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AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE)
APPLICATION OF UTILITY SOURCE,)
L.L.C. FOR A DETERMINATION OF)
THE CURRENT FAIR VALUE OF ITS)
UTILITY PROPERTY AND FOR AN)
INCREASE IN ITS WATER AND)
WASTEWATER RATES AND)
CHARGES FOR UTILITY SERVICES)

WS-04235A-06-0303

**NOTICE OF FILING REBUTTAL
TESTIMONIES**

Utility Source, L.L.C. by and through undersigned counsel, hereby provides Notice of Filing of the Direct Testimonies Thomas J. Bourassa regarding the Water Division, the Sewer Division and Cost of Capital, pursuant to Procedural Orders dated December 20, 2006.

Respectfully submitted this 16th day of February 2007.

SALLQUIST, DRUMMOND & O'CONNOR, P.C.

By
Richard L. Sallquist
4500 S. Lakeshore Drive, Suite 339
Tempe, AZ 85282
Attorneys for Utility Source, L.L.C.

Original and ten copies of the foregoing filed this 16 day of February 2007, with:

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

Arizona Corporation Commission
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1 A copy of the foregoing filed
2 this 16 day of February, 2007, to:

3 Hearing Division
4 Arizona Corporation Commission
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5 Tucson, Arizona 85701

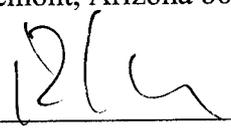
6 Utilities Division
7 Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

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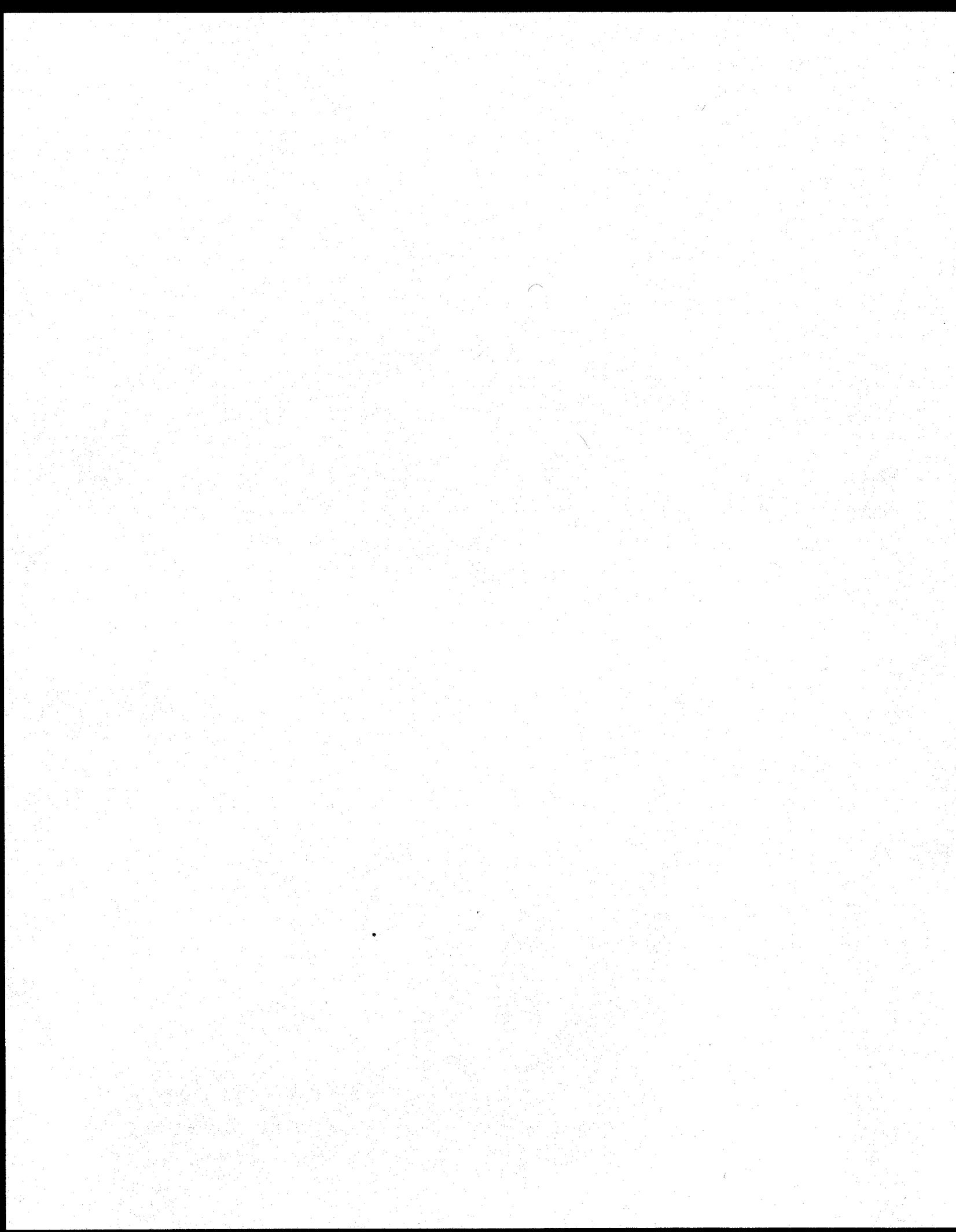
10 Ponderosa Fire District
11 c/o Starr Lamphere, Board Chairman
12 P.O. Box 16359
Bellemont, Arizona 86015

13 David Hitesman
14 4661 N Bellemont
Bellemont, Arizona 86015

15 Dennis Jones
16 11573 W Cove Crest
Bellemont, Arizona 86015

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF UTILITY
SOURCE, L.L.C. – WATER
DIVISION, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR
INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO: WS-04235A-06-0303

**REBUTTAL TESTIMONY OF
THOMAS J. BOURASSA
WATER DIVISION**

1 **I. INTRODUCTION AND QUALIFICATIONS.**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

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

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE**
6 **INSTANT CASE?**

7 A. Yes, my direct testimony was submitted in support of the initial application in this
8 docket by Utility Source, L.L.C. – Water Division (“USLLC” or “Company”).

9 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

10 A. I will provide rebuttal testimony in response to the direct filings by Arizona
11 Corporation Commission Utilities Division Staff (“Staff”) with respect to rate base,
12 revenues and expenses, and rate design. My rebuttal testimony on the cost of
13 capital can be found under separate cover.

14 **Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS**
15 **PROPOSING IN THIS REBUTTAL TESTIMONY?**

16 A. The Company is proposing a total revenue requirement of \$382,187, which
17 constitutes an increase in revenues of \$291,420, or 321.06% over adjusted test year
18 revenues.

19 **Q. HOW DOES THIS COMPARE WITH THE COMPANY’S DIRECT**
20 **FILING?**

21 A. In the direct filing, the Company requested a total revenue requirement of
22 \$575,573, an increase in revenues of \$401,245, or 230.17%.

23 **Q. WHY IS THE REQUESTED REVENUE INCREASE HIGHER IN THE**
24 **COMPANY’S REBUTTAL FILING?**

25 A. As a percentage it is higher, but in dollars it is less than that proposed in the
26 Company’s direct filing. The Company’s rebuttal filing reflects the adoption of a

1 number of rate base and operating expense adjustments recommended by Staff.
2 Original Cost Rate Base ("OCRB") and Fair Value Rate Base ("FVRB") are
3 reduced by \$1,025,721 from the direct filing. The adjusted test year level of
4 operating expense has been reduced by \$84,490 compared to the Company's direct
5 adjusted test year level of operating expense.

6 The most notable change from the Company's direct filing is the
7 Company's elimination of pro forma revenue of \$83,560 from adjusted test year
8 revenues and \$277,740 from proposed revenue. As you will recall, the Company
9 proposed to include in adjusted test year revenues and proposed revenues the
10 inclusion of revenues from potential future growth of 350 customers in order to
11 minimize the impact on rates. See Direct Testimony of Thomas J. Bourassa
12 ("Bourassa DT") at 11. However, the Company has adopted Staff's proposal to
13 remove plant from rate base which is necessary to serve the potential future growth
14 of 350 customers. There is substantial risk to the Company including revenues
15 from potential future growth. Staff recognizes the risk to the Company. See
16 Direct Testimony of Jeffery M. Michlik ("Michlik DT") at 12. This growth may
17 not materialize for several years especially given that the housing sector has
18 experienced a significant downturn in the past year or so. By excluding plant from
19 rate base which is necessary to serve future growth, the risk to the Company is
20 greatly magnified and which the Company is not willing to accept. If Staff is not
21 going to acknowledge those plant additions, the customers to be served by that
22 plant must also be excluded.

23 **Q. PLEASE SUMMARIZE THE PROPOSED REVENUE REQUIREMENTS**
24 **AND RATE INCREASES FOR THE COMPANY AND STAFF AT THIS**
25 **STAGE OF THE PROCEEDING?**

26 A. The proposed revenue requirements and proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>	
1				
2	Company-Direct	\$575,955	\$401,245	230.17%
3	Staff	\$367,449	\$193,122	110.78%
4	Company Rebuttal	\$382,187	\$291,420	321.06%

5 **Q. WHY IS STAFF'S REVENUE REQUIREMENT AND RECOMMENDED**
6 **INCREASE LOWER RELATIVE TO USLLC?**

7 A. The difference in the revenue requirement between Staff and the Company of
8 \$15,833 is primarily due to a difference in each of the party's recommended cost of
9 capital. The difference in the revenue increase that is required to achieve the
10 respective party's revenue requirement is primarily due to the fact that the
11 Company no longer proposes to include pro forma revenues from future customer
12 growth while Staff does.

13 **Q. THE COMPANY IS STILL SEEKING A SUBSTANTIAL INCREASE IN**
14 **ITS RATES IN THIS PROCEEDING?**

15 A. Yes, and it remains primarily plant investment driven. USLLC has invested nearly
16 \$2.3 million of dollars in its water utility plant to serve ratepayers in the past
17 couple of years and it is entitled to a return on and of the fair value of that utility
18 plant.

19 **II. RATE BASE.**

20 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**
21 **BASE RECOMMENDATIONS?**

22 A. The rate bases proposed by all parties in the case are as follows:

	<u>OCRB</u>	<u>FVRB</u>	
23			
24	Company-Direct	\$ 3,079,513	\$ 3,079,513
25	Staff	\$ 2,048,228	\$ 2,048,228
26	Company Rebuttal	\$ 2,053,792	\$ 2,053,792

1 **Q. TO WHAT DO YOU ATTRIBUTE THE DECREASE IN RATE BASE**
2 **FROM THE DIRECT FILING TO THE REBUTTAL FILING?**

3 A. The Company has accepted Staff's adjustments to reduce plant-in-service totaling
4 \$961,228. The Company has also accepted Staff's adjustment to accumulated
5 depreciation of \$68,927 as a result of the decrease to plant-in-service and a change
6 to the year in which plant was placed into service. Finally, the Company's
7 proposed cash working capital allowance has been reduced by \$12,259 to zero.

8 The Company is now in agreement with Staff on the balance of plant-in-
9 service, accumulated depreciation, and working capital. As I will explain later in
10 my testimony, the Company is also in agreement with Staff on the balance of
11 CIAC, but disagrees with Staff's level of accumulated amortization.

12 **A. Plant-in-Service.**

13 **Q. PLEASE EXPLAIN THE COMPANY'S REBUTTAL ADJUSTMENTS TO**
14 **PLANT-IN-SERVICE.**

15 A. B-2 rebuttal adjustment number 1 reflects a decrease to plant-in-service of
16 \$961,229. The Company has accepted and the adjustment matches Staff's
17 proposed adjustment. See Michlik DT at 3. As a result of this adjustment the
18 balance of plant-in-service included in rate base for the Company and Staff is the
19 same.

20 **Q. WHAT DOES THE \$961,229 ADJUSTMENT TO PLANT-IN-SERVICE**
21 **CONSIST OF?**

22 A. There are a number of plant costs which Staff found to be misclassified or doubled
23 counted. The net of these costs is \$224,646. The Company has reviewed Staff's
24 adjustments related to these costs and has adopted Staff's proposed adjustments.

25 The balance of the costs, or \$736,583, is related to Deep Well #4. Staff
26 found this well was not used and useful. *Id.* at 7. The well is functional and is

1 being used to conduct certain ADWR required tests, but it is not interconnected to
2 the system. Therefore, the Company does not disagree with Staff. However, Deep
3 Well #4 is necessary to serve the future growth of the 350 customers. As I
4 previously testified, because this plant has been excluded from rate base at this
5 time, the Company is no longer proposing pro forma revenues for future growth in
6 the determination of the revenue requirement and rate increase.

7 **B. Accumulated Depreciation.**

8 **Q. PLEASE EXPLAIN THE COMPANY'S REBUTTAL ADJUSTMENT TO**
9 **ACCUMULATED DEPRECIATION?**

10 A. B-2 rebuttal adjustment number 2 reflects the increase to accumulated depreciation
11 for \$68,927. This adjustment reflects the decrease to plant-in-service,
12 reclassifications of plant, and an acceptance of 2004 rather than 2005 as the in
13 service date for all plant. The Company's adjustment matches that proposed by
14 Staff. *Id.* at 9.

15 **C. Advance-in-Aid of Construction ("AIAC").**

16 **Q. HAVE YOU MADE A REBUTTAL ADJUSTMENT CONCERNING**
17 **ADVANCES-IN-AID OF CONTRUCTION?**

18 A. Yes. The Company has accepted Staff's proposal to reclassify AIAC to CIAC. *Id.*
19 at 10. B-2 rebuttal adjustment number 3 reflects this adjustment. Staff and the
20 Company agree on the adjusted balance of AIAC of zero and CIAC of \$294,745.

21 **D. Accumulated Amortization of CIAC.**

22 **Q. PLEASE EXPLAIN THE COMPANY'S REBUTTAL ADJUSTMENT TO**
23 **ACCUMULATED AMORTIZATION?**

24 A. As I testified, the Company has accepted Staff's proposal to reclassify AIAC to
25 CIAC. Staff does propose to increase accumulated amortization, but Staff's
26 computation only includes one full year of amortization of \$11,129. This is

1 inconsistent with an assumption that all plant was placed in service in 2004.
2 Accordingly, the Company's computation is based on amortization starting in 2004
3 and thus includes 2 years of amortization (using 1/2 year convention). B-2 rebuttal
4 adjustment 4 reflects the Company's proposed adjustment to accumulated
5 amortization of \$16,694.

6 **E. Working Capital.**

7 **Q. HAVE YOU MADE A REBUTTAL ADJUSTMENT CONCERNING**
8 **WORKING CAPITAL?**

9 A. Yes. While the Company does not agree with Staff's rationale that Class A, B, and
10 C utilities should not be allowed to use the formula method and instead must
11 prepare lead-lag studies to request working capital, it has accepted Staff's
12 adjustment to eliminate issues between the parties. *Id* at 11. Rebuttal Schedule B-
13 2 adjustment number 5 reduces working capital to zero.

14 **Q. WHY DO YOU DISAGREE WITH STAFF'S RATIONALE?**

15 A. No method of computing working capital, including a lead-lag study, is precisely
16 correct. The purpose of any working capital computation is to produce an amount
17 of working capital allowance that is reasonable and the cost of the calculation
18 should not exceed the benefits. This is true regardless of the size of the utility.
19 Lead-lag studies are costly to prepare and disagreement between the parties is
20 common which in turn exacerbates rate case expense further. In my experience the
21 costs to prepare and defend lead-lag studies can increase rate case expense by
22 \$10,000 to \$15,000 or more. The costs of lead-lag studies generally far exceed the
23 benefits. The formula method is simple and can readily be adjusted for the effects
24 of pro forma adjustments.

25 The formula method has been recognized by numerous regulatory
26 commissions including this Commission. *E.g.* Pine Water Company (A.C.C.

1 Decision 67166, August 10, 2004) and Rio Rico Utilities, Inc. (A.C.C. Decision
2 67279, October 5, 2004). In both of these cases, Staff recommended cash working
3 capital allowances based on the formula method. See Direct Testimony of Dennis
4 Rogers, page 13, Docket No. SW-02676A-03-434, and Direct Testimony of
5 Claudio Fernandez, page 10, Docket No. W-03512A-03-0279. Just two months
6 ago, the Commission approved a *negative* working capital allowance (a deduction
7 from rate base resulting in lower revenue) for Black Mountain Sewer Corporation.
8 See Decision No. 69164 (December 5, 2006) at 6-7 without a lead-lag study. In
9 that case, one of the parties had proposed negative working capital based on a
10 quasi-formula/lead-lag method, which the Commission recognized was not as
11 accurate as a lead-lag study. *Id.*

12 Based on my involvement in numerous rate proceedings in the recent past,
13 it appears that Staff has adopted a 'black letter policy' of opposing any cash
14 working capital allowance unless accompanied by a lead-lag study. This 'black
15 letter policy', which applies to all Class C and above utilities, is interesting given
16 Staff's oft-cited mantra that cases should be decided on a case-by-case basis. A
17 black letter policy such as this one seems to me to be both contradictory to Staff's
18 approach to rate making and arbitrary. The Commission rules do contemplate
19 the use of the formula method. See Arizona Administrative Code 14-2-103.
20 Schedule B-5, for example, explicitly provides for the formula method for
21 computing working capital. Further, it is required to be filed by all class C and
22 above utilities. *Id.*

1 **III. INCOME STATEMENT.**

2 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
3 **ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY**
4 **ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?**

5 A. Yes. The Company rebuttal adjustments are detailed on Rebuttal Schedule C-2,
6 pages 1-8. The rebuttal income statement with adjustments is shown on Rebuttal
7 Schedule C-1, pages 1-2.

8 Rebuttal adjustment 1 annualizes depreciation expense taking into account
9 the changes to plant-in-service and contributions-in-aid of construction, as
10 discussed above.

11 Rebuttal adjustment number 3 reduces property tax expense and reflects the
12 rebuttal proposed revenues. The Company and Staff are in agreement on the
13 method of computing property taxes. This method utilized the ADOR formula and
14 inputs two years of adjusted revenues plus one year of proposed revenues. I
15 computed the property taxes based on the Company's proposed revenues, and then
16 used the property tax rate that was used in the direct filing. The difference between
17 Staff and the Company on the proposed level of property taxes is due to differences
18 in the party's respective proposed revenue

19 Rebuttal adjustment number 3 removes pro forma revenues related to future
20 growth of 350 customers from the adjusted test year revenues. As discussed above,
21 plant necessary to serve these customers has been excluded from rate base and
22 accordingly the Company has removed the revenues.

23 **Q. PLEASE COMMENT ON MR. MICHLIK'S TESTIMONY ON PAGE 12**
24 **AND 16 THROUGH 17 REGARDING THE REASONS WHY STAFF**
25 **AGREED WITH THE COMPANY'S DIRECT FILING PROPOSAL TO**
26 **INCLUDE PRO FORMA REVENUES?**

1 A. Mr. Michlik's comments characterize Staff's acceptance of the Company's direct
2 proposal to include projected revenues from potential customer growth as justified
3 in order to further penalize the Company for previously operating without a
4 CC&N. Specifically, he states "...Staff feels that the rate payer should not pay for
5 the Company's mistakes." *See* Michlik DT at 12. The rate payer has not and will
6 not pay for the Company initial failure to obtain a CC&N. In fact, the Company
7 has paid a substantial fine for this mistake. *See* Decision 67446 at 19. As part of
8 the Company's compliance with the Commission's prior decision, the Company
9 promptly notified its customers of the potential for a substantial rate increase and
10 has filed the instant rate application. *Id.* at 24.

11 The Company is in regulatory compliance with the Arizona Corporation
12 Commission ("ACC"), Arizona Department of Environmental Quality ("ADEQ"),
13 and the Arizona Department of Revenue ("ADOR"). *See* Staff Engineering
14 Report. Put simply, there is no factual, legal, or equitable basis to further
15 'penalize' the Company.

16 **Q. WAS THE COMPANY'S PROPOSAL TO INCLUDE PROJECTED**
17 **REVENUES UNUSUAL?**

18 A. Yes, and I stated so. *See* Bourassa DT at 11. I rarely recommend the approach
19 because of the risk to the Company and the potential to create a serious mismatch
20 between rate base and revenues and expenses. While it is unusual, there is
21 precedent. In the Arizona-American case (Decision 67093, June 30, 2004), for
22 example, pro forma revenues were included in the adjusted test year revenues for
23 the Anthem Water and Wastewater Districts as a means of minimizing the impact
24 on rates. This was a proposal made by the Arizona-American and accepted by
25 Staff. The pro forma revenue consisted of payments in lieu of revenues from Del
26 Webb which were scheduled to be made 3-5 years subsequent to the end of the test

1 year. See Direct Testimony of Thomas J. Bourassa Docket No. WS-01303A-02-
2 0870 at 17-19. Putting this aside, the Company's initial proposal in the instant
3 case was not because of a desire by the Company to impose a 'punishment' upon
4 itself. Staff's comments reinforce the old adage that 'no good deed goes
5 unpunished'.

6 **Q. DO YOU BELIEVE THE COMMISSION CAN UNILATERALLY IMPOSE**
7 **A REQUIREMENT TO INCLUDE PROJECTED REVENUES IN THE**
8 **DETERMINATION OF THE REVENUE REQUIREMENT AND**
9 **REQUIRED RATE INCREASE?**

10 A. I am not an attorney, but in my professional opinion the answer is 'no'. I believe
11 that such a proposal would violate the Arizona constitutional requirement that the
12 Commission must provide a fair return on the fair value of the property devoted to
13 public service. A fair return also means utilities must be given a reasonable
14 opportunity to earn a fair return. The rate making reasons include the basic
15 principles of 'known and measurable' and the 'matching principle'.

16 Putting this aside, as I testified earlier, because a substantial amount of plant
17 investment has been excluded from rate base which is necessary to serve future
18 growth, the Company has withdrawn its proposal to include pro forma revenues.

19 **Q. PLEASE CONTINUE.**

20 A. Rebuttal adjustment 4 decreases chemicals expense for \$530. Staff proposed to
21 remove the costs for dye from chemicals expense. *Id.* at 12. The Company agrees.

22 Rebuttal adjustment 5 reduces outside services expense by \$8,202. Staff
23 proposed to remove the costs for a traffic study of \$2,622 and for rate case related
24 expenses of \$5,580. *Id.* at 13. The Company agrees with Staff that the costs of the
25 traffic study are not necessary expense of the utility. The Company also agrees
26 with Staff that the rate case related expenses are already covered by the requested

1 rate case expense in the instant case.

2 Rebuttal adjustment 6 reduces water testing expense by \$6,107. The
3 Company agrees with Staff proposed level of water testing expense which is based
4 on the Staff Engineering Report. *Id.* at 13.

5 Rebuttal adjustment 7 reduces miscellaneous expense by \$20,500. Staff
6 proposed to remove the costs for a fine imposed by this Commission of \$20,000
7 and for costs related to a CC&N extension of \$500. *Id.* at 13. The Company
8 agrees with Staff that the fine should not be paid by rate payers and it is not a
9 recurring expense. The Company also agrees with Staff that the CC&N related
10 costs not a recurring cost of service.

11 **Q. WOULD YOU PLEASE IDENTIFY AND DISCUSS ANY REVENUE AND**
12 **EXPENSE ADJUSTMENTS PROPOSED BY STAFF WHICH THE**
13 **COMPANY DISAGREES?**

14 **A.** Again, the most notable difference between Staff and the Company with respect to
15 the adjusted test year revenues is the pro forma revenues from future customer
16 growth of 350 customers. The Company now excludes these revenues while Staff
17 includes them. I have previously discussed the reasons for the Company's change
18 in position on the pro forma revenues and will not repeat them here.

19 The Company's level of operating expenses is \$166,539 while the level of
20 operating expense for Staff is \$170,819. The difference between the Company's
21 and Staff's levels of operating expenses is due to a difference in level of property
22 taxes proposed by the parties. As I previously testified, both the Company and
23 Staff are in agreement on the method of computing property taxes. However, The
24 Company's proposed level of property taxes is lower because the Company
25 employs lower revenue components in its computation of property taxes.
26

1 **IV. RATE DESIGN.**

2 **Q. DOES THE COMPANY RECOMMEND ANY CHANGES AT THIS STAGE**
3 **OF THE PROCEEDING TO ITS RATE DESIGN?**

4 A. Yes. As you will recall, in the Company's direct filing, the Company's proposed
5 rate design did not alter the current rate design as approved in Decision 67466.
6 The current design includes an inverted three tier design for residential meters only.
7 The break-over points for residential meters are the same regardless of meter size.
8 Commercial, multi-family and mobile home customers under the current design
9 have flat rate of \$2.97 per 1,000 gallons for all gallons.

10 The Company continues to propose an inverted three tier design for the 5/8
11 inch and 3/4 inch meters. For 1 inch and larger meters, the Company now proposes
12 a two tier design. The 1 inch and larger meters break over points are scaled on the
13 flow of a 5/8 inch meter. In addition, the Company now proposes an inverted tier
14 design for the commercial, mobile home, multi-family, and irrigation customer
15 classes. Thus, all customer classes are subject to an inverted tier design with the
16 exception of construction water and standpipe water service.

17 **Q. PLEASE SUMMARIZE THE POSITIONS OF THE PARTIES WITH**
18 **RESPECT TO THE RATE DESIGN.**

19 A. Both Staff and the Company propose the same monthly minimum for 5/8 inch and
20 3/4 inch meters. Larger meter monthly minimums are scaled on the meter flows
21 relative to a 5/8 inch meter flow.

22 With the changes to the Company's proposed rate design at this stage of the
23 proceeding, both Staff and the Company propose an inverted three tier design for
24 the 5/8 inch and 3/4 inch metered customers (residential, commercial, multi-family,
25 and mobile home) and an inverted two tier design for 1 inch and larger meters
26 (residential, commercial, multi-family, and mobile home). However, under Staff's

1 proposed rate design, the irrigation class of customers has a flat rate design,
2 whereas the Company proposes that the irrigation class of customer also have an
3 inverted tier design consistent with the other customer classes. In addition, under
4 Staff's proposed rate design, the 1 inch and larger meters have the same break-over
5 points regardless of meter size. The break-over point in Staff's design is set on the
6 5/8 inch meter's highest tier and is not scaled to reflect the higher potential flows
7 of the larger meters. As a result, the 1 inch and larger meters customers pay
8 disproportionately higher incremental cost per 1,000 gallons of water under Staff's
9 design. In contrast, the Company's proposed rate design has distinct break-over
10 points for each meter size. These break-over points are scaled on relative meter
11 flows compared to the 5/8 inch meter flow.

12 **Q. DO YOU AGREE THAT THE 3/4 INCH METERS SHOULD HAVE THE**
13 **SAME MONTHLY MINIMUM AS THE 5/8 INCH METERS?**

14 A. Ordinarily no. The 3/4 inch meters should generally be scaled on the 5/8 inch meter
15 as are the other size meters. The 3/4 inch meters have a higher potential demand on
16 the water system due to higher flow capacity and accordingly should have a higher
17 minimum charge. However, since the Company does not have any 5/8 inch
18 metered customers and does not anticipate any in the future, there is no reason to
19 set the monthly minimums differently.

20 **Q. DO YOU HAVE ANY COMMENTS ON THE STAFF RATE SCHEDULE**
21 **JMM-W16?**

22 A. Yes. I am a bit confused by Staff's schedule. For the 3/4 inch commercial meters
23 and the 1 inch and larger residential and commercial meters, Staff schedules
24 appears to show that there is no charge for the first 4,000 gallons. I believe this is a
25 typographical error.

26

1 Further, the 3/4 inch residential meters appear to have an inverted three tier
 2 design while the 3/4 inch commercial have an inverted two tier design. I am not
 3 sure if this is intentional or another typographical error. If Staff's intent is to have
 4 the 3/4 inch residential meters and the 3/4 inch commercial meters on separate tier
 5 structures, I would disagree with Staff. Unless there is a compelling reason for
 6 different tier structures, the two should be on the same tier structure.

7 **Q. DOES A BREAK OVER POINT OF 9,000 GALLONS MAKE SENSE FOR**
 8 **THE 1 INCH METERS?**

9 A. No. The final break over point for the 5/8 inch meter is 9,000 gallons under Staff's
 10 proposed design. Based on relative flow rates to the 5/8 inch meter, the logical
 11 break over point on a two-tier structure for the for the 1 inch meter should be
 12 22,500 gallons, not 9,000 gallons.

13 **Q. DOES STAFF'S DESIGN PROVIDE FOR MORE OR LESS REVENUE**
 14 **STABILTY THAN THE COMPANY'S RATE DESIGN?**

15 A. Less. Under Staff's rate design, a much higher proportion of the revenue
 16 requirement is generated from the commodity charges. Less revenue stability
 17 means more risk to the Company.

18 **Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?**

19 A. The rebuttal proposed rates for customers (residential, commercial, and
 20 irrigation) with a water meter size of:

<u>Meter Size</u>	<u>Monthly Minimum</u>	<u>Gallons included in Monthly Minimum</u>
5/8	\$ 35.74	0
3/4	\$ 35.74	0
1	\$ 89.34	0
1 1/2	\$ 178.69	0

1	2	\$ 285.90	0
2	3	\$ 571.80	0
3	4	\$ 893.43	0
4	6	\$1,786.86	0

5 The commodity charges and tiers by meter size are:

6	<u>Meter Size</u>	<u>Tier (gallons)</u>	<u>Charge per 1,000 gallons</u>
7	5/8 and 3/4 Inch	1 to 4,000	\$ 9.60
8		4,001 to 12,000	\$12.48
9		Over 12,000	\$16.22
10	1 Inch	1 to 30,000 (22,500 ??)	\$12.48
11		Over 30,000	\$16.22
12	1 1/2 Inch	1 to 60,000	\$12.48
13		Over 60,000	\$16.22
14	2 Inch	1 to 96,000	\$12.48
15		Over 96,000	\$16.22
16	3 Inch	1 to 192,000	\$12.48
17		Over 192,000	\$16.22
18	4 Inch	1 to 300,000	\$12.48
19		Over 300,000	\$16.22
20	6 Inch	1 to 600,000	\$12.48
21		Over 600,000	\$16.22

22
 23 The proposed construction meter and standpipe rate is \$12.48 per 1,000
 24 gallons with no minimum monthly charge.
 25
 26

1 Q. ARE STAFF AND THE COMPANY AGREEMENT ON THE COMPANY'S
2 PROPOSED METER AND SERVICE LINE INSTALLATION CHARGES?

3 A. Yes.

4 Q. ARE STAFF AND THE COMPANY IN AGREEMENT ON THE
5 COMPANY'S PROPOSED METER AND SERVICE LINE INSTALLATION
6 CHARGES?

7 A. Yes.

8 Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY
9 REGARDING THE WATER APPLICATION?

10 A. Yes.

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Utility Source, L.L.C. - Water Division
 Test Year Ended December 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	\$ 2,053,792
2		
3	Adjusted Operating Income	(75,772)
4		
5	Current Rate of Return	-3.69%
6		
7	Required Operating Income	\$ 215,648
8		
9	Required Rate of Return on Fair Value Rate Base	10.50%
10		
11	Operating Income Deficiency	\$ 291,420
12		
13	Gross Revenue Conversion Factor	1.0000
14		
15	Increase in Gross Revenue	
16	Requirement	\$ 291,420
17		
18	% Increase	321.06%
19		

Customer	Present	Proposed	Dollar	Percent	
Classification	Rates	Rates	Increase	Increase	
(Residential Commercial, Irrigation)					
24	3/4 Inch Residential	\$ 76,792	\$ 323,336	\$ 246,544	321.05%
25	1 1/2 Inch Commercial	2,397	12,117	9,720	405.54%
26	2 Inch Commercial	3,868	19,609	15,741	406.94%
27				-	0.00%
28	Revenue Annualization	6,121	25,317	19,196	313.61%
29					
30	Proforma Revenues		-	-	0.00%
31				-	0.00%
32	Subtotal	\$ 89,178	\$ 380,379	\$ 291,201	326.54%
33					
34	Other Water Revenues	1,657	1,657	-	0.00%
35				-	0.00%
36				-	0.00%
37	Total of Water Revenues (a)	\$ 90,836	\$ 382,037	\$ 291,201	320.58%

SUPPORTING SCHEDULES:

- 43 Rebuttal B-1
- 44 Rebuttal C-1
- 45 Rebuttal C-3
- 46 Rebuttal H-1
- 47

Utility Source, L.L.C. - Water Division
 Test Year Ended December 31, 2005
 Summary of Rate Base

Exhibit
 Rebuttal Schedule B-1
 Page 1
 Witness: Bourassa

Line No.		<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1			
2	Gross Utility Plant in Service	\$ 2,459,235	\$ 2,459,235
3	Less: Accumulated Depreciation	<u>127,392</u>	<u>127,392</u>
4			
5	Net Utility Plant in Service	\$ 2,331,843	\$ 2,331,843
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction	-	-
10	Contributions in Aid of		
11	Construction	294,745	294,745
12	Accumulated Amortization of CIAC	(16,694)	(16,694)
13			
14	Customer Meter Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
16	Customer Meter Deposits	-	-
17	Deferred Income Taxes		
18	Investment Tax Credits		
19	<u>Plus:</u>		
20	Unamortized Finance Charges	-	-
21	Material and Supplies Inventories		
22	Prepayments		
23	Allowance for Working Capital	-	-
24			
25			
26			
27	Total Rate Base	<u>\$ 2,053,792</u>	<u>\$ 2,053,792</u>
28			
29			
30			
31	<u>SUPPORTING SCHEDULES:</u>		
32	Rebuttal B-2		
33	Rebuttal B-5		
34			
35			
36			

Utility Source, L.L.C. - Water Division
 Test Year Ended December 31, 2005
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rebuttal Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Adjusted at End of <u>Test Year</u>	<u>Adjustments</u>	Rebuttal Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 3,420,464	(961,229)	\$ 2,459,235
3				
4	Less:			
5	Accumulated			
6	Depreciation	58,465	68,927	127,392
7				
8				
9	Net Utility Plant			
10	in Service	\$ 3,361,999	\$ (1,030,156)	\$ 2,331,843
11				
12	Less:			
13	Advances in Aid of			
14	Construction	294,745	(294,745)	-
15				
16	Contributions in Aid of			
17	Construction (CIAC)	-	294,745	294,745
18				
19				
20	Accum. Amortization of CIAC	-	(16,694)	(16,694)
21				
22				
23	Customer Meter Deposits	-	0	-
24	Deferred Income Taxes	-	-	-
25	Investment Tax Credits	-	-	-
26				
27				
28	Plus:			
29	Unamortized Finance Charges	-		-
30	Material and Supplies Inventories			
31	Prepayments			
32	Allowance for Working Capital	12,259	(12,259)	-
33				
34				
35	Total	<u>\$ 3,079,513</u>	<u>\$ (1,025,721)</u>	<u>\$ 2,053,792</u>

41 SUPPORTING SCHEDULES:
 42 Rebuttal B-2, pages 2

43
 44
 45
 46
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 48

Line No.	ADJUSTMENT LABEL-->	1	2	3	4	5	Rebuttal Adjusted at end of Test Year
	Adjusted at End of Test Year	Plant-In-Service (961,229)	Accum. Depreciation	Reclass AIAC to CIAC	CIAC Amortization	Working Capital	
1	Gross Utility Plant in Service	\$ 3,420,464					\$ 2,459,235
2							
3							
4	Less:						
5	Accumulated Depreciation	58,465	68,927				127,392
6							
7							
8							
9	Net Utility Plant in Service	\$ 3,361,999	\$ (68,927)	\$ -	\$ -	\$ -	\$ 2,331,843
10							
11							
12	Less:						
13	Advances in Aid of Construction	294,745		(294,745)			-
14							
15							
16	Contributions in Aid of Construction (CIAC)	-		294,745			294,745
17							
18							
19	Accum. Amortization of CIAC	-			(16,694)		(16,694)
20							
21	Customer Meter Deposits	-					-
22	Deferred Income Taxes	-					-
23	Investment Tax Credits	-					-
24							
25	Plus:						
26	Unamortized Finance Charges	-					-
27							
28	Material and Supplies Inventories						-
29	Prepayments						-
30	Allowance for Working Capital	12,259				(12,259)	-
31							
32	Total	\$ 3,079,513	\$ (961,229)	\$ -	\$ 16,694	\$ (12,259)	\$ 2,053,792
33							
34	SUPPORTING SCHEDULES:						
35	Rebuttal B-2, pages 3-7						

Utility Source, L.L.C. - Water Division
 Test Year Ended December 31, 2005
 Original Cost Rate Base Proforma Adjustments
 Adjustment 1

Line No.					
1	<u>Plant-in-Service</u>				
2					
3					
4	304 Structures and Improvements		(36,253)		
5	307 Wells and Springs		(898,645)		
6	311 Pumping Equipment		(2,783)		
7	330 Ristribution Reservoirs and Standpipes		(23,548)		
8	Total Plant-in-Service to be Removed		<u>(961,229)</u>		
9					
10					
11	Increase (Decrease) to Plant-in-Service				
12					
13					
14	<u>304 Structures and Improvements</u>				
15	Reclassify perimeter fencing cost from Distribution and Reservoir s (Acct 330)	23,548			
16	Disallowed decorative fencing costs	(59,801)			
17		<u>(36,253)</u>			
18	<u>307 Wells and Springs</u>				
19	Error correction for Bob Beeman Drilling costs (invoice 14407060)	(6,697)			
20	Drilling costs for Bob Beeman Drilling double counted in Pumping Equipment (Acct 311)	(133,525)			
21	Perimeter fencing costs from Steve Hoemes Bldg double counted	(2,500)			
22	Sales tax amounts from Boob Beeman Drilling already included in Accts 307 and 311	(19,340)			
23	Deep Well #4 costs not in service	(736,583)			
24		<u>(898,645)</u>			
25	<u>311 Pumping Equipment</u>				
26	Error correction for Bob Beeman Drilling costs (invoice 19402860)		(2,783)		
27					
28	<u>330 Diredistribution Reservoirs</u>				
29	Reclassify fencing costs to Structures and Improvements (Acct 304)		(23,548)		
30					
31					
32					
33	<u>SUPPORTING SCHEDULES</u>				
34	Staff Schedule JMM-VW4				
35					

Utility Source, L.L.C. - Water Division
 Test Year Ended December 31, 2005
 Original Cost Rate Base Proforma Adjustments
 Adjustment #2

Exhibit
 Rebuttal Schedule B-2
 Page 4
 Witness: Bourassa

Line			
<u>No.</u>			
1	<u>Accumulated Depreciation</u>		
2			
3	Accumulated Depreciation per Rebuttal Filing	\$	127,392
4	Accumulated Depreciation per Direct Filing		58,465
5			
6	Increase (Decrease) to Accumulated Depreciation	<u>\$</u>	<u>68,927</u>
7			
8			
9	Increase (Decrease) to Accumulated Depreciation	<u>\$</u>	<u>68,927</u>
10			
11			
12			
13	<u>SUPPORTING SCHEDULES</u>		
14	Rebuttal B-2, pages 4a through 4c		
15			
16			
17			
18			
19			
20			

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 4a
Witness: Bourassa

Account No.	Description	Deprec. Rate	12/31/2004	2004 Accum. Depr.	2004 Plant Additions	2004 Plant Rebuttal Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Balance	2004 Depr.
301	Organization Cost	0.00%	-	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	210,000	-	210,000	-	210,000	-
304	Structures and Improvements	3.33%	-	-	109,250	(36,253)	72,997	-	72,997	1,215
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	-	-	-	-
307	Wells and Springs	3.33%	-	-	2,233,883	(898,645)	1,335,238	-	1,335,238	22,232
308	Infiltration Galleries and Tunnels	6.67%	-	-	-	-	-	-	-	-
309	Supply Mains	2.00%	-	-	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	-	-	87,400	-	87,400	-	87,400	2,185
311	Electric Pumping Equipment	12.50%	-	-	161,494	(2,783)	158,711	-	158,711	9,919
320	Water Treatment Equipment	3.33%	-	-	5,487	-	5,487	-	5,487	91
330	Distribution Reservoirs & Standpipe	2.22%	-	-	345,000	(23,548)	321,452	-	321,452	3,568
331	Transmission and Distribution Mains	2.00%	-	-	147,200	-	147,200	-	147,200	1,472
333	Services	3.33%	-	-	86,250	-	86,250	-	86,250	1,436
334	Meters	8.33%	-	-	-	-	-	-	-	-
335	Hydrants	2.00%	-	-	34,500	-	34,500	-	34,500	345
336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	-	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	6.67%	-	-	-	-	-	-	-	-
341	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-
342	Stores Equipment	4.00%	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	-	-	-	-	-	-	-	-
344	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-
346	Communications Equipment	10.00%	-	-	-	-	-	-	-	-
347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-
	Plant Held for Future Use		-	-	-	-	-	-	-	-
			-	-	3,420,464	(961,229)	2,459,235	-	2,459,235	42,464

TOTAL WATER PLANT

(a) Depreciation
Staff Accumulated Depreciation Allocated to Plant.
Retirements (excluding land)
Accumulated Depreciation Balance
Half Year Convention used on depreciation

42,464
42,464

Account No.	Description	Deprec. Rate	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements To Date	2005 Plant Balance	2005 Deprec.
301	Organization Cost	0.00%	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	210,000	-
304	Structures and Improvements	3.33%	-	-	-	-	72,997	2,431
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	-	-
307	Wells and Springs	3.33%	-	-	-	-	1,335,238	44,463
308	Infiltration Galleries and Tunnels	6.67%	-	-	-	-	-	-
309	Supply Mains	2.00%	-	-	-	-	-	-
310	Power Generation Equipment	5.00%	-	-	-	-	87,400	4,370
311	Electric Pumping Equipment	12.50%	-	-	-	-	158,711	19,839
320	Water Treatment Equipment	3.33%	-	-	-	-	5,487	183
330	Distribution Reservoirs & Standpipe	2.22%	-	-	-	-	321,452	7,136
331	Transmission and Distribution Mains	2.00%	-	-	-	-	147,200	2,944
333	Services	3.33%	-	-	-	-	86,250	2,872
334	Meters	8.33%	-	-	-	-	-	-
335	Hydrants	2.00%	-	-	-	-	34,500	690
336	Backflow Prevention Devices	6.67%	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	-	-	-	-	-	-
340	Office Furniture and Fixtures	6.67%	-	-	-	-	-	-
341	Transportation Equipment	20.00%	-	-	-	-	-	-
342	Stores Equipment	4.00%	-	-	-	-	-	-
343	Tools and Work Equipment	5.00%	-	-	-	-	-	-
344	Laboratory Equipment	10.00%	-	-	-	-	-	-
345	Power Operated Equipment	5.00%	-	-	-	-	-	-
346	Communications Equipment	10.00%	-	-	-	-	-	-
347	Miscellaneous Equipment	10.00%	-	-	-	-	-	-
348	Other Tangible Plant	10.00%	-	-	-	-	-	-
	Plant Held for Future Use		-	-	-	-	-	-
	TOTAL WATER PLANT		-	-	-	-	2,459,235	84,928

(a) Depreciation
Staff Accumulated Depreciation Allocated to Plant.
Retirements (excluding land)
Accumulated Depreciation Balance
Half Year Convention used on depreciation

84,928
127,392

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account	
			Dec-04	Dec-05
301	Organization Cost	0.00%	-	-
302	Franchise Cost	0.00%	-	-
303	Land and Land Rights	0.00%	-	-
304	Structures and Improvements	3.33%	1,215	3,646
305	Collecting and Impounding Res.	2.50%	-	-
306	Lake River and Other Intakes	2.50%	-	-
307	Wells and Springs	3.33%	22,232	66,695
308	Infiltration Galleries and Tunnels	6.67%	-	-
309	Supply Mains	2.00%	-	-
310	Power Generation Equipment	5.00%	2,185	6,555
311	Electric Pumping Equipment	12.50%	9,919	29,758
320	Water Treatment Equipment	3.33%	91	274
330	Distribution Reservoirs & Standpipe	2.22%	3,568	10,704
331	Transmission and Distribution Mains	2.00%	1,472	4,416
333	Services	3.33%	1,436	4,308
334	Meters	8.33%	-	-
335	Hydrants	2.00%	345	1,035
336	Backflow Prevention Devices	6.67%	-	-
339	Other Plant and Miscellaneous Equipment	6.67%	-	-
340	Office Furniture and Fixtures	6.67%	-	-
341	Transportation Equipment	20.00%	-	-
342	Stores Equipment	4.00%	-	-
343	Tools and Work Equipment	5.00%	-	-
344	Laboratory Equipment	10.00%	-	-
345	Power Operated Equipment	5.00%	-	-
346	Communications Equipment	10.00%	-	-
347	Miscellaneous Equipment	10.00%	-	-
348	Other Tangible Plant	10.00%	-	-
	Plant Held for Future Use		-	-

TOTAL WATER PLANT

42,464 127,392

(a) Depreciation
Staff Accumulated Depreciation Allocated to Plant.
Retirements (excluding land)
Accumulated Depreciation Balance
Half Year Convention used on depreciation

Utility Source, L.L.C. - Water Division
 Test Year Ended December 31, 2005
 Original Cost Rate Base Proforma Adjustments
 Adjustment #3

Exhibit
 Rebuttal Schedule B-2
 Page 5
 Witness: Bourassa

Line No.			
1	<u>Reclass Advances-in-Aid of Construction (AIAC) to Contributions-in-Aid of Construction (CIAC)</u>		
2			
3	AIAC per Rebuttal Filing	-	
4	AIAC per Direct Filing	294,745	
5			
6	Increase (Decrease) to AIAC	<u>(294,745)</u>	
7			
8			
9	CIAC per Rebuttal Filing	294,745	
10	CIAC per Direct Filing	-	
11			
12	Increase (Decrease) to CIAC	<u>294,745</u>	
13			
14			
15			
16			
17			
18			
19	<u>SUPPORTING SCHEDULES</u>		
20	Staff Schedule JMM-W-6		

Utility Source, L.L.C. - Water Division
 Test Year Ended December 31, 2005
 Original Cost Rate Base Proforma Adjustments
 Adjustment #4

No.	CIAC Amortization	CIAC	Amortization Rate	Amortization ¹
1				
2				
3				
4				
5	Balance at 12/31/2003	\$ -		
6	2004 Additions	294,745	3.78%	5,565
7				
8	Balance at 12/31/2004	\$ 294,745	3.78%	11,129
9	Jan-Dec Amortization			
10	2005 Additions			
11				
12	Balance at 12/31/2005	<u>\$ 294,745</u>		<u>\$ 16,694</u>
13				
14				
15	Balance of CIAC Amortization per Direct Filing			\$ -
16				
17	Increase (Decrease) in Amortization			<u>\$ 16,694</u>
18				
19	Adjustment to Accumulated Amortization			<u>\$ (16,694)</u>
20				
21	¹ Half year Convention on additions			
22				
23				
24				
25				

Utility Source, L.L.C. - Water Division
 Test Year Ended December 31, 2005
 Original Cost Rate Base Proforma Adjustments
 Adjustment #5

Exhibit
 Rebuttal Schedule B-2
 Page 7
 Witness: Bourassa

Line		
<u>No.</u>		
1	<u>Working Capital</u>	
2		
3	Working Capital Per Rebuttal Filing	-
4	Working Capital Per Direct Filing	12,259
5		
6		
7	Increase (Decrease) to Working Capital	\$ (12,259)
8		
9		
10		
11		
12	<u>SUPPORTING SCHEDULES</u>	
13	Rebuttal Schedule B-5	
14		
15		
16		
17		
18		
19		
20		

Utility Source, L.L.C. - Water Division
Test Year Ended December 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)	\$	6,329
3	Pumping Power (1/24 of Pumping Power)		1,512
4	Purchased Water (1/24 of Purchased Water)		-
5			
6			
7			
8			
9	Total Working Capital Allowance Rebuttal	\$	<u>7,842</u>
10			
11	Total Working Capital Allowance Requested	\$	-
12			
13	Working Capital per Direct Filing	\$	12,259
14			
15	Increase (Decrease) in Working Capital	\$	<u>(12,259)</u>
16			
17			

18 SUPPORTING SCHEDULES:
19
20

RECAP SCHEDULES:
Rebuttal B-1

Utility Source, L.L.C. - Water Division
 Test Year Ended December 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	\$ 172,670	\$ (83,560)	\$ 89,110	\$ 291,420	\$ 380,530
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	1,657	-	1,657	-	1,657
5		<u>\$ 174,328</u>	<u>\$ (83,560)</u>	<u>\$ 90,768</u>	<u>\$ 291,420</u>	<u>\$ 382,187</u>
6	Operating Expenses					
7	Salaries and Wages	\$ -	-	\$ -	-	\$ -
8	Purchased Water	-	-	-	-	-
9	Purchased Power	36,292	-	36,292	-	36,292
10	Chemicals	530	(530)	0	-	0
11	Repairs and Maintenance	8,747	-	8,747	-	8,747
12	Office Supplies and Expense	4,292	-	4,292	-	4,292
13	Outside Services	20,630	(8,202)	12,428	-	12,428
14	Water Testing	8,553	(6,107)	2,446	-	2,446
15	Rents	-	-	-	-	-
16	Transportation Expenses	-	-	-	-	-
17	Insurance - General Liability	-	-	-	-	-
18	Insurance - Health and Life	-	-	-	-	-
19	Regulatory Commission Expense - R:	12,500	-	12,500	-	12,500
20	Miscellaneous Expense	30,722	(20,500)	10,222	-	10,222
21	Depreciation Expense	116,931	(43,132)	73,799	-	73,799
22	Taxes Other Than Income	-	-	-	-	-
23	Property Taxes	13,026	(7,214)	5,813	-	5,813
24	Income Tax	-	-	-	-	-
25						
26	Total Operating Expenses	<u>\$ 252,224</u>	<u>\$ (85,685)</u>	<u>\$ 166,539</u>	<u>\$ -</u>	<u>\$ 166,539</u>
27	Operating Income	<u>\$ (77,896)</u>	<u>\$ 2,125</u>	<u>\$ (75,772)</u>	<u>\$ 291,420</u>	<u>\$ 215,648</u>
28	Other Income (Expense)					
29	Interest Income	-	-	-	-	-
30	Other income	-	-	-	-	-
31	Interest Expense	-	-	-	-	-
32	Other Expense	-	-	-	-	-
33						
34	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
35	Net Profit (Loss)	<u>\$ (77,896)</u>	<u>\$ 2,125</u>	<u>\$ (75,772)</u>	<u>\$ 291,420</u>	<u>\$ 215,648</u>

39 SUPPORTING SCHEDULES:
 40 Rebuttal C-1, Page 2
 41 Rebuttal C-2

RECAP SCHEDULES:
 Rebuttal A-1

Utility Source, L.L.C. - Water Division
 Test Year Ended December 31, 2005
 Income Statement

Exhibit
 Rebuttal Schedule C-1
 Page 2
 Witness: Bourassa

Line No.	ADJUSTMENT LABEL-->	1	2	3	4	5	6	7	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues										
2	Metered Water Revenues	\$ 172,670		\$ (83,560)					\$ 89,110	\$ 291,420	\$ 380,530
3	Unmetered Water Revenues	1,657							1,657		1,657
4	Other Water Revenues	\$ 174,328	\$ -	\$ (83,560)	\$ -	\$ -	\$ -	\$ -	\$ 90,768	\$ 291,420	\$ 382,187
5											
6	Operating Expenses										
7	Salaries and Wages										
8	Purchased Water	36,292							36,292		36,292
9	Purchased Power	530			(530)				0		0
10	Chemicals	8,747							8,747		8,747
11	Repairs and Maintenance	4,292							4,292		4,292
12	Office Supplies and Expense	20,630							12,428		12,428
13	Outside Services	8,553			(8,202)	(6,107)			2,446		2,446
14	Water Testing										
15	Rents										
16	Transportation Expenses										
17	Insurance - General Liability										
18	Insurance - Health and Life										
19	Reg. Comm. Exp. - Rate Case	12,500							12,500		12,500
20	Miscellaneous Expense	30,722							10,222		10,222
21	Depreciation Expense	116,931	(43,132)					(20,500)	73,799		73,799
22	Taxes Other Than Income										
23	Property Taxes	13,026	(7,214)						5,813		5,813
24	Income Tax										
25	Total Operating Expenses	\$ 252,224	\$ (43,132)	\$ -	\$ (530)	\$ (8,202)	\$ (6,107)	\$ (20,500)	\$ 166,539	\$ -	\$ 166,539
26	Operating Income	\$ (77,896)	\$ 43,132	\$ 7,214	\$ 530	\$ 8,202	\$ 6,107	\$ 20,500	\$ (75,772)	\$ 291,420	\$ 215,648
27	Other Income (Expense)										
28	Interest Income										
29	Other Income										
30	Interest Expense										
31	Other Expense										
32											
33	Total Other Income (Expense)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
34	Net Profit (Loss)	\$ (77,896)	\$ 43,132	\$ 7,214	\$ 530	\$ 8,202	\$ 6,107	\$ 20,500	\$ (75,772)	\$ 291,420	\$ 215,648

SUPPORTING SCHEDULES:
 Rebuttal C-2

RECAP SCHEDULES:
 Rebuttal A-1

Utility Source, L.L.C. - Water Division
 Test Year Ended December 31, 2005
 Adjustments to Revenues and Expenses
 Adjustment #1

Exhibit
 Rebuttal Schedule C-2
 Page 2
 Witness: Bourassa

Line

No.

1 Depreciation Expense							
2	Account	Direct	From	From	Rebuttal	Proposed	Depreciation
3	No.	Adjusted	B-2 Adj. #1	B-2 Adj. #3	Adjusted	Rates	Expense
4	Description	Original Cost	Plant	CIAC	Original Cost		
5	301	-			-	0.00%	-
6	302	-			-	0.00%	-
7	303	210,000			210,000	0.00%	-
8	304	109,250	(36,253)		72,997	3.33%	2,431
9	305	-			-	2.50%	-
10	306	-			-	2.50%	-
11	307	2,233,883	(898,645)		1,335,238	3.33%	44,463
12	308	-			-	6.67%	-
13	309	-			-	2.00%	-
14	310	87,400			87,400	5.00%	4,370
15	311	161,494	(2,783)		158,711	12.50%	19,839
16	320	5,487			5,487	3.33%	183
17	330	345,000	(23,548)		321,452	2.22%	7,136
18	331	147,200			147,200	2.00%	2,944
19	333	86,250			86,250	3.33%	2,872
20	334	-			-	8.33%	-
21	335	34,500			34,500	2.00%	690
22	336	-			-	6.67%	-
23	339	-			-	6.67%	-
24	340	-			-	6.67%	-
25	341	-			-	20.00%	-
26	342	-			-	4.00%	-
27	343	-			-	5.00%	-
28	344	-			-	10.00%	-
29	345	-			-	5.00%	-
30	346	-			-	10.00%	-
31	347	-			-	10.00%	-
32	348	-			-	10.00%	-
33							
34	TOTALS	\$ 3,420,464	\$ (961,229)	\$ -	\$ 2,459,235		\$ 84,928
35							
36							
64	Less: Amortization of Contributions - Balance End of TY	\$ -		\$ 294,745	\$ 294,745	Composite 3.776%	\$ (11,129)
65							
66		\$ -	\$ -	\$ 294,745	\$ 294,745		\$ (11,129)
67							
68	Adjusted Test Year Depreciation Expense Rebuttal Filing						\$ 73,799
69	Adjusted Test Year Depreciation Expense Direct Filing						116,931
70							
71	Increase (decrease) in Depreciation Expense						\$ (43,132)
72							
73	Adjustment to Revenues and/or Expenses						\$ (43,132)

Line No.	Adjust Property Taxes to Reflect Proposed Revenues:	
1	Adjust Property Taxes to Reflect Proposed Revenues:	
2		
3	Adjusted Revenues in year ended 12/31/2005	\$ 90,768
4	Adjusted Revenues in year ended 12/31/2005	90,768
5	Proposed Revenues	382,187
6	Average of three year's of revenue	187,907
7	Average of three year's of revenue, times 2	375,815
8	Add:	
9	Construction Work in Progress at 10%	-
10	Deduct:	
11	Book Value of Transportation Equipment	113,217
12		
13	Full Cash Value	262,598
14	Assessment Ratio	23.50%
15	Assessed Value	61,711
16	Property Tax Rate	8.9963%
17		
18	Property Tax	5,552
19	Tax on Parcels	261
20		
21	Total Property Tax at Proposed Rates Rebuttal	\$ 5,813
22	Property Taxes per Direct Filing	13,026
23	Change in Property Taxes	\$ (7,214)
24		
25		
26	Adjustment to Revenues and/or Expenses	\$ (7,214)
27		
28		

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expense
Adjustment Number 3

Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	<u>Reverse Proforma Revenues from Additional 350 Customers</u>		
2			
3			
4	Proforma Revenues per Rebuttal Filing	\$	-
5	Proforma Revenues per Direct Filing		83,560
6			
7	Adjustment to Revenues and/or Expenses	\$	<u>(83,560)</u>
8			
9			
10			
11			
12	<u>SUPPORTING SCHEDULES</u>		
13	Company Direct Schedule C-2, page 6, Adjustment # 5		
14			
15			
16			
17			
18			
19			
20			

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expense
Adjustment Number 4

Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Line No.		
1	<u>Chemicals Expense</u>	
2		
3		
4	Decrease Chemicals Expense for Dye Costs	\$ (530)
5		
6		
7	Adjustment to Revenues and/or Expenses	<u>\$ (530)</u>
8		
9		
10		
11		
12	SUPPORTING SCHEDULES	
13	See Staff Schedule JMM-W10	
14		
15		
16		
17		
18		
19		
20		

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expense
Adjustment Number 5

Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Line			
No.			
1	<u>Outside Services Expense</u>		
2			
3			
4	Decrease Outside Services Expense	\$	(8,202)
5			
6			
7	Adjustment to Revenues and/or Expenses	\$	<u>(8,202)</u>
8			
9			
10			
11			
12	<u>SUPPORTING SCHEDULES</u>		
13	See Staff Schedule JMM-W11		
14			
15			
16			
17			
18			
19			
20			

Utility Source, L.L.C. - Water Division
 Test Year Ended December 31, 2005
 Adjustment to Revenues and Expense
 Adjustment Number 6

Rebuttal Schedule C-2
 Page 7
 Witness: Bourassa

Line			
No.	<u>1</u>	<u>Water Testing Expense</u>	
2			
3			
4		Decrease Water Testing Expense	\$ (6,107)
5			
6			
7		Adjustment to Revenues and/or Expenses	\$ <u>(6,107)</u>
8			
9			
10			
11			
12		<u>SUPPORTING SCHEDULES</u>	
13		See Staff Schedule JMM-W12	
14			
15			
16			
17			
18			
19			
20			

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expense
Adjustment Number 7

Rebuttal Schedule C-2
Page 8
Witness: Bourassa

Line No.			
1	<u>Miscellaneous Expense</u>		
2			
3			
4	Decrease Miscellaneous Expense	\$	(20,500)
5			
6			
7	Adjustment to Revenues and/or Expenses	\$	<u>(20,500)</u>
8			
9			
10			
11			
12	<u>SUPPORTING SCHEDULES</u>		
13	See Staff Schedule JMM-W13		
14			
15			
16			
17			
18			
19			
20			

Utility Source, L.L.C. - Water Division
 Test Year Ended December 31, 2005
 Computation of Gross Revenue Conversion Factor

Exhibit
 Rebuttal Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Federal Income Taxes	0.00%
2		
3	State Income Taxes	0.00%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	0.00%
9		
10	Operating Income % = 100% - Tax Percentage	100.00%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.0000
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Rebuttal A-1
20		

Utility Source, L.L.C. - Water Division
 Test Year Ended December 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			Adjusted End of Test Year		
		Dollar Amount	Percent of Total	(e) Cost Rate	Dollar Amount	Percent of Total	(e) Cost Rate
1	Long-Term Debt	-	0.00%	0.00%	-	0.00%	0.00%
2							
3	Stockholder's Equity	3,383,299	100.00%	10.50%	3,598,947	100.00%	10.50%
4							
5	Totals	3,383,299	100.00%	10.50%	3,598,947	100.00%	0.00%
6							
7							
8							
9							
10							

11 SUPPORTING SCHEDULES:
 12 Rebuttal D-2
 13
 14
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 31

RECAP SCHEDULES:

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Revenue Summary

Exhibit
 Rebuttal Schedule H-1
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2	3/4 Inch Meter - Residential	76,792	323,336	246,544	321.05%	84.54%	84.63%
3	1 Inch Meter						
4	1.5 Inch Meter Commercial	2,397	12,117	9,720	405.54%	2.64%	3.17%
5	2 Inch Meter Commercial	3,868	19,609	15,741	406.94%	4.26%	5.13%
6							
7	Miscellaneous Revenues	1,657	1,657	-	0.00%	1.82%	0.43%
8	Total Water Revenues	\$ 84,715	\$ 356,720	\$ 272,005	321.08%	93.26%	93.37%
9	3/4 Inch customer revenue						
10	annualized to end of year, based on						
11	year end number of customers	\$ 6,121	\$ 25,317	\$ 19,196	313.61%	6.74%	6.63%
12				\$ -	0.00%	0.00%	0.00%
13	Total Water Revenues, after correction for						
14	Billing to hundreds of Gallons	\$ 90,836	\$ 382,037	\$ 291,201	634.69%	100.00%	100.00%
15							
16							
17							
18							
19	Total Water Revenues without Revenue						
20	Annualization and Proforma Revenues	\$ 84,715					
21	Water Revenues Per General Ledger	\$ 84,647					
22	Difference	\$68					
23							
24	Percentage Error	-0.08%					
25							
26							

Utility Source, LLC - Water Division
 Test Year Ended December 31, 2005
 Analysis of Revenue by Detailed Class
 Rates

Exhibit
 Rebuttal Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2005	Average Consumption	Revenues		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1							
2	3/4 Inch Meter - Residential	307	4,740	\$ 76,792	\$ 323,336	\$ 246,544	319.08%
3	1 Inch Meter	-	-	\$ -	\$ -	-	0.00%
4	1.5 Inch Meter Commercial	1	64,470	\$ 2,397	\$ 12,117	\$ 9,720	405.54%
5	2 Inch Meter Commercial	1	103,821	\$ 3,868	\$ 19,609	\$ 15,741	406.94%
6	3/4 Inch Meter - Residential Revenue Annualization	307	4,740	\$ 6,121	\$ 25,317	\$ 19,196	313.61%
7							
8							

Utility Source, LLC - Water Division
 Changes in Representative Rates
 Test Year Ended December 31, 2005

Line No.	Customer Classification and Meter Size	Present Rates	Proposed Rates	Percent Change	Meter Flow Ratios		Meter Flow Ratios 3/4 Inch Meter	Meter Flow Ratios 5/8 Inch Meter	Proposed Rates To Gallons	Charge per 1,000 gal	From Gallons	Proposed Rates To Gallons	Charge per 1,000 gal
					From Gallons	To Gallons							
1	Monthly Usage Charge for:												
2	Residential, Commercial, Irrigation, Resale and Miscellaneous Customers	N/A	\$				N/A						
3	5/8 x 3/4 Inch	6.48	35.74	451.50%	1		1.00						
4	3/4 Inch	8.02	89.34	1014.00%	1.5		1.67						
5	1 Inch	9.62	178.69	1757.44%	2.5		3.33						
6	1 1/2 Inch	14.00	285.90	1942.13%	5		5.33						
7	2 Inch	N/A	571.80		8		10.67						
8	3 Inch	58.00	893.43	1440.40%	16		16.67						
9	4 Inch	89.80	1,786.86	1889.82%	25		33.33						
10	6 Inch			0.00%	50								
11	Construction, Bulk, Standpipe												
12													
13	Gallons In Minimum												
14	All Meter Sizes												
15													
16													
17													
18													
19	<u>Residential (all meter sizes)</u>												
20	Tier 1	-	Up to 5,000	2.83									
21	Tier 2	5,001	Up to 15,000	3.32									
22	Tier 3	15,000		4.71									
23													
24	<u>Multi-Family, Mobile Home, Commercial</u>												
25													
26													
27													
28	<u>Irrigation</u>												
29													
30													
31	<u>Standpipe</u>												
32													
33													
34	<u>Construction Water</u>												
35													
36													
37													
38													
39													
40													

See Page 2 for Proposed Rates

See Page 2 for Proposed Rates

See Page 2 for Proposed Rates

Line No.	Description	Proposed Rates		Charge per 1,000 gal
		From Gallons	To Gallons	
1				
2				
3	<u>Residential, Commercial, Irrigation</u>			
4				
5	<u>Meter Size</u>			
6				
7	5/8 Inch and 3/4 Inch	-	Up to 4,000	9.60
8			Up to	12.48
9			Over	16.22
10				
11	1 Inch	-	Up to 30,000	12.48
12			Over	16.22
13				
14				
15	1 1/2 Inch	-	Up to 60,000	12.48
16			Over	16.22
17				
18				
19	2 Inch	-	Up to 96,000	12.48
20			Over	16.22
21				
22				
23	3 Inch	-	Up to 192,000	12.48
24			Over	16.22
25				
26				
27	4 Inch	-	Up to 300,000	12.48
28			Over	16.22
29				
30				
31	6 Inch	-	Up to 600,000	12.48
32			Over	16.22
33				
34				
35				
36				
37				
38				
39				
40				

Utility Source, LLC - Water Division
 Changes in Representative Rates
 Test Year Ended December 31, 2005

Line No.	Meter and Service Line Installation Charges	Present Rates	Proposed Rates
1			
2			
3			
4	Meter Size		
5	5/8 x 3/4 Inch	N/A	\$520.00
6	3/4 Inch	\$575.00	\$575.00
7	1 Inch	\$660.00	\$660.00
8	1 1/2 Inch	\$900.00	\$900.00
9	2 Inch Turbo	\$1,525.00	\$1,525.00
10	2 Inch Compound	\$2,320.00	\$2,320.00
11	3 Inch Turbo	\$3,110.00	\$3,110.00
12	3 Inch Compound	\$3,360.00	\$3,360.00
13	4 Inch Turbo	\$3,360.00	\$3,360.00
14	4 Inch Compound	\$4,475.00	\$4,475.00
15	6 Inch Turbo	\$6,035.00	\$6,035.00
16	6 Inch Compound	\$6,035.00	\$6,035.00
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			
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32			
33			
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39			
40			
41			

Utility Source, LLC - Water Division
 Changes in Representative Rate Schedules
 Test Year Ended December 31, 2005

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment, per Rule R14-2-403D	\$ 20.00	\$ 20.00
2	Establishment (After Hours)	\$ 40.00	\$ 40.00
3	Re-establishment, Per Rule R14-2-403D (a)	\$ 30.00	\$ 30.00
4	Reconnection , per Rule R14-2-403D	\$ 50.00	\$ 50.00
5	Reconnection (After Hours)	\$ 40.00	\$ 40.00
6	Charge for Moving Meter	Cost	Cost
7	Minimum Deposit Requirement, per Rule R14-2-403B	(b)	(b)
8	Meter test, if correct per Rule R14-2-408F	N/A	N/A
9	Meter Re-Read per Rule R14-2-408C	\$ 10.00	\$ 10.00
10	NSF Check, per Rule R14-2-409F	\$ 20.00	\$ 20.00
11	Deferred Finance Charge, per month per Rule R14-2-403B	1.50%	1.50%
12	Late Payment Charge, per month	1.50%	1.50%
13	Service Calls, per hour (e)	40.00	\$ 40.00
14	Meter Advances	See Page 2	See Page 2
15	Main Extension, per Rule R14-2-406B	Cost	Cost
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
42			
43			
44			
45			
46			

(a) Same customer, same location within 12 months. Number of months off the system times the monthly minimum.
 (b) The Company does not normally require a deposit prior to provision of service. However, if service is not in the property owner's name, this deposit is required.
 Also, in the event service is disconnected for non-payment, this deposit may be required.

Residential - 2 times the estimated average monthly bill
 Non-residential - 2 1/2 times the estimated maximum monthly bill.
 Deposit interest 3.0%

TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).

Utility Source, LLC - Water Division
 Bill Comparison at Present and Proposed Rates
 Customer Classification: 3/4 Inch Meters

Exhibit
 Rebuttal Schedule H-4
 Page 1
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 6.48	\$ 35.74	\$ 29.26	451.50%
1,000	9.31	45.34	36.03	386.97%
2,000	12.14	54.94	42.80	352.53%
3,000	14.97	64.54	49.57	331.11%
4,000	17.80	74.14	56.34	316.50%
5,000	20.63	86.62	65.99	319.86%
6,000	23.95	99.10	75.15	313.77%
7,000	27.27	111.58	84.31	309.16%
8,000	30.59	124.06	93.47	305.55%
9,000	33.91	136.54	102.63	302.65%
10,000	37.23	149.02	111.79	300.26%
12,000	43.87	173.98	130.11	296.57%
14,000	50.51	206.43	155.92	308.68%
16,000	58.54	238.87	180.33	308.05%
18,000	67.96	271.32	203.36	299.24%
20,000	77.38	303.77	226.39	292.57%
25,000	100.93	384.89	283.96	281.34%
30,000	124.48	466.01	341.53	274.36%
35,000	148.03	547.13	399.10	269.61%
40,000	171.58	628.25	456.67	266.16%
45,000	195.13	709.37	514.24	263.54%
50,000	218.68	790.49	571.81	261.48%
60,000	265.78	952.73	686.95	258.47%
70,000	312.88	1,114.97	802.09	256.36%
80,000	359.98	1,277.21	917.23	254.80%
90,000	407.08	1,439.45	1,032.37	253.60%
100,000	454.18	1,601.69	1,147.51	252.66%
Average Usage	19.90	83.38	63.48	319.08%
Median Usage	19.22	80.38	61.16	318.30%

Present Rates:
 Monthly Minimum: \$ 6.48
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 5,000 \$ 2.83
 15,000 \$ 3.32
 Over \$ 4.71

Proposed Rates:
 Monthly Minimum: \$ 35.74
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 4,000 \$ 9.60
 12,000 \$ 12.48
 Over \$ 16.22

Utility Source, LLC - Water Division
 Bill Comparison at Present and Proposed Rates
 Customer Classification 1 1/2 Inch Meters

Exhibit
 Rebuttal Schedule H-4
 Page 2
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 9.62	\$ 178.69	\$ 169.07	1757.44%
1,000	12.59	191.17	178.58	1418.40%
2,000	15.56	203.65	188.09	1208.78%
3,000	18.53	216.13	197.60	1066.36%
4,000	21.50	228.61	207.11	963.28%
5,000	24.47	241.09	216.62	885.23%
6,000	27.44	253.57	226.13	824.07%
7,000	30.41	266.05	235.64	774.86%
8,000	33.38	278.53	245.15	734.41%
9,000	36.35	291.01	254.66	700.57%
10,000	39.32	303.49	264.17	671.84%
12,000	45.26	328.45	283.19	625.69%
14,000	51.20	353.41	302.21	590.25%
16,000	57.14	378.37	321.23	562.17%
18,000	63.08	403.33	340.25	539.39%
20,000	69.02	428.29	359.27	520.52%
25,000	83.87	490.69	406.82	485.06%
30,000	98.72	553.09	454.37	460.26%
35,000	113.57	615.49	501.92	441.94%
40,000	128.42	677.89	549.47	427.87%
45,000	143.27	740.29	597.02	416.71%
50,000	158.12	802.69	644.57	407.64%
60,000	187.82	927.49	739.67	393.82%
70,000	217.52	1,089.73	872.21	400.98%
80,000	247.22	1,251.97	1,004.75	406.42%
90,000	276.92	1,414.21	1,137.29	410.69%
100,000	306.62	1,576.45	1,269.83	414.14%
<u>Average Usage</u>	201.10	1,000.01	798.91	397.28%
<u>Median Usage</u>	187.82	927.49	739.67	393.82%

Present Rates:
 Monthly Minimum: \$ 9.62
 Gallons in Minimum -
 Charge Per 1,000 Gallons \$ 2.97
 All gals

Proposed Rates:
 Monthly Minimum: \$ 178.69
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 60,000 \$ 12.48
 Over 60,000 \$ 16.22

Utility Source, LLC - Water Division
 Bill Comparison at Present and Proposed Rates
 Customer Classification: 2 Inch Meters - Commercial

Exhibit
 Rebuttal Schedule H-4
 Page 3
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 14.00	\$ 285.90	\$ 271.90	1942.13%
1,000	16.97	298.38	281.41	1658.27%
2,000	19.94	310.86	290.92	1458.96%
3,000	22.91	323.34	300.43	1311.34%
4,000	25.88	335.82	309.94	1197.60%
5,000	28.85	348.30	319.45	1107.27%
6,000	31.82	360.78	328.96	1033.81%
7,000	34.79	373.26	338.47	972.89%
8,000	37.76	385.74	347.98	921.55%
9,000	40.73	398.22	357.49	877.70%
10,000	43.70	410.70	367.00	839.81%
12,000	49.64	435.66	386.02	777.63%
14,000	55.58	460.62	405.04	728.75%
16,000	61.52	485.58	424.06	689.30%
18,000	67.46	510.54	443.08	656.80%
20,000	73.40	535.50	462.10	629.56%
25,000	88.25	597.90	509.65	577.50%
30,000	103.10	660.30	557.20	540.44%
35,000	117.95	722.70	604.75	512.72%
40,000	132.80	785.10	652.30	491.19%
45,000	147.65	847.50	699.85	473.99%
50,000	162.50	909.90	747.40	459.94%
60,000	192.20	1,034.70	842.50	438.34%
70,000	221.90	1,159.50	937.60	422.53%
80,000	251.60	1,284.30	1,032.70	410.45%
90,000	281.30	1,409.10	1,127.80	400.92%
100,000	311.00	1,548.87	1,237.87	398.03%
Average Usage	322.35	1,610.86	1,288.51	399.73%
Median Usage	313.68	1,563.49	1,249.82	398.44%

Present Rates:
 Monthly Minimum: \$ 14.00
 Gallons in Minimum -
 Charge Per 1,000 Gallons \$ 2.97
 All gals

Proposed Rates:
 Monthly Minimum: \$ 285.90
 Gallons in Minimum -
 Charge Per 1,000 Gallons 96,000 \$ 12.48
 Up to 96,000 \$ 16.22
 Over

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF UTILITY
SOURCE, L.L.C. – SEWER DIVISION,
AN ARIZONA CORPORATION, FOR
A DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR
INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO: WS-04235A-06-0303

**REBUTTAL TESTIMONY OF
THOMAS J. BOURASSA
SEWER DIVISION**

1 **I. INTRODUCTION AND QUALIFICATIONS.**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

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

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE**
6 **INSTANT CASE?**

7 A. Yes, my direct testimony was submitted in support of the initial application in this
8 docket by Utility Source, L.L.C. – Sewer Division (“USLLC” or “Company”).

9 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

10 A. I will provide rebuttal testimony in response to the direct filings by Arizona
11 Corporation Commission Utilities Division Staff (“Staff”) with respect to rate base,
12 revenues and expenses, and rate design. My rebuttal testimony on the cost of
13 capital can be found under separate cover.

14 **Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS**
15 **PROPOSING IN THIS REBUTTAL TESTIMONY?**

16 A. The Company is proposing a total revenue requirement of \$283,384, which
17 constitutes an increase in revenues of \$169,479, or 148.79% over adjusted test year
18 revenues.

19 **Q. HOW DOES THIS COMPARE WITH THE COMPANY’S DIRECT**
20 **FILING?**

21 A. In the direct filing, the Company requested a total revenue requirement of
22 \$301,124, an increase in revenues of \$187,220, or 164.37%.

23 **Q. WHY IS THE REQUESTED REVENUE INCREASE LOWER IN THE**
24 **COMPANY’S REBUTTAL FILING?**

25 A. The Company’s rebuttal filing reflects the adoption of a number of rate base and
26 operating expense adjustments recommended by Staff. Original Cost Rate Base

1 (“OCRB”) and Fair Value Rate Base (“FVRB”) are reduced by \$87,860 from the
2 direct filing. The adjusted test year level of operating expense has been reduced by
3 \$8,514 compared to the Company’s direct adjusted test year level of operating
4 expense.

5 **Q. PLEASE SUMMARIZE THE PROPOSED REVENUE REQUIREMENTS**
6 **AND RATE INCREASES FOR THE COMPANY AND STAFF AT THIS**
7 **STAGE OF THE PROCEEDING?**

8 A. The proposed revenue requirements and proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
10 Company-Direct	\$301,124	\$187,220	164.37%
11 Staff	\$224,908	\$111,003	97.45%
12 Company Rebuttal	\$283,384	\$169,479	148.79%

13 **Q. WHY IS STAFF’S REVENUE REQUIREMENT AND RECOMMENDED**
14 **INCREASE LOWER RELATIVE TO USLLC?**

15 A. The difference in the revenue requirement between Staff and the Company of
16 \$58,476 is primarily due to a difference in each of the party’s recommended rate
17 base, cost of capital, depreciation expense. The difference related to rate base and
18 cost of capital is approximately \$43,000. The difference related to depreciation
19 expense is approximately \$16,900. The balance of the difference is due to the level
20 of property taxes recommended by each of the parties.

21 Notably, Staff has accepted the Company’s proposal to include pro forma
22 revenues from future customer growth in the determination of the revenue
23 requirement and rate increase.

24 **Q. THE COMPANY IS STILL SEEKING A SUBSTANTIAL INCREASE IN**
25 **ITS RATES IN THIS PROCEEDING?**

26 A. Yes, and it remains primarily plant investment driven. USLLC has invested nearly

1 \$1.3 million of dollars in its wastewater utility plant to serve ratepayers in the past
2 couple of years and it is entitled to a return on and of the fair value of that utility
3 plant.

4 **II. RATE BASE.**

5 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**
6 **BASE RECOMMENDATIONS?**

7 A. The rate bases proposed by all parties in the case are as follows:

	<u>OCRB</u>	<u>FVRB</u>
8 Company-Direct	\$ 1,401,953	\$ 1,401,953
9 Staff	\$ 989,576	\$ 989,576
10 Company Rebuttal	\$ 1,314,093	\$ 1,314,093

11
12 **Q. TO WHAT DO YOU ATTRIBUTE THE DECREASE IN RATE BASE**
13 **FROM THE DIRECT FILING TO THE REBUTTAL FILING?**

14 A. The Company has accepted certain Staff's adjustments which reduce plant-in-
15 service by \$29,321. The Company has increased accumulated depreciation by
16 \$63,395 as a result of the decrease to plant-in-service and a change to the year in
17 which plant was placed into service. Finally, the Company's proposed cash
18 working capital allowance has been reduced by \$7,921 to zero.

19 The Company disagrees with Staff on the balance of plant-in-service. I will
20 testify to the disagreements between Staff and the Company later in my testimony.
21 While the Company agrees with Staff as to the year plant was placed in service for
22 purposes of computing accumulated depreciation, there remains a difference in the
23 proposed accumulated depreciation balance at the end of the test year due
24 difference in the amount of plant-in-service as well as the number of prior years of
25 depreciation. The Company agrees with Staff on the amount of cash working
26 capital and, as I will explain later in my testimony, the Company is also in

1 agreement with Staff on the balance of CIAC, but disagrees with Staff's level of
2 accumulated amortization.

3 **A. Plant-in-Service.**

4 **Q. PLEASE EXPLAIN THE COMPANY'S REBUTTAL ADJUSTMENTS TO**
5 **PLANT-IN-SERVICE.**

6 A. B-2 rebuttal adjustment number 1 reflects a decrease to plant-in-service of \$29,321.
7 The Company has accepted Staff's proposed adjustment to power generation
8 equipment (NARUC Account 355). See Direct testimony of Jeffery M. Michlik
9 ("Michlik DT") at 5.

10 The Company disagrees with Staff adjustments to reduce plant-in-service by
11 an additional \$345,774.

12 **Q. WHAT DOES THE \$345,774 ADJUSTMENT TO PLANT-IN-SERVICE**
13 **CONSIST OF?**

14 A. Staff disallowed \$68,271 for costs related to the Company wastewater treatment
15 plant #1. The Company believes it has substantiated the costs in contrast to Staff.
16 See Michlik DT at 6. The Company did provide Staff a copy of the contract
17 between the Company and Advanced Environmental Systems for the wastewater
18 treatment plant #1 construction totaling \$309,000. Contract attached hereto as
19 Rebuttal Exhibit 1. Staff disputes \$68,571 of the costs in part because Staff could
20 not determine whether the work was performed by Advanced Environmental
21 Systems or Alta Mesa Construction. *Id.* The Company's previously provided
22 schedule did to indicate that \$68,571 of the cost was attributed to Alta Mesa
23 Construction. However, the Company believes its schedule to be in error.
24 Regardless, the contract clearly shows the cost of the plant was \$309,000. Staff
25 has included in plant-in-service only \$240,429 of the contract costs.

26 **Q. DOES STAFF DISPUTE THE EXISTENCE OF THE LIFT STATIONS?**

1 A. No.

2 **Q. PLEASE CONTINUE.**

3 A. Staff also disallowed \$178,231 of costs related to evaporative lagoons consisting of
4 water falls, streams, pond and a lake because Staff asserts they are not integral
5 components of the wastewater treatment system. *Id.* The Company disagrees.
6 The wastewater system generates effluent which must be disposed of. The water
7 features including the pond and lakes are necessary and in lieu of a recharge
8 facility or disposing of all of the effluent down nearby washes. The Arizona
9 Department of Environmental Quality ("ADEQ") specifically discouraged the
10 Company from building an effluent disposal recharge facility and limits the amount
11 of effluent that can be disposed of in washes. These facilities are necessary to deal
12 with and dispose of the effluent.

13 **Q. IS THE LAKE ESSENTIAL FOR EFFLUENT IRRIGATION OF TURF**
14 **AREAS WITHIN THE COMMUNITY?**

15 A. Yes, consistent with the Commission's informal policy to discourage turf irrigation
16 with ground water, especially in areas with historic supply issues, the lake permits
17 storage of effluent which can then be applied to turf areas when that watering is
18 needed.

19 **Q. PLEASE SPEAK TO WASTEWATER TREATMENT PLANT # 2.**

20 A. Staff disallows \$99,272 of costs related to wastewater treatment plant #2. *Id.* at 7.
21 The Company disagrees with Staff's assertion that there is insufficient
22 documentation to support these costs. The Company provided documentation of
23 the costs which included copies of the Santec Corporation contracts, invoices,
24 addendums, change orders, and a number of cancelled checks. While the
25 Company could not locate all of the canceled checks, there is sufficient other
26 supporting documentation of the costs to substantiate the \$99,272.

1 **B. Accumulated Depreciation.**

2 **Q. PLEASE EXPLAIN THE COMPANY'S REBUTTAL ADJUSTMENT TO**
3 **ACCUMULATED DEPRECIATION?**

4 A. B-2 rebuttal adjustment number 2 reflects the increase to accumulated depreciation
5 for \$63,395. This adjustment reflects the decrease to plant-in-service for \$29,321
6 and an acceptance of 2004 rather than 2005 as the in service date for all plant. The
7 Company agrees with Staff on the in-service date of 2004 for the wastewater
8 treatment plant. *Id.* at 8.

9 **C. Advance-in-Aid of Construction ("AIAC").**

10 **Q. HAVE YOU MADE A REBUTTAL ADJUSTMENT CONCERNING**
11 **ADVANCES-IN-AID OF CONTRUCTION?**

12 A. Yes. The Company has accepted Staff's proposal to reclassify AIAC to CIAC. *Id.*
13 at 9. B-2 rebuttal adjustment number 3 reflects this adjustment. Staff and the
14 Company agree on the adjusted balance of AIAC of zero and CIAC of \$197,973.

15 **D. Accumulated Amortization of CIAC.**

16 **Q. PLEASE EXPLAIN THE COMPANY'S REBUTTAL ADJUSTMENT TO**
17 **ACCUMULATED AMORTIZATION?**

18 A. As I testified, the Company has accepted Staff's proposal to reclassify AIAC to
19 CIAC. Staff does propose to increase accumulated amortization, but Staff's rate
20 base schedule (Schedule JMM-WW6) does not appear to reflect this
21 recommendation. *Id.* at 9. Putting this aside, Staff's computation is only one full
22 year of amortization of \$8,101. This is inconsistent with an assumption that all
23 plant was placed in service in 2004. Accordingly, the Company's computation is
24 based on amortization starting in 2004 and thus includes 2 years of amortization
25 (using ½ year convention). B-2 rebuttal adjustment 4 reflects the Company's
26 proposed adjustment to accumulated amortization of \$12,777.

1 **E. Working Capital.**

2 **Q. HAVE YOU MADE A REBUTTAL ADJUSTMENT CONCERNING**
3 **WORKING CAPITAL?**

4 A. Yes. While the Company does not agree with Staff's rationale that Class A, B, and
5 C utilities should not be allowed to use the formula method and instead must
6 prepare lead-lag studies to request working capital, it has accepted Staff's
7 adjustment to eliminate issues between the parties. *Id* at 9-10. Rebuttal Schedule
8 B-2 adjustment number 5 reduces working capital to zero.

9 **Q. WHY DO YOU DISAGREE WITH STAFF'S RATIONALE?**

10 A. No method of computing working capital, including a lead-lag study, is precisely
11 correct. The purpose of any working capital computation is to produce an amount
12 of working capital allowance that is reasonable and the cost of the calculation
13 should not exceed the benefits. This is true regardless of the size of the utility.
14 Lead-lag studies are costly to prepare and disagreement between the parties is
15 common which in turn exacerbates rate case expense further. In my experience the
16 costs to prepare and defend lead-lag studies can increase rate case expense by
17 \$10,000 to \$15,000 or more. The costs of lead-lag studies generally far exceed the
18 benefits. The formula method is simple and can readily be adjusted for the effects
19 of pro forma adjustments.

20 The formula method has been recognized by numerous regulatory
21 commissions including this Commission. *E.g.* Pine Water Company (A.C.C.
22 Decision 67166, August 10, 2004) and Rio Rico Utilities, Inc. (A.C.C. Decision
23 67279, October 5, 2004). In both of these cases, Staff recommended cash working
24 capital allowances based on the formula method. *See* Direct Testimony of Dennis
25 Rogers, page 13, Docket No. SW-02676A-03-434, and Direct Testimony of
26 Claudio Fernandez, page 10, Docket No. W-03512A-03-0279. Just two months

1 ago, the Commission approved a *negative* working capital allowance (a deduction
2 from rate base resulting in lower revenue) for Black Mountain Sewer Corporation.
3 *See* Decision No. 69164 (December 5, 2006) at 6-7 without a lead-lag study. In
4 that case, one of the parties had proposed negative working capital based on a
5 quasi-formula/lead-lag method, which the Commission recognized was not as
6 accurate as a lead-lag study. *Id.*

7 Based on my involvement in numerous rate proceedings in the recent past,
8 it appears that Staff has adopted a 'black letter policy' of opposing any cash
9 working capital allowance unless accompanied by a lead-lag study. This 'black
10 letter policy', which applies to all Class C and above utilities, is interesting given
11 Staff's oft-cited mantra that cases should be decided on a case-by-case basis. A
12 black letter policy such as this one seems to me to be both contradictory to Staff's
13 approach to rate making and arbitrary. The Commission rules do contemplate
14 the use of the formula method. *See* Arizona Administrative Code 14-2-103.
15 Schedule B-5, for example, explicitly provides for the formula method for
16 computing working capital. Further, it is required to be filed by all class C and
17 above utilities. *Id.*

18 **III. INCOME STATEMENT.**

19 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
20 **ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY**
21 **ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?**

22 A. Yes. The Company rebuttal adjustments are detailed on Rebuttal Schedule C-2,
23 pages 1-7. The rebuttal income statement with adjustments is shown on Rebuttal
24 Schedule C-1, pages 1-2.

25 Rebuttal adjustment number 1 annualizes depreciation expense taking into
26 account the changes to plant-in-service and contributions-in-aid of construction, as

1 discussed above.

2 Rebuttal adjustment number 2 reduces property tax expense and reflects the
3 rebuttal proposed revenues. The Company and Staff are in agreement on the
4 method of computing property taxes. This method utilized the ADOR formula and
5 inputs two years of adjusted revenues plus one year of proposed revenues. I
6 computed the property taxes based on the Company's proposed revenues, and then
7 used the property tax rate that was used in the direct filing. The difference between
8 Staff and the Company on the proposed level of property taxes is due to differences
9 in the party's respective proposed revenue

10 **Q. PLEASE CONTINUE.**

11 A. Rebuttal adjustment 3 decreases miscellaneous expense by \$500 for CC&N related
12 costs. The Company also agrees with Staff that the CC&N related costs not a
13 recurring cost of service. *See Michlik DT at 12.*

14 Rebuttal adjustment 4 increases wastewater testing expense by \$4,430. The
15 Company agrees with Staff proposed level of wastewater testing expense which is
16 based on the Staff Engineering Report. *Id.* at 12.

17 **Q. DOES THE COMPANY CONTINUE TO PROPOSE PRO FORMA**
18 **REVENUES FOR POTENTIAL FUTURE GROWTH OF 350**
19 **CUSTOMERS?**

20 A. Yes. At this stage of the proceeding the Company has not changed its position on
21 including pro forma revenues in the determination of the revenue requirement and
22 rate increase for the sewer division. Unlike the water division, the sewer division
23 presently has capacity that will serve at least a portion of the demand from those
24 350 new customers.

25 **Q. PLEASE COMMENT ON MR. MICHLIK'S TESTIMONY ON PAGE 11**
26 **AND 14 THROUGH 16 REGARDING THE REASONS WHY STAFF**

1 **AGREED WITH THE COMPANY'S PROPOSAL TO INCLUDE PRO**
2 **FORMA REVENUES?**

3 A. Mr. Michlik's comments characterize Staff's acceptance of the Company's direct
4 proposal to include projected revenues from potential customer growth as justified
5 in order to further penalize the Company for previously operating without a
6 CC&N. Specifically, he states "...Staff feels that the rate payer should not pay for
7 the Company's mistakes." *Id.* at 11. The rate payer has not and will not pay for
8 the Company initial failure to obtain a CC&N. In fact, the Company has paid a
9 substantial fine for this mistake. *See* Decision 67446 at 19. As part of the
10 Company's compliance with the Commission's prior decision, the Company
11 promptly notified its customers of the potential for a substantial rate increase and
12 has filed the instant rate application. *Id.* at 24.

13 The Company is in regulatory compliance with the Arizona Corporation
14 Commission ("ACC"), Arizona Department of Environmental Quality ("ADEQ"),
15 and the Arizona Department of Revenue ("ADOR"). *See* Staff Engineering
16 Report. Put simply, there is no factual, legal, or equitable basis to further
17 'penalize' the Company.

18 **Q. WAS THE COMPANY'S PROPOSAL TO INCLUDE PROJECTED**
19 **REVENUES UNUSUAL?**

20 A. Yes, and I stated so. *See* Bourassa DT at 12. I rarely recommend the approach
21 because of the risk to the Company and the potential to create a serious mismatch
22 between rate base and revenues and expenses. While it is unusual, there is
23 precedent. In the Arizona-American case (Decision 67093, June 30, 2004), for
24 example, pro forma revenues were included in the adjusted test year revenues for
25 the Anthem Water and Wastewater Districts as a means of minimizing the impact
26 on rates. This was a proposal made by the Arizona-American and accepted by

1 Staff. The pro forma revenue consisted of payments in lieu of revenues from Del
2 Webb which were scheduled to be made 3-5 years subsequent to the end of the test
3 year. See Direct Testimony of Thomas J. Bourassa Docket No. WS-01303A-02-
4 0870 at 17-19. Putting this aside, the Company's initial proposal in the instant
5 case was not because of a desire by the Company to impose a 'punishment' upon
6 itself. Staff's comments reinforce the old adage that 'no good deed goes
7 unpunished'.

8 **Q. DO YOU BELIEVE THE COMMISSION CAN UNILATERALLY IMPOSE**
9 **A REQUIREMENT TO INCLUDE PROJECTED REVENUES IN THE**
10 **DETERMINATION OF THE REVENUE REQUIREMENT AND**
11 **REQUIRED RATE INCREASE?**

12 A. I am not an attorney, but in my professional opinion the answer is 'no'. I believe
13 that such a proposal would violate the Arizona constitutional requirement that the
14 Commission must provide a fair return on the fair value of the property devoted to
15 public service. A fair return also means utilities must be given a reasonable
16 opportunity to earn a fair return. The rate making reasons include the basic
17 principles of 'known and measurable' and the 'matching principle'.

18 Putting this aside, as I have testified, the Company is still recommending the
19 inclusion of pro forma revenues for the sewer division.

20 **Q. SO IN THIS INSTANCE, AND FOR THE SEWER DIVISION ONLY, THE**
21 **COMPANY AGREES TO INCLUDE THE PROFORMA CUSTOMERS?**

22 A. Yes, as indicated, we believe that this is supportable because of the existing
23 treatment capacity and the reasonable result of including those customers.

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1 **IV. RATE DESIGN.**

2 **Q. PLEASE SUMMARIZE THE POSITIONS OF THE PARTIES WITH**
3 **RESPECT TO THE RATE DESIGN.**

4 A. Both Staff and the Company propose the same basic rate design which is based on
5 water usage rather than flat monthly rates.

6 **Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?**

7 A. The rebuttal proposed rates are:

8 A.	<u>Customer Class</u>	<u>Flat Monthly Charge</u>	<u>Charge per 1,000 gallons of Water Usage</u>
9			
10	Residential	N/A	\$ 6.85
11	Car Washes,		
12	Laundromats, Commercial,		
13	Manufacturing	N/A	\$ 6.70
14	Hotels, Motels	N/A	\$ 8.99
15	Restaurants	N/A	\$ 11.09
16	Industrial Laundries	N/A	\$ 9.84
17	Waste Haulers	N/A	\$200.80
18	Restaurant Grease	N/A	\$175.70
19	Treatment Plant Sludge	N/A	\$200.80
20	Mud Sump Waste	N/A	\$627.50

21 **Q. ARE STAFF AND THE COMPANY IN AGREEMENT ON THE**
22 **COMPANY'S PROPOSED SERVICE CHARGES CHARGES?**

23 A. Yes.

24 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY FOR THE**
25 **SEWER DIVISION?**

26 A. Yes.



**Advanced
Environmental
Systems, Inc.**

Executed

(6)

361 1st plant

PROPOSAL TO:

**LONNIE McCLEVE
UTILITY SOURCE, LLC
RE: GREENFIELD LAND DEVELOPMENT, LLC
721 E. SAN PEDRO
GILBERT, ARIZONA 85234**

FOR ONE (1)

**TURN-KEY INSTALLED
SUPER-IDEA 37.5K119 SB/FT/PD/3PH230
PHASE ONE OF FOUR TOTAL**

TO SERVE:

BELLEMONT TRAVEL CENTER

I-40, exit 185

ADVANCED ENVIRONMENTAL SYSTEMS, INC. PROPOSAL #
020103R1

January 15, 2002

EXHIBIT 1

**WASTEWATER TREATMENT SYSTEMS
ENGINEERING / MANUFACTURING / INSTALLATION**

BASED UPON THE BEST AVAILABLE INFORMATION AND SUBJECT TO THE TERMS AND CONDITIONS OF THE CONTRACT

ADVANCED ENVIRONMENTAL SYSTEMS, INC. is pleased to quote the following patented Fiberglass IDEA Package Wastewater Treatment Plant:

PRIMARY TRASH TANK/LIFT STATION

- 1 30,000 gallon per day trash tank with intrigal lift station shall be provided by AES. The trash tank volumetric capacity shall be 600 gallons. The lift station volumetric capacity shall be 400 gallons. Lift station shall have a duplex pump package designed to transfer a flow rate of 75 gpm at a total dynamic head of 15 feet to transfer to main lift station. Trash tank shall be equipped with two (2) thirty inch (30") diameter risers for service access to grade. The lift station shall have one (1) thirty inch (30") diameter riser to grade. Installation by AES.

MAIN TRASH TANK/LIFT STATION

- 1 150,000 gallon per day trash tank with intrigal lift station shall be provided by AES. The trash tank volumetric capacity shall be 3000 gallons. The lift station volumetric capacity shall be 2000 gallons. Lift station shall have a duplex pump package designed to transfer a flow rate of 188 gpm at a total dynamic head of 10 feet to serve phase 1 and phase 2. The lift station shall additionally be ready to receive a second duplex pump package to serve phase 3 and phase 4. Trash tank shall be equipped with two (2) thirty inch (30") diameter risers for service access, eight feet (8') in height. The lift station shall have two (2) thirty inch (30") diameter risers, eight feet (8') in height. Installation by AES.

IDEA PROCESS PLANT AND EQUIPMENT PACKAGE

- 1 IVE Collector(s), dimensioned as per Table C, shall be installed in place per AES specifications during tank construction.
- 1 Omni-Flow Partition(s), dimensioned as per Table C, shall be installed in place per AES specifications during tank construction.
- 1 Aeration system sufficient to provide the required oxygen for the nitrification and BOD removals as specified in Table A, all necessary in-basin aeration equipment complete with necessary ancillary equipment.

Total Number of Air Blower Package(s):	1 Blower Package(s)
Total Number of Spare Air Blower(s):	1 Spare Blower(s)
Total Number of Spare Motor(s):	1 Spare Motor(s)
Air Blower Horsepower:	20.00 HP / Blower

Total Number of Fine Bubble Diffusers:	48 Diffusers
--	--------------

Installation By: Advanced Environmental Systems, Inc.

- 1 Effluent Decanter(s) to include internal float(s), ball check intake ports, piping, flexible swing joint(s), effluent pump(s) as sized in Table C.

Installation By: Advanced Environmental Systems, Inc.

- 1 Kam-Lock waste sludge withdrawal pipe(s).

Installation By: Advanced Environmental Systems, Inc.

TANKAGE

- 1 Horizontal cylindrical fiberglass tank(s) as sized in Table C, to include risers and lids, and all other integral components necessary for the proposed package plant.

Installation By: Advanced Environmental Systems, Inc.

CONTROLS

- 1 Control Center containing the factory wired IDEA controls to include a main circuit breaker, necessary branch circuit breakers, combination motor starters, timers, switches, lights, and alarms necessary to automatically control and operate all electrical devices and motors in the lift station and the IDEA system. Basic telemetry for high level and loss of power shall be provided. Additionally provided shall be a turbidity meter for final effluent monitoring.

Installation By: Advanced Environmental Systems, Inc.

- 1 PVC Junction-Box(es) located at the reactor basin(s).

Installation By: Advanced Environmental Systems, Inc.

TURN-KEY INSTALLATION

Advanced Environmental Systems shall provide installation of the plant as indicated below:

- 30 Days of Installation
- 2 Days of Start-Up

FILTER

- 1 Automatic Backwashing sand filter shall be provided. Filter shall be designed to serve full build out of 150,000 gallons per day.

DISINFECTION

- 1 Chlorination/dechlorination system shall be provided consisting of one (1) LMI A7 Series Pump, one (1) translucent tank, two (2) dechlorination feeders model XT-4000S.

DELIVERY

Estimated delivery to the jobsite is eight to ten (8-10) weeks following receipt of proposal acceptance and purchase order.

PROVISIONS

Only those items indicated are included and will be furnished. Any other items that may occur will be negotiated as an addition to this agreement on a case by case basis with the buyer (if required).

- 1 Engineering and fees required for plant substitution by the Arizona DEQ. (provided by AES)
- 2 Lifting equipment such as crane or forklift. (provided by AES)
- 3 Equipment housing design or construction.
- 4 Fencing.
- 5 Electrical field wiring. (provided by AES)

Advanced Environmental Systems, Inc. Proposal

- 6 Freight, transportation to jobsite and unloading of equipment. (provided by AES)
- 7 Site preparation, stabilization, rock-removal, de-mucking or de-watering. (if required)
- 8 Site excavation and hauling bedding material and backfilling to finish grade. (provided by AES)
- 9 Local taxes which may apply.
- 10 Power generator, if on-site construction power is not available. (provided by AES)
- 11 Water for filling of basin.
- 12 Site security. (until AES is on site)
- 13 Any site yard piping and plumbing that may be required. (provided by AES)

UVV

14 *Deep for the discharge of Effluent to the discharge point of approx. 200gpm.*
 Warranty as per attached Advanced Environmental Systems, Inc. Performance Warranty. *shall be provided by AES.*

Wastewater characteristics to be below influent levels listed in Table A.
 Sufficient alkalinity exists within the wastewater for nitrification. Supplemental alkalinity is to be provided by the owner as needed.
 Sufficient phosphorus exists for proper biological activity. Supplemental phosphorus is to be provided by the owner as needed.
 No heavy metal or toxic organic compounds are present in the wastewater which will inhibit biological treatment (refer to attached "Threshold Concentration of Inorganic Pollutants that are Inhibitory to Biological Treatment Processes").

*70,597.22 = lift station
 238,402.78 = plant #1*

TURN-KEY INSTALLED PRICE: **\$309,000.00**

Quoted price is firm for 30 days from the date of the proposal subject to the following terms and conditions:
 Payment schedule is 10% upon proposal acceptance, 25% with purchase order by February 1 or eight weeks prior to the initiation of site construction, 20% by March 1 or two weeks prior to tankage arrival date, 25% upon arrival of tankage and lift stations, 20% upon startup, pending approval to operate by ADEQ.
 Advanced Environmental Systems, Inc. standard Terms and Conditions of Sale is attached and incorporated herein by reference.

RESPECTFULLY SUBMITTED,

PURCHASER

(please read Terms & Conditions of Sale before signing)

[Signature]
 Advanced Environmental Systems, Inc.
 President

[Signature]
 Accepted By:
 Utility Source Inc.
 Company/Client:
 1/17/2002
 Date:

BlueBook

INVOICE

INVOICE NO	981864
PAGE	1 of 1
DATE	12/03/04

NEW
 Remit to:
 P.O. Box 9004
 Mcc, IL 60031-9004

TEL: (847) 689-9781
 FAX: (847) 689-3001
 TOLL FREE: 1-800-493-9876
 F.E.I.N.: 36-3645787

CUSTOMER P.O. #	SHIP DATE	SALESPERSON	TERMS	TAX CODE	SALES ORDER #	W/H	FREIGHT	SHIP VIA
100000	12/03/04	TSP	1X/10 NET 30	ILNONIL	785280	01	PREPAID	AST

QTY	DESCRIPTION	ORDERED	SHIPPED	BACK ORDER	U/M	PRICE	PER	EXTENSION
2	(OR) DuPont Antiseptic Hand Wipes, 160 Count MSDS SHEET SHIPPED WITH ITEM Order From Catalog 115	2	2	0	EA	13.22	EA	26.44
1	Barnes 3SE1544L Sewage Pump 1.5HP/460V/3PH, 3" Disch.	1	1	0	EA	1338.40	EA	1338.40

Handwritten notes:
 (47) 4983
 PAID 12-7-05
 ask Pat what this is
 OK 12-7-05 Pat pay
 32
 Back up pump 301

THLY CHARGE 30 DAYS PAST DUE penalties apply to merchandise only.	MERCHANDISE	MISCELLANEOUS	DISCOUNT	TAX	FREIGHT	TOTAL DUE
	1356.84	.00	.00	.00	160.89	1517.73

Some necessary to refer your unpaid balance to a collection agency, a collection fee, not to exceed 25%
 be referred; plus reasonable attorney's fees; and court costs when necessary, will be added to the balance due.

******IMPORTANT******
 Please include this customer #
 on the face of your remittance check.

3
 GREENFIELD LAND DEVELOPMENT
 711 N BELLMONT SPRINGS
 BELLMONT, AZ 86015
 ATTN: JEREMY /928-699-8286

S
O
L
D
T
O

982789
 GREENFIELD LAND DEVELOPMENT
 721 E SAN PEDRO
 GILBERT, AZ 85234

PATTON ELECTRIC LLC

1801 NORTH SECOND STREET
 FLAGSTAFF, AZ 86004
 R.O.C.# 173904 K-11
 R.O.C.# 188250 A-17

Invoice

Date	Invoice #
9/4/2003	487

Bill To
Lonnie C. McCleve 721 E. San Pedro Gilbert, Arizona 85234

PAID

P.O. No.	Terms
	Net 30

Description	Qty	Rate	Amount
SERVICE CALL 07/31/03 Install magnetic contactor in deep well	2.5	50.00	125.00
1) Thermal overload relay 1) LSRU module		175.00	175.00T

Thank you for your business.

Subtotal	\$300.00
Sales Tax (6.525%)	\$11.42
Total	\$311.42
Payments/Credits	\$0.00
Balance Due	\$311.42

A finance charge of 1.5% will be assessed on amounts that are not paid in full by 30 days of the invoice date.

Phone #	Fax #	E-mail
928-214-8821	928-214-0404	johnpattonelectric@netzero.net

PATTON ELECTRIC LLC

1801 NORTH SECOND STREET
 FLAGSTAFF, AZ 86004
 R.O.C.# 173904 K-11
 R.O.C.# 188250 A-17

Invoice

Date	Invoice #
9/4/2003	483

Bill To
Lonnie C. McCleve 721 E. San Pedro Gilbert, Arizona 85234

PAID

P.O. No.	Terms
	Net 30

Description	Qty	Rate	Amount
SERVICE CALL 07/27/03 Checked lift station		50.00	150.00
1) 480 volt 3 phase lightening arrester		250.00	250.00
1) 5 HP IEC motor starter w/ overload relay			

TOTAL \$727.73 BP 10/9/03

Thank you for your business.

Subtotal	\$400.00
Sales Tax (6.525%)	\$16.31
Total	\$416.31
Payments/Credits	\$0.00
Balance Due	\$416.31

A finance charge of 1.5% will be assessed on amounts that are not paid in full by 30 days of the invoice date.

Phone #	Fax #	E-mail
928-214-8821	928-214-0404	johnpattonelectric@netzero.net

Handwritten signature/initials

PATTON ELECTRIC LLC

1801 NORTH SECOND STREET
 FLAGSTAFF, AZ 86004
 R.O.C.# 173904 K-11
 R.O.C.# 188250 A-17

Invoice

Date	Invoice #
10/8/2004	701

Bill To
Lornie C. McCleve 721 E. San Pedro Gilbert, Arizona 85234

P.O. No.	Terms
	Due on receipt

Description	Qty	Rate	Amount
SERVICE CALL 9-24-04 Rewire old lift station Journeyman 4 hrs O.T. Journeyman 2 hrs Apprentice 4 hrs		690.00	690.00
SERVICE CALL 9-25-04 Rewire old lift station Journeyman 2 hrs O.T. Journeyman 2 hrs Apprentice 2 hrs		423.00	423.00
SERVICE CALL 9-27-04 Rewire old lift station Journeyman 2 hrs Apprentice 2 hrs		178.00	178.00
6' 1 1/4" PVC 1 1 1/4" PVC 90 degree ell 1 1 1/4" FA 2' 2" FA		110.35	110.35

Thank you for your business.	Subtotal	1401.35
	Sales Tax (8.128%)	
	Total	
	Payments/Credits	
	Balance Due	

A finance charge of 1.5% will be assessed on amounts that are not paid in full by 30 days of the invoice date.

Phone #	Fax #	E-mail
928-214-8821	928-214-8821	johnpattonelectric@netzero.net

PATTON ELECTRIC LLC

1801 NORTH SECOND STREET
 FLAGSTAFF, AZ 86004
 R.O.C.# 173904 K-11
 R.O.C.# 188250 A-17

Invoice

Date	Invoice #
10/8/2004	701

Bill To
Lonnie C. McCleve 721 E. San Pedro Gilbert, Arizona 85234

P.O. No.	Terms
	Due on receipt

Description	Qty	Rate	Amount
2 1 1/4" coupling PVC			
2 2" coupling PVC			
1 2" PVC 90 degree ell			
4' 2" PVC conduit			
1 10 X 10 X 4 3R box			
30' #10 - 3 rubber cord			
15' #10 - 4 rubber cord			
1 terminal block			
8 yellow fork terminals			
12 yellow butt splice			
1 33 electrical tape			
1 rubber tape			

Thank you for your business.	Subtotal
	Sales Tax (8.126%)
	Total
	Payments/Credits
	Balance Due

A finance charge of 1.5% will be assessed on amounts that are not paid in full by 30 days of the invoice date.

Phone #	Fax #	E-mail
928-214-8821	928-214-8821	johnpatton@electric@netzero.net

PATTON ELECTRIC LLC

1801 NORTH SECOND STREET
 FLAGSTAFF, AZ 86004

R.O.C.# 173904 K-11

R.O.C.# 188250 A-17

Invoice

Date	Invoice #
10/8/2004	701

Bill To
Lonnie C. McCleve 721 E. San Pedro Gilbert, Arizona 85234

P.O. No.	Terms
	Due on receipt

Description	Qty	Rate	Amount

Thank you for your business.

Subtotal	\$1,401.35
Sales Tax (8.128%)	\$8.97
Total	\$1,410.32
Payments/Credits	\$0.00
Balance Due	\$1,410.32

A finance charge of 1.5% will be assessed on amounts that are not paid in full by 30 days of the invoice date.

Phone #	Fax #	E-mail
928-214-8821	928-214-8821	johnpatton@electric.net

Handwritten initials and date:
 J.C.
 10.9.

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 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			\$	1,314,093
2					
3	Adjusted Operating Income				(31,550)
4					
5	Current Rate of Return				-2.40%
6					
7	Required Operating Income			\$	137,980
8					
9	Required Rate of Return on Fair Value Rate Base				10.50%
10					
11	Operating Income Deficiency			\$	169,530
12					
13	Gross Revenue Conversion Factor				1.0000
14					
15	Increase in Gross Revenue				
16	Requirement			\$	169,530
17					
18	% Increase				148.83%
19					
20	Customer	Present	Proposed	Dollar	Percent
21	Classification	Rates	Rates	Increase	Increase
22	(Residential Commercial, Irrigation)				
23					
24	3/4 Inch Residential	\$ 47,983	\$ 120,437	\$ 72,454	151.00%
25	1.5 Inch Commercial	2,750	6,902	\$ 4,152	151.00%
26	2 Inch Commercial	3,326	8,349	\$ 5,023	151.00%
27					0.00%
28	Revenue Annualization	3,836	9,627	\$ 5,792	151.00%
29					0.00%
30	Proforma Revenues	54,353	136,426	\$ 82,073	151.00%
31				-	0.00%
32	Subtotal	\$ 112,248	\$ 281,742	\$ 169,494	151.00%
33					
34	Other Revenues	1,657	1,657	-	0.00%
35					0.00%
36					0.00%
37	Total of Water Revenues (a)	\$ 113,905	\$ 283,399	\$ 169,494	148.80%

42 SUPPORTING SCHEDULES:

- 43 Rebuttal B-1
- 44 Rebuttal C-1
- 45 Rebuttal C-3
- 46 Rebuttal H-1
- 47

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 31, 2005
 Summary of Rate Base

Exhibit
 Rebuttal Schedule B-1
 Page 1
 Witness: Bourassa

Line No.	<u>Original Cost Rate base</u>	<u>Fair Value Rate Base</u>
1		
2	\$ 1,595,481	\$ 1,595,481
3	Less: Accumulated Depreciation	
4	<u>96,191</u>	<u>96,191</u>
5	Net Utility Plant in Service	
6	\$ 1,499,290	\$ 1,499,290
7	<u>Less:</u>	
8	Advances in Aid of	
9	Construction	-
10	Contributions in Aid of	
11	Construction	197,973
12	Accumulated Amortization of CIAC	(12,777)
13		
14	Customer Meter Deposits	-
15	Deferred Income Taxes & Credits	-
16	Customer Meter Deposits	-
17	Deferred Income Taxes	
18	Investment Tax Credits	
19	<u>Plus:</u>	
20	Unamortized Finance Charges	-
21	Material and Supplies Inventories	
22	Prepayments	
23	Allowance for Working Capital	-
24		
25		
26		
27	Total Rate Base	
28	<u>\$ 1,314,093</u>	<u>\$ 1,314,093</u>
29		
30		
31	<u>SUPPORTING SCHEDULES:</u>	
32	Rebuttal B-2	
33	Rebuttal B-5	
34		
35		
36		

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 31, 2005
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rebuttal Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Adjusted at End of Test Year	<u>Adjustments</u>	Rebuttal Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	\$ 1,624,802	(29,321)	\$ 1,595,481
3				
4	Less:			
5	Accumulated			
6	Depreciation	32,797	63,395	96,191
7				
8				
9	Net Utility Plant			
10	in Service	\$ 1,592,005	\$ (92,716)	\$ 1,499,290
11				
12	Less:			
13	Advances in Aid of			
14	Construction	197,973	(197,973)	-
15				
16	Contributions in Aid of			
17	Construction (CIAC)	-	197,973	197,973
18				
19				
20	Accum. Amortization of CIAC	-	(12,777)	(12,777)
21				
22				
23	Customer Meter Deposits	-	0	-
24	Deferred Income Taxes	-	-	-
25	Investment Tax Credits	-	-	-
26				
27				
28	Plus:			
29	Unamortized Finance Charges	-		-
30	Material and Supplies Inventories			
31	Prepayments			
32	Allowance for Working Capital	7,921	(7,921)	-
33				
34				
35	Total	<u>\$ 1,401,953</u>	<u>\$ (87,860)</u>	<u>\$ 1,314,093</u>

SUPPORTING SCHEDULES:

Rebuttal B-2, pages 2

43
44
45
46
47
48

Line No.	ADJUSTMENT LABEL-->	1	2	3	4	5	Rebuttal Adjusted at end of Test Year
	Adjusted at End of Test Year	Plant-In-Service	Accum. Depreciation	Reclass AIAC to CIAC	CIAC Amortization	Working Capital	
1	Gross Utility						
2	Plant in Service	\$ 1,624,802	(29,321)				\$ 1,595,481
3							
4	Less:						
5	Accumulated						
6	Depreciation	32,797	63,395				96,191
7							
8							
9	Net Utility Plant						
10	in Service	\$ 1,592,005	\$ (29,321)	\$ -	\$ -	\$ -	\$ 1,499,290
11							
12	Less:						
13	Advances in Aid of						
14	Construction	197,973		(197,973)			-
15							
16	Contributions in Aid of						
17	Construction (CIAC)	-		197,973			197,973
18							
19	Accum. Amortization of CIAC	-			(12,777)		(12,777)
20							
21	Customer Meter Deposits						
22	Deferred Income Taxes						
23	Investment Tax Credits						
24							
25	Plus:						
26	Unamortized Finance						
27	Charges						
28	Material and Supplies Inventories						
29	Prepayments						
30	Allowance for Working Capital					(7,921)	
31							
32	Total	\$ 1,401,953	\$ (29,321)	\$ -	\$ 12,777	\$ (7,921)	\$ 1,314,093
33							
34	SUPPORTING SCHEDULES:						
35	Rebuttal B-2, pages 3-7						

Line			
No.	Plant-in-Service		
1			
2			
3			
4	355 Power Generation Equipment	\$	(29,321)
5	380 Treatment and Disposal Equipment		-
6			
7			
8	Total Plant-in-Service to be Removed	\$	<u>(29,321)</u>
9			
10			
11	Increase (Decrease) to Plant-in-Service	\$	<u>(29,321)</u>
12			
13			
14	355 Power Generation Equipment		
15	Remove costs doubled counted in Acct 380 Treatment and Disposal Equipment		(29,321)
16			
17		\$	<u>(29,321)</u>
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			
30	SUPPORTING SCHEDULES		
31	Staff Schedule JMM-WW4		

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 31, 2005
 Original Cost Rate Base Proforma Adjustments
 Adjustment #2

Exhibit
 Rebuttal Schedule B-2
 Page 4
 Witness: Bourassa

Line No.			
1	<u>Accumulated Depreciation</u>		
2			
3	Accumulated Depreciation per Rebuttal Filing	\$	96,191
4	Accumulated Depreciation per Direct Filing		32,797
5			
6	Increase (Decrease) to Accumulated Depreciation	\$	<u>63,395</u>
7			
8			
9	Increase (Decrease) to Accumulated Depreciation	\$	<u>63,395</u>
10			
11			
12			
13	<u>SUPPORTING SCHEDULES</u>		
14	Rebuttal B-2, pages 4a through 4c		
15			
16			
17			
18			
19			
20			

Utility Source, LLC - Sewer Division
 Plant Additions and Retirements

Exhibit
 Rebuttal Schedule B-2
 Page 4b
 Witness: Bourassa

Account No.	Description	Deprec. Rate	2005 Depreciable Balance	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	2005 Plant Retirements To Date	2005 Plant Balance	2005 Deprec.
351	Organization	0.00%	-	-	-	-	-	-	-	-
352	Franchises	0.00%	-	-	-	-	-	-	-	-
353	Land and Land Rights	0.00%	105,000	-	-	-	-	-	105,000	-
354	Structures and Improvements	3.33%	56,350	-	-	-	-	-	56,350	1,876
355	Power Generation Equipment	5.00%	2,879	-	-	-	-	-	2,879	144
360	Collection Sewers - Force	2.00%	-	-	-	-	-	-	-	-
361	Collection Sewers - Gravity	2.00%	260,553	-	-	-	-	-	260,553	5,211
362	Special Collecting Structures	2.00%	-	-	-	-	-	-	-	-
363	Services to Customers	2.00%	60,375	-	-	-	-	-	60,375	1,208
364	Flow Measuring Devices	10.00%	-	-	-	-	-	-	-	-
365	Flow Measuring Installations	10.00%	3,450	-	-	-	-	-	3,450	345
370	Receiving Wells	3.33%	-	-	-	-	-	-	-	-
371	Pumping Equipment	12.50%	-	-	-	-	-	-	-	-
380	Treatment and Disposal Equipment	5.00%	1,106,874	-	-	-	-	-	1,106,874	55,344
381	Plant Sewers	5.00%	-	-	-	-	-	-	-	-
382	Outfall Sewer Lines	3.33%	-	-	-	-	-	-	-	-
389	Other Plant and Misc. Equipment	6.67%	-	-	-	-	-	-	-	-
390	Office Furniture and Equipment	6.67%	-	-	-	-	-	-	-	-
391	Transportation Equipment	20.00%	-	-	-	-	-	-	-	-
393	Tools, Shop and Garage Equipment	5.00%	-	-	-	-	-	-	-	-
394	Laboratory Equipment	10.00%	-	-	-	-	-	-	-	-
395	Power Operated Equipment	5.00%	-	-	-	-	-	-	-	-
398	Other Tangible Plant	10.00%	-	-	-	-	-	-	-	-
	Plant Held for Future Use		-	-	-	-	-	-	-	-

TOTAL WATER PLANT	1,595,481	-	-	-	-	-	-	-	1,595,481	64,128
Depreciation									64,128	
Staff Accumulated Depreciation Allocated to Plant										
Retirements (excluding land)										
Accumulated Depreciation Balance										96,191
Half Year Convention used on depreciation										

(a)

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 31, 2005
 Original Cost Rate Base Proforma Adjustments
 Adjustment #3

Exhibit
 Rebuttal Schedule B-2
 Page 5
 Witness: Bourassa

Line No.			
1	<u>Reclass Advances-in-Aid of Construction (AIAC) to Contributions-in-Aid of Construction (CIAC)</u>		
2			
3	AIAC per Rebuttal Filing	\$	197,973
4	AIAC per Direct Filing		
5			
6	Increase (Decrease) to AIAC	\$	<u>(197,973)</u>
7			
8			
9	CIAC per Rebuttal Filing	\$	197,973
10	CIAC per Direct Filing		
11			
12	Increase (Decrease) to CIAC	\$	<u>197,973</u>
13			
14			
15			
16			
17			
18			
19	<u>SUPPORTING SCHEDULES</u>		
20	Staff Schedule JMM-W-6		

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 31, 2005
 Original Cost Rate Base Proforma Adjustments
 Adjustment #4

Exhibit
 Rebuttal Schedule B-2
 Page 6
 Witness: Bourassa

No.	<u>CIAC Amortization</u>	<u>CIAC</u>	<u>Amortization Rate</u>	<u>Amortization¹</u>
1				
2				
3				
4				
5	Balance at 12/31/2003	\$ -		
6	2004 Additions	197,973	4.30%	4,259
7				
8	Balance at 12/31/2004	\$ 197,973	4.30%	8,518
9	Jan-Dec Amortization			
10	2005 Additions			
11				
12	Balance at 12/31/2005	<u>\$ 197,973</u>		<u>\$ 12,777</u>
13				
14				
15	Balance of CIAC Amortization per Direct Filing			\$ -
16				
17	Increase (Decrease) in Amortization			<u>\$ 12,777</u>
18				
19	Adjustment to Accumulated Amortization			<u>\$ (12,777)</u>
20				
21	¹ Half year Convention on additions			
22				
23				
24				
25				

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 31, 2005
 Original Cost Rate Base Proforma Adjustments
 Adjustment #5

Exhibit
 Rebuttal Schedule B-2
 Page 7
 Witness: Bourassa

Line			
No.			
1	<u>Working Capital</u>		
2			
3	Working Capital Per Rebuttal Filing		
4	Working Capital Per Direct Filing		
5			
6			
7	Increase (Decrease) to Working Capital		
8			
9			
10			
11			
12	<u>SUPPORTING SCHEDULES</u>		
13	Rebuttal Schedule B-5		
14			
15			
16			
17			
18			
19			
20			

\$ -
 7,921

\$ (7,921)

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 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)	\$	8,412
3	Pumping Power (1/24 of Pumping Power)		726
4	Purchased Water Treatment (1/24 of Purchased Water)		-
5			
6			
7			
8			
9	Total Working Capital Allowance Rebuttal	\$	9,138
10			
11	Total Working Capital Allowance Requested	\$	-
12			
13	Working Capital per Direct Filing	\$	7,921
14			
15	Increase (Decrease) in Working Capital	\$	(7,921)

16
17
18
19
20

SUPPORTING SCHEDULES:

RECAP SCHEDULES:
Rebuttal B-1

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 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	\$ 112,248	\$ -	\$ 112,248	\$ 169,479	\$ 281,727
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	1,657	-	1,657	-	1,657
5		<u>\$ 113,905</u>	<u>\$ -</u>	<u>\$ 113,905</u>	<u>\$ 169,479</u>	<u>\$ 283,384</u>
6	Operating Expenses					
7	Salaries and Wages	\$ -	-	\$ -	-	\$ -
8	Purchased Wastewater Treatment	-	-	-	-	-
9	Sludge Removal Expense	-	-	-	-	-
10	Purchased Power	17,423	-	17,423	-	17,423
11	Fuel for Power Production	-	-	-	-	-
12	Chemicals	3,945	-	3,945	-	3,945
13	Materials and Supplies	4,793	-	4,793	-	4,793
14	Contractual Services - Professional	1,195	-	1,195	-	1,195
15	Contractual Services - Testing	20,472	4,430	24,902	-	24,902
16	Contractual Services - Other	15,000	-	15,000	-	15,000
17	Repairs and Maintenance	-	-	-	-	-
18	Rents	-	-	-	-	-
19	Transportation Expenses	-	-	-	-	-
20	Insurance	-	-	-	-	-
21	Regulatory Commission Expense - Rate	12,500	-	12,500	-	12,500
22	Miscellaneous Expense	5,465	(500)	4,965	-	4,965
	Depreciation Expense	65,594	(9,984)	55,610	-	55,610
	Taxes Other Than Income	-	-	-	-	-
23	Property Taxes	7,533	(2,410)	5,123	-	5,123
24	Income Tax	-	-	-	-	-
25						
26	Total Operating Expenses	<u>\$ 153,919</u>	<u>\$ (8,464)</u>	<u>\$ 145,455</u>	<u>\$ -</u>	<u>\$ 145,455</u>
27	Operating Income	<u>\$ (40,014)</u>	<u>\$ 8,464</u>	<u>\$ (31,550)</u>	<u>\$ 169,479</u>	<u>\$ 137,930</u>
28	Other Income (Expense)					
29	Interest Income	-	-	-	-	-
30	Other income	-	-	-	-	-
31	Interest Expense	-	-	-	-	-
32	Other Expense	-	-	-	-	-
33						
34	Total Other Income (Expense)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
35	Net Profit (Loss)	<u>\$ (40,014)</u>	<u>\$ 8,464</u>	<u>\$ (31,550)</u>	<u>\$ 169,479</u>	<u>\$ 137,930</u>

39 SUPPORTING SCHEDULES:
 40 Rebuttal C-1, Page 2
 41 Rebuttal C-2

RECAP SCHEDULES:
 Rebuttal A-1

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 31, 2005
 Income Statement

Exhibit
 Rebuttal Schedule C-1
 Page 2
 Witness: Bourassa

Line No.	ADJUSTMENT LABEL-->	1	2	3	4	6	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues							
2	Flat Rate and Metered Revenues	\$ 112,248				\$ 112,248	\$ 169,479	\$ 281,727
3	Misc. Service Revenues	-				-		-
4	Other Wastewater Revenues	1,657				1,657		1,657
5		\$ 113,905	\$ -	\$ -	\$ -	\$ 113,905	\$ 169,479	\$ 283,384
6	Operating Expenses							
7	Salaries and Wages	-				-		-
8	Purchased Wastewater Treatment	-				-		-
9	Sludge Removal Expense	-				-		-
10	Purchased Power	17,423				17,423		17,423
11	Fuel for Power Production	-				-		-
12	Chemicals	3,945				3,945		3,945
13	Materials and Supplies	4,793				4,793		4,793
14	Contractual Services - Professional	1,195				1,195		1,195
15	Contractual Services - Testing	20,472			4,430	24,902		24,902
16	Contractual Services - Other	15,000				15,000		15,000
17	Repairs and Maintenance	-				-		-
18	Rents	-				-		-
19	Transportation Expenses	-				-		-
20	Insurance	-				-		-
21	Regulatory Commission Expense - Rate Case	12,500				12,500		12,500
22	Miscellaneous Expense	5,465		(500)		4,965		4,965
23	Depreciation Expense	65,594	(9,984)			55,610		55,610
24	Taxes Other Than Income	-				-		-
25	Property Taxes	7,533	(2,410)			5,123		5,123
26	Income Tax	-				-		-
27	Total Operating Expenses	\$ 153,919	\$ (9,984)	\$ (500)	\$ 4,430	\$ 145,455	\$ -	\$ 145,455
28	Operating Income	\$ (40,014)	\$ 9,984	\$ 500	\$ (4,430)	\$ (31,550)	\$ 169,479	\$ 137,930
29	Other Income (Expense)							
30	Interest Income	-				-		-
31	Other Income	-				-		-
32	Interest Expense	-				-		-
33	Other Expense	-				-		-
34								
35	Total Other Income (Expense)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
36	Net Profit (Loss)	\$ (40,014)	\$ 9,984	\$ 500	\$ (4,430)	\$ (31,550)	\$ 169,479	\$ 137,930
37								

SUPPORTING SCHEDULES:
 Rebuttal C-2

RECAP SCHEDULES:
 Rebuttal A-1

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 31, 2005
 Adjustments to Revenues and Expenses

Exhibit
 Rebuttal Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	Adjustments to Revenues and Expenses						Subtotal
	1 Depreciation Expense	2 Property Taxes	3 Wastewater Testing	4 Miscellaneous Expense	5 Intentionally Left Blank	6 Intentionally Left Blank	
1							
2							
3	Revenues						-
4							
5	Expenses	(9,984)	(2,410)	(500)	4,430		(8,464)
6							
7	Operating Income	9,984	2,410	500	(4,430)	-	8,464
8							
9	Interest Expense						-
10							
11	Other Income / Expense						-
12							
13							
14							
15							
16	Net Income	9,984	2,410	500	(4,430)	-	8,464
17							
18							
19							
20							
21							
22							
23	Revenues						-
24							
25	Expenses						(8,464)
26							
27	Operating Income	-	-	-	-	-	8,464
28							
29	Interest Expense						-
30							
31	Other Income / Expense						-
32							
33							
34							
35							
36	Net Income	-	-	-	-	-	8,464
37							
38							
39							
40							
41							
42							
43	Revenues						-
44							
45	Expenses						(8,464)
46							
47	Operating Income	-	-	-	-	-	8,464
48							
49	Interest Expense						-
50							
51	Other Income / Expense						-
52							
53							
54							
55							
56	Net Income	-	-	-	-	-	8,464

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 31, 2005
 Adjustments to Revenues and Expenses

Exhibit
 Rebuttal Schedule C-2
 Page 3
 Witness: Bourassa

Line

No.

1 Depreciation Expense							
2	Account	Direct	From	From	Rebuttal	Proposed	Depreciation
3		Adjusted	B-2 Adj. #1	B-2 Adj. #3	Adjusted	Rates	Expense
4	No. Description	Original Cost	Plant	CIAC	Original Cost		
5	351 Organization	-			-	0.00%	-
6	352 Franchises	-			-	0.00%	-
7	353 Land and Land Rights	105,000			105,000	0.00%	-
8	354 Structures and Improvements	56,350			56,350	3.33%	1,876
9	355 Power Generation Equipment	32,200	(29,321)		2,879	5.00%	144
10	360 Collection Sewers - Force	-			-	2.00%	-
11	361 Collection Sewers - Gravity	260,553			260,553	2.00%	5,211
12	362 Special Collecting Structures	-			-	2.00%	-
13	363 Services to Customers	60,375			60,375	2.00%	1,208
14	364 Flow Measuring Devices	-			-	10.00%	-
15	365 Flow Measuring Installations	3,450			3,450	10.00%	345
16	370 Receiving Wells	-			-	3.33%	-
17	371 Pumping Equipment	-			-	12.50%	-
18	380 Treatment and Disposal Equipment	1,106,874			1,106,874	5.00%	55,344
19	381 Plant Sewers	-			-	5.00%	-
20	382 Outfall Sewer Lines	-			-	3.33%	-
21	389 Other Plant and Misc. Equipment	-			-	6.67%	-
22	390 Office Furniture and Equipment	-			-	6.67%	-
23	391 Transportation Equipment	-			-	20.00%	-
24	393 Tools, Shop and Garage Equipment	-			-	5.00%	-
25	394 Laboratory Equipment	-			-	10.00%	-
26	395 Power Operated Equipment	-			-	5.00%	-
27	398 Other Tangible Plant	-			-	10.00%	-
28							
29							
30							
31							
32							
33							
34	TOTALS	\$ 1,624,802	\$ (29,321)	\$ -	\$ 1,595,481		\$ 64,128
35							
36							
63							
64	Less: Amortization of Contributions - Balance End of TY	\$ -		\$ 197,973	\$ 197,973	4.30%	\$ (8,518)
65							
66		\$ -	\$ -	\$ 197,973	\$ 197,973		\$ (8,518)
67	Adjusted Test Year Depreciation Expense Rebuttal Filing						\$ 55,610
68	Adjusted Test Year Depreciation Expense Direct Filing						65,594
69							
70	Increase (decrease) in Depreciation Expense						\$ (9,984)
71							
72	Adjustment to Revenues and/or Expenses						\$ (9,984)

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Adjustment to Revenues and Expenses
Adjustment Number 2

Line No.	Adjust Property Taxes to Reflect Proposed Revenues:	
1	Adjust Property Taxes to Reflect Proposed Revenues:	
2		
3	Adjusted Revenues in year ended 09/30/2005	\$ 113,905
4	Adjusted Revenues in year ended 09/30/2005	113,905
5	Proposed Revenues	283,384
6	Average of three year's of revenue	170,398
7	Average of three year's of revenue, times 2	340,796
8	Add:	
9	Construction Work in Progress at 10%	-
10	Deduct:	
11	Book Value of Transportation Equipment	113,217
12		
13	Full Cash Value	\$ 227,579
14	Assessment Ratio	23.50%
15	Assessed Value	53,481
16	Property Tax Rate	9.0903%
17		
18	Property Tax	4,862
19	Tax on Parcels	261
20		
21	Total Property Tax at Proposed Rates Rebuttal	\$ 5,123
22	Property Taxes per Direct Filing	7,533
23	Change in Property Taxes	(2,410)
24		
25		
26	Adjustment to Revenues and/or Expenses	\$ (2,410)
27		
28		

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 31, 2005
 Adjustment to Revenues and Expenses
 Adjustment Number 3

Line No.	1	Miscellaneous Expense	\$	(500)
2				
3				
4		Decrease Miscellaneous Expense		(500)
5				
6				
7		Adjustment to Revenues and/or Expenses		
8				
9				
10				
11				
12		SUPPORTING SCHEDULES		
13		See Staff Schedule JMM-VVV10		
14				
15				
16				
17				
18				
19				
20				

\$
(500)

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 31, 2005
 Adjustment to Revenues and Expenses
 Adjustment Number 4

Line No.		
1	<u>Wastewater Testing Expense</u>	
2		
3		
4	Increase Wastewater Testing Expense	4,430
5		
6		
7	Adjustment to Revenues and/or Expenses	
8		<u>4,430</u>
9		
10		
11		
12	<u>SUPPORTING SCHEDULES</u>	
13	See Staff Schedule JMM-WW11	
14		
15		
16		
17		
18		
19		
20		

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 31, 2005
 Computation of Gross Revenue Conversion Factor

Exhibit
 Rebuttal Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	<u>Description</u>	Percentage of Incremental Gross <u>Revenues</u>
1	Federal Income Taxes	0.00%
2		
3	State Income Taxes	0.00%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	0.00%
9		
10	Operating Income % = 100% - Tax Percentage	100.00%
11		
12		
13		
14		
15	<u>1</u> = Gross Revenue Conversion Factor	
16	Operating Income %	1.0000
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		Rebuttal A-1
20		

Utility Source, L.L.C. - Sewer Division
 Test Year Ended December 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			Adjusted End of Test Year				
		Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	N/A
2									
3	Stockholder's Equity	1,604,435	100.00%	10.50%	10.50%	1,742,365	100.00%	10.50%	N/A
4									
5	Totals	1,604,435	100.00%		10.50%	1,742,365	100.00%		0.00%
6									
7									
8									
9									
10									

11 SUPPORTING SCHEDULES:
 12 Rebuttal D-2
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RECAP SCHEDULES:

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Revenue Summary

Exhibit
 Schedule H-1
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1							
2	3/4 Inch Meter - Residential	47,983	120,437	72,454	151.00%	42.13%	42.50%
3	1 Inch Meter						
4	1.5 Inch Meter Motel	2,750	6,902	4,152	151.00%	2.41%	2.44%
5	2 Inch Meter Commercial	3,326	8,349	5,023	151.00%	2.92%	2.95%
6							
7	Miscellaneous Revenues	1,657	1,657	-	0.00%	1.46%	0.58%
8	Total Water Revenues	\$ 55,717	\$ 137,346	\$ 81,630	146.51%	48.91%	48.46%
9	3/4 Inch customer revenue						
10	annualized to end of year, based on						
11	year end number of customers						
12	Proforma Revenues ⁽¹⁾	\$ 3,836	\$ 9,627	\$ 5,792	151.00%	3.37%	3.40%
13	Total Water Revenues, after correction for	\$ 54,353	\$ 136,426	\$ 82,073	151.00%	47.72%	48.14%
14	Billing to hundreds of Gallons						
15		\$ 113,905	\$ 283,399	\$ 169,494	148.80%	52.28%	51.86%
16	(1) See C-2 adjustment number 6.						
17							
18	Total Water Revenues without Revenue		\$ 55,717				
19	Annualization and Proforma Revenues	\$ 47,803					
20	Water Revenues Per General Ledger	\$ 7,914	\$ 55,717				
21	C-2 Adjustment for Unrecorded Revenues ⁽²⁾		\$0				
22	Difference						
23							
24	Percentage Error					0.00%	
25							
26	(2) Company billed less than it should have based on water usage.						
27	Accounted for in C-2 adjustment 4.						

Utility Source, LLC - Sewer Division
 Test Year Ended December 31, 2005
 Analysis of Revenue by Detailed Class
 Rates

Exhibit
 Schedule H-2
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2005	Average Water Usage	Revenues		Proposed Increase	
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount
1							
2	3/4 Inch Meter - Residential	307	4,740	\$ 47,983	\$ 120,437	\$ 72,454	151.00%
3	1 Inch Meter	-	-	-	-	-	0.00%
4	1.5 Inch Meter Motel	1	64,470	\$ 2,750	\$ 6,902	\$ 4,152	151.00%
5	2 Inch Meter Commercial	1	103,821	\$ 3,326	\$ 8,349	\$ 5,023	151.00%
6	3/4 Inch Meter - Residential Revenue Annualization	307	4,740	\$ 3,836	\$ 9,627	\$ 5,792	151.00%
7	Profoma Revenues	350	4,740	\$ 54,353	\$ 136,426	\$ 82,073	151.00%
8							

Utility Source, LLC - Sewer Division
 Changes in Representative Rates
 Test Year Ended December 31, 2005

Exhibit
 Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and Meter Size	Present Rates	Proposed Rates	Percent Change
1	Monthly Usage Charge for:			
2	Flat Rates			
3	Residential	\$ -	\$ -	0.00%
4	Commercial and Industrial			
5	Car washes, laundromats, Commercial, Manufacturing			0.00%
6	Hotels, Motels			0.00%
7	Restaurants			0.00%
8	Industrial Laundries			0.00%
9	Waste haulers			0.00%
10	Restaurant Grease			0.00%
11	Treatment Plant Sludge			0.00%
12	Mud Sump Waste			0.00%
13				
14	Rate per 1,000 Gallons of Water Usage			
15	Residential	\$ 2.73	\$ 6.85	151.00%
16	Commercial and Industrial			
17	Car washes, laundromats, Commercial, Manufacturing	2.67	6.70	151.00%
18	Hotels, Motels	3.58	8.99	151.00%
19	Restaurants	4.42	11.09	151.00%
20	Industrial Laundries	3.92	9.84	151.00%
21	Waste haulers	80.00	200.80	151.00%
22	Restaurant Grease	70.00	175.70	151.00%
23	Treatment Plant Sludge	80.00	200.80	151.00%
24	Mud Sump Waste	250.00	627.50	151.00%
25				
26				
27	Gallons in Minimum			
28	All Meter Sizes	-	-	
29				
30				
31				
32				
33	TAXES AND ASSESSMENTS			
34	In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).			
35				
36				
37				
38				
39				
40				
41				
42				
43				
44				
45				

Utility Source, LLC - Sewer Division
 Changes in Representative Rate Schedules
 Test Year Ended December 31, 2005

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment per Rule R14-2-603D (a)	\$ 20.00	\$ 20.00
2	Establishment, after hours	\$ 40.00	\$ 40.00
3	Re-establishment, per Rule R14-2-603D	\$ 40.00	\$ 40.00
4	Re-connection of Service, per Rule R-14-2-603D	\$ 50.00	\$ 50.00
5	Reconnection, after hours	\$ 40.00	\$ 40.00
6	Deposit Requirement, per Rule R14-2-603B	(b)	(b)
7	NSF check charge, per RULE R14-2-608E (c)	\$ 20.00	\$ 20.00
8	Deferred Payment Charge, per month (d)	1.50%	1.50%
9	Late Payment, per month	1.50%	1.50%
10	Service Calls, per hour (e)	40.00	\$ 40.00
11	Service Lateral Connection Charge (f)		
12	Residential	\$ 500.00	\$ 500.00
13	Commercial	Cost	Cost
14	Main Extension	(g)	(g)

- (a) Same customer, same location within 12 months. Number of months off the system times the monthly minimum.
 (b) The Company does not normally require a deposit prior to provision of service. However, if service is not in the property owner's name, this deposit is required.
 Also, in the event service is disconnected for non-payment, this deposit may be required.
 Residential - 2 times the estimated average monthly bill
 Non-residential - 2 1/2 times the estimated maximum monthly bill.
 Deposit interest 1.5%
 (c) This charge does not apply if wastewater service is paid with the same NSF check used to pay for water service for which the NSF fee is charged.
 (d) Deferred payments for wastewater service are only established in connection with deferred payments for water service.
 (e) For service problem found to be on Customer's side of property line, Company will not repair the problem.
 (f) Company shall own the Service lateral up to the Customer's property line. Company shall maintain and operate the Service lateral only from the connection to the main line or the right-of-way up to its connection with the Customer's Service lateral at the edge of the right-of-way, beyond which maintenance is the Customer's responsibility.
 (g) All Main Extensions shall be completed at cost and shall be non-refundable Contributions-in-Aid of Construction.

TAXES AND ASSESSMENTS

In addition to all other rates and charges authorized herein, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44

Utility Source, LLC - Sewer Division
 Bill Comparison at Present and Proposed Rates
 Customer Classification: 3/4 Inch Meters

Exhibit
 Schedule H-4
 Page 1
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase #DIV/0!
1,000	2.73	6.85	4.12	151.00%
2,000	5.46	13.70	8.24	151.00%
3,000	8.19	20.56	12.37	151.00%
4,000	10.92	27.41	16.49	151.00%
5,000	13.65	34.26	20.61	151.00%
6,000	16.38	41.11	24.73	151.00%
7,000	19.11	47.97	28.86	151.00%
8,000	21.84	54.82	32.98	151.00%
9,000	24.57	61.67	37.10	151.00%
10,000	27.30	68.52	41.22	151.00%
12,000	32.76	82.23	49.47	151.00%
14,000	38.22	95.93	57.71	151.00%
16,000	43.68	109.64	65.96	151.00%
18,000	49.14	123.34	74.20	151.00%
20,000	54.60	137.05	82.45	151.00%
25,000	68.25	171.31	103.06	151.00%
30,000	81.90	205.57	123.67	151.00%
35,000	95.55	239.83	144.28	151.00%
40,000	109.20	274.09	164.89	151.00%
45,000	122.85	308.35	185.50	151.00%
50,000	136.50	342.62	206.12	151.00%
60,000	163.80	411.14	247.34	151.00%
70,000	191.10	479.66	288.56	151.00%
80,000	218.40	548.18	329.78	151.00%
90,000	245.70	616.71	371.01	151.00%
100,000	273.00	685.23	412.23	151.00%
Average Usage	12.94	32.48	19.54	151.00%
4,740				
Median Usage	12.29	30.84	18.55	151.00%
4,500				

Present Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons \$ 2.73

Proposed Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons \$ 6.85

Utility Source, LLC - Sewer Division
 Bill Comparison at Present and Proposed Rates
 Customer Classification 1 1/2 Inch Meters

Exhibit
 Schedule H-4
 Page 2
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase #DIV/0!</u>
1,000	3.58	8.99	5.41	151.00%
2,000	7.16	17.97	10.81	151.00%
3,000	10.74	26.96	16.22	151.00%
4,000	14.32	35.94	21.62	151.00%
5,000	17.90	44.93	27.03	151.00%
6,000	21.48	53.91	32.43	151.00%
7,000	25.06	62.90	37.84	151.00%
8,000	28.64	71.89	43.25	151.00%
9,000	32.22	80.87	48.65	151.00%
10,000	35.80	89.86	54.06	151.00%
12,000	42.96	107.83	64.87	151.00%
14,000	50.12	125.80	75.68	151.00%
16,000	57.28	143.77	86.49	151.00%
18,000	64.44	161.74	97.30	151.00%
20,000	71.60	179.72	108.12	151.00%
25,000	89.50	224.65	135.15	151.00%
30,000	107.40	269.57	162.17	151.00%
35,000	125.30	314.50	189.20	151.00%
40,000	143.20	359.43	216.23	151.00%
45,000	161.10	404.36	243.26	151.00%
50,000	179.00	449.29	270.29	151.00%
60,000	214.80	539.15	324.35	151.00%
70,000	250.60	629.01	378.41	151.00%
80,000	286.40	718.86	432.46	151.00%
90,000	322.20	808.72	486.52	151.00%
100,000	358.00	898.58	540.58	151.00%
<u>Average Usage</u>	230.80	579.31	348.51	151.00%
<u>Median Usage</u>	214.80	539.15	324.35	151.00%

Present Rates:
 Monthly Minimum: \$ -
 Gallons in Minimum: -
 Charge Per 1,000 Gallons \$ 3.58

Proposed Rates:
 Monthly Minimum: \$ -
 Gallons in Minimum: -
 Charge Per 1,000 Gallons \$ 8.99

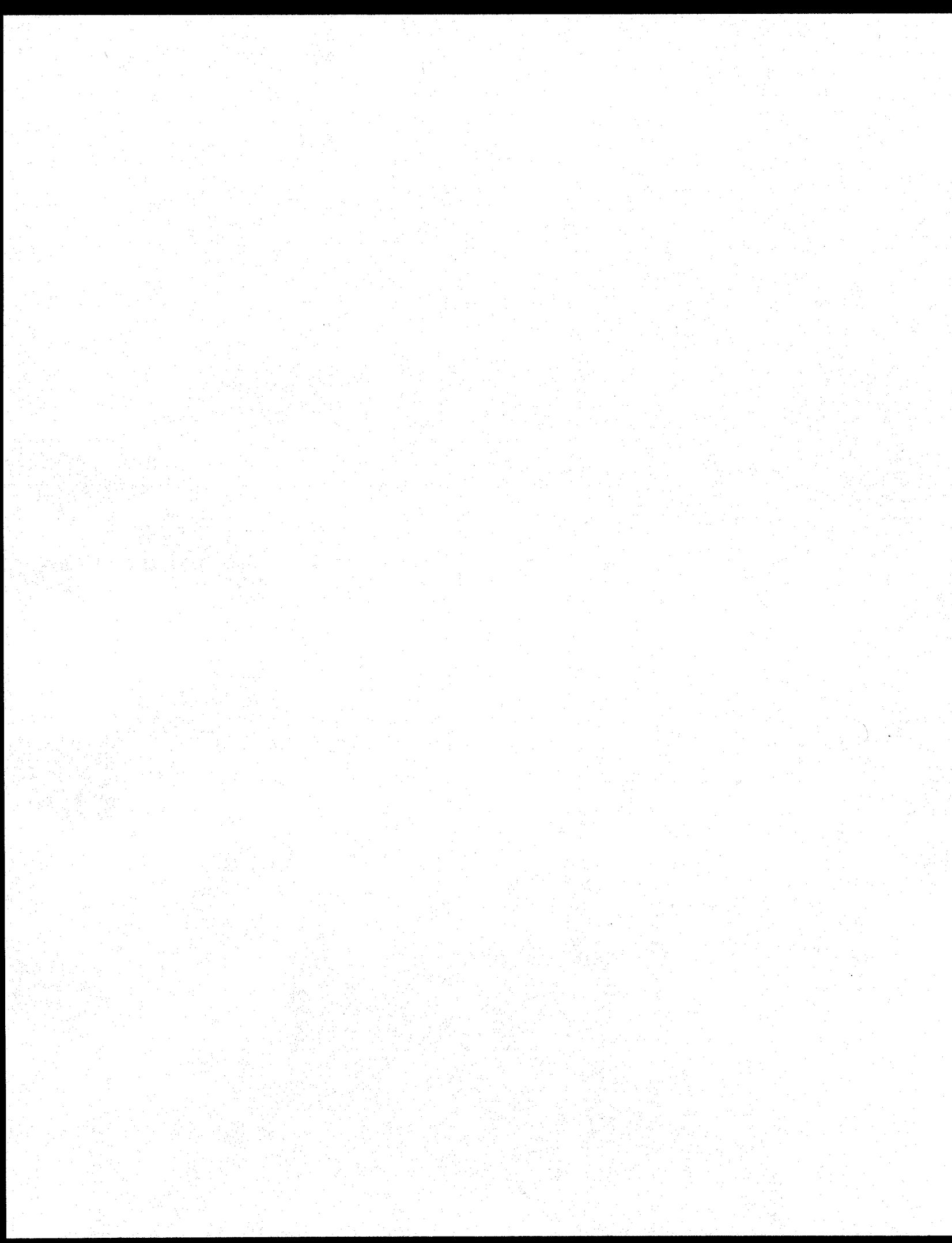
Utility Source, LLC - Sewer Division
 Bill Comparison at Present and Proposed Rates
 Customer Classification: 2 Inch Meters - Commercial

Exhibit
 Schedule H-4
 Page 3
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase #DIV/0!</u>
1,000	\$ 2.67	\$ 6.70	\$ 4.03	151.00%
2,000	5.34	13.40	8.06	151.00%
3,000	8.01	20.11	12.10	151.00%
4,000	10.68	26.81	16.13	151.00%
5,000	13.35	33.51	20.16	151.00%
6,000	16.02	40.21	24.19	151.00%
7,000	18.69	46.91	28.22	151.00%
8,000	21.36	53.61	32.25	151.00%
9,000	24.03	60.32	36.29	151.00%
10,000	26.70	67.02	40.32	151.00%
12,000	32.04	80.42	48.38	151.00%
14,000	37.38	93.82	56.44	151.00%
16,000	42.72	107.23	64.51	151.00%
18,000	48.06	120.63	72.57	151.00%
20,000	53.40	134.03	80.63	151.00%
25,000	66.75	167.54	100.79	151.00%
30,000	80.10	201.05	120.95	151.00%
35,000	93.45	234.56	141.11	151.00%
40,000	106.80	268.07	161.27	151.00%
45,000	120.15	301.58	181.43	151.00%
50,000	133.50	335.09	201.59	151.00%
60,000	160.20	402.10	241.90	151.00%
70,000	186.90	469.12	282.22	151.00%
80,000	213.60	536.14	322.54	151.00%
90,000	240.30	603.15	362.85	151.00%
100,000	267.00	670.17	403.17	151.00%
<u>Average Usage</u>	277.20	695.77	418.57	151.00%
<u>Median Usage</u>	269.41	676.21	406.80	151.00%

Present Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons \$ 2.67

Proposed Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons \$ 6.70



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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF UTILITY
SOURCE, L.L.C, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR
INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO: WS-04235A-06-0303

**COST OF CAPITAL
REBUTTAL TESTIMONY OF
THOMAS J. BOURASSA**

1 **I. INTRODUCTION AND QUALIFICATIONS.**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

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

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE**
6 **INSTANT CASE?**

7 A. Yes, my direct testimony was submitted in support of the initial application in this
8 docket by Utility Source, L.L.C. ("USLLC" or "Company").

9 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

10 A. I will provide rebuttal testimony in response to the direct filings by Arizona
11 Corporation Commission Utilities Division Staff ("Staff") with respect to the cost
12 of capital.

13 **II. COST OF CAPITAL.**

14 **A. Overview and Summary.**

15 **Q. PLEASE SUMMARIZE THE COMPANY'S REBUTTAL POSITION**
16 **REGARDING COST OF CAPITAL?**

17 A. The Company continues to recommend 10.5% as its cost of capital and rate of
18 return on original cost rate base, which USLLC accepts as the fair value of its
19 utility property for purposes of this rate case. The 10.5% rate of return is based on
20 a capital structure consisting of 100% common equity.

21 A return on equity of 10.5% is extremely conservative when the small size
22 and the operational and business risks related to USLLC's water operations are
23 considered.

24 **Q. HAVE YOU UPDATED YOUR COST OF CAPITAL SCHEDULES?**

25 A. Yes. I have updated my cost of capital analysis using more recent data. My
26 updated schedules are attached to this testimony as rebuttal D schedules and the

1 table below summarizes the results.

2	<u>DCF Analysis</u>	<u>Range</u>	<u>Midpoint</u>
3	Constant Growth (earnings growth)	9.8% - 12.0%	10.9%
4	Constant Growth (sustainable growth)	8.3% - 10.5%	9.4%
5	Two-Stage Growth Model	9.2% - 11.5%	10.4%
6	<u>Risk Premium Analysis</u>		
7	Actual Returns	10.1% - 10.2%	10.2%
8	Authorized Returns	10.8% - 11.3%	11.1%
9	<u>Comparable Earnings</u>		
10	Actual Returns	4.2% - 11.7%	8.0%
11	Authorized Returns	9.9% - 12.7%	11.3%
12	Value Line Industry Composite (2006)		9.0%
13	Value Line Industry Composite (2007)		10.0%
14	Value Line Industry Composite (2009)		10.5%

15
16 Based on these results, I continue to believe that 10.5% is a reasonable rate
17 of return for USLLC, especially in light of the additional risk associated with an
18 equity investment in USLLC.

19 **Q. HOW DOES THE RETURN OF 10.5% YOU ARE RECOMMENDING**
20 **COMPARE TO STAFF?**

21 A. The rates of return on equity ("ROE") recommended by Staff is 9.60%. This is
22 simply too low given the risks faced by USLLC. The rates of return recommended
23 by Staff is simply too low given the Company's extremely small size, limited
24 revenue and cash flow, small customer base, lack of diversification, lack of
25 liquidity, and other characteristics.

26 **Q. DOES STAFF PROPOSE A FINANCIAL RISK ADJUSTMENT IN ITS**

1 **COST OF EQUITY RECOMMENDATION?**

2 A. No. *See* Irvine DT at 32. Neither does the Company.

3 **B. Response to Staff's Testimony on Use of Analyst Forecasts for**
4 **Estimating Growth Rates.**

5 **Q. PLEASE RESPOND TO MR. IRVINE'S COMMENTS ON PAGE 35 OF HIS**
6 **TESTIMONY ABOUT THE GORDON, MYRON AND GOULD STUDY**
7 **YOU CITED IN YOUR DIRECT IN SUPPORT OF THE USE OF ANALYST**
8 **ESTIMATES?**

9 A. I did not claim that the study by Gordon, Myron, and Gould¹ concluded that
10 investors ignore past growth rates. The authors note that all four estimates of
11 growth² evaluated in the study rely on past data, but in the case of the analyst
12 earnings forecasts, a larger body of past data is used, filtered through a group of
13 security analysts who adjust for abnormalities that are not considered relevant for
14 future growth. *Id.* The authors conclude that because of this, "the *superior*
15 *performance* of the cost of equity estimates *based on earnings forecasts* should
16 come as no surprise." *Id.* (emphasis added). The authors also note that forecasts
17 are widely accepted by investors and the study does, in fact, support the sole use of
18 analyst forecasts. *Id.*

19 As I testified in my direct testimony, in estimating future growth, financial
20 institutions and analysts have taken into account all relevant historical information
21 on a company as well as other more recent information. Any further recognition of
22 the past will double count what has already occurred. *See* Direct Testimony of

23 ¹ David A. Gordon, Myron J. Gordon and Lawrence I. Gould, "Choice Among Methods of Estimating Share Yield,"
24 *Journal of Portfolio Management* (Spring 1989) 50-55.

25 ² The four estimates of long-run growth evaluated in the Gordon, Myron, and Gould study were: 1) historical
26 dividend growth; 2) historical earnings growth; 3) analyst forecasts of earnings growth; and, 4) historical retention
 growth.

1 Thomas J. Bourassa ("Bourassa DT") at 27. The Gordon, Myron, and Gould study
2 supports this assertion.

3 **Q. HOW DID YOU DERIVE AN ESTIMATE OF THE GROWTH RATE FOR**
4 **YOUR DCF MODEL?**

5 A. I used analysts' forecasts of EPS growth from several sources, not just Value Line.
6 I used forecasts published by Zack's Investment Research, Standard & Poor's
7 Earning Guide, and Value Line Investment Survey. *Id.* at 26. In my opinion, using
8 analysts' forecasts from several reputable sources offsets potentially overly
9 optimistic or overly pessimistic projections from one source. Further, unlike
10 investment banking firms and stock brokerage firms, independent research firms
11 like Value Line and Standard and Poor's have no incentive to distort earnings
12 growth estimates in order to bolster interest in common stocks.

13 **Q. WHY IS EARNINGS GROWTH A MEANINGFUL GUIDE TO**
14 **INVESTORS' LONG-TERM GROWTH EXPECTATIONS?**

15 A. It is growth in earnings, after all, that will support future dividends and share
16 prices. There is an abundance of evidence attesting to the importance of earnings
17 in assessing investor expectations. The sheer volume of earnings forecasts
18 available from the investment community relative to the scarcity of dividend
19 forecasts attests to their importance. Value Line, Zacks, S&P, Thompson First
20 Call, to name a few, all provide comprehensive information on investor's earnings
21 forecasts. Value Line's principle investment rating assigned to individual stocks,
22 Timeliness Rank, is based primarily on earnings. These investment information
23 providers focus on earnings growth rather than dividend growth which indicates the
24 investment community places greater importance to earnings as a measure on
25 future long-term growth.

26 **Q. PLEASE RESPOND TO MR. IRVINE'S CITE OF PROFESSOR**

1 **GORDON'S SPEECH AT PAGE 36 OF HIS TESTIMONY TO SUPPORT**
2 **HIS CRITICISM OF YOUR RELIANCE ON ANALYSTS ESTIMATES.**

3 A. The Federal Energy Regulatory Commission ("FERC"), as the federal agency that
4 regulates the interstate sale of gas and electricity, has had the benefit of numerous
5 highly qualified experts testifying on behalf of a wide range of stakeholders in its
6 proceedings. The FERC has determined that average dividend yields and forward-
7 looking growth rates should be used to determine equity costs. Mr. Irvine's
8 quotation from Dr. Gordon's speech does not challenge FERC's choices. Dr.
9 Gordon acknowledges that the FERC has determined that both short-term forecasts
10 and long-term forecasts of growth will be recognized. He does not say – as the
11 methods used by Mr. Irvine say – that we should look backward to determine
12 future growth when we have forward-looking estimates of growth available.

13 **Q. DO YOU HAVE A COMMENT ON PAGE 36 and 37 OF MR. IRVINE'S**
14 **TESTIMONY CONCERNING OTHER EXPERTS WHO SUGGEST SOLE**
15 **RELIANCE ON ANALYST ESTIMATES ARE INADVISABLE?**

16 A. Yes. Mr. Irvine's reliance on the study by David Dreman is puzzling. *See* Direct
17 Testimony of Steven P. Irvine ("Irvine DT") at 36. Even though Mr. Dreman has
18 criticized analysts' growth rates as being too optimistic, Mr. Dreman also says
19 investors rely on those forecasts.

20 We have also seen that in spite of high error rates being
21 recognized for decades, neither analysts nor investors who
22 religiously³ depend on them have altered their methods in any
23 way.

23 Mr. Irvine's reliance on Burton Malkiel is also puzzling. *Id.* at 37. Mr.
24 Malkiel is without doubt critical of analysts' forecast of earnings. However, based

25 _____
26 ³ David Dreman, *Contrarian Investment Strategies: The Next Generation*. 1998. Simon & Schuster. New York. page
115-116.

1 on his comments even the past provides no help in predicting the future.

2 ...Calculations of past earning growth are no help in
3 predicting the future.....

4 Bluntly stated, the careful estimates of securities analysts
5 (based on industry studies, plant visits, etc.) do little better
6 than those that would be obtained by simple extrapolation of
7 *past trends, which we have already seen are no help at all.*
8 [emphasis supplied]⁴

9 In other words, if we follow Mr. Malkiel's logic, investors would be no worse off
10 using an investment strategy of throwing darts at a board. If neither analyst
11 forecasts nor historical information are of use to investors, there is no reason to
12 believe that Mr. Irvine's use of historical information in combination with analysts'
13 estimates is any better at measuring investor expectations.

14 If investors rely on analysts' growth rate forecasts, those are the forecasts of
15 relevance to the determination of equity costs. Despite the claims by Dreman and
16 Malkiel about growth forecasts being overly optimistic, the evidence shows that
17 growth forecasts still perform best when estimating the COE for utility stocks. See
18 Gordon, Myron, and Gould. Those growth rates influence the prices investors will
19 pay for stocks and thus impact the dividend yields. The dividend yields change
20 until the sum of the dividend yield plus those growth rates equal the investors'
21 perceived COE. Had the growth forecasts been lower – as Mr. Irvine's methods of
22 computing growth suggests they should be – the stock prices would be lower and
23 dividend yields would be higher but there would not necessarily be any difference
24 in the ultimate estimate of the COE.

25 **Q. DO THE REASONS YOU CITE AS ADVANTAGES OF THE**
26 **COMPARABLE EARNINGS APPROACH CONTRADICT THE**

⁴ Burton G. Malkiel. A Random Walk Down Wall Street. 2003. W.W. Norton & Co. New York. p. 173-174.

1 **PROPRIETY OF USING ANALYST ESTIMATES?**

2 A. No. Because the comparable earnings approach is less subjective, it serves as a
3 reasonableness check on the DCF model results. This is a key distinction between
4 my cost of capital analysis and Staff's. Staff's approach starts and ends with a
5 mechanical application of their financial models without any checks of
6 reasonableness. So, even though my choice of inputs into the DCF model may be
7 subjective, as are Mr. Irvine's, my results pass both reality and reasonableness
8 checks, Mr. Irvine's do not.

9 **Q. IS SUBJECTIVITY REDUCED BY THE USE OF HISTORICAL GROWTH**
10 **RATES?**

11 A. No, but Mr. Irvine seems to think so. *Id.* at 38. However, use of historical growth
12 rates in a prospective financial model like the DCF makes the historical growth
13 rates no less subjective in developing measures of investor's expectations.

14 **Q. ON PAGE 39, MR. IRVINE CRITICIZES YOU FOR NOT USING**
15 **FORECASTS OF DIVIDEND GROWTH IN YOUR GROWTH**
16 **ESTIMATES. DO YOU HAVE A RESPONSE?**

17 A. Yes. First, as I testified in my direct testimony, the constant growth DCF result
18 using projected DPS growth was at or below the cost of debt. *See* Bourassa DT at
19 28. Using DPS forecasts from the January 26, 2007 Value Line, two of the three
20 sample company indicated COE are far below the current cost of debt. These
21 results are not reasonable or rational and would distort the DCF model's result.

22 Second, I do not use projected DPS estimates, in part, because of the three
23 sources for analysts estimates that I employ, Zack's, Value Line, Standard and
24 Poor, only one provides projected DPS growth estimates.

25 Third, earnings growth provides a more meaningful guide to investors'
26 long-term growth expectations. After all, it is growth in earnings that will support

1 future dividends and share prices. There is an abundance of evidence attesting to
2 the importance of earnings in assessing investor expectations. The sheer volume of
3 earnings forecasts available from the investment community relative to the scarcity
4 of dividend forecasts attests to their importance. Value Line, Zacks, S&P,
5 Thompson First Call, to name a few, all provide comprehensive information on
6 investor's earnings forecasts. Value Line's principle investment rating assigned to
7 individual stocks, Timeliness Rank, is based primarily on earnings. These
8 investment information providers focus on earnings growth rather than dividend
9 growth which indicates the investment community places greater importance to
10 earnings as a measure on future long-term growth.

11 **C. Response to Staff's Testimony on Comparable Earnings and Risk**
12 **Premium.**

13 **Q. DO YOU AGREE THAT COMPARABLE EARNINGS ANALYSIS AND**
14 **THE RISK PREMIUM ANALYSIS ARE INVALID BECAUSE THEY ARE**
15 **NOT "MARKET BASED"?**

16 **A.** No, I disagree with Mr. Irvine on this point. First, as I have testified, the risk
17 premium approach is founded on directly observable *market* interest rates. This
18 assures that the risk premium estimates of the COE begin with a sound basis and
19 are tied to current capital market costs. *Id.* at 40.

20 Second, in the instant case, we are attempting to establish a fair and
21 reasonable return on equity for USLLC which will in turn be used to establish a
22 rate of return on the fair value of USLLC property devoted to public service. That
23 rate base is an accounting or book rate base. The rate base has not been adjusted to
24 reflect the current market value of the utility plant and assets devoted to public
25 service. In other words, Mr. Irvine is applying a *market* return derived from a
26 finance model to the Company's *book* equity, which in turn is financing a *book* rate

1 base. Thus, Mr. Irvine is ignoring the fact that a firm's earnings, whether they are
2 reported as the return on equity or as earnings per share, are also based on
3 accounting data, as opposed to market data. For example, earning per share
4 ("EPS") is calculated by dividing net income into the number of shares
5 outstanding. The current market price of those shares is irrelevant to that
6 calculation.

7 Third, risk premium model I employ is similar to the model routinely used
8 by the California Office of Ratepayer Advocate Staff to estimate estimates of the
9 COE for water utilities. The important characteristics of the California Ratepayer
10 Advocate Staff model are (1) the use of earned returns as the proxies for equity
11 costs and (2) the use of forecasted interest rates. In my opinion, authorized returns
12 on equity ("ROEs") are expected to provide a conservative measure of the current
13 cost of equity for the water utilities sample. Since 2003 and 2004, when some of
14 those ROEs were set by regulators, interest rates have increased and thus the cost
15 of equity has increased. The authorized ROEs may also be conservative measures
16 of the current cost of equity because some of them are the result of settlements.
17 Thus, to the extent that the reported ROEs in my direct schedule D-4.14 are the
18 result of settlements, they probably understate the COE. I have a preference for the
19 proxies for equity costs to be authorized ROEs, not realized ROEs, for the reasons I
20 listed above, even though authorized ROEs may understate the COE.

21 Fourth, Staff contends that actual returns on equity should be ignored,
22 notwithstanding the comparable earnings standard. Instead, Staff asserts that
23 finance models should be the exclusive means of determining the COE.

24 **Q. WHAT WOULD BE THE RESULT USING A COMPARABLE EARNINGS**
25 **ANALYSIS WITH MARKET DATA?**

26 **A.** Using sample group of publicly traded water utilities used by both the Company

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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:

<u>Company</u>	<u>5 Years</u>	<u>Annual Average</u>
Amer. States	93.70%	18.74%
Aqua America	87.50%	17.50%
Cal. Water	89.40%	17.88%
Conn. Water	-9.55%	-1.91%
Middlesex	31.22%	6.24%
SJW Corp.	<u>213.00%</u>	<u>42.60%</u>
Average	84.21%	16.84%

Data from Value Line (January 26, 2007). The 5-year historical compound annual return for the water utilities sample companies is 13.34%.

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. As I will testify later, historical market returns for the water utility sample companies are much greater than either myself or Mr. Irvine recommend for the COE in the instant case. These are no less relevant to developing estimates of investor expectations.

1 **Q. DO INVESTORS CARE ABOUT THE RETURN ON EQUITY THAT A**
2 **COMPANY IS EARNING AND IS PROJECTED TO EARN?**

3 A. Only if they are looking to make sound investments, or stated another way, of
4 course they do! Returns on equity, earnings per share, and stock price/earnings
5 ratios are widely followed and reported by investment services, business
6 magazines, and other financial media outlets. A company's earnings play a major
7 role in any investment decision – a far greater role, I believe, than the results of a
8 CAPM or DCF model. The higher the return on equity, the greater the company's
9 earnings and funds are available to pay dividends and to reinvest in capital projects.

10 **Q. DO YOU RELY ON THE COMPARABLE EARNINGS APPROACH**
11 **BECAUSE IT INDICATES A HIGHER RATE OF RETURN?**

12 A. No. I use it because not only because it is a valid approach and, as I have testified,
13 my comparable earnings and risk premium analyses serve as a check of
14 reasonableness for the DCF results. *See* Bourassa DT at 15. Regardless of the
15 particular finance model being used, the results of the model should be reasonable
16 and generally consistent with the returns on equity actually being earned.

17 Amazingly Staff has not included a consideration of either actual,
18 authorized returns on equity nor has it included a consideration of past price
19 growth, book value growth, or actual market returns of the companies in the water
20 utility sample. I am sure Mr. Irvine would admit that total market returns
21 influence investor expectations and admit that investors place differing degrees of
22 importance to market returns, EPS and DPS growth. *See* Irvine DT at 34-35.
23 Amazingly, Staff does not consider other historical information as a check of
24 reasonableness of the growth rates they select and the results of their financial
25 models. This hardly reflects a balance approach.

26 **Q. DOESN'T STAFF CONSIDER TOTAL MARKET RETURNS IN ITS**

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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. The financial data show that mid-cap, low-cap and micro-cap companies historical have higher returns than large-cap companies. *See* Stocks, Bonds, Bills and Inflation 2006 Year Book, Ibbotson Associates, Chicago, 2005, at 28. 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 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 27. 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).

1 Q. ARE THE RESPECTIVE PARTIES APPLYING A MARKET BASED
2 RETURN TO A BOOK VALUE EQUITY AND RATE BASE?

3 A. Yes. As I have already alluded to, if we were to be technically correct, equity and
4 rate base should be stated at market value. Because we are applying a market
5 based COE to book value is another reason why actual and authorized returns of
6 the water utilities sample companies are relevant as checks of reasonableness to a
7 cost of capital analysis in this case. Mr. Irvine argues that historical DPS and EPS
8 information is relevant to investors. *See Irvine DT at 35.* Why wouldn't the same
9 apply to actual and authorized earnings? After all, his historical EPS and
10 sustainable growth are based on book results and there is no evidence in this case
11 to suggest that investor expectations do not include consideration of the actual and
12 authorized earnings of the sample water utility companies.

13 Q. PLEASE RESPOND TO MR. IRVINE'S CRITICISM OF YOUR
14 RELIANCE ON PROJECTED INTEREST RATES IN YOUR RISK
15 PREMIUM ANALYSIS ON PAGE 40 OF HIS DIRECT TESTIMONY?

16 A. Using current rates to predict future rates, as Staff has done in its CAPM, does not
17 avoid the problem of predicting interest rates in 2008-2009, when USLLC's rates
18 will be in effect. Staff's use of today's interest rates effectively assumes that those
19 interest rates will remain unchanged in the future. The COE should be determined
20 when new rates will be in effect, not a single point in time prior to new rates being
21 established.

22 Q. HAVE YOU PREPARED A DIFFERENT MARKET RISK PREMIUM
23 ANALYSIS THAT IS ENTIRELY MARKET BASED?

24 A. Yes. Preliminarily I would like to state that I believe my risk premium analysis to
25 be valid. Putting this aside, I have prepared a bond risk premium analysis which is
26 entirely market based. *See Cost of Capital Rebuttal Exhibit 1.*

1 The average bond risk premium over the most recent 5 year period is
2 12.21%. The current yield on a long-term U.S. Treasury Bond is 4.9%, suggesting
3 a current indicated COE of 17.6%. The Blue Chip forecasted yield for long-term
4 U.S. Treasury Bonds is 5.15%, suggesting a current indicated COE of 17.6%. The
5 10 and 15 year average risk premiums are far greater at 15.14% and 14.41%, and
6 using either current or forecasted interest rates, the indicated COE are well above
7 18%.

8 **Q. PLEASE EXPLAIN YOUR EQUITY RISK PREMIUM ANALYSIS?**

9 A. As a proxy for a risk premium applicable to my water utility sample, a historical
10 risk premium for the sample is estimated with an annual time series analysis as
11 applied to my water utility sample companies. The risk premium is estimated by
12 computing the annual return on equity capital for the composite of the water utility
13 sample companies for each year using the actual stock prices and dividends of the
14 water utility sample companies, and then subtracting the long-term government
15 bond for that year. The composite of the water utility sample companies is a value
16 weighted index which means that each company in the index receives a weight
17 proportional to the market value of its equity. Value-weighted indexes have the
18 useful property of tracking the performance of a buy and hold investments in the
19 underlying stocks. The S&P 500, for example, is a value weighted index.

20 **Q. WHAT IS SUGGESTED BY YOUR BOND RISK PREMIUM ANALYSIS?**

21 A. It suggests that the true cost of capital may be much higher than any of the parties
22 have recommended in this case. It also confirms my conclusion that a 10.5% ROE
23 is conservative.

24 **D. Response to Staff's Testimony on Unique Risks.**

25 **Q. DO YOU HAVE ANY RESPONSE TO THE TESTIMONY MR. IRVINE**
26 **PRESENTS AT PAGE 42 OF HIS DIRECT TESTIMONY ABOUT THE**

1 **RISKS FACED BY SMALL ARIZONA UTILITIES LIKE USLLC**
2 **COMPARED TO SAMPLE WATER UTILITY COMPANIES?**

3 A. Yes. Mr. Irvine's position is based on financial theory. At the core of the financial
4 theory is the so-called "Modern Portfolio Theory" ("MPT") which deals with the
5 management of stocks and other securities that are publicly traded on national stock
6 exchanges. Like any theory, the MPT makes certain assumptions, such as the
7 assumption that all investors hold fully diversified portfolios of stocks. As
8 explained by Mr. Irvine, market risk is the only relevant risk to investors holding
9 diversified portfolios. Firm-specific risk ("unique risk") can be eliminated by
10 holding a diversified portfolio. *See Irvine DT at 10-11.*

11 **Q. DO YOU DISAGREE WITH MR. IRVINE REGARDING FIRM-SPECIFIC**
12 **RISK?**

13 A. No. Both Mr. Irvine and I use a sample of publicly traded water utility companies
14 as a starting point in our respective cost of equity analyses. However, unlike Mr.
15 Irvine, who starts and ends with that analysis, I recognize that the USLLC, like
16 other small water utilities in Arizona, is not directly comparable. The problem is,
17 we simply do not have market data for small water utilities to directly assess how
18 an investor would price those risks.

19 Firm size, for example, is not a unique risk. The size phenomenon is well
20 documented in the financial literature. Small companies have very different returns
21 than large ones and on average those returns have been higher. Ibbotson
22 Associates' widely used compilation of historical returns from 1926 to the present
23 reinforces the evidence (*See Stocks, Bonds, Bills and Inflation 2006 Year Book*,
24 Ibbotson Associates, Chicago, 2005). Ibbotson Associates' shows the average
25 annual return of 12.3% is for large company stocks while returns for micro-cap,
26 low-cap and mid-cap stocks are 18.8%, 15.7%, and 14.2%, respectively,

1 significantly higher than those for large company stocks. The size effect is
2 particularly relevant for small utilities. Not only do these small utilities possess
3 higher risks than their larger counterparts, they are subjected to a significant size
4 effect, strongly suggesting that their cost of equity is higher.

5 The view that small water utilities are not directly comparable to the large
6 publicly traded water utilities does not violate any tenet of modern financial theory.
7 Modern financial theory of investment behavior rests on the notion that the specific
8 risk component not explained by the market can be diversified away by the
9 investor. In the instant case, we are not talking about the specific risks to USLLC
10 per se, but the market risk associated with small water utilities like USLLC which
11 we unable to measure.

12 **Q. PLEASE CONTINUE.**

13 **A.** Accepting for argument sake that the abstract proposition that all investors hold
14 diversified portfolios and that there is no debate about what constitutes a
15 diversified portfolio, I am sure Mr. Irvine would agree that the risks of the sample
16 water utilities would be considered and priced by investors holding diversified
17 portfolios. We know this to be true because it would be nonsense to say that
18 investors do not care about stock prices and values of equity being lower because a
19 utility has risks not faced by other utilities. Such risks may be the risks priced by
20 investors holding diversified portfolios, if beta is relevant to investors. Each of the
21 publicly traded utility companies in Mr. Irvine's water utility sample has a market
22 beta, but not all of the betas are the same. *See* Staff Schedule SPI-6. Arguably, the
23 risks for each of the sample water utilities have been priced differently by
24 investors, otherwise, the betas would all be the same.

25 Based on the foregoing, and also assuming for argument sake that MPT
26 applies to small non-publicly traded companies like USLLC, I would also expect

1 that Mr. Irvine would agree that the risks for small privately held utilities in
2 Arizona would be priced by investors holding diversified portfolios. If there is a
3 lack of diversification, limited revenues and cash flow, small customer base, higher
4 regulatory risk, and higher liquidity risk, investors do care and risk is higher. We
5 do not have market data for small water utilities and thus we do not have a beta
6 estimate based on the market for USLLC, but I expect it is higher than the average
7 beta of Mr. Irvine's sample companies. Mr. Irvine simply assumes that USLLC
8 has the same level of risk as do the utilities in his sample and assumes the average
9 beta for his sample water utilities is the beta for USLLC. See Irvine DT at 26.
10 Ultimately he recommends the average of his cost of equity ("COE") results from
11 his water utility sample as the COE for USLLC. He does this without any
12 evidence that USLLC has the same risks as the water utility sample companies.

13 **Q. DO OTHER COMMISSIONS SHARE THE VIEW THAT SMALL**
14 **UTILITIES HAVE HIGHER RISKS NOT CAPTURED BY THE MARKET**
15 **DATA?**

16 A. Yes. The California Public Utilities Commission ("CPUC"), for example,
17 recognizes that since market data is not available for smaller water utilities higher
18 rates on returns are necessary. Based on a study prepared by the CPUC Staff and
19 adopted by the CPUC (CPUC Decision 92-03-093, March 21, 1992), the CPUC
20 concluded that smaller utilities are more risky than larger ones and required higher
21 equity returns. Accordingly, the CPUC employs alternative methods for different
22 classes of utilities. Attached at Cost of Capital Rebuttal Exhibit 2 is a copy of a
23 memo from the CPUC Staff to the Director of the Water Division. This memo
24 explains the CPUC's approach to determining the returns on the various classes of
25 water utilities as defined by the CPUC. The CPUC classifies water utilities based
26 on the number of customers - Class D (<500), Class C (500-1,999), Class B (2,000-

1 9,999) and Class A (>10,000). As the memo shows, the CPUC provides
2 guidelines on returns for Class C and D water utilities in the range of 11.65% to
3 13.40%. For Class B, it averages the most recently authorized Class C and Class
4 A returns. USLLC would be classified as a Class D utility by the CPUC.
5 According to the memo, an appropriate range for USLLC would be in the 12.4% to
6 13.4% range.

7 **Q. WHAT HAS HAPPENED TO INTEREST RATES SINCE THIS MEMO**
8 **WAS WRITTEN IN 2004?**

9 A. They have generally increased. Accordingly, I suspect the range of allowed equity
10 returns has been adjusted as a result.

11 **Q. IS THE ARIZONA CORPORATION COMMISSION BOUND BY**
12 **DECISIONS OR STAFF MEMORANDUMS OF THE CPUC?**

13 A. No. That is not the point. My point in referencing the returns allowed by the
14 CPUC for small utilities is four-fold. First, others, like the CPUC, recognize that
15 large utility companies are not directly comparable to small ones and that there is
16 no market data for small water utilities. Second, others, like the CPUC, recognize
17 that there is a distinct difference between large and small utilities in terms of
18 business and operational risks. Third, because the business and operational risks
19 associated with small water utilities is higher, small water utilities require higher
20 returns. And fourth, the CPUC guidelines provide for returns for small water
21 utilities far in excess of the return I recommend in the instant case.

22 **Q. DO STUDIES BY OTHERS SUPPORT THE VIEW THAT SMALLER**
23 **UTILITIES ARE MORE RISKY THAN LARGER ONES?**

24 A. Yes. In a study conducted by Dr. Thomas Zepp (hereinafter "Zepp"), he showed
25 that, on average, smaller publicly traded water utilities had a COE 99 basis points
26

1 higher than the average COE for larger publicly traded utilities.⁵

2 **Q. DOES THE FACT THAT THE COMMISSION IN THE TWO CASES**
3 **CITED BY MR. IRVINE ON PAGE 41 OF HIS DIRECT TESTIMONY**
4 **REJECTING THE FIRM SIZE FACTOR IN ARIZONA RATE SETTING**
5 **CHANGE YOUR VIEW THAT SMALL UTILITIES ARE MORE RISKY**
6 **THAN LARGER ONES?**

7 A. No. In the Black Mountain Gas Company (“Black Mountain”) case (Decision
8 64727, April 17, 2002), the Commission did not conclude the “firm size
9 phenomenon” did not exist. The order merely summarized the argument made by
10 Staff which said “Staff argues that a study has shown the firm ‘size phenomenon’
11 does not exists for regulated utilities, and that therefore there is no need to adjust
12 risk for small firm size in utility regulation’. *Id* at 16. This statement was not a
13 conclusion of the Commission. What the Commission concluded in that order was
14 that Staff “...performed a rigorous cost of capital analysis, and [the Commission
15 finds] that its recommendations on that analysis are reasonable and withstand the
16 Company’s critique.” *Id*. There is no meaningful explanation and/or reasoning
17 provided by the order that would lead me to conclude there was an explicit
18 rejection of the “firm size phenomenon”. Black Mountain is a much larger utility
19 than is USLLC and was classified as a Class A utility for purposes of that case. *Id*
20 at 2. Also, Black Mountain did not prepare a COE study to support its proposed
21 return on equity and I do not know what evidence Black Mountain provided, if any,
22 in support of its position on the firm size premium. *Id*. at 15. At best, one can
23 infer that the Commission was not swayed by Black Mountain’s arguments and
24 concluded that no size premium applied to Black Mountain. But, this conclusion

25
26 ⁵ Zepp, Thomas M. (2002, August). Utility Stocks and the size effect – revisited. *The Quarterly Review of Economics and Finance*, 578-582.

1 does not extend to all Arizona regulated utilities.

2 In the Arizona Water Company ("Arizona Water") case (Decision 64282,
3 December 28, 2001), the Commission concluded that for Arizona Water a size
4 premium was not warranted. *Id.* at 19. It did not conclude this for all Arizona
5 regulated utilities as Mr. Irvine implies. Arizona Water was also classified as a
6 Class A utility in that case and is much larger than is USLLC. It owns and operates
7 18 water systems in Arizona and at the time of the case had over 60,000 customers.
8 *Id.* at 1. Clearly, the magnitude of the risks faced by Arizona Water are not
9 comparable to USLLC.

10 **E. Staff's DCF Estimates Are Unreasonably Low Due to Staff's Biased**
11 **Selection of Inputs.**

12 **Q. PLEASE EXPLAIN WHY YOU BELIEVE STAFF'S CONSTANT**
13 **GROWTH DCF MODEL PRODUCES A COST OF EQUITY THAT IS**
14 **UNREALISTICALLY LOW.**

15 A. In Staff's constant growth (single growth stage) DCF model, Staff relies heavily on
16 historical DPS and EPS growth. As I explained in my direct testimony, one of the
17 reasons I did not use historical DPS and EPS growth is because the indicated COE
18 produced by the DCF model using these growth rates is *less than the current cost*
19 *of debt.* See Bourassa DT at 28. Staff uses 10-year historical DPS and EPS growth
20 rates. However, the results are not much better than using the 5-year historical
21 data.

22 **Q. WHAT ARE THE GROWTH RATES USED BY STAFF?**

23 A. The following table shows the growth rates Mr. Irvine uses in implementing the
24 constant growth DCF model (*see* Staff Schedule SPI-7):

<u>Type of Growth</u>	<u>Historic</u>	<u>Projected</u>
Dividends per Share ("DPS") Growth	2.7%	5.0%

26

1 There is no requirement on the DCF model that negative growth rate cannot be
2 used. Common sense tells us a negative growth rate should not be used because it
3 is unrealistic. But a negative growth rate is no more unrealistic than the growth
4 rates that produce indicated COEs at or below the cost of debt.

5 **Q. EXCUSE ME MR. BOURASSA, BUT I DON'T RECALL SEEING**
6 **INDIVIDUAL COMPUTATIONS LIKE THESE IN STAFF'S SCHEDULES**
7 **OR TESTIMONY. WHY IS THAT?**

8 A. Because Staff does not show the individual results of their selected growth rates.
9 Staff has "hidden the ball" so to speak. My rebuttal exhibits show that Staff's
10 individual results for the sample utilities show indicated costs of equity as low as
11 3.3%! Further, a significant number are below 5.2%, i.e., the current yield on 30-
12 day Treasuries. Two-thirds of the indicated costs of equity are below the current
13 cost of debt. This is truly remarkable.

14 **F. Staff CAPM Estimates Underestimate the Current Cost of Equity.**

15 **Q. LET'S MOVE ON TO STAFF CAPM ESTIMATES. WHAT IS THE**
16 **ESTIMATED BETA FOR USLLC STAFF HAS USED IN ITS CAPM?**

17 A. Staff used an average of the betas estimated by Value Line for each utility in its
18 sample group to implement the CAPM. Staff computed an average beta of 0.82 for
19 the six water utilities in its sample group. *Id.* at 27.

20 As I have testified, Staff has not presented any evidence or data suggesting
21 that USLLC, if it were publicly traded, would have a beta equal to that of their
22 utility sample group. They have made no attempt to analyze the particular risks
23 associated with an investment in USLLC and to compare those risks with the
24 publicly traded water utilities in their sample groups. They have simply assumed
25 that all water utilities, regardless of a particular utility's size and other firm-specific
26 characteristics, have the same beta as the publicly traded water utilities.

1 Q. HOW DOES STAFF COMPUTE THE MARKET RISK PREMIUMS USED
2 IN ITS CAPM?

3 A. Staff does not compute an historical MRP. Staff's historical MRP is based on the
4 S&P 500 market returns from 1926 to 2004 reported by Ibbotson and is 7.5%. *Id.*
5 at 28. Staff's current MRP is derived by solving the CAPM equation for the MRP
6 using Staff's derived market based DCF ROE of 10.48%, a 30-year Treasury note
7 of 4.9%, and a beta of 1.0. Staff's current MRP in the instant case is 5.6%. *Id.*
8 Aside from this method being extremely unstable, Staff use of median values of
9 dividend yield and growth for its market based DCF ROE skew the CAPM results
10 significantly downward.

11 Q. EXCUSE ME, MR. BOURASSA, DID YOU TESTIFY THAT STAFF USES
12 MEDIAN VALUES INSTEAD OF AVERAGE VALUES IN DERIVING THE
13 CURRENT MRP?

14 A. Yes. Staff uses median values for the dividend yield and the growth rate in the
15 DCF method used to compute a current market ROE. The dividend yield is the
16 median dividend yield for the next 12 months of the Value Line Index dividend
17 paying stocks. The growth rate is based on the median price appreciation potential
18 for the next 3-5 years of the 1700 stocks in the Value Line Index. However, the
19 use of the medians is some what confusing as Staff uses an arithmetic average
20 based growth rate in its historical market risk premium CAPM. What is further
21 disturbing is that the median values are considerably less than the average values.
22 For example, the average dividend yield for the Value Line Index for the next 12
23 months of the Value Line Index dividend paying stocks is 2.15%. Compare this to
24 the median dividend yield of 1.7% used by Staff. The average price appreciation
25 is over 10.75%. Compare this to the median price appreciation of 8.78% used by
26 Staff. *Id.*

1 Q. ARE YOUR COMPARISONS CONSISTENT WITH THE DATES UPON
2 WHICH STAFF PREPARED ITS CURRENT MRP?

3 A. Yes. Staff acquired its median values for dividend yield and price appreciation
4 and prepared its current MRP using the Value Line reports published on October
5 27, 2006. The data upon which I computed the average values for the dividend
6 yield and price appreciation for the Value Line Index are from the October 31,
7 2006 Value Line Analyzer Software database. So, the comparisons are valid.

8 Q. WHAT WOULD BE THE IMPACT ON STAFF'S CAPM RESULTS USING
9 THE AVERAGES RATHER THAN THE MEDIANS AS INPUTS INTO THE
10 DCF COMPUTATION TO DETERMINE THE CURRENT MARKET RISK
11 PREMIUM?

12 A. The current market risk premium CAPM would produce an indicated COE of
13 11.4%. Compare this to 9.5% as shown on Staff's Schedule SPI-2. Staff's
14 average CAPM result would be 11.2%, 100 basis points higher than Staff's 10.2%
15 as shown on Staff Schedule SPI-2.

16 G. Restatement of Staff Cost of Equity Results.

17 Q. BASED ON THE USE OF ARITHMETIC MEANS RATHER THAN
18 GEOMETRIC MEANS FOR STAFF'S DCF GROWTH AND EMPLOYING
19 MEANS RATHER THAN MEDIANS TO DERIVE A MARKET RISK
20 PREMIUM FOR THE CAPM, WHAT WOULD STAFF'S OVERALL
21 RESULTS BE?

22 A. Staff's over all COE result would be 10.2%, 60 basis points higher than its
23 recommended 9.6%. The 10.2% result includes the use of the low historical DPS
24 and EPS growth rates. Thus, I believe there is at least a minimum 60 basis point
25 downward bias in Staff's COE analysis in the instant case.

26 A significant problem with Staff's application of the DCF and CAPM is in

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the choice of the inputs Staff 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.

Q. DOES THAT CONCLUDE YOUR REBUTTAL COST OF CAPITAL TESTIMONY?

A. Yes.

Utility Source, L.L.C.
Summary of Results

Exhibit
Schedule D-4.0
Witness: Bourassa

<u>Line No.</u>		<u>Low</u>	<u>High</u>	<u>Midpoint</u>
1	DCF Constant Growth	9.8%	12.0%	10.9%
2	DCF Sustainable Growth	8.3%	10.5%	9.4%
3	DCF Two-Stage	9.2%	11.5%	10.4%
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	4.2%	11.7%	8.0%
9	Authorized Returns	9.9%	12.7%	11.3%
10				
11	Water Utility Industry			
12	2006			9.0%
13	2007			10.0%
14	09-11			10.5%
15				
16				
17				
18				
19				
20				

Utility Source, L.L.C.
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.	American States	85%	\$ 254.3	\$ 655.7	A-	A2
2.	Aqua America	88%	\$ 519.6	\$ 2,112.5	AA-	NR
3.	California Water	96%	\$ 331.9	\$ 813.9	NR	A2
4.	Connecticut Water	90%	\$ 49.4	\$ 209.0	AAA	NR
5.	Middlesex	89%	\$ 80.5	\$ 274.4	A	NR
6.	SJW Corp.	97%	\$ 188.3	\$ 406.7	NR	NR
10						
11	Average	91%	\$ 237.3	\$ 745.4		
12						
13	Utility Source, L.L.C.	56%	\$ 0.2	\$ 5.0		
14						
15						

Source: AUS Utility Reports (February 2007)

Utility Source, L.L.C.
 Capital Structures of Water Utilities December 2005

Exhibit
 Schedule D-4.2
 Witness: Bourassa

No.		Book Value		Market Value	
		Long-Term <u>Debt</u>	Common <u>Equity</u>	Long-Term <u>Debt</u>	Common <u>Equity</u>
1.	American States	50.4%	49.6%	28.3%	71.7%
2.	Aqua America	52.0%	48.0%	22.6%	77.4%
3.	California Water	48.3%	51.7%	24.1%	75.9%
4.	Connecticut Water	40.6%	59.4%	23.8%	76.2%
5.	Middlesex	56.3%	43.7%	36.6%	63.4%
6.	SJW Corp.	42.6%	57.4%	16.7%	83.3%
10					
11	Average	48.3%	51.7%	25.3%	74.7%
12					
13	Utility Source, L.L.C.	0.0%	100.0%	N/A	N/A
14					
15					

Sources:
 Zacks Investment Research

16
 17
 18
 19
 20

Utility Source, L.L.C.
 Comparisons of Past and Future Estimates of Growth

Line No.	Company	Price	Book Value	DPS	EPS	Average Future Growth*
1	American States	8.19%	4.29%	0.90%	Negative	7.50%
2	Aqua America	21.12%	10.35%	8.45%	6.84%	9.17%
3	California Water	12.54%	4.38%	0.53%	7.03%	8.17%
4	Connecticut Water	7.61%	5.25%	1.22%	Negative	
5	Middlesex	5.32%	4.26%	1.56%	5.44%	
6	SJW Corp.	9.11%	6.30%	5.27%	11.53%	
15	GROUP AVERAGE	10.65%	5.80%	2.99%	7.71%	8.28%
16	GROUP MEDIAN	8.65%	4.81%	1.39%	6.93%	8.17%

* See Schedule D-4.5
 Sources:
 Value Line Data
 Yahoo Finance

Utility Source, L.L.C.

Comparisons of Past and Future Estimates of Growth

Line No.	Company	<u>Ten-year historical compound annual changes</u>					Average Future Growth*
		Price	Book Value	DPS	EPS		
1.	American States	13.25%	4.33%	1.05%	1.64%	7.50%	
2.	Aqua America	27.11%	9.86%	6.94%	9.00%	9.17%	
3.	California Water	13.65%	3.15%	1.01%	Negative	8.17%	
4.	Connecticut Water	11.68%	4.03%	1.13%	Negative		
5.	Middlesex	11.55%	3.93%	1.99%	3.67%		
6.	SJW Corp.	17.76%	5.44%	3.94%	3.24%		
	GROUP AVERAGE	15.83%	5.12%	2.68%	4.39%	8.28%	
	GROUP MEDIAN	13.45%	4.18%	1.56%	3.45%	8.17%	

* See Schedule D-4.5
 Sources:
 Value Line Data
 Yahoo Finance

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22

Utility Source, L.L.C.
 Analysts Forecasts of Earnings Per Share Growth

Line No.	(1)	(2)	(3)	(4)	EPS GROWTH			Average Growth (G) (Cols 1-3)
					Zacks	S&P	Value Line	
1.	American States	6.00%	6.00%	10.50%	7.50%			
2.	Aqua America	9.00%	11.00%	7.50%	9.17%			
3.	California Water	10.00%	10.00%	4.50%	8.17%			
4.	Connecticut Water				8.28%			
5.	Middlesex				8.28%			
6.	SJW Corp.				8.28%			
	GROUP AVERAGE	8.33%	9.00%	7.50%	8.28%			
	GROUP MEDIAN				8.28%			

Sources:

- Value Line Investment Survey January 26, 2007
- Zacks Investment Research Site February 7, 2007
- S&P Earnings Guide January 2007

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

Utility Source, L.L.C.
 Estimates of Sustainable Growth

Line No.	(1)	(2)	(3)	(4)	(5)
	Retention Ratio	Rate of Return	br Growth	sv Growth	Average Sustainable Growth (Cols 3+4)
1.	0.48	10.00%	4.84%	1.81%	6.65%
2.	0.33	12.00%	3.96%	2.23%	6.19%
3.	0.32	9.00%	2.90%	4.60%	7.50%
4.					
5.					
6.					
7.					
8.					
9.					
10.					
11.					
12.					
13.					
14.					
15.	0.38	10.33%	3.90%	2.88%	6.78%
16.	0.33	10.00%	3.96%	2.23%	6.65%
17.					
18.					
19.					
20.					
21.					
22.					
23.					

Sources:
 Value Line Data

Utility Source, L.L.C.
 Estimates of sv Growth

Line No.	(1)	(2)	(3)	(4)
	Stock Financing Rate	Current Market to Book Ratio	$\frac{V}{sv}$	sv Growth
1.	3.04%	2.48	0.60	1.81%
2.	3.06%	3.68	0.73	2.23%
3.	7.41%	2.64	0.62	4.60%
4.				na
5.				na
6.				na
GROUP AVERAGE	4.50%	2.93	0.65	2.88%
GROUP MEDIAN	3.06%	2.64	0.62	2.23%

Sources:
 Value Line Data

Utility Source, L.L.C.
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Projected EPS Growth

Exhibit
 Schedule D-4.8
 Witness: Bourassa

Line No.	(1)	(2)	(3)	(4)	(5)
	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	(a) EPS Growth (g)	Indicated Cost of Equity k=Div Yld + g (Cols 3+4)
1.	American States 38.95	0.94	2.41%	7.50%	9.9%
2.	Aqua America 22.79	0.50	2.19%	9.17%	11.4%
3.	California Water 40.15	1.16	2.89%	8.17%	11.1%
4.	Connecticut Water 24.93	0.86	3.45%	8.28%	11.7%
5.	Middlesex 18.49	0.68	3.70%	8.28%	12.0%
6.	SJW Corp. 39.05	0.58	1.49%	8.28%	9.8%
13					
14					
15	GROUP AVERAGE		2.69%	8.28%	11.0%
16	GROUP MEDIAN				11.2%
17					
18	a) See Schedules D-4.5				
19					
20	Sources:				
21	Value Line Investment Survey January 26, 2007				
22	Yahoo Finance Website February 7, 2007				
23					

Utility Source, L.L.C.
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Sustainable Growth

Exhibit
 Schedule D-4.9
 Witness: Bourassa

Line No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Spot Price (Po)	Next Year's Div. (D1)	Dividend Yield	$\frac{b_r}{b_r + s_v}$	vs	$\frac{b_r + s_v}{\text{Growth (g)}}$	Indicated Cost of Equity k=Div Yld + g (Cols 3+6)
1.	American States 38.95	0.94	2.41%	4.84%	1.81%	6.65%	9.1%
2.	Aqua America 22.79	0.50	2.19%	3.96%	2.23%	6.19%	8.4%
3.	California Water 40.15	1.16	2.89%	2.90%	4.60%	7.50%	10.4%
4.	Connecticut Water 24.93	0.86	3.45%			6.78%	10.2%
5.	Middlesex 18.49	0.68	3.70%			6.78%	10.5%
6.	SJW Corp. 39.05	0.58	1.49%			6.78%	8.3%
15	GROUP AVERAGE		2.69%			6.78%	9.5%
16	GROUP MEDIAN						9.6%

a) See Schedule D-4.6 and D-4.7

Sources:

Value Line Investment Survey January 26, 2007
 Yahoo Finance Website February 7, 2007

Utility Source, L.L.C.
 Discounted Cash Flow Analysis (Water)
 Two-Stage Growth - Projected

Line No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
	Company	Spot Price(P ₀)	Next Year's Div. (D ₁)	Yield (D ₁ /P ₀)	Near Term (a)	Projected Growth Rates Long Term (GDP)	Average (b)	Indicated Cost of Equity
1.	American States	38.95	0.94	2.41%	7.50%	6.80%	7.27%	9.7%
2.	Aqua America	22.79	0.50	2.19%	9.17%	6.80%	8.39%	10.6%
3.	California Water	40.15	1.16	2.89%	8.17%	6.80%	7.72%	10.6%
4.	Connecticut Water	24.93	0.86	3.45%	8.28%	6.80%	7.79%	11.2%
5.	Middlesex	18.49	0.68	3.70%	8.28%	6.80%	7.79%	11.5%
6.	SJW Corp.	39.05	0.56	1.43%	8.28%	6.80%	7.79%	9.2%
13								
14								
15	GROUP AVERAGE						7.79%	10.5%
16	GROUP MEDIAN							10.6%

(a) See Schedule D-4.5
 (b) Near term growth given weighting of .67

Utility Source, L.L.C.
 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		
27	Ibbotson Associates S&P Valuation Edition 2006 Yearbook		
28	Blue Chip Forecast Interest Rates - 10 year Treas. December 2006		
29	Federal Reserve		
30			

Exhibit
 Schedule D-4.12
 Witness: Bourassa

Utility Source, L.L.C.
 Risk Premium Equity Cost Analysis
 Authorized Equity Returns of Sample Water Companies

Line No.	Authorized Returns on Equity	Average Annual 10 Year Treasury	Risk Premium 10 Year Treasury
1	2005	10.47%	4.34%
2	2004	10.40%	4.27%
3	2003	10.48%	4.01%
4	2002	10.62%	4.61%
5	2001	10.86%	5.02%
6	2000	11.12%	6.03%
7	1999	11.12%	5.65%
8	1998	11.06%	5.26%
9	1997	11.18%	6.35%
10	1996	11.58%	6.44%
11	1995	11.51%	6.57%
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			

Sources:
 AUS Utility Reports, issues for December various years
 Ibbotson Associates SBBI Valuation Edition 2006 Yearbook
 Blue Chip Forecast Interest Rates - 10 year Treas. December 2006
 Federal Reserve

Exhibit
 Schedule D-4.13
 Witness: Bourassa

Test Year Ended December 31, 2005
 Returns on Equity of Nationally Traded Water
 Utilities as Reported in AUS Utility Reports
 February 2007

Line No.	Company	Authorized Rate of Return	Current Rate of Return
1	American States Water Co.	9.9%	8.4%
2	Aqua America	10.1%	10.5%
3	California Water	10.1%	8.4%
4	Connecticut Water Service	12.7%	4.2%
5	Middlesex Water Co.	10.0%	10.0%
6	SJW Corp.	10.1%	11.7%
7			
8			
9	Averages	10.5%	8.9%
10			
11			
12			
13			
14			
15			

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 debt¹ 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.

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	<u>100%</u>		<u>8.69%</u>

**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	<u>10.98%</u>

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:
 - p The average yield on 90-day Treasury Bills is .92%, as compared to 1.03% for 2003, representing an 11 basis point decrease;
 - p The average yield on a 1-Year Treasury is 1.25%, as compared to 1.24% for 2003, representing a 1 basis point increase;
 - p 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
 - p The average Long-term Treasury is 5.03%, as compared to 4.96% in 2003,

representing a 7 basis point increase.

p 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

Exhibit 3
Witness: Bourassa

Utility Source, L.L.C.
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using Staff Historical Dividend Growth

Line No.	(1)	(2)	(3)	(4)	(5)	
	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	10 Yr. Historical DPS Growth	Indicated Equity Cost k=Div Yld + G (Cols.1+4)	
1.	American States	41.04	0.94	2.29%	1.06%	3.3%
2.	Aqua America	24.07	0.47	1.94%	6.16%	8.1%
3.	California Water	38.55	1.20	3.11%	1.12%	4.2%
4.	Connecticut Water	21.60	0.87	4.04%	1.26%	5.3%
5.	Middlesex	18.81	0.72	3.82%	2.18%	6.0%
6.	SJW Corp.	33.99	0.59	1.73%	4.24%	6.0%
13						
14						
15	GROUP AVERAGE					5.5%
16	GROUP MEDIAN					5.6%
17						
18	Current Baa interest rate					6.3%
19						
20	Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Top 10					6.9%
21	Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Bottom 10					6.4%
22	Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Consensus					6.9%
23						
24	* Indicated Equity Cost Below Cost of Debt					
25						
26	Sources:					
27	Staff Workpapers					
28	Federal Reserve February 7, 2007					
29	Blue Chip Financial Forecast December 2006					
30						
31						

Utility Source, L.L.C.
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Historical
Using Staff Historical EPS Growth

Line No.	(1)	(2)	(3)	(4)	(5)
	Spot Price (Po)	Next Year's Div (D1)	Dividend Yield	10 Yr. Historical EPS Growth	Indicated Equity Cost k=Div Yld + G (Cols 1+4)
1.	American States 41.04	0.94	2.29%	2.51%	4.8% *
2.	Aqua America 24.07	0.47	1.94%	9.37%	11.3% *
3.	California Water 38.55	1.20	3.11%	2.31%	5.4% *
4.	Connecticut Water 21.60	0.87	4.04%	Negative	
5.	Middlesex 18.81	0.72	3.82%	0.40%	4.2% *
6.	SJW Corp. 33.99	0.59	1.73%	6.62%	8.3% *
	GROUP AVERAGE			4.2%	6.8% *
	GROUP MEDIAN				5.4%
	Current Baa interest rate				6.3%
	Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Top 10				6.9%
	Blue Chip Forecast Baa Corporate Bond Interest Rate 2008-2009 Bottom 10				6.4%
	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 February 7, 2007
- Blue Chip Financial Forecast December 2006

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31