexico. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired National Utility Company (5/04); Rio Grande Corp. (11/00). Revenue breakdown, '05: residential, 69%; business, 18%; public authorities, 5%; industrial, 4%; other, 4%. '05 reported deprec. rate: 3.6%. Has about 840 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson. Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwater.com.

California Water Service Group should continue to benefit from an improving regulatory landscape . . . Indeed, the California Public Utilities Commission (CPUC), which is in charge of maintaining a balance between consumers and Cal-based utilities, looks to have changed its tune and be more business friendly of late. Such developments paint a favorable backdrop for CWT, which files a general rate case (GRC) each year for eight of its 24 districts. The company is currently awaiting a decision on its 2005 GRC, in which it is seeking roughly $11 million, on a 12.23% return on equity. Although the CPUC may not grant the company the entire amount requested, we think that it will probably sign off on a healthy return, given the recent rulings.

. . . but still struggle to grow its bottom line. Earnings declined by 24% in the second quarter. Although we suspect that the unseasonably wet weather that pressured the top line in the period will eventually let up, we do not share the same optimism about operating costs. Expenses increased 6% for the six months ended June. Many of the company's wells and systems are old and in need of significant renovations. Infrastructure costs will likely continue to rise and pressure profit margins for years to come.

It will have to look to outside financiers to keep things going. With only $2 million in cash on hand at the end of June, CWT does not have the reserves to fund the needed improvements. In fact, it recently issued $20 million in unsecured senior notes and sold two million shares of stock, raising roughly $94 million in total. Although necessary, the initiatives will probably continue to dilute shareholder gains. We suspect similar undertakings will be necessary going forward. In all, we've reduced our full-year earnings estimate by a quarter, to $1.40 and our 2007 figure by $0.15, to $1.60 a share.

We do not recommend these shares at this juncture. They are ranked Lowest (5) for Timeliness and offer minimal 3- to 5-year appreciation potential. Meanwhile, there are better income vehicles on the market at this time. Most investors will want to look elsewhere, given the capital constraints that we expect to continue.

Andre J. Costanza *October 27, 2006*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; 02, 8¢. Next earnings report due late January.
(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.
(C) Incl. deferred charges. In '05: $63.9 mill., $3.47/sh.
(D) In millions, adjusted for split.
(E) May not total due to change in shares.

Company's Financial Strength	B++
Stock's Price Stability	80
Price Growth Persistence	85
Earnings Predictability	70

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CONN. WATER SERVICES NDQ-CTWS

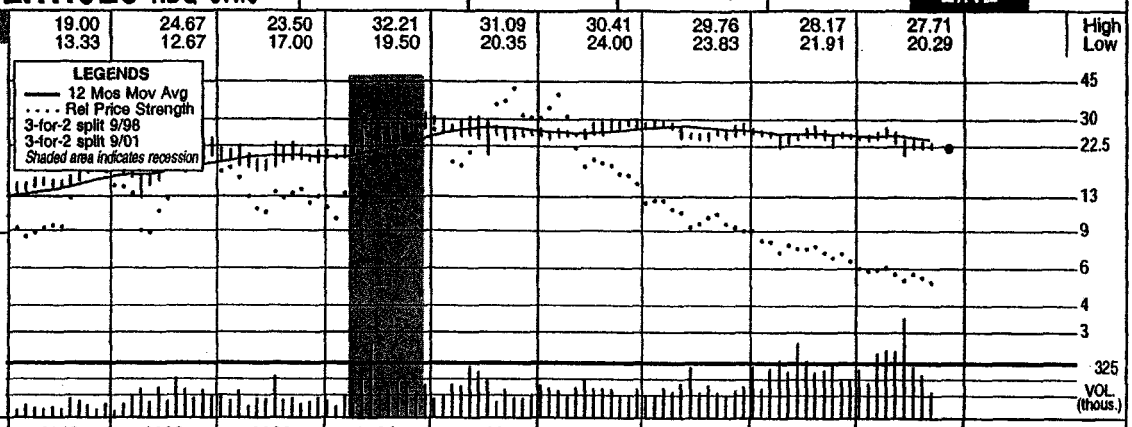
RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	
22.10	27.0	1.34	3.9%	VALUE LINE

RANKS

PERFORMANCE	3	Average
Technical	3	Average
SAFETY	3	Average
BETA .85	(1.00 = Market)	

Financial Strength	B+
Price Stability	80
Price Growth Persistence	65
Earnings Predictability	80

19.00	24.67	23.50	32.21	31.09	30.41	29.76	28.17	27.71	High
13.33	12.67	17.00	19.50	20.35	24.00	23.83	21.91	20.29	Low



© VALUE LINE PUBLISHING, INC.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007/2008
SALES PER SH	5.58	5.87	5.70	5.93	5.77	5.91	6.04	5.81	--	
"CASH FLOW" PER SH	1.59	1.65	1.73	1.78	1.78	1.89	1.91	1.62	--	
EARNINGS PER SH	1.02	1.03	1.09	1.13	1.12	1.15	1.16	.88	*NA*	*NA/NA*
DIV'DS DECL'D PER SH	.78	.79	.79	.80	.81	.83	.84	.85	--	
CAP'L SPENDING PER SH	1.12	1.42	1.43	1.86	1.98	1.49	1.58	1.96	--	
BOOK VALUE PER SH	8.52	8.61	8.92	9.25	10.06	10.46	10.94	11.52	--	
COMMON SHS OUTST'G (MILL)	6.80	7.26	7.28	7.65	7.94	7.97	8.04	8.17	--	
AVG ANN'L P/E RATIO	15.5	18.2	18.2	21.5	24.3	23.5	22.9	28.6	*NA*	*NA/NA*
RELATIVE P/E RATIO	.81	1.04	1.18	1.10	1.33	1.34	1.21	1.51	--	
AVG ANN'L DIV'D YIELD	4.9%	4.2%	4.0%	3.3%	3.0%	3.0%	3.1%	3.4%	--	
SALES ($MILL)	37.9	42.6	41.5	45.4	45.8	47.1	48.5	47.5	--	*Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.*
OPERATING MARGIN	46.2%	48.7%	48.8%	56.1%	57.7%	52.1%	51.0%	48.3%	--	
DEPRECIATION ($MILL)	3.9	4.5	4.7	5.0	5.4	5.9	6.0	6.1	--	
NET PROFIT ($MILL)	7.0	7.5	8.0	8.7	8.8	9.2	9.4	7.2	--	
INCOME TAX RATE	34.3%	40.1%	35.7%	36.1%	33.8%	17.9%	22.9%	--	--	
NET PROFIT MARGIN	18.4%	17.6%	19.2%	19.1%	19.2%	19.5%	19.4%	15.1%	--	
WORKING CAP'L ($MILL)	d3.7	d3.8	.3	d3.3	d5.1	d3.9	d.7	13.0	--	
LONG-TERM DEBT ($MILL)	62.5	65.4	64.7	64.0	64.8	64.8	66.4	77.4	--	
SHR. EQUITY ($MILL)	58.7	63.3	65.7	71.6	80.7	84.2	88.7	94.9	--	
RETURN ON TOTAL CAP'L	7.3%	7.4%	7.6%	7.9%	7.4%	7.5%	7.0%	5.0%	--	
RETURN ON SHR. EQUITY	11.9%	11.8%	12.1%	12.1%	10.9%	10.9%	10.6%	7.5%	--	
RETAINED TO COM EQ	2.8%	3.1%	3.2%	3.6%	3.1%	3.2%	3.1%	.3%	--	
ALL DIV'DS TO NET PROF	76%	74%	74%	71%	72%	71%	71%	95%	--	

Note: No analyst estimates available.

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	0.5%	-4.0%
"Cash Flow"	2.0%	-15.5%
Earnings	0.5%	-24.0%
Dividends	1.0%	1.0%
Book Value	5.0%	5.0%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/04	10.9	12.0	13.9	11.7	48.5
12/31/05	10.9	11.0	14.1	11.5	47.5
12/31/06	10.5	11.4			
12/31/07					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/03	.26	.15	.48	.26	1.15
12/31/04	.24	.26	.47	.19	1.16
12/31/05	.24	.15	.41	.08	.88
12/31/06	.21	.12			
12/31/07					

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2003	.205	.205	.208	.208	.83
2004	.208	.208	.21	.21	.84
2005	.21	.21	.213	.213	.85
2006	.213	.213	.215		

INSTITUTIONAL DECISIONS

	4Q'05	1Q'06	2Q'06
to Buy	13	17	14
to Sell	17	20	18
Hld's(000)	1381	1430	1462

ASSETS ($mill.)	2004	2005	6/30/06
Cash Assets	.7	4.4	6.2
Receivables	9.8	5.9	9.8
Inventory (Avg cost)	.9	.9	1.0
Other	3.9	14.9	1.7
Current Assets	15.3	26.1	18.7
Property, Plant & Equip, at cost	344.5	345.0	--
Accum Depreciation	98.4	97.3	--
Net Property	246.1	247.7	256.7
Other	29.5	32.2	30.1
Total Assets	290.9	306.0	305.5
LIABILITIES ($mill.)			
Accts Payable	5.5	4.8	3.9
Debt Due	6.0	7.1	4.8
Other	4.4	1.3	.6
Current Liab	15.9	13.2	9.3

LONG-TERM DEBT AND EQUITY as of 6/30/06

Total Debt $82.1 mill. **Due in 5 Yrs.** NA
LT Debt $77.4 mill.
Including Cap. Leases NA
(45% of Cap'l)

Leases, Uncapitalized Annual rentals NA

Pension Liability None in '05 vs. None in '04

Pfd Stock $.8 mill. **Pfd Div'd Paid** NMF

Common Stock 8,238,779 shares
(55% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: Connecticut Water Services, Inc. primarily operates as a water utility in New England. Its regulated water companies include The Connecticut Water Company; The Gallup Water Service, Incorporated; The Crystal Water Company of Danielson; and The Unionville Water Company. These companies supply water in Connecticut and Massachusetts. The company also owns unregulated companies, such as Chester Realty, Inc., a real estate company; New England Water Utility Services, Inc. which offers contract water and sewer operations; Connecticut Water Emergency Services, Inc., a provider of drinking and pool water; Crystal Water Utilities Corporation, a holding company that owns The Crystal Water Company of Danielson and three rental properties; BARLACO Inc., a real estate company; and Barnstable Holding Company, a holding company that owns BWC and BARLACO. In October, The Connecticut Water Company acquired the South Coventry Water Supply Company for approximately $240,000. Has 191 employees. Chairman: Marshall T. Chiaraluce. Inc.: CT. Address: 93 West Main Street, Clinton, CT 06413. Tel.: (860) 669-8636. Internet: http://www.ctwater.com. *A.O.*

October 27, 2006

TOTAL SHAREHOLDER RETURN

Dividends plus appreciation as of 9/30/2006

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
-4.85%	-14.25%	-7.51%	-9.34%	-6.24%

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MIDDLESEX WATER NDQ–MSEX

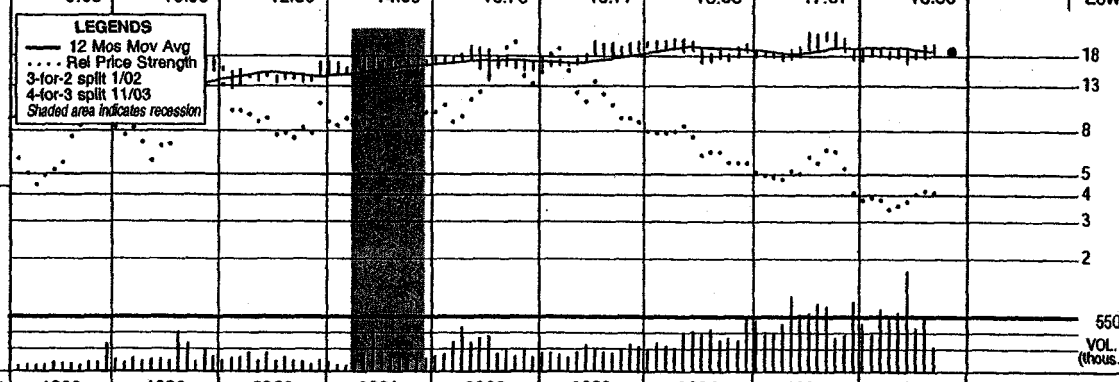
RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	
19.01	22.9	1.13	3.6%	VALUE LINE

	1998	1999	2000	2001	2002	2003	2004	2005	2006
High	12.88	19.75	16.97	18.73	20.04	21.23	21.81	23.47	20.50
Low	9.63	10.50	12.50	14.69	13.73	15.77	16.65	17.07	16.50

RANKS

PERFORMANCE	2	Above Average
Technical	2	Above Average
SAFETY	3	Average
BETA .80		(1.00 = Market)

Financial Strength	B+
Price Stability	85
Price Growth Persistence	60
Earnings Predictability	70



© VALUE LINE PUBLISHING, INC.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007/2008
SALES PER SH	4.39	5.35	5.39	5.87	5.98	6.12	6.25	6.44	--	
"CASH FLOW" PER SH	1.02	1.19	.99	1.18	1.20	1.15	1.28	1.33	--	
EARNINGS PER SH	.71	.76	.51	.66	.73	.61	.73	.71	***.83*** [A,B]	***.84*** [C]***/NA***
DIV'DS DECL'D PER SH	.58	.60	.61	.62	.63	.65	.66	.67	--	
CAP'L SPENDING PER SH	2.68	2.33	1.32	1.25	1.59	1.87	2.54	2.18	--	
BOOK VALUE PER SH	6.80	6.95	6.98	7.11	7.39	7.60	8.38	8.60	--	
COMMON SHS OUTST'G (MILL)	9.82	10.00	10.11	10.17	10.36	10.48	11.36	11.58	--	
AVG ANN'L P/E RATIO	15.2	17.6	28.7	24.6	23.5	30.0	26.4	27.4	***22.9***	***22.6/NA***
RELATIVE P/E RATIO	.79	1.00	1.87	1.26	1.28	1.71	1.39	1.45	--	
AVG ANN'L DIV'D YIELD	5.4%	4.4%	4.2%	3.8%	3.7%	3.5%	3.4%	3.5%	--	
SALES ($MILL)	43.1	53.5	54.5	59.6	61.9	64.1	71.0	74.6	--	***Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.***
OPERATING MARGIN	37.0%	33.9%	32.2%	47.2%	47.1%	44.0%	44.4%	44.4%	--	
DEPRECIATION ($MILL)	3.8	4.3	4.9	5.3	5.0	5.6	6.4	7.2	--	
NET PROFIT ($MILL)	6.5	7.9	5.3	7.0	7.8	6.6	8.4	8.5	--	
INCOME TAX RATE	31.5%	28.8%	33.1%	34.8%	33.3%	32.8%	31.1%	27.6%	--	
NET PROFIT MARGIN	15.1%	14.7%	9.7%	11.7%	12.5%	10.3%	11.9%	11.4%	--	
WORKING CAP'L ($MILL)	14.6	6.8	d2.7	d.9	d9.3	d13.3	d11.8	d4.5	--	
LONG-TERM DEBT ($MILL)	78.0	82.3	81.1	88.1	87.5	97.4	115.3	128.2	--	
SHR. EQUITY ($MILL)	71.7	74.6	74.7	76.4	80.6	83.7	99.2	103.6	--	
RETURN ON TOTAL CAP'L	5.7%	6.4%	4.9%	5.6%	6.0%	5.0%	5.1%	5.0%	--	
RETURN ON SHR. EQUITY	9.1%	10.6%	7.1%	9.1%	9.6%	7.9%	8.5%	8.2%	--	
RETAINED TO COM EQ	1.8%	2.5%	NMF	.5%	1.3%	NMF	.9%	.5%	--	
ALL DIV'DS TO NET PROF	81%	78%	121%	94%	87%	106%	90%	94%	--	

[A]*No. of analysts changing earn. est. in last 14 days: 0 up, 0 down, consensus 5-year earnings growth not available.* [B]*Based upon one analyst's estimate.* [C]*Based upon one analyst's estimate.*

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	4.5%	3.0%
"Cash Flow"	3.5%	3.5%
Earnings	1.0%	-2.5%
Dividends	2.0%	1.5%
Book Value	3.5%	2.5%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/04	15.9	17.8	19.8	17.5	71.0
12/31/05	16.7	18.4	20.8	18.7	74.6
12/31/06	18.2	21.0			
12/31/07					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/03	.11	.17	.22	.11	.61
12/31/04	.09	.16	.29	.19	.73
12/31/05	.12	.16	.26	.17	.71
12/31/06	.15	.25	***.26***	***.17***	
12/31/07	***.15***				

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2003	.161	.161	.161	.165	.65
2004	.165	.165	.165	.168	.66
2005	.168	.168	.168	.17	.67
2006	.17	.17	.17		

INSTITUTIONAL DECISIONS

	4Q'05	1Q'06	2Q'06
to Buy	11	18	15
to Sell	21	18	20
Hld's(000)	1707	1789	1771

ASSETS ($mill.)	2004	2005	6/30/06
Cash Assets	4.0	3.0	2.3
Receivables	9.9	11.8	12.6
Inventory (Avg cost)	1.2	1.3	1.5
Other	.9	.9	1.7
Current Assets	16.0	17.0	18.1
Property, Plant & Equip, at cost	314.9	343.0	--
Accum Depreciation	52.0	55.0	--
Net Property	262.9	288.0	300.0
Other	26.7	19.4	19.3
Total Assets	305.6	324.4	337.4
LIABILITIES ($mill.)			
Accts Payable	6.0	6.0	5.0
Debt Due	12.1	5.9	14.7
Other	9.7	9.6	10.8
Current Liab	27.8	21.5	30.5

LONG-TERM DEBT AND EQUITY as of 6/30/06

Total Debt $142.2 mill. **Due in 5 Yrs.** NA
LT Debt $127.5 mill.
Including Cap. Leases NA
(55% of Cap'l)

Leases, Uncapitalized Annual rentals NA

Pension Liability $6.7 mill. in '05 vs. $5.5 mill. in '04

Pfd Stock $4.0 mill. **Pfd Div'd Paid** $.2 mill.
(2% of Cap'l)

Common Stock 11,619,662 shares
(43% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: Middlesex Water Company, through its subsidiaries, engages in the ownership and operation of regulated water utility systems in central and southern New Jersey, and in Delaware, as well as a regulated wastewater utility in southern New Jersey. Its New Jersey water utility system (the Middlesex System) provides water services to retail customers in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey. The company operates the water supply system and wastewater system for the city of Perth Amboy in New Jersey in partnership with its subsidiary, Utility Service Affiliates (Perth Amboy), Inc. Its other New Jersey subsidiaries provide water and wastewater services to residents in Southampton Township. Has 231 employees. Chairman: J. Richard Tompkins. Inc.: NJ. Address: 1500 Ronson Road, P.O. Box 1500, Iselin, NJ 08830. Tel.: (732) 634-1500. Internet: http://www.middlesexwater.com.

A.Z.

October 27, 2006

TOTAL SHAREHOLDER RETURN

Dividends plus appreciation as of 9/30/2006

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
2.52%	3.35%	-11.26%	15.61%	38.49%

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SJW CORP. NYSE-SJW

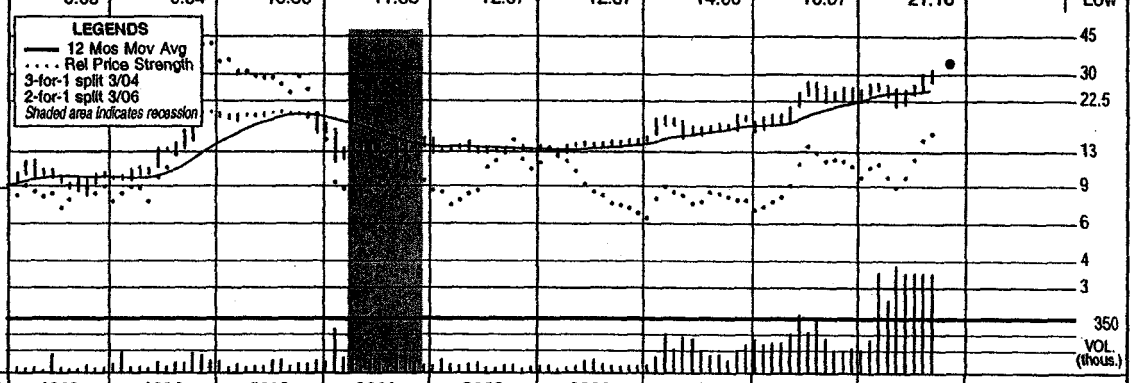
RECENT PRICE	TRAILING P/E RATIO	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
33.84	27.3	1.35	1.7%	

	1998	1999	2000	2001	2002	2003	2004	2005	2006
High	11.92	20.17	20.33	17.83	15.07	14.95	19.64	27.80	34.00
Low	8.08	9.54	15.83	11.58	12.67	12.57	14.60	16.07	21.16

RANKS

PERFORMANCE 3 Average
Technical 3 Average
SAFETY 2 Above Average
BETA .75 (1.00 = Market)

Financial Strength B++
Price Stability 85
Price Growth Persistence 65
Earnings Predictability 75



© VALUE LINE PUBLISHING, INC.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007/2008
SALES PER SH	5.58	6.40	6.74	7.45	7.97	8.20	9.14	9.86	--	
"CASH FLOW" PER SH	1.26	1.43	1.23	1.49	1.55	1.75	1.89	2.21	--	
EARNINGS PER SH	.76	.87	.58	.77	.78	.91	.87	1.12	*1.35*[A,B]	*1.49*[C]*/NA*
DIV'DS DECL'D PER SH	.39	.40	.41	.43	.46	.49	.51	.53	--	
CAP'L SPENDING PER SH	1.81	1.77	1.89	2.63	2.06	3.41	2.31	2.83	--	
BOOK VALUE PER SH	7.53	7.88	7.90	8.17	8.40	9.11	10.11	10.72	--	
COMMON SHS OUTST'G (MILL)	19.01	18.27	18.27	18.27	18.27	18.27	18.27	18.27	--	
AVG ANN'L P/E RATIO	13.1	15.5	33.1	18.5	17.3	15.4	19.6	19.7	*25.1*	*22.7/NA*
RELATIVE P/E RATIO	.68	.88	2.15	.95	.94	.88	1.04	1.04	--	
AVG ANN'L DIV'D YIELD	3.9%	3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	--	
SALES ($MILL)	106.0	117.0	123.2	136.1	145.7	149.7	166.9	180.1	--	*Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.*
OPERATING MARGIN	36.0%	33.2%	30.2%	64.4%	63.7%	56.0%	56.4%	55.9%	--	
DEPRECIATION ($MILL)	9.6	10.2	11.9	13.2	14.0	15.2	18.5	19.7	--	
NET PROFIT ($MILL)	14.4	15.9	10.7	14.0	14.2	16.7	16.0	20.7	--	
INCOME TAX RATE	40.2%	35.9%	41.0%	34.5%	40.4%	36.2%	42.1%	41.6%	--	
NET PROFIT MARGIN	13.6%	13.6%	8.7%	10.3%	9.8%	11.2%	9.6%	11.5%	--	
WORKING CAP'L ($MILL)	9.4	d3.0	d11.4	d3.8	d4.9	12.0	13.0	10.8	--	
LONG-TERM DEBT ($MILL)	90.0	90.0	90.0	110.0	110.0	139.6	143.6	145.3	--	
SHR. EQUITY ($MILL)	143.2	143.9	144.3	149.4	153.5	166.4	184.7	195.9	--	
RETURN ON TOTAL CAP'L	7.4%	8.2%	5.9%	6.7%	6.9%	6.9%	6.5%	7.6%	--	
RETURN ON SHR. EQUITY	10.1%	11.0%	7.4%	9.4%	9.3%	10.0%	8.7%	10.6%	--	
RETAINED TO COM EQ	4.9%	5.9%	2.2%	4.1%	3.8%	4.7%	3.6%	5.6%	--	
ALL DIV'DS TO NET PROF	52%	46%	70%	56%	59%	53%	58%	47%	--	

[A]*No. of analysts changing earn. est. in last 14 days: 0 up, 0 down, consensus 5-year earnings growth not available.* [B]*Based upon one analyst's estimate.* [C]*Based upon one analyst's estimate.*

ANNUAL RATES

of change (per share)	5 Yrs.	1 Yr.
Sales	7.5%	8.0%
"Cash Flow"	8.5%	17.0%
Earnings	5.5%	29.0%
Dividends	5.0%	4.0%
Book Value	5.0%	6.0%

Fiscal Year	QUARTERLY SALES ($mill.) 1Q	2Q	3Q	4Q	Full Year
12/31/04	31.1	45.6	52.3	37.9	166.9
12/31/05	33.3	44.8	58.5	43.5	180.1
12/31/06	33.7	47.9			
12/31/07					

Fiscal Year	EARNINGS PER SHARE 1Q	2Q	3Q	4Q	Full Year
12/31/03	.18	.24	.33	.16	.91
12/31/04	.09	.27	.30	.21	.87
12/31/05	.15	.31	.53	.13	1.12
12/31/06	.23	.35	*.50*	*.28*	
12/31/07	*.22*				

Cal-endar	QUARTERLY DIVIDENDS PAID 1Q	2Q	3Q	4Q	Full Year
2003	.122	.122	.122	.122	.49
2004	.128	.128	.128	.128	.51
2005	.134	.134	.134	.134	.54
2006	.141	.141	.141		

INSTITUTIONAL DECISIONS

	4Q'05	1Q'06	2Q'06
to Buy	21	24	31
to Sell	21	24	27
Hld's(000)	6498	6597	6941

ASSETS ($mill.)	2004	2005	6/30/06
Cash Assets	10.9	9.4	2.6
Receivables	14.6	18.4	25.8
Inventory	.6	.6	.7
Other	2.3	3.3	4.8
Current Assets	28.4	31.7	33.9
Property, Plant & Equip, at cost	646.9	695.0	--
Accum Depreciation	190.1	210.2	--
Net Property	456.8	484.8	533.9
Other	67.0	71.2	63.2
Total Assets	552.2	587.7	631.0
LIABILITIES ($mill.)			
Accts Payable	.9	5.1	3.4
Debt Due	.3	.3	23.4
Other	14.2	15.5	23.4
Current Liab	15.4	20.9	50.2

LONG-TERM DEBT AND EQUITY as of 6/30/06

Total Debt $172.3 mill. **Due in 5 Yrs.** NA
LT Debt $148.9 mill.
Including Cap. Leases NA
(43% of Cap'l)

Leases, Uncapitalized Annual rentals NA

Pension Liability $13.2 mill. in '05 vs. $9.4 mill. in '04

Pfd Stock None **Pfd Div'd Paid** None

Common Stock 18,271,698 shares
(57% of Cap'l)

INDUSTRY: Water Utility

BUSINESS: SJW Corp. operates as the holding company for San Jose Water Company (SJWC), SJW Land Company, Crystal Choice Water Service LLC, and SJWTX Water, Inc. SJWC produces, purchases, stores, purifies, distributes, and sells water. It provides water service to customers in Cupertino, San Jose, Campbell, Monte Sereno, Saratoga, the Town of Los Gatos, and in the county of Santa Clara, California. SJWC also provides nonregulated water related services, including water system operations, billings, and cash remittance services. SJW Land owns and operates parking facilities in San Jose, California, as well as owns commercial buildings and other undeveloped land primarily in the San Jose Metropolitan area, some properties in the states of Florida, Texas, and Connecticut, and a 70% limited partnership interest in 444 West Santa Clara Street, L.P. Crystal Choice sells and rents water conditioning and purification equipment. Has 311 employees. Chairman: Drew Gibson. Inc.: CA. Address: 374 West Santa Clara Street, San Jose, CA 95113. Tel.: (408) 279-7800. Internet: http://www.sjwater.com.

A.O.

October 27, 2006

TOTAL SHAREHOLDER RETURN
Dividends plus appreciation as of 9/30/2006

3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.
18.15%	12.61%	26.62%	130.31%	152.39%

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EXHIBIT 4

Goodman Water Company
Test Year Ended September 31, 2005
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rejoinder Schedule A-1
Page 1
Witness: Bourassa

Line No.		
1	Fair Value Rate Base	$ 1,292,051
2		
3	Adjusted Operating Income	(75,050)
4		
5	Current Rate of Return	-5.81%
6		
7	Required Operating Income	$ 135,665
8		
9	Required Rate of Return on Fair Value Rate Base	10.50%
10		
11	Operating Income Deficiency	$ 210,715
12		
13	Gross Revenue Conversion Factor	1.5446
14		
15	Increase in Gross Revenue	
16	Requirement	$ 325,463
17		
18	% Increase	152.55%
19		

20	**Customer**				
21	**Classification**	**Present**	**Proposed**	**Dollar**	**Percent**
22	**(Residential Commercial, Irrigation)**	**Rates**	**Rates**	**Increase**	**Increase**
23					
24	5/8 x 3/4 Inch Residential	$ 124,765	$ 344,047	$ 219,282	175.76%
25	3/4 Inch Residential	-	-	-	0.00%
26	1 Inch Residential	10,839	27,423	16,584	153.00%
27	2 Inch Residential	13,982	43,113	29,131	208.35%
28	Construction Water	13,412	21,797	8,386	
29				-	0.00%
30	Revenue Annualization	32,746	84,425	51,678	157.81%
31	**Subtotal**	$ 195,744	$ 520,805	$ 325,061	166.06%
32					
33	Other Water Revenues	17,940	17,940	-	0.00%
34				-	0.00%
35	**Total of Water Revenues (a)**	$ 213,684	$ 538,745	$ 325,061	152.12%
36					
37					
38					
39					
40					
41					
42	SUPPORTING SCHEDULES:				
43	Rejoinder B-1				
44	Rejoinder C-1				
45	Rejoinder C-3				
46	Rejoinder H-1				
47					

Goodman Water Company
Test Year Ended September 31, 2005
Summary of Rate Base

Exhibit
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 2,365,811	$ 2,365,811
3	Less: Accumulated Depreciation	108,511	108,511
4			
5	Net Utility Plant in Service	$ 2,257,300	$ 2,257,300
6			
7	Less:		
8	Advances in Aid of		
9	Construction	971,695	971,695
10	Contributions in Aid of		
11	Construction	-	-
12	Accumulated Amortization of CIAC	-	-
13			
14	Customer Meter Deposits	14,864	14,864
15	Deferred Income Taxes & Credits	-	-
16	Deferred Assets	-	-
17			
18			
19	Plus:		
20	Unamortized Finance		
21	Charges	-	-
22	Prepaids	-	-
23	Deferred Assets	21,310	21,310
24	Allowance for Working Capital	-	-
25			
26			
27	Total Rate Base	$ 1,292,051	$ 1,292,051
28			
29			
30			
31	SUPPORTING SCHEDULES:		
32	Rejoinder B-2		
33	Rejoinder B-5		
34			
35			
36			

Goodman Water Company
Test Year Ended September 31, 2005
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Adjustments	Rejoinder Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 2,348,486	17,325	$ 2,365,811
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	108,248	263	108,511
7				
8				
9	Net Utility Plant			
10	in Service	$ 2,240,239	$ 17,062	$ 2,257,300
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	971,695	-	971,695
15				
16	Contributions in Aid of			
17	Construction (CIAC)	-	-	-
18				
19				
20	Accum. Amortization of CIAC	-	-	-
21				
22				
23	Customer Meter Deposits	14,864	0	14,864
24	Deferred Income Taxes	-	-	-
25	Investment Tax Credits	-	-	-
26				
27				
28	**Plus:**			
29	Unamortized Finance	0		
30	Charges	-	0	-
31	Prepaids	-	-	-
32	Allowance for Working Capital	22,003	(694)	21,310
33		-		-
34				
35	Total	$ 1,275,683	$ 16,368	$ 1,292,051
36				
37				
38				
39				
40				
41	SUPPORTING SCHEDULES:			
42	Rejoinder B-2, pages 2			
43				
44				
45				
46				
47				
48				

Goodman Water Company
Test Year Ended September 31, 2005
Original Cost Rate Base Proforma Adjustments

Exhibit
Rejoinder Schedule B-2
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Adjusted at End of Test Year	1 Rebuttal Expensed Plant	2 Rebuttal Accumulated Depreciation	3 Rebuttal Working Capital	4 Intentionally Left Blank	5 Intentionally Left Blank	Rejoinder Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 2,348,486	17,325					$ 2,365,811
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	108,248		263				108,511
7								
8								
9	Net Utility Plant							
10	in Service	$ 2,240,239	$ 17,325	$ (263)	$ -	$ -	$ -	$ 2,257,300
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	971,695						971,695
15								
16	Contributions in Aid of							
17	Construction (CIAC)	-						-
18								
19								
20	Accum. Amortization of CIAC	-						-
21								
22								
23	Customer Meter Deposits	14,864						14,864
24	Deferred Income Taxes	-						-
25	Investment Tax Credits	-						-
26								
27								
28	**Plus:**							
29	Unamortized Finance	-						
30	Charges	-						-
31								-
32	Allowance for Working Capital	22,003			(694)			21,310
33								
34								
35	Total	$ 1,275,683	$ 17,325	$ (263)	$ (694)	$ -	$ -	$ 1,292,051
36								
37								
38								
39								
40								
41	SUPPORTING SCHEDULES:							
42	Rebuttal B-2, pages 3-7							
43								

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

Exhibit
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Adjustments	Rejoinder Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 21,094,247	-	$ 21,094,247
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	1,318,581	(5,397)	1,313,184
7				
8				
9	Net Utility Plant			
10	in Service	$ 19,775,666	$ 5,397	$ 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	0	30,769
24	Deferred Income Taxes	254,681	-	254,681
25	Investment Tax Credits	-	-	-
26				
27				
28	**Plus:**			
29	Unamortized Finance	0		
30	Charges	-	0	-
31	Prepaids	-	-	-
32	Allowance for Working Capital	(0)	-	(0)
33		-		-
34				
35	Total	$ 15,743,898	$ (1,179)	$ 15,742,719
36				
37				
38				
39				
40				
41	SUPPORTING SCHEDULES:			
42	Rejoinder B-2, pages 2			
43				
44				
45				
46				
47				
48				

Goodman Water Company
Test Year Ended September 31, 2005
Computation of Working Capital

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	21,310
3	Pumping Power (1/24 of Pumping Power)		-
4	Purchased Water Treatment (1/24 of Purchased Water)		-
5			
6			
7			
8			
9	Total Working Capital Allowance	$	21,310
10	Working Capital per Direct Filing	$	22,003
11			
12	Increase (Decrease) in Working Capital	$	(694)
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16		Rejoinder B-1	
17			

Goodman Water Company
Test Year Ended September 31, 2005
Income Statement

Exhibit
Rejoinder 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	Metered Water Revenues	$ 195,408	$ -	$ 195,408	$ 325,463	$ 520,872
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	17,940	-	17,940		17,940
5		$ 213,348	$ -	$ 213,348	$ 325,463	$ 538,812
6	**Operating Expenses**					
7	Salaries and Wages	$ 32,000	-	$ 32,000		$ 32,000
8	Purchased Water	-	-	-		-
9	Purchased Power	10,086	-	10,086		10,086
10	Chemicals	-	-	-		-
11	Repairs and Maintenance	9,868	-	9,868		9,868
12	Office Supplies and Expense	778	-	778		778
13	Outside Services	78,106	(174)	77,932		77,932
14	Water Testing	3,639	-	3,639		3,639
15	Rents	-	-	-		-
16	Transportation Expenses	-	-	-		-
17	Insurance - General Liability	18,253	-	18,253		18,253
18	Insurance - Health and Life	-	-	-		-
19	Regulatory Commission Expense - Ra	25,000	(1,875)	23,125		23,125
20	Miscellaneous Expense	2,386	(140)	2,246		2,246
21	Depreciation Expense	129,418	-	129,418		129,418
22	Taxes Other Than Income	2,635	-	2,635		2,635
23	Property Taxes	19,270	17	19,287		19,287
24	Income Tax	(41,497)	627	(40,870)	114,748	73,879
25						
26	**Total Operating Expenses**	$ 289,943	$ (1,545)	$ 288,398	$ 114,748	$ 403,147
27	**Operating Income**	$ (76,594)	$ 1,545	$ (75,050)	$ 210,715	$ 135,665
28	**Other Income (Expense)**					
29	Interest Income	-		-		-
30	Other income	-		-		-
31	Interest Expense	-		-		-
32	Other Expense	-		-		-
33						
34	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (76,594)	$ 1,545	$ (75,050)	$ 210,715	$ 135,665
36						
37						
38						
39	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
40	Rejoinder C-1, Page 2				Rejoinder A-1	
41	Rejoinder C-2					

Goodman Water Company
Test Year Ended September 31, 2005
Income Statement

Exhibit
Rejoinder Schedule C-1
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Adjusted Book Results	1 Rebuttal Outside Services	2 Rebuttal Rate Case Expense	3 Rebuttal Property Taxes	4 Rebuttal Miscellaneous Expese	5 Rebuttal Income Tax	6	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**										
2	Metered Water Revenues	$ 195,408							$ 195,408	$ 325,463	$ 520,872
3	Unmetered Water Revenues	-							-		-
4	Other Water Revenues	17,940							17,940		17,940
5		$ 213,348	$ -	$ -	$ -	$ -	$ -	$ -	$ 213,348	$ 325,463	$ 538,812
6	**Operating Expenses**										
7	Salaries and Wages	$ 32,000							$ 32,000		$ 32,000
8	Purchased Water	-							-		-
9	Purchased Power	10,086							10,086		10,086
10	Chemicals	-							-		-
11	Repairs and Maintenance	9,868							9,868		9,868
12	Office Supplies and Expense	778							778		778
13	Outside Services	78,106	(174)						77,932		77,932
14	Water Testing	3,639							3,639		3,639
15	Rents	-							-		-
16	Transportation Expenses	-							-		-
17	Insurance - General Liability	18,253							18,253		18,253
18	Insurance - Health and Life	-							-		-
19	Regulatory Commission Expense - Rate Case	25,000		(1,875)					23,125		23,125
20	Miscellaneous Expense	2,386				(140)			2,246		2,246
21	Depreciation Expense	129,418							129,418		129,418
22	Taxes Other Than Income	2,635							2,635		2,635
23	Property Taxes	19,270			17				19,287		19,287
24	Income Tax	(41,497)					627		(40,870)	114,748	73,879
25		-							-		-
26	**Total Operating Expenses**	$ 289,943	$ (174)	$ (1,875)	$ 17	$ (140)	$ 627	$ -	$ 288,398	$ 114,748	$ 403,147
27	**Operating Income**	$ (76,594)	$ 174	$ 1,875	$ (17)	$ 140	$ (627)	$ -	$ (75,050)	$ 210,715	$ 135,665
28	**Other Income (Expense)**										
29	Interest Income	-							-		-
30	Other income	-							-		-
31	Interest Expense	-							-		-
32	Other Expense	-							-		-
33		-							-		-
34	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (76,594)	$ 174	$ 1,875	$ (17)	$ 140	$ (627)	$ -	$ (75,050)	$ 210,715	$ 135,665
36											
37											
38											
39	SUPPORTING SCHEDULES:										
40	Rebuttal C-2										
41											

RECAP SCHEDULES:
Rejoinder A-1

Goodman Water Company
Test Year Ended September 31, 2005
Adjustments to Revenues and Expenses

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1 Outside Services	2 Rate Case Expense	3 Property Taxes	4 Miscellaneous Expense	5 Income Tax	6 Intentionally Left Blank	Subtotal
3	Revenues							-
5	Expenses	(174)	(1,875)	17	(140)	627	-	(1,545)
8	Operating Income	174	1,875	(17)	140	(627)	-	1,545
10	Interest							-
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
16	Net Income	174	1,875	(17)	140	(627)	-	1,545

Adjustments to Revenues and Expenses

Line No.		7 Intentionally Left Blank	8 Intentionally Left Blank	9 Intentionally Left Blank	10 Intentionally Left Blank	11 Intentionally Left Blank	12 Intentionally Left Blank	Subtotal
23	Revenues							-
25	Expenses							(1,545)
28	Operating Income	-	-	-	-	-	-	1,545
30	Interest							
31	Expense							-
32	Other							
33	Income /							-
34	Expense							
36	Net Income	-	-	-	-	-	-	1,545

Adjustments to Revenues and Expenses

Line No.		13 Intentionally Left Blank	14 Intentionally Left Blank	15 Intentionally Left Blank	16 Intentionally Left Blank	17 Intentionally Left Blank	18 Intentionally Left Blank	Total
43	Revenues							-
45	Expenses							(1,545)
48	Operating Income	-	-	-	-	-	-	1,545
50	Interest							
51	Expense							-
52	Other							
53	Income /							-
54	Expense							
56	Net Income	-	-	-	-	-	-	1,545

Goodman Water Company
Test Year Ended September 31, 2005
Computation of Gross Revenue Conversion Factor

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	28.29%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	35.26%
9		
10	Operating Income % = 100% - Tax Percentage	64.74%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.5446
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rejoinder A-1
20		

Goodman Water Company
Test Year Ended September 31, 2005
Summary of Cost of Capital

Exhibit
Rejoinder Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	End of Test Year Percent of Total	End of Test Year (e) Cost Rate	End of Test Year Weighted Cost	Adjusted End of Test Year Dollar Amount	Adjusted End of Test Year Percent of Total	Adjusted End of Test Year (e) Cost Rate	Adjusted End of Test Year Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
2									
3	Stockholder's Equity (1)(2)	1,389,439	100.00%	10.50%	10.50%	1,389,439	100.00%	10.50%	10.50%
4									
5	Totals	1,389,439	100.00%		10.50%	1,389,439	100.00%		10.50%
6									
7									
8									
9	**(1) Increase Equity for expense reclassified to plant Rebuttal adjustment 1, B-2, page 1**				**$ 17,325**				
10	**(2) Increase Equity for expense reclassified to plant Rebuttal adjustment 2, B-2, page 2**				**$ (263)**				
11	SUPPORTING SCHEDULES:								
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

RECAP SCHEDULES:

Goodman Water Company
Summary of Results

Exhibit
Schedule D-4.0
Witness: Bourassa

Line No.		Low	High	Midpoint
1	DCF Constant Growth	9.9%	12.8%	11.4%
2	DCF Sustainable Growth	8.7%	10.8%	9.8%
3	DCF Two-Stage	9.6%	11.7%	10.7%
4				
5	Risk Premium - Actual Returns	10.1%	10.2%	10.2%
6	Risk Premium - Authorized Returns	10.8%	11.3%	11.1%
7				
8	Actual Returns	4.0%	11.7%	7.9%
9	Authorized Returns	9.9%	12.7%	11.3%
10				
11	Water Utility Industry			
12	2006			9.5%
13	2007			10.5%
14	09-11			11.5%
15				
16				
17				
18				
19				
20				

Goodman Water Company
Selected Characteristics of Water Utilities

Exhibit
Schedule D-4.1
Witness: Bourassa

Line No.		% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1						
2						
3						
4	1. American States	85%	$ 248.7	$ 644.8	A-	A2
5	2. Aqua America	88%	$ 519.6	$ 2,115.5	AA-	NR
6	3. California Water	95%	$ 325.3	$ 797.4	NR	A2
7	4. Connecticut Water	88%	$ 51.1	$ 206.4	AAA	NR
8	5. Middlesex	89%	$ 80.5	$ 274.4	A	NR
9	6. SJW Corp.	97%	$ 188.3	$ 406.7	NR	NR
10						
11	Average	90%	$ 235.6	$ 740.9		
12						
13	Goodman Water Company	100%	$ 0.2	$ 2.3		
14						
15	Source: AUS Utility Reports (December 2006)					

Goodman Water Company
Capital Structures of Water Utilities December 2005

Exhibit
Schedule D-4.2
Witness: Bourassa

No.		Book Value		Market Value	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1.	American States	50.4%	49.6%	29.6%	70.4%
2.	Aqua America	52.0%	48.0%	22.9%	77.1%
3.	California Water	48.3%	51.7%	27.2%	72.8%
4.	Connecticut Water	40.6%	59.4%	25.7%	74.3%
5.	Middlesex	56.3%	43.7%	37.1%	62.9%
6.	SJW Corp.	42.6%	57.4%	18.7%	81.3%
	Average	48.3%	51.7%	26.9%	73.1%
	Goodman Water Company	100.0%	0.0%	N/A	N/A

Sources:
Zacks Investment Research

Goodman Water Company
Comparisons of Past and Future Estimates of Growth

Exhibit
Schedule D-4.3
Page 1
Witness: Bourassa

Line No.		Company	Five-year historical compound annual changes: Price	Book Value	DPS	EPS	Average Future Growth*
7	1.	American States	8.19%	4.29%	0.91%	1.29%	7.50%
8	2.	Aqua America	21.12%	10.35%	7.39%	8.60%	10.67%
9	3.	California Water	12.54%	4.38%	0.72%	2.33%	7.50%
10	4.	Connecticut Water	7.61%	5.25%	1.48%	Negative	
11	5.	Middlesex	5.32%	4.26%	1.89%	6.84%	
12	6.	SJW Corp.	9.11%	6.30%	5.27%	14.07%	
15		GROUP AVERAGE	10.65%	5.80%	2.95%	6.62%	8.56%
16		GROUP MEDIAN	8.65%	4.81%	1.69%	6.84%	7.50%

* See Schedule D-4.5

Sources:

Value Line Data

Yahoo Finance

Exhibit
Schedule D-4.4
Page 1
Witness: Bourassa

Goodman Water Company

Comparisons of Past and Future Estimates of Growth

Line No.		Company	Ten-year historical compound annual changes: Price	Book Value	DPS	EPS	Average Future Growth*
7	1.	American States	13.25%	4.33%	1.06%	3.42%	7.50%
8	2.	Aqua America	27.11%	9.86%	6.16%	9.37%	10.67%
9	3.	California Water	13.65%	3.15%	0.92%	2.31%	7.50%
10	4.	Connecticut Water	11.68%	4.03%	1.26%	Negative	
11	5.	Middlesex	11.55%	3.93%	2.18%	0.43%	
12	6.	SJW Corp.	17.76%	5.44%	3.94%	2.38%	
15		GROUP AVERAGE	15.83%	5.12%	2.59%	3.58%	8.56%
16		GROUP MEDIAN	13.45%	4.18%	1.72%	2.38%	7.50%

* See Schedule D-4.5

Sources:

Value Line Data

Yahoo Finance

Goodman Water Company
Analysts Forecasts of Earnings Per Share Growth

Exhibit
Schedule D-4.5
Witness: Bourassa

Line No.		Company	(1) Zacks	(2) S&P	(3) Value Line	(4) Average Growth (G) (Cols 1-3)
			EPS GROWTH			
7	1.	American States	6.00%	6.00%	10.50%	7.50%
8	2.	Aqua America	8.00%	12.00%	12.00%	10.67%
9	3.	California Water	10.00%	8.00%	4.50%	7.50%
10	4.	Connecticut Water				8.56%
11	5.	Middlesex				8.56%
12	6.	SJW Corp.				8.56%
15		GROUP AVERAGE	8.00%	8.67%	9.00%	8.56%
16		GROUP MEDIAN				8.56%

18 Sources:
19 Value Line Investment Analyzer Data December 22, 2006
20 Zacks Investment Research Site December 22, 2006
21 S&P Earnings Guide December 2006

Goodman Water Company
Estimates of Sustainable Growth

Exhibit
Schedule D-4.6
Witness: Bourassa

Line No.		Company	(1) Retention Ratio	(2) Rate of Return	(3) br Growth	(4) sv Growth	(5) Average Sustainable Growth (Cols 3+4)
7	1.	American States	0.49	10.00%	4.95%	3.35%	8.30%
8	2.	Aqua America	0.42	14.50%	6.15%	0.74%	6.89%
9	3.	California Water	0.32	9.00%	2.90%	3.18%	6.08%
10	4.	Connecticut Water					
11	5.	Middlesex					
12	6.	SJW Corp.					
15		GROUP AVERAGE	0.41	11.17%	4.67%	2.42%	7.09%
16		GROUP MEDIAN	0.42	10.00%	4.95%	3.18%	6.89%

Sources:
Value Line Investment Analyzer Data December 22, 2006

Goodman Water Company
Estimates of sv Growth

Exhibit
Schedule D-4.7
Witness: Bourassa

Line No.		Company	(1) Stock Financing Rate	(2) Current Market to Book Ratio	(3) v	(4) sv Growth
7	1.	American States	5.71%	2.42	0.59	3.35%
8	2.	Aqua America	1.03%	3.65	0.73	0.74%
9	3.	California Water	5.26%	2.52	0.60	3.18%
10	4.	Connecticut Water				na
11	5.	Middlesex				na
12	6.	SJW Corp.				na
15		GROUP AVERAGE	4.00%	2.86	0.64	2.42%
16		GROUP MEDIAN	5.26%	2.52	0.60	3.18%

Sources:
Value Line Investment Analyzer Data December 22, 2006
Zacks Investment Research Site December 22, 2006
S&P Earnings Guide December 2006

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Sustainable Growth

Exhibit
Schedule D-4.9
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) Sustainable Growth(a) br	(5) vs	(6) br+sv Growth (g)	(7) Indicated Cost of Equity k=Div Yld + g (Cols 3+6)
7	1.	American States	38.01	0.92	2.42%	4.95%	3.35%	8.30%	10.7%
8	2.	Aqua America	22.98	0.50	2.18%	6.15%	0.74%	6.89%	9.1%
9	3.	California Water	39.90	1.16	2.91%	2.90%	3.18%	6.08%	9.0%
10	4.	Connecticut Water	22.89	0.86	3.76%			7.09%	10.8%
11	5.	Middlesex	18.74	0.68	3.65%			7.09%	10.7%
12	6.	SJW Corp.	34.63	0.55	1.59%			7.09%	8.7%
15		GROUP AVERAGE			2.75%			7.09%	9.8%
16		GROUP MEDIAN							9.9%

a) See Schedule D-4.6 and D-4.7

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Projected EPS Growth

Exhibit
Schedule D-4.8
Witness: Bourassa

Line No.		Company	(1) Spot Price (Po)	(2) Next Year's Div (D1)	(3) Dividend Yield	(4) (a) EPS Growth (g)	(5) Indicated Cost of Equity k=Div Yld + g (Cols 3+4)
1	1.	American States	38.01	0.92	2.42%	7.50%	9.9%
2	2.	Aqua America	22.98	0.50	2.18%	10.67%	12.8%
3	3.	California Water	39.90	1.16	2.91%	7.50%	10.4%
4	4.	Connecticut Water	22.89	0.86	3.76%	8.56%	12.3%
5	5.	Middlesex	18.74	0.68	3.65%	8.56%	12.2%
6	6.	SJW Corp.	34.63	0.55	1.59%	8.56%	10.1%
7		GROUP AVERAGE			2.75%	8.56%	11.3%
8		GROUP MEDIAN					11.3%

a) See Schedules D-4.5

Sources:
Value Line Investment Analyzer Data December 22, 2006

Goodman Water Company
Discounted Cash Flow Analysis (Water)
Two-Stage Growth - Projected

Exhibit
Schedule D-4.10
Witness: Bourassa

Line No.		Company	(1) Spot Price(P_0)	(2) Next Year's Div. (D_1)	(3) Yield (D_1/P_0)	(4) Projected Growth Rates Near Term (a)	(5) Long Term (GDP)	(6) Average (b)	(7) Indicated Cost of Equity
7	1.	American States	38.01	0.92	2.42%	7.50%	6.80%	7.27%	9.7%
8	2.	Aqua America	22.98	0.50	2.18%	10.67%	6.80%	9.39%	11.6%
9	3.	California Water	39.90	1.16	2.91%	7.50%	6.80%	7.27%	10.2%
10	4.	Connecticut Water	22.89	0.86	3.76%	8.56%	6.80%	7.98%	11.7%
11	5.	Middlesex	18.74	0.68	3.65%	8.56%	6.80%	7.98%	11.6%
12	6.	SJW Corp.	34.63	0.55	1.59%	8.56%	6.80%	7.98%	9.6%
15		GROUP AVERAGE						7.98%	10.7%
16		GROUP MEDIAN							10.9%

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

Goodman Water Company
Risk Premium Equity Cost Analysis
Average Equity Returns of Sample Water Companies

Exhibit
Schedule D-4.11
Witness: Bourassa

Line No.		Actual Returns on Equity	Annual Average 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	9.22%	4.29%	4.93%
2	2004	9.00%	4.27%	4.73%
3	2003	8.75%	4.01%	4.74%
4	2002	10.25%	4.61%	5.64%
5	2001	10.05%	5.02%	5.03%
6	2000	9.62%	6.03%	3.59%
7	1999	11.20%	5.65%	5.55%
8	1998	10.62%	5.26%	5.36%
9	1997	11.52%	6.35%	5.17%
10	1996	11.67%	6.44%	5.23%
11	1995	10.93%	6.57%	4.36%
12				
13				
14	10 Year Average Premium			5.00%
15	5 Year Average Premium			5.01%
16				
17				
18	Consensus Forecast Interest Rates for 2008-2009			5.15%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.1%
22	5 Year Average			10.2%
23				
24				
25	Sources:			
26	Value Line Data December 22, 2006			
27	Ibbotson Associates SBBI Valuation Edition 2006 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. December 2006			
29	Federal Reserve			
30				

Goodman Water Company
Risk Premium Equity Cost Analysis
Authorized Equity Returns of Sample Water Companies

Exhibit
Schedule D-4.12
Witness: Bourassa

Line No.		Authorized Returns on Equity	Average Annual 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	10.47%	4.34%	6.13%
2	2004	10.40%	4.27%	6.13%
3	2003	10.48%	4.01%	6.47%
4	2002	10.62%	4.61%	6.01%
5	2001	10.86%	5.02%	5.84%
6	2000	11.12%	6.03%	5.09%
7	1999	11.12%	5.65%	5.47%
8	1998	11.06%	5.26%	5.80%
9	1997	11.18%	6.35%	4.83%
10	1996	11.58%	6.44%	5.14%
11	1995	11.51%	6.57%	4.94%
12				
13				
14	10 Year Average Premium			5.69%
15	5 Year Average Premium			6.12%
16				
17				
18	Consensus Forecast Interest Rates for 2008-2009			5.15%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.8%
22	5 Year Average			11.3%
23				
24				
25	Sources:			
26	AUS Utility Reports, issues for December various years			
27	Ibbotson Associates SBBI Valuation Edition 2006 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. December 2006			
29	Federal Reserve			

Test Year Ended June 30, 2006
Returns on Equity of Nationally Traded Water
Utilities as Reported in AUS Utility Reports
December 2006

Exhibit
Schedule D-4.13
Witness: Bourassa

Line No.		Authorized Rate of Return	Current Rate of Return
1	American States Water Co.	9.9%	11.1%
2	Aqua America	10.1%	10.5%
3	California Water	10.1%	8.8%
4	Connecticut Water Service	12.7%	4.0%
5	Middlesex Water Co.	10.0%	10.0%
6	SJW Corp.	9.9%	11.7%
7			
8			
9	Averages	10.4%	9.4%
10			
11			
12			
13			
14			
15			

Goodman Water Company
Revenue Summary
Test Year Ended September 30, 2005

Exhibit
Rejoinder Schedule H-1
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Addition Bills	Addition Gallons
1	5/8 x 3/4 Inch Residential	$124,765	$344,047	$ 219,282	175.76%		
2	3/4 Inch Residential	-	-	-	0.00%		
3	1 Inch Residential	10,839	27,423	16,584	153.00%		
4	2 Inch Residential	13,982	43,113	29,131	208.35%		
5	Construction Water	13,412	21,797	8,386	62.53%		
6		-	-	-			
7		-	-	-			
8							
9							
10	Subtotals of Revenues	$ 162,998	$ 436,381	$ 273,383	167.72%		
11							
12	Other Water Revenues	17,940	17,940	-	0.00%		
13							
14							
15	**Subtotals of Revenues**	$ 180,938	$ 454,321	$ 273,383	151.09%		
16	**Revenue Annualizations:**						
17	5/8 Inch residential	$ 14,345	$ 38,370	$ 24,024	167.47%	537	182,394
18	3/4 Inch Residential	-	-	-	0.00%	-	-
19	1 Inch Residential	18,401	46,055	27,654	150.29%	325	1,722,972
20	2 Inch Residential	-	-	-	0.00%	-	-
21	Construction Water	-	-	-	0.00%		
22	**Subtotal Revenue Annualization**	32,746	84,425	51,678	157.81%	862	1,905,366
23							
24	**Total Revenues Per Bill Count**	$ 213,684	$ 538,745	$ 325,061	152.12%		
25	**With Annualization**						
26							
27	**Subtotal of Revenues Above w/o Annualization**	**$ 180,938**					
28	**Revenues Per Annual Report**	**$ 180,602**					
29	**Difference in Dollars**	**$ 336**					
30	**Dfference in Percentage**	**0.19%**					
31	**Tolerance Allowed by ACC Staff**	**0.50%**					
32							
33							

Goodman Water Company
Analysis of Revenue by Detailed Class
Test Year Ended September 30, 2005

Exhibit
Rejoinder Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2004	Average Consumption	Revenues Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount	Percent of Customers
1	5/8 x 3/4 Inch Residential	368	5,509	$ 124,765	$ 344,047	$ 219,282	175.76%	94.83%
2	3/4 Inch Residential	-	-	-	-	-	0.00%	0.00%
3	1 Inch Residential	17	3,816	10,839	27,423	16,584	153.00%	4.36%
4	2 Inch Residential	3	111,083	13,982	43,113	29,131	208.35%	0.77%
5	Construction Water	0	1,411,750	13,412	21,797	8,386	62.53%	0.04%
6								
7								
8								
9								
10								
11								
12								
13								
14	Totals	388						100.00%
15								
16	Actual Year End Number							
17	of Customers:	459						
18								
19								
20								
21								

Goodman Water Company
Present and Proposed Rates
Test Year Ended September 30, 2005

Docket No.
W-02500A-06-0281

Exhibit
Rejoinder Schedule H-3
Page 1
Witness: Bourassa

Line No.	Customer Classification and Meter Size (Residential, Commercial, Irrigation)		Present Rates	Proposed Rates (a)	Percent Change
1	**Monthly Usage Charge for:**				
2	5/8 x 3/4 Inch		$ 18.00	$ 44.87	149.30%
3	3/4 Inch		27.00	67.31	149.30%
4	1 Inch		45.00	112.19	149.30%
5	1 1/2 Inch		90.00	224.37	149.30%
6	2 Inch		144.00	358.99	149.30%
7	3 Inch		270.00	673.11	149.30%
8	4 Inch		450.00	1,121.85	149.30%
9	5 Inch		N/A	N/A	
10	6 Inch		900.00	2,243.70	149.30%
11	Fire Hydrant		15.00	-	
12	Bulk Water		-	-	0.00%
13					
14	Gallons included in Minimums 5/8 x 3/4 Inch				
15	Meter Only		1,000	-	
16					
17	**Tier 1:** (Gallon upper limit, up to, but not exceeding)				
18	5/8 x 3/4 Inch	Residential, Commercial, Irrigation	All gallons over min.	Please See Page 2	
19	34 Inch	Residential, Commercial, Irrigation	All gallons over min.		
20	1 Inch	Residential, Commercial, Irrigation	All gallons over min.		
21	1.5 Inch	Residential, Commercial, Irrigation	All gallons over min.		
22	2 Inch	Residential, Commercial, Irrigation	All gallons over min.		
23	3 Inch	Residential, Commercial, Irrigation	All gallons over min.		
24	4 Inch	Residential, Commercial, Irrigation	All gallons over min.		
25	6 Inch	Residential, Commercial, Irrigation	All gallons over min.		
26	8 Inch	Residential, Commercial, Irrigation	All gallons over min.		
27					
28	**Tier 2:** (Gallon upper limit, up to, but not exceeding)				
29	5/8 x 3/4 Inch	Residential, Commercial, Irrigation		Please See Page 2	
30	3/4 Inch	Residential, Commercial, Irrigation			
31	1 Inch	Residential, Commercial, Irrigation			
32	1.5 Inch	Residential, Commercial, Irrigation			
33	2 Inch	Residential, Commercial, Irrigation			
34	3 Inch	Residential, Commercial, Irrigation			
35	4 Inch	Residential, Commercial, Irrigation			
36	6 Inch	Residential, Commercial, Irrigation			
37	8 Inch	Residential, Commercial, Irrigation			
38					

Goodman Water Company
Present and Proposed Rates
Test Year Ended September 30, 2005

Docket No.
W-02500A-06-0281

Exhibit
Rejoinder Schedule H-3
Page 2
Witness: Bourassa

Line No.	Customer Classification and Meter Size		Present Rates	Proposed Rates
1	Tier 3: (Gallon upper limit, up to, but not exceeding)			
2	5/8 x 3/4 Inch	Residential, Commercial, Irrigation		Please See Page 2
3	3/4 Inch	Residential, Commercial, Irrigation		
4	1 Inch	Residential, Commercial, Irrigation		
5	1.5 Inch	Residential, Commercial, Irrigation		
6	2 Inch	Residential, Commercial, Irrigation		
7	3 Inch	Residential, Commercial, Irrigation		
8	4 Inch	Residential, Commercial, Irrigation		
9	6 Inch	Residential, Commercial, Irrigation		
10	8 Inch	Residential, Commercial, Irrigation		
11				
12			Present	Proposed / Percent Change
13	Commodity Rates (per 1,000 gallons in excess of gallons in Each Tier)			
14	All customer classes except Bulk Water	Tier 1	$ 2.20	$ 5.02 128.18%
15	All customer classes except Bulk Water	Tier 2	2.20	6.72 205.45%
16	All customer classes except Bulk Water	Tier 3	2.20	7.72 250.91%
17				
18	Bulk Water	All Water	$ 4.75	$ 7.72 62.53%
19				
20				
21			Proposed Rates	
22			From Gallons	To Gallons
23	**5/8 and 3/4 Inch Meters**			
24	Tier 1	over	-	up to 4,000 $ 5.02
25	Tier 2	over	4,001	up to 10,000 $ 6.72
26	Tier 3	over	10,001	$ 7.72
27				
28				
29	**1 Inch Meter and Larger Meters**			
30	Tier 1	over	-	up to 10,000 $ 5.02
31	Tier 2	over	10,001	up to 25,000 $ 6.72
32	Tier 3	over	25,001	$ 7.72
33				
34				

Goodman Water Company
Present and Proposed Rates
Test Year Ended September 30, 2005

Exhibit
Rejoinder Schedule H-3
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Line No.

1 Meter and Service Line Charges

	Present Service Line Charge	Present Meter Install-ation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Install-ation Charge	Total Proposed Charge
5/8 x 3/4 Inch			$ 225.00	$ 385.00	$ 135.00	$ 520.00
3/4 Inch			270.00	385.00	215.00	600.00
1 Inch			300.00	435.00	255.00	690.00
1 1/2 Inch			425.00	470.00	465.00	935.00
2 Inch Turbo			550.00	630.00	965.00	1,595.00
2 Inch, Compound			550.00	630.00	1,690.00	2,320.00
3 Inch Turbo			750.00	805.00	1,470.00	2,275.00
3 Inch, compound			750.00	845.00	2,265.00	3,110.00
4 Inch Turbo			1,375.00	1,170.00	2,350.00	3,520.00
4 Inch, compound			1,375.00	1,230.00	3,245.00	4,475.00
5 Inch			2,090.00			
6 Inch Turbo			2,800.00	1,730.00	4,545.00	6,275.00
6 Inch, compound			2,800.00	1,770.00	6,280.00	8,050.00
8 Inch			NA	At Cost	At Cost	At Cost
10 Inch			NA	At Cost	At Cost	At Cost
12 Inch			NA	At Cost	At Cost	At Cost

Other Charges:

Establishment	$ 50.00	$ 50.00	Establishment (R14-2-403.D.1)
Establishment (After Hours)	$ 75.00	$ 75.00	Establishment (After Hours) (R14-2-403.D.2)
Reconnection (Delinquent)	$ 75.00	$ 75.00	Meter Test (R14-2-408.F)
Reconnection (Delinquent) after hours			Deposit (R14-2-403.B)
Meter Test	$ 20.00	$ 20.00	Deposit Interest (R14-2-403.B.3)
Deposit	PER RULE	PER RULE	Re-establishment (R14-2-403.D.1)
Deposit Interest	PER RULE	PER RULE	NSF Check (R14-2-409.F.1)
Re-establishment (Within 12 months)	PER RULE	PER RULE	Deferred Payment (R14-2-409.G.6)
NSF Check	$ 15.00	$ 15.00	Meter Re-read (R14-2-408.C.2)
Deferred Payment	18%	18%	
Meter Re-read	$ 20.00	$ 20.00	
Late Fee (a)	$ 10.00	1.50%	
Customer requested Meter Test	$ 20.00	$ 20.00	

(a) $ 5.00 minimum or 1.5% of unpaid balance whichever is greater.

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 5/8 Inch Meter
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Rejoinder Schedule H-4
Page 1
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 18.00	$ 44.87	$ 26.87	149.30%
1,000	18.00	49.89	$ 31.89	177.19%
2,000	20.20	54.91	$ 34.71	171.85%
3,000	22.40	59.93	$ 37.53	167.56%
4,000	24.60	64.95	$ 40.35	164.04%
5,000	26.80	71.67	$ 44.87	167.44%
6,000	29.00	78.39	$ 49.39	170.32%
7,000	31.20	85.11	$ 53.91	172.80%
8,000	33.40	91.83	$ 58.43	174.95%
9,000	35.60	98.55	$ 62.95	176.84%
10,000	37.80	105.27	$ 67.47	178.50%
12,000	42.20	120.71	$ 78.51	186.05%
14,000	46.60	136.15	$ 89.55	192.18%
16,000	51.00	151.59	$ 100.59	197.24%
18,000	55.40	167.03	$ 111.63	201.51%
20,000	59.80	182.47	$ 122.67	205.14%
25,000	70.80	221.07	$ 150.27	212.25%
30,000	81.80	259.67	$ 177.87	217.45%
35,000	92.80	298.27	$ 205.47	221.42%
40,000	103.80	336.87	$ 233.07	224.54%
45,000	114.80	375.47	$ 260.67	227.07%
50,000	125.80	414.07	$ 288.27	229.15%
60,000	147.80	491.27	$ 343.47	232.39%
70,000	169.80	568.47	$ 398.67	234.79%
80,000	191.80	645.67	$ 453.87	236.64%
90,000	213.80	722.87	$ 509.07	238.11%
100,000	235.80	800.07	$ 564.27	239.30%
Average Usage				
5,509	$ 27.92	$ 75.09	$ 47.17	168.96%
Median Usage				
4,500	$ 25.70	$ 68.31	$ 42.61	165.81%

Present Rates:

Monthly Minimum:		$ 18.00
Gallons in Minimum		1,000
Charge Per 1,000 Gallons		
		$ 2.20

Proposed Rates:

Monthly Minimum:		$ 44.87
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	4,000	$ 5.02
Up to	10,000	$ 6.72
Over	10,001	$ 7.72

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification 1 Inch Meter
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Rebuttal Schedule H-4
Page 2
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 45.00	$ 112.19	$ 67.19	149.30%
1,000	47.20	117.21	$ 70.01	148.32%
2,000	49.40	122.23	$ 72.83	147.42%
3,000	51.60	127.25	$ 75.65	146.60%
4,000	53.80	132.27	$ 78.47	145.85%
5,000	56.00	137.29	$ 81.29	145.15%
6,000	58.20	142.31	$ 84.11	144.51%
7,000	60.40	147.33	$ 86.93	143.92%
8,000	62.60	152.35	$ 89.75	143.36%
9,000	64.80	157.37	$ 92.57	142.85%
10,000	67.00	162.39	$ 95.39	142.37%
12,000	71.40	175.83	$ 104.43	146.25%
14,000	75.80	189.27	$ 113.47	149.69%
16,000	80.20	202.71	$ 122.51	152.75%
18,000	84.60	216.15	$ 131.55	155.49%
20,000	89.00	229.59	$ 140.59	157.96%
25,000	100.00	263.19	$ 163.19	163.19%
30,000	111.00	301.79	$ 190.79	171.88%
35,000	122.00	340.39	$ 218.39	179.00%
40,000	133.00	378.99	$ 245.99	184.95%
45,000	144.00	417.59	$ 273.59	189.99%
50,000	155.00	456.19	$ 301.19	194.31%
60,000	177.00	533.39	$ 356.39	201.35%
70,000	199.00	610.59	$ 411.59	206.83%
80,000	221.00	687.79	$ 466.79	211.21%
90,000	243.00	764.99	$ 521.99	214.81%
100,000	265.00	842.19	$ 577.19	217.81%
Average Usage				
3,816	$ 53.39	$ 131.34	$ 77.95	145.98%
Median Usage				
500	$ 46.10	$ 114.70	$ 68.60	148.80%

Present Rates:

Monthly Minimum:		$ 45.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
		$ 2.20

Proposed Rates:

Monthly Minimum:		$ 112.19
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	10,000	$ 5.02
Up to	25,000	$ 6.72
Over	25,001	$ 7.72

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Residential 2 Inch
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Rejoinder Schedule H-4
Page 3
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 144.00	$ 358.99	$ 214.99	149.30%
1,000	146.20	364.01	$ 217.81	148.98%
2,000	148.40	369.03	$ 220.63	148.67%
3,000	150.60	374.05	$ 223.45	148.37%
4,000	152.80	379.07	$ 226.27	148.08%
5,000	155.00	384.09	$ 229.09	147.80%
6,000	157.20	389.11	$ 231.91	147.53%
7,000	159.40	394.13	$ 234.73	147.26%
8,000	161.60	399.15	$ 237.55	147.00%
9,000	163.80	404.17	$ 240.37	146.75%
10,000	166.00	409.19	$ 243.19	146.50%
12,000	170.40	422.63	$ 252.23	148.02%
14,000	174.80	436.07	$ 261.27	149.47%
16,000	179.20	449.51	$ 270.31	150.84%
18,000	183.60	462.95	$ 279.35	152.15%
20,000	188.00	476.39	$ 288.39	153.40%
25,000	199.00	509.99	$ 310.99	156.28%
30,000	210.00	548.59	$ 338.59	161.23%
35,000	221.00	587.19	$ 366.19	165.70%
40,000	232.00	625.79	$ 393.79	169.74%
45,000	243.00	664.39	$ 421.39	173.41%
50,000	254.00	702.99	$ 448.99	176.77%
60,000	276.00	780.19	$ 504.19	182.68%
70,000	298.00	857.39	$ 559.39	187.72%
80,000	320.00	934.59	$ 614.59	192.06%
90,000	342.00	1,011.79	$ 669.79	195.85%
100,000	364.00	1,088.99	$ 724.99	199.17%
150,000	474.00	1,474.99	$ 1,000.99	211.18%
200,000	584.00	1,860.99	$ 1,276.99	218.66%
250,000	694.00	2,246.99	$ 1,552.99	223.77%
300,000	804.00	2,632.99	$ 1,828.99	227.49%
350,000	914.00	3,018.99	$ 2,104.99	230.31%
400,000	1,024.00	3,404.99	$ 2,380.99	232.52%
450,000	1,134.00	3,790.99	$ 2,656.99	234.30%
500,000	1,244.00	4,176.99	$ 2,932.99	235.77%
Average Usage				
111,083	$ 388.38	$ 1,174.55	$ 786.17	202.42%
Median Usage				
-	$ 144.00	$ 358.99	$ 214.99	149.30%

Present Rates:

Monthly Minimum:		$ 144.00
Gallons in Minimum		
Charge Per 1,000 Gallons		
		$ 2.20

Proposed Rates:

Monthly Minimum:		$ 358.99
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	10,000	$ 5.02
Up to	25,000	$ 6.72
Over	25,001	$ 7.72

Goodman Water Company
Bill Comparison of Present and Proposed Rates
Customer Classification Construction Water
Test Year Ended September 30, 2005
(Excludes all Revenue Related Taxes)

Exhibit
Rejoinder Schedule H-4
Page 4
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	0.00%
1,000	4.75	7.72	2.97	62.53%
2,000	9.50	15.44	5.94	62.53%
3,000	14.25	23.16	8.91	62.53%
4,000	19.00	30.88	11.88	62.53%
5,000	23.75	38.60	14.85	62.53%
6,000	28.50	46.32	17.82	62.53%
7,000	33.25	54.04	20.79	62.53%
8,000	38.00	61.76	23.76	62.53%
9,000	42.75	69.48	26.73	62.53%
10,000	47.50	77.20	29.70	62.53%
12,000	57.00	92.64	35.64	62.53%
14,000	66.50	108.08	41.58	62.53%
16,000	76.00	123.52	47.52	62.53%
18,000	85.50	138.96	53.46	62.53%
20,000	95.00	154.40	59.40	62.53%
25,000	118.75	193.00	74.25	62.53%
30,000	142.50	231.60	89.10	62.53%
35,000	166.25	270.20	103.95	62.53%
40,000	190.00	308.80	118.80	62.53%
45,000	213.75	347.40	133.65	62.53%
50,000	237.50	386.00	148.50	62.53%
60,000	285.00	463.20	178.20	62.53%
70,000	332.50	540.40	207.90	62.53%
80,000	380.00	617.60	237.60	62.53%
90,000	427.50	694.80	267.30	62.53%
100,000	475.00	772.00	297.00	62.53%

Present Rates:
Monthly Minimum: $ -
Gallons in Minimum -
Charge Per 1,000 Gallons
$ 4.75

Proposed Rates:
Monthly Minimum: $ -
Gallons in Minimum -
Charge Per 1,000 Gallons
$ 7.72

Average Usage				
1,411,750	$ 6,705.81	$ 10,898.71	$ 4,192.90	62.53%
Median Usage				
1,411,750	$ 6,705.81	$ 10,898.71	$ 4,192.90	62.53%