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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, L.L.C. FOR A DETERMINIATION 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 REJOINDER TESTIMOMNIES**

Utility Source, L.L.C. by and through undersigned counsel, hereby provides Notice of Filing of the Rejoinder 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 2nd day of April 2007.

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

By [signature]
Richard L. Sallquist
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Attorneys for Utility Source, L.L.C.

Original and ten copies of the foregoing filed this 2nd day of April 2007, with:

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

[signature]

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Hearing Division
Arizona Corporation Commission
400 W. Congress
Tucson, Arizona 85701

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

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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

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

WATER DIVISION

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THE INSTANT CASE?

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

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

A. I will provide rejoinder testimony in response to the surrebuttal filings by Arizona Corporation Commission Utilities Division Staff ("Staff") and the Ponderosa Fire District ("District") with respect to rate base, revenues and expenses, and rate design. My rejoinder testimony on the cost of capital can be found under separate cover.

Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING IN THIS REJOINDER TESTIMONY?

A. The Company is proposing a total revenue requirement of $486,689, which constitutes an increase in revenues of $312,361, or 179.18 percent over adjusted test year revenues.

Q. HOW DOES THIS COMPARE WITH THE COMPANY'S REBUTTAL FILING?

A. In the rebuttal filing, the Company requested a total revenue requirement of $382,187, an increase in revenues of $291,420, or 321.06 percent.

Q. WHY IS THE REQUESTED RATE INCREASE HIGHER IN DOLLARS BUT LOWER AS A PERCENT IN THE COMPANY'S REJOINDER

FILING?

A. The most notable change from the Company's rebuttal filing is the Company's inclusion of pro forma revenue from potential future customer growth of $83,560 in adjusted test year revenues and the inclusion of an additional $736,583 of plant-in-service. The impact of the pro-forma potential future customer growth on proposed revenues is $231,031 – approximately 48 percent of the Company's proposed revenue requirement. Even though the revenue requirement and rate increase are higher in dollars, the inclusion of the pro-forma revenues reduces the required rate increase as a percent. Obviously, a much lower impact on existing rate payers is achieved as a result of nearly half of the revenue requirement being obtained from the pro-forma revenues under proposed rates.

As you will recall, the Company initially proposed to include in adjusted test year revenues and proposed revenues the inclusion of revenues from potential future growth of 350 customers in order to minimize the impact on rates. *See* Direct Testimony of Thomas J. Bourassa ("Bourassa DT") at 11. In response to Staff's recommendations in its direct filing, the Company adopted Staff's proposal to remove plant from rate base necessary to serve the potential future growth of 350 customers and correspondingly removed the pro-forma revenues in its rebuttal filing. While the rebuttal revenue requirement was reduced, the impact to rate payers substantially increased. Staff has reversed its position with respect to the pro-forma revenue and plant-in-service adjustments in its surrebuttal filing and the Company has adopted those. *See* Surrebuttal Testimony of Jeffery M. Michlik ("Michlik SB") at 4-6. It appears that Staff has recognized the benefits of the Company's initial approach.

Q. WHAT CHANGES HAVE BEEN MADE TO RATE BASE AND OPERATING EXPENSES?

A. The Company's rebuttal filing reflects the adoption of Staff's recommendation to include additional plant-in-service of $736,583. These costs are related to Deep Well#4 – plant which is necessary to serve the customer growth. Original Cost Rate Base ("OCRB") and Fair Value Rate Base ("FVRB") are increased by $699,304 from the rebuttal filing. The adjusted test year level of operating expense has been increased by $28,646 compared to the Company's rebuttal adjusted test year levels primarily as a result of an increase to depreciation expense and property taxes.

Q. HAS THE COMPANY PROPOSED TO INCREASE OPERATING EXPENSES TO REFLECT THE BILLING AND CUSTOMER SERVICE COSTS ASSOCIATED WITH THE ADDITONAL 350 CUSTOMERS?

A. No, and as a result operating expenses are to some extent understated.

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

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

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct	$575,955	$401,245	230.17%
Staff - Direct	$367,449	$193,122	110.78%
Company Rebuttal	$382,187	$291,420	321.06%
Staff – Surrebuttal	$367,015	$192,688	110.53%
Company Rejoinder	$486,689	$312,361	179.18%

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

A. The difference in the revenue requirement between Staff and the Company of $117,246 is primarily due to a difference in each of the party's recommended return. Staff is recommending a 6.23 percent return. *See* Michlik SB at 8. The Company continues to recommend a return of 10.5 percent.

Q. HOW DID STAFF DETERMINE A 6.23 PERCENT RETURN?

A. According to Mr. Michlik, Staff wanted to be consistent with its direct testimony and produce approximately the same revenue requirement and increase in its surrebuttal filing. *See* Michlik SB at 9.

Q. IS IT CORRECT THAT STAFF'S FAIR VALUE RATE BASE INCREASED BY OVER $700,000 FROM ITS DIRECT FILING TO ITS SURREBUTTAL FILING?

A. Yes. As I will discuss later, Staff's recommended fair value rate base ("FVRB") increased from $2,048,228 to $2,752,271 - an increase of $704,043. I would have expected the increase to have a material impact on Staff's revenue requirement and rate increase. However, it appears that Staff witness, Mr. Michlik, pre-determined the revenue requirement and rather than employing the 8.9 percent return recommended by Staff witness Mr. Irvine, he "backed into" the 6.23 percent return for the water division. *Id.*

Q. IS THE FAIR VALUE RATE BASE RECOMMENDED BY STAFF IN ITS SURREBUTTAL MEANINGFUL IN DETERMINING STAFF'S SURREBUTAL REVENUE REQUIREMENT?

A. No. Staff's surrebuttal FVRB was not used in the determination of Staff's surrebuttal revenue requirement. Mr. Michlik's recommended fair value rate of return is intended to produce essentially the same operating income with or without the increase in the fair value rate base. In fact, Mr. Michlik goes on further to admit that Staff reduced the rate of return in order to make the rate increase similar to the wastewater division. *Id.* I am not an attorney, but I believe Mr. Michlik's methodology is unlawful. It is my understanding that Arizona law requires the

Commission to make a finding of the "fair value" of the Company's property, i.e., its FVRB, <u>and to use that finding as the basis for setting rates</u>. By fixing the revenue requirement to approximately that proposed in its direct filing (with a lower fair value rate base), Mr. Michlik's surrebuttal fair value rate base is rendered meaningless.

Staff witness, Mr. Irvine, recommends an overall 8.9 percent return. *See* Surrebuttal Testimony of Steven P. Irvine ("Irvine SB") at 13. In fact, this is the return that is applied to Staff's wastewater division fair value rate base. Mr. Michlik should have applied this return to Staff's fair value rate base, not a <u>contrived</u> 6.23 percent.

Q. DOES STAFF'S COST OF CAPITAL WITNESS, MR. IRVINE, EMPLOY A COMBINED CAPITAL STRUCTURE OF BOTH THE WATER AND WASTEWATER DIVISIONS?

A. Yes. This overall return will not be achieved by Mr. Michlik's recommendations.

Q. WHAT IS THE REVENUE REQUIREMENT AND RATE INCREASE USING STAFF'S RECOMMENDED 8.9 PERCEN RETURN?

A. The revenue requirement would be $440,211 and the rate increase would be $265,884, or 152.12 percent.

Q. IF A 6.23 PERCENT RETURN IS APPLIED TO THE WATER DIVISION FAIR VALUE RATE BASE AND AN 8.9 PERCENT RETURN IS APPLIED TO THE WASTWATER DIVISION FAIR VALUE RATE BASE, WHAT WOULD BE THE OVERALL RETURN?

A. 7.0 percent. The combined fair value rate base would be $3,865,853 and the combined operating income would be $270,595. Dividing $270,595 by $3,865,853 yields a 7.0 percent overall return. This is substantially below the recommendation of Mr. Irvine. *Id.* It is also less the prime lending rate of 8.25 percent.

Q. IF THE INCREASE IN FAIR VALUE RATE BASE DID NOT AFFECT THE REVENUE REQUIREMENT, THEN WHY DID STAFF REVERSE ITS POSITION FROM ITS DIRECT FILING TO NOW INCLUDE THE PLANT AND THE PRO-FORMA REVENUES FOR POTENTIAL FUTURE GROWTH OF 350 CUSTOMERS?

A. It was obviously to capture the revenues from potential growth of 350 customers as part of the revenue requirement. This substantially reduces the impact on rate payers. Staff admits that without the cost of Deep Well #4 in rate base, it could not justify the inclusion of the pro-forma revenues. *See* Michlik SB at 6. But, while taking advantage of the impact of the pro-forma revenues to lessen the impact on existing ratepayers, Mr. Michlik ignores the corresponding increase in rate base by lowering the fair rate of return and keeping the revenue requirement approximately the same as it recommended in its direct filing. Mr. Michlik wants to have the cake and eat it too! There is no question that Mr. Michlik's recommendations result in a mismatch between rate base and revenues and expenses.

Admittedly, the Company's surrebuttal proposal also captures the revenues from potential growth of 350 customers now that Staff proposes to include the plant necessary to serve the growth in rate base. However, the Company's recommendation properly considers the corresponding increase in rate base in its proposed revenue requirement. As I previously testified, there is substantial risk to the Company by including revenues from potential future growth. *See* Rebuttal Testimony of Thomas J. Bourassa ("Bourassa RB") at 2. This risk is exacerbated by Staff recommending inclusion of the pro-forma revenues and then essentially recommending the same revenue requirement as Staff did in its direct filing. I will discuss this later in my testimony. Amazingly, despite the increased risks to the Company, Mr. Michlik's recommended return drops nearly 270 basis points from the 8.9 percent Mr. Irvine recommends.

Q. PLEASE RESPOND TO THE COMMENTS OF MR. MICHLIK ON PAGE 10 OF HIS SURREBUTTAL TESTIMONY JUSTIFYING THE LOWER RATE OF RETURN?

A. Mr. Michlik characterizes the instant case as a 'hybrid somewhere between a Certificate of Convenience and Necessity and a regular rate case, due the unusual circumstances..". *See* Michlik SB at 10. This is not a 'hybrid' rate case - it is a normal rate case which examines the Company's actual expenses and rate base. The only thing 'unusual' in this case is the extraordinary willingness by the Company to take the risks and include pro-forma revenues from potential future growth in order to help minimize the impact on rate payers. But, just because the Company is willing to take the risk and the pro-forma revenues does not mean that it should be unfairly treated with respect to the revenue requirement.

I do not dispute that the circumstances in the prior case were unusual and the Commission dealt with those circumstances in that case. But, those circumstances are not the same circumstances in the instant case. *See* A.C.C Decision 67446, January 4, 2005. In that case, the homeowners association had built plant and was serving customers when the Company applied for its CC&N. However, in the prior case, not only was the Company fined for its actions, but the Commission decided to keep the low existing rates, which were substantially less than the Staff recommended in that proceeding, and concluded "…it is appropriate to set rates in this matter using traditional rate case methods which look to actual expenses and rate base of the Company. We do not have sufficient information in the record regarding actual expenses and rate base to be able to set rates at this time. Because we lack sufficient information to change the Company's rates, we will direct the Company to use its existing rates until such time as the Company files a rate case, which it may do at any time, but no later than May 1, 2006, based on a 2005 test year." *Id.* at 18. In the instant case, Staff has examined the actual expenses and rate base for the water division. There are essentially no remaining disputes between the parties on these items for the water division.

I believe Mr. Michlik also mischaracterizes the Commission's comments in the prior decision that the approval of rates in the instant case, as opposed to the prior case, would be 'unconscionable increase for existing customers." *See* Michlik SB at 10. In the previous decision, the Commission was concerned about proper notice being given to existing rate payers and stated "Given this lack of notice that higher 'initial' rates may potentially result from this CC&N proceeding, we do not believe it would be appropriate to increase rates above the level currently being paid…". *Id.* at 17.

Please recall that the Commission required the Company to provide a Notice to his customers at the conclusion of that hearing that said in part, "The current rates were artificially set by the Company and may not be sufficient to cover the on-going costs of providing service. Therefore, in an attempt to balance equities between the Company and his customers and to provide adequate notice, the Commission has required the Company to file a rate application by May 1, 2006 that may result in higher rates." Compliance Filing docketed February 2, 2005.

The Commission ultimately addressed their the concerns in the prior case by keeping the low existing rates in place until the Company filed a rate case – which, by the way, it was order to do. *Id.*

Q. DO YOU AGREE THAT THE REQUESTED RATE INCREASE IS LARGE?

A. Yes. However, the actual expenses and plant investment (rate base) support the large increase and the Company should be afforded the ability to recover its operating expenses as well as a return on and of that investment. Stated another way, which I believe is accurate, the existing rates were set too low. Again, and I must emphasize, the Company has made an extraordinary proposal to include revenues from potential future customer growth which may not materialize for several years in order to help minimize the impact. As I will discuss later in my testimony, the Company will not earn the return authorized in the instant case for several years – at best.

Q. IN THE COMPANY'S PRIOR CASE, DIDN'T STAFF RECOMMEND MUCH HIGHER RATES THAN WERE APPROVED?

A. Yes. While not being directly relevant to the instant case, Staff's analysis in the prior case did recognize that higher 'initial' rates were warranted. Based on the information at the time, Staff recommended rates which were much higher than those approved. The monthly minimum Staff recommended for a 5/8 inch and ¾ inch customer was $24.37, and the commodity rates ranged from $6.47 per thousand gallons to $11.64 per thousand gallons. The 'initial' rates recommended by Staff in the prior case are not that different than the Company's recommendations in the instant case. It is not surprising that rates of roughly the same magnitude are being recommended by the Company in the instant case. The CC&N application schedules and including plant costs (actual and projected) and customer growth in the prior case track to the actual expenses and plant investment in the instant case - especially considering the inclusion of the pro-forma customer growth. Putting this aside, the Company's recommendations are based on actual expenses and rate base – which was the stated objective of the Commission in the prior case. *Id.*

Q. ARE THERE OTHER MEANS OTHER THAN RETURN ON RATE BASE TO COMPUTE THE REVENUE REQUIREMENT AS MR. MICHLIK

CLAIMS?

A. Yes. In cases where there is little or no rate base or for non-profit entities, an operating margin approach is often employed. Applying a typical rate return to a small or non-existent rate base results in an inadequate operating income and would not provide for financial viability of the utility. For non-profits, a return based approach does not make sense. In both of these circumstances it is appropriate to employ an operating margin approach. However, in the instant case, neither circumstance is applicable. The lower rate of return recommended by Staff only serves for deprive the shareholder a fair and reasonable return on the plant investment necessary to serve rate payers.

Q. PLEASE QUANTIFY THE REDUCTION IN THE IMPACT TO RATE PAYERS BY THE INCLUSION OF THE PRO-FORMA REVENUES?

A. The impact can be seen from comparing the rate increases the Company proposed in its rebuttal filing to its rejoinder filing. In the Company's rebuttal filing, the Company excluded the pro-forma revenues and the rate increase was over 320 percent. In the Company's rejoinder filing, which includes the pro-forma revenues from customer growth, the rate increase dropped to approximately 177 percent – a 45 percent reduction in the increase. The Company has shifted a significant portion of the rate payer impact to potential future customer growth. In fact, the pro-forma revenues from growth make up nearly 75 percent of the requested rate increase.

Q. PLEASE EXPLAIN.

A. As you will recall, under the Company's proposed rates, the pro-forma revenues total approximately $231,000 while the requested rate increase is approximately $310,000. Dividing $231,000 by $310,000 yields approximately 75 percent. Staff's current proposal shifts the portion of the rate payer impact to potential future growth even higher at 94 percent – an even higher risk to the Company. The potential customer growth may not materialize for several years and, in the instant case, the Company will not even realize the return authorized by the Commission until such time as that growth may materialize. It is not news the housing market has experienced a significant slow down in the past year or so and is not expected to recover until the 2nd half of 2008 at the earliest.

Q. HOW MUCH CUSTOMER GROWTH OCCURRED IN 2006?

A. Zero.

Q. WITHOUT THE REVENUES FROM POTENTIAL FUTURE CUSTOMER GROWTH, WHAT IS THE RETURN ON RATE BASE UNDER THE COMPANY'S PROPOSED RATES AND STAFF'S PROPOSED RATES?

A. Under the Company's proposed rates the return is approximately 2.0 percent and under Staff's proposed rates the return is approximately 0.3 percent.

Q. WHAT WOULD BE THE PROJECTED ACTUAL RETURNS FOR THE NEXT THREE YEARS ASSUMING ANNUAL GROWTH OF 50 CUSTOMERS AND ASSUMING ANNUAL GROWTH OF 100 CUSTOMERS?

A. I have prepared an exhibit to illustrate the projected returns. *See* Rejoinder Exhibit 1, pages 1 and 2. Assuming an annual growth of 50 customers the projected actual return for projected years 1, 2, and 3 are 2.64 percent, 3.28 percent, and 5.12 percent, respectively. Assuming an annual growth of 100 customers the projected actual return for projected years 1, 2, and 3 are 3.28 percent, 5.75 percent, and 8.23 percent, respectively. *Id.* These projections assume no increases in operating expenses and increases in rate base as a result of additional required plant investment. Using Staff's proposed rates the returns are far less. *Id.* at 3 and 4. The assumptions that there will be no change no change in operating expenses and rate base are unrealistic. As a result the return projections stated above are high-end estimates. As I have stated, while the Company is including revenues from potential future growth to help minimize the impact to rate payers, in doing so, it is taking enormous risk while at the same time receiving very low returns for several years. Staff's recommendations only increase that risk and further erode the shareholder returns.

Q. **YOU HAVE USED A FIGURE OF 350 POTENTIAL FUTURE CUSTOMERS THROUHOUT THIS PROCEEDING, IS THIS A KNOWN NUMBER BASED ON RECENT INFORMATION?**

A. It is actually high by 70 to 75 customers based on the latest master plan for the Flagstaff Meadows - Phase III development. The current master plan shows development of 276 lots, not the anticipated 350 lots the Company has used throughout this proceeding. Never-the-less, the Company continues to base it proposals using potential future growth of 350.

Q. **WILL THE COMPANY HAVE TO EXTEND ITS CC&N TO ACCOMMODATE THE ADDITIONAL 70 TO 75 CUSTOMERS?**

A. Yes.

Q. **WHO OWNS THE LOTS AND WHO IS THE BUILDER FOR FLAGSTAFF MEADOWS PHASE III?**

A. Empire Builders. Empire Builders is not affiliated with the Company or its shareholder.

Q. **IS THAT BUILDER FUNDING THE ON-SITE INFRASTRUCTURE FOR THE DEVELOPMENT THROUGH ADVANCES-IN-AID OF CONSTRUCTION?**

A. Yes.

Q. **PLEASE RESPOND TO MR. MICHLIK'S COMMENTS ON PAGE 10 OF**

HIS SURREBUTTAL THAT UNDER STAFF'S RATES THE COMPANY WILL HAVE A SUFFICIENT OPERATING MARGIN?

A. Putting aside that an operating margin approach is not appropriate in the instant case, Mr. Michlik claims the Company will have an operating margin of 47 percent for the water division. What he doesn't disclose is that that operating margin assumes the potential future 350 customers are connected and the Company is receiving revenues from them. None of the 350 customers are actually there and his operating margin is <u>fiction</u>. In reality, if no additional customer growth occurs, then the Company will have a <u>negative</u> 4.9 percent operating margin under Staff rates. *Id.* And, like the rate of return, it will take several years to achieve that operating margin assuming no increase in operating expenses and rate base as a result of further plant investment. Again, arguably these are unrealistic assumptions. So, it is more likely the Company may never achieve that operating margin under Staff's rates.

Q. WILL THE COMPANY HAVE SUFFICIENT OPERATING MARGIN UNDER THE COMPANY'S PROPOSED RATES?

A. Yes. While the water division will have a positive operating margin of 21.83 percent, the sewer division will have a <u>negative</u> 6.51 percent under the Company's proposed rates. *Id.* at 5 and 6. On the other hand, combined with the water division's positive operating margin, overall the Company will have a positive operating margin of about 12 percent. Based on my experience, Staff typically recommends a minimum of 10 percent for cases in which an operating margin approach is used. I do not generally ascribe to having the water division subsidize the sewer division, or visa versa. Rates should be set to support the operating expenses and plant used to serve rate payers for each division – there can be serious matching problems between rate base, revenues, and expenses. But, in the instant case, the Company is willing to accept that scenario – for now at least.

Q. WILL THE COMPANY HAVE A SUFFICIENT OVERALL OPERATING MARGIN UNDER THE STAFF'S PROPOSED RATES?

A. No. The sewer division will have a negative operating margin of 14.42 percent. Combined with the water division's negative operating margin of 4.9 percent, overall the Company will have a negative operating margin of about 8.62 percent.

Q. IF AN 8.9 PERCENT RETURN IS USED FOR THE WATER AS IT IS FOR THE WASTEWATER DIVISION, WHAT WOULD BE THE OVERALL OPERATING MARGIN UNDER A NO GROWTH SCENARIO?

A. Less than 5 percent, well below what Staff considers a minimum operating margin in operating margin approach cases.

Q. DO YOU HAVE ANY OTHER PROBLEMS WITH A 6.23 PERCENT RETURN?

A. Yes. A 6.23 percent return is below the current cost of Baa investment grade bonds at 6.4 percent. This is not a fair return by any stretch of the imagination.

Q. PLEASE RESPOND TO THE SURREBUTTAL TESTIMONY OF THE PONDEROSA FIRE DISTRICT.

A. The District asserts that USLLC and the developer charged less than economic utility rates as a "ploy to entice homebuyers". *See* Surrebuttal Testimony of The Ponderosa Fire District ("District SB") at 3. This is not true. The record in the prior case and the instant case do not support that assertion. Recall that service was first offered by the homeowners association, prior to the Commission's regulation of the Company. The association elected to utilize Flagstaff rates, because the town had presumably determined that these rates were "fair". The association, and ultimately the Commission, adopted those as the initial rates. With no actual plant cost or expense data available, these were presumably reasonable "surrogate" rates.

The association, and ultimately the Commission, adopted those as the initial rates.

In the prior decision the Commission was concerned about proper notice to some of the customers. The Company began charging the existing rates it did because those were the prevailing rates in Flagstaff at the time and it did not anticipate the magnitude of the costs that were eventually incurred to construct the utility plant (both water and wastewater). For example, the Company did not anticipate having to drill deep wells in order to obtain an assured water supply- the costs of which are significantly higher than a shallow well. Further, construction costs in general have increase dramatically over the past several years. For example, the costs of constructing wastewater treatment facilities just a few years ago were in the range of $5 to $10 per gallon per day ("gpd"). Today, those costs are at least double. Based on the evidence in the prior case, the Commission concluded, "We do not ascribe to any malicious intent to the developer's actions, the net effect of those actions cannot help but lead to unhappy customers…." *See* Decision 67446 at 12. The Commission addressed the issue and others by keeping the already low existing rates in place. Those rates, as both the record in the prior case and the instant case show, were very low – in fact, too low. Customers have received the benefit of the low rates for at least the past two years. Further, as the record shows, the Company is making extraordinary proposal to minimize the impact on existing ratepayers.

Q. **ARE THE REVENUES FROM FLAGSTAFF MEADOWS - PHASE III "UNBURDENED INCOME" AS THE DISTRICT CLAIMS ON PAGE 3 OF ITS SURREBUTTAL TESTIMONY?**

A. I am not sure I understand the District's characterization. The pro-forma revenues are based on the growth in customers for Flagstaff Meadows – Phase III. These customers are currently not on the system and may not be for several years. These revenues are fiction at this point but are never-the-less included in the revenue requirement in order to minimize the impact to existing customers. As I previously testified those revenues represent approximately 48 percent of the revenue requirement in the instant case. Once the 350 customer growth materializes and the revenue requirement in the instant case achieved, the Company will theoretically earn the return authorized in the instant case. I use the word 'theoretically' because the assumptions that operating expense will remain level rate base will remain the same are not realistic. Operating expense will increase due to inflation alone and the Company expects to have to make additional capital investment for back-bone infrastructure. As was previously shown, under the assumptions stated above, the Company will not earn the authorized return which will likely take several years even at an optimistic growth rate of 100 customers annually.

Q. PLEASE RESPOND TO THE COMMENTS REGARDING THE RATE INCREASES TESTIFIED TO BY THE DISTRICT ON PAGE 1 OF ITS SURREBUTTAL TESTIMONY?

A. Under existing rates, the monthly minimum for a 2 inch metered customer is $14.00 per month. At this stage of the proceeding, the proposed monthly minimum for a 2 inch metered customer is $195.13. This is an increase in the minimum of approximately 1,294 percent ($195.13 minus $14.00 divided by $14.00). However, under the appropriate comparison, the average usage of 103,821 gallons, the average bill under present rates is $322.35, and under proposed rates the average bill is $1,057.73 – an increase of $735.38. The percentage increase is approximately 228 percent ($1,057.73 minus $322.35 divided by $322.35). The median use of the 2 inch metered customers is nearly the same as the average use at 100,901 gallons. The percentage increase at the median use is therefore not that different than the average use. The high percentage increase in the monthly minimum is a bit misleading and it is more appropriate to look at the increases at the average or even the median use.

Q. IS THE MONTHLY MINIMUM FOR THE 2 INCH METERED CUSTOMER SCALED ON THE FLOWS OF A 5/8 INCH METER?

A. Yes. And this is a widely accepted methodology in rate design and has a basis in the cost of service. The higher minimum is justified because larger meters have a higher potential demand on the water system. Water systems are designed and constructed to meet potential demand as apposed to actual demand. The plant and the associated costs exist regardless of whether 1 gallon is delivered or millions of gallons are delivered through the system. These costs are the demand costs in a commodity-demand cost of service study. The higher potential demand placed on the system by the larger meters coincide with the higher portion of the demand costs caused by the larger meters and recovered through the monthly minimum.

II. RATE BASE.

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

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

	OCRB	FVRB
Company-Direct	$ 3,079,513	$ 3,079,513
Staff - Direct	$ 2,048,228	$ 2,048,228
Company Rebuttal	$ 2,053,792	$ 2,053,792
Staff - Surrebuttal	$ 2,752,271	$ 2,752,271
Company Rejoinder	$ 2,753,096	$ 2,753,096

Q. TO WHAT DO YOU ATTRIBUTE THE INCREASE IN RATE BASE FROM THE REBUTTAL FILING TO THE REJOINDER FILING?

A. The Company has accepted Staff's adjustments to increase plant-in-service totaling $736,583.

A. <u>**Plant-in-Service**</u>.

Q. PLEASE EXLAIN THE COMPANY'S REBUTTAL ADJUSTMENTS TO PLANT-IN-SERVICE.

A. B-2 rebuttal adjustment number 1 reflects an increase to plant-in-service of $736,583. The Company has accepted and the adjustment matches Staff's proposed adjustment. *See* Michlik SB at 5.

Q. DO STAFF AND THE COMPANY AGREE ON THE BALANCE OF PLANT-IN-SERVICE?

A. Not quite. The Company's plant-in-service balance is $1,000 higher than Staff's. After researching this discrepancy, I believe that Staff made an error of $1,000 in the pumping equipment plant account (Acct. 311). In its direct filing, the balance of this account was $158,711. The Company accepted Staff's adjustments to pumping equipment in it's rebuttal filing – compare Staff Direct Schedule JMM-W-3 to Company Rebuttal Schedule B-2, page 4b. In Staff's surrebuttal filing, the balance of the pumping equipment account dropped to $157,711 – compare Staff Surrebuttal Schedule JMM-W3. I can find no adjustment supporting this decrease and I conclude it is an error.

Q. WHAT DOES THE $736,583 ADJUSTMENT TO PLANT-IN-SERVICE CONSIST OF?

A. As I have previously indicated, the $736,583 is the cost related to Deep Well #4. As you will recall, Deep Well #4 is necessary to serve the future growth of the 350 customers. *See* Bourassa RB at 4. As you will recall, the Company agreed with Staff to remove the plant from rate base in its rebuttal filing. In its rebuttal filing, the Company also removed pro forma revenues for future growth in the determination of the revenue requirement and rate increase as the plant was necessary to serve the growth. *Id* at 4. I am sure Staff reversed its position in its surrebuttal when it realized that even though including the costs of Deep Well #4 in rate base increased rate base, that also including the pro-forma revenues from customer growth provided for substantially less impact to rate payers. The evidence it the instant case bears that out.

B. <u>Accumulated Depreciation</u>.

Q. PLEASE EXPLAIN THE COMPANY'S REJOINDER ADJUSTMENT TO ACCUMULATED DEPRECIATION?

A. B-2 rebuttal adjustment number 2 reflects the increase to accumulated depreciation for $36,792. This adjustment reflects the increase to plant-in-service. The Company's adjustment is slightly higher than Staff's adjustment of $36,605 and appears to be the result of the Staff plant-in-service error discussed above. *See* Staff Surrebuttal Schedule JMM-W2.

C. <u>Accumulated Amortization of CIAC.</u>

Q. HAVE YOU MADE A REJOINDER ADJUSTMENT CONCERNING CONTRIBUTIONS-IN-AID OF CONTRUCTION?

A. Yes. The Company has adjusted the balance of accumulated amortization of CIAC to reflect the change to the composite depreciation rate as the result of the changes to plant-in-service. B-2 rebuttal adjustment number 3 reflects this adjustment. The Company accumulated amortization balance of $16,207 is slightly higher than Staff's at $16,197.

III. INCOME STATEMENT.

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

A. Yes. The Company rejoinder adjustments are detailed on Rebuttal Schedule C-2, pages 1-4. The rejoinder income statement with adjustments is shown on Rebuttal Schedule C-1, pages 1-2.

Rejoinder adjustment 1 annualizes depreciation expense taking into account the changes to plant-in-service, as discussed above.

Rejoinder adjustment number 2 reduces property tax expense and reflects the rejoinder proposed revenues.

Rejoinder adjustment number 3 increases revenues to reflect pro-forma revenues related to future growth of 350 customers.

IV. RATE DESIGN.

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

A. Both Staff and the Company propose the same monthly minimum for 5/8 inch and ¾ inch meters. Larger meter monthly minimums are scaled on the meter flows relative to a 5/8 inch meter flow.

Both Staff and the Company propose an inverted three tier design for the 5/8 inch and ¾ inch metered customers and an inverted two tier design for 1 inch and larger meters. For the 5/8 inch and ¾ inch metered customers, the first break over point of 4,000 gallons is the same between the Company and Staff. For the second break over point, the Company proposes 12,000 gallons while Staff proposes 9,000 gallons. Staff has revised its break over points for the 1 inch and larger meters, and like the Company, provides for different break over points for each meter size. The break over points are different, but are generally consistent with the Company.

Unlike the Company, under Staff's proposed rate design, the irrigation class of customers has a flat rate design, whereas the Company proposes that the irrigation class of customer also have an inverted tier design consistent with the other customer classes.

Q. IS THE DIFFERENTIAL IN THE COMMODITY RATES BETWEEN THE FIRST AND SECOND TIER SIGNIFICANTLY HIGHER UNDER STAFF'S DESIGN THAN IT IS FOR THE COMPANY?

A. Yes. The differential for the Company is about 30 percent while that for Staff is nearly 50 percent. The higher differential can result in less revenue stability.

Q. WHAT ARE THE COMPANY'S REJOINDER PROPOSED RATES?

A. The rebuttal proposed rates for customers (residential, commercial, multi-family, mobile home, and irrigation) with a water meter size of:

Meter Size	Monthly Minimum	Gallons included in Monthly Minimum
5/8	$ 24.39	0
3/4	$ 24.39	0
1	$ 60.98	0
1 1/2	$ 121.95	0
2	$ 195.13	0
3	$ 390.25	0
4	$ 609.77	0
6	$1,219.54	0

The commodity charges and tiers by meter size are:

Meter Size	Tier (gallons)	Charge per 1,000 gallons

5/8 and ¾ Inch	1 to 4,000	$ 6.25
	4,001 to 12,000	$ 8.13
	Over 12,000	$10.56
1 Inch	1 to 30,000	$ 8.13
	Over 30,000	$10.56
1 ½ Inch	1 to 60,000	$ 8.13
	Over 60,000	$10.56
2 Inch	1 to 96,000	$ 8.13
	Over 96,000	$10.56
3 Inch	1 to 192,000	$ 8.13
	Over 192,000	$10.56
4 Inch	1 to 300,000	$ 8.13
	Over 300,000	$10.56
6 Inch	1 to 600,000	$ 8.13
	Over 600,000	$10.56

The proposed construction meter and standpipe rate is $8.13 per 1,000 gallons with no minimum monthly charge.

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

A. Yes.

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

A. Yes.

Q. **DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY**

REGARDING THE WATER APPLICATION?

A. Yes.

Utility Source, L.L.C. - Water Division Test Year Ended December 31, 2005 Computation of Increase in Gross Revenue Requirements As Adjusted			Exhibit Rejoinder Schedule A-1 Page 1 Witness: Bourassa		

Fair Value Rate Base			$ 2,753,096	
Adjusted Operating Income			(23,286)	
Current Rate of Return			-0.85%	
Required Operating Income			$ 289,075	
Required Rate of Return on Fair Value Rate Base			10.50%	
Operating Income Deficiency			$ 312,361	
Gross Revenue Conversion Factor			1.0000	
Increase in Gross Revenue Requirement			$ 312,361	
% Increase			179.18%	
Customer **Classification** **(Residential Commercial, Irrigation)**	**Present Rates**	**Proposed Rates**	**Dollar Increase**	**Percent Increase**
3/4 Inch Residential	$ 76,792	$ 214,653	$ 137,861	179.52%
1 1/2 Inch Commercial	2,397	7,956	5,559	231.94%
2 Inch Commecrial	3,868	12,874	9,006	232.83%
			-	0.00%
Revenue Annualization	6,121	16,854	10,734	175.36%
Proforma Revenues	83,560	232,706	149,146	178.49%
			-	0.00%
Subtotal	$ 172,738	$ 485,043	$ 312,305	180.80%
Other Water Revenues	1,657	1,657	-	0.00%
			-	0.00%
			-	0.00%
Total of Water Revenues (a)	$ 174,395	$ 486,701	$ 312,305	179.08%

SUPPORTING SCHEDULES:

Rejoinder B-1
Rejoinder C-1
Rejoinder C-3
Rejoinder H-1

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

Exhibit
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 3,195,818	$ 3,195,818
3	Less: Accumulated Depreciation	164,185	164,185
4			
5	Net Utility Plant in Service	$ 3,031,633	$ 3,031,633
6			
7	Less:		
8	Advances in Aid of		
9	Construction	-	-
10	Contributions in Aid of		
11	Construction	294,745	294,745
12	Accumulated Amortization of CIAC	(16,207)	(16,207)
13			
14	Customer Meter Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
16	Customer Meter Deposits	-	-
17	Deferred Income Taxes		
18	Investment Tax Credits		
19	Plus:		
20	Unamortized Finance Charges	-	-
21	Material and Supplies Inventories		
22	Prepayments		
23	Allowance for Working Capital	-	-
24			
25			
26			
27	Total Rate Base	$ 2,753,096	$ 2,753,096
28			
29			
30			
31	SUPPORTING SCHEDULES:		
32	Rejoinder B-2		
33	Rejoinder 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
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

	Adjusted at End of Test Year	Adjustments	Rejoinder Adjusted at end of Test Year
Gross Utility Plant in Service	$ 2,459,235	736,583	$ 3,195,818
Less:			
Accumulated Depreciation	127,392	36,792	164,185
Net Utility Plant in Service	$ 2,331,843	$ 699,791	$ 3,031,633
Less:			
Advances in Aid of Construction	-	-	-
Contributions in Aid of Construction (CIAC)	294,745	-	294,745
Accum. Amortization of CIAC	(16,694)	486	(16,207)
Customer Meter Deposits	-	0	-
Deferred Income Taxes	-	-	-
Investment Tax Credits	-	-	-
Plus:			
Unamortized Finance Charges	-		-
Material and Supplies Inventories			
Prepayments			
Allowance for Working Capital	-		-
Total	$ 2,053,792	$ 699,304	$ 2,753,096

SUPPORTING SCHEDULES:
Rejoinder B-2, pages 2

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

Exhibit
Rejoinder Schedule B-2
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Rebuttal Adjusted End of Test Year	1 Plant-In-Service	2 Accum. Depreciation	3 CIAC Adjustment	4 Intentionally Left Blank	5 Intentionally Left Blank	Rejoinder Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 2,459,235	736,583					$ 3,195,818
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	127,392		36,792				164,185
7								
8								
9	Net Utility Plant							
10	in Service	$ 2,331,843	$ 736,583	$ (36,792)	$ -	$ -	$ -	$ 3,031,633
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	-						-
15								
16	Contributions in Aid of							
17	Construction (CIAC)	294,745						294,745
18								
19	Accum. Amortization of CIAC	(16,694)			486			(16,207)
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	-						-
31								
32	Total	$ 2,053,792	$ 736,583	$ (36,792)	$ (486)	$ -	$ -	$ 2,753,096
33								
34	SUPPORTING SCHEDULES:							
35	Rejoinder B-2, pages 3-5							

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

Exhibit
Rejoinder Schedule B-2
Page 3
Witness: Bourassa

Line No.	Description			
1	Plant-in-Service			
2				
3				
4	304 Structures and Inprovements		$	-
5	307 Wells and Springs			736,583
6	311 Pumping Equipment			-
7	330 Ristribution Reservoirs and Standpipes			-
8	Total Plant-in-Service to be Removed		$	736,583
9				
10				
11	Increase (Decrease) to Plant-in-Service		$	736,583
12				
13				
14	304 Structures and Improvements			
15	Reclassify perimeter fencing cost from Distribution and Reservoir s (Acct 330)	-		
16	Disallowed decorative fencing costs	-		
17		$ -		
18	307 Wells and Springs			
19	Error correction for Bob Beeman Drilling costs (invoice 14407060)	-		
20	Drilling costs for Bob Beeman Drilling double counted in Pumping Equipment (Acct 311)	-		
21	Perimeter fencing costs from Steve Hoemes Bldg double counted	-		
22	Sales tax amounts from Boob Beeman Drilling already included in Accts 307 and 311	-		
23	Deep Well #4 costs	736,583		
24		$ 736,583		
25	311 Pumpng Equipment			
26	Error correction for Bob Beeman Drilling costs (invoice 19402860)	$ -		
27				
28	330 Diretibution Reservoirs			
29	Reclassify fencing costs to Structures and Improvements (Acct 304)	$ -		
30				
31				
32				
33	SUPPORTING SCHEDULES			
34	Staff Schedule JMM-W4			
35				

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

Exhibit
Rejoinder Schedule B-2
Page 4
Witness: Bourassa

Line No.			
1	Accumulated Depreciation		
2			
3	Accumulated Depreciation per Rejoinder Filing	$	164,185
4	Accumulated Depreciation per Rebuttal Filing		127,392
5			
6	Increase (Decrease) to Accumulated Depreciation	$	36,792
7			
8			
9	Increase (Decrease) to Accumulated Depreciation	$	36,792
10			
11			
12			
13	SUPPORTING SCHEDULES		
14	Rejoinder B-2, pages 4a through 4c		
15			
16			
17			
18			
19			
20			

Utility Source, LLC - Water Division
Plant Additions and Retirements

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

Account No.	Description	Deprec. Rate	12/31/2004	2004 Accum. Depr.	2004 Plant Additions	2004 Plant Rejoinder 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	(162,062)	2,071,821		2,071,821	34,496
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						-		-	-
	TOTAL WATER PLANT		-	-	3,420,464	(224,646)	3,195,818	-	3,195,818	54,728
	Depreciation								54,728	
(a)	Staff Accumulated Depreciation Allocated to Plant.		-							
	Retirements (excluding land)								-	
	Accumulated Depreciation Balance			-					54,728	
	Half Year Convention used on depreciation									

Utility Source, LLC - Water Division
Plant Additions and Retirements

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

Account No.	Description	Deprec. Rate	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	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%			-		-	2,071,821	68,992
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		-	-	-	-	-	3,195,818	109,456
	Depreciation							109,456	
(a)	Staff Accumulated Depreciation Allocated to Plant.								
	Retirements (excluding land)							-	
	Accumulated Depreciation Balance							164,185	
	Half Year Convention used on depreciation								

Utility Source, LLC - Water Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 4c
Witness: Bourassa

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account Dec-04 2004	Dec-05 2005
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%	34,496	103,487
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		54,728	164,185

Depreciation
(a) 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
Rejoinder Schedule B-2
Page 5
Witness: Bourassa

No.		CIAC	Amortization Rate	Amortization[1]
1	CIAC Amortization			
5	Balance at 12/31/2003	$ -		
6	2004 Additions	294,745	3.67%	5,402
8	Balance at 12/31/2004	$ 294,745		
9	Jan-Dec Amortization		3.67%	10,805
10	2005 Additions			
12	Balance at 12/31/2005	$ 294,745		$ 16,207
15	Balance of CIAC Amortization per Rebuttal Filing			$ 16,694
17	Increase (Decrease) in Amortization			$ (486)
19	Adjustment to Accumulated Amortization			$ 486

[1] Half year Convention on additions

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Computation of Working Capital

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	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 Rejoinder	$	7,842
10			
11	Total Working Capital Allowance Requested	$	-
12			
13	Working Capital per Direct Filing	$	-
14			
15	Increase (Decrease) in Working Capital	$	-
16			
17			
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
19		Rejoinder B-1	
20			

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

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Book Results	Adjustments	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 89,110	$ 83,560	$ 172,670	$ 312,361	$ 485,031
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	1,657	-	1,657		1,657
5		$ 90,768	$ 83,560	$ 174,328	$ 312,361	$ 486,689
6	**Operating Expenses**					
7	Salaries and Wages	$ -	-	$ -		$ -
8	Purchased Water	-	-	-		-
9	Purchased Power	36,292	-	36,292		36,292
10	Chemicals	0	-	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	12,428	-	12,428		12,428
14	Water Testing	2,446	-	2,446		2,446
15	Rents	-	-	-		-
16	Transportation Expenses	-	-	-		-
17	Insurance - General Liability	-	-	-		-
18	Insurance - Health and Life	-	-	-		-
19	Regulatory Commission Expense - Ra	12,500	-	12,500		12,500
20	Miscellaneous Expense	10,222	-	10,222		10,222
21	Depreciation Expense	73,799	24,852	98,651		98,651
22	Taxes Other Than Income	-	-	-		-
23	Property Taxes	5,813	6,222	12,035		12,035
24	Income Tax	-	-	-	-	-
25						
26	**Total Operating Expenses**	$ 166,539	$ 31,074	$ 197,613	$ -	$ 197,613
27	**Operating Income**	$ (75,772)	$ 52,486	$ (23,286)	$ 312,361	$ 289,075
28	**Other Income (Expense)**					
29	Interest Income	-		-		-
30	Other income	-		-		-
31	Interest Expense	-		-		-
32	Other Expense	-		-		-
33						
34	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (75,772)	$ 52,486	$ (23,286)	$ 312,361	$ 289,075
36						
37						
38						

39 SUPPORTING SCHEDULES: RECAP SCHEDULES:
40 Rejoinder C-1, Page 2 Rejoinder A-1
41 Rejoinder C-2

Exhibit
Rejoinder Schedule C-1
Page 2
Witness: Bourassa

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

Line No.		ADJUSTMENT LABEL->> Rebuttal Adjusted Results	1 Depreciation Expense	2 Property Taxes	3 Revenue Adjustment	4 Intentionally Left Blank	5 Intentionally Left Blank	6 Intentionally Left Blank	7 Intentionally Left Blank	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**											
2	Metered Water Revenues	$ 89,110			$ 83,560					$ 172,670	$ 312,361	$ 485,031
3	Unmetered Water Revenues	-								-		-
4	Other Water Revenues	1,657								1,657		1,657
5		$ 90,768	$ -	$ -	$ 83,560	$ -	$ -	$ -	$ -	$ 174,328	$ 312,361	$ 486,689
6	**Operating Expenses**											
7	Salaries and Wages	$ -								$ -		$ -
8	Purchased Water	-								-		-
9	Purchased Power	36,292								36,292		36,292
10	Chemicals	0								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	12,428								12,428		12,428
14	Water Testing	2,446								2,446		2,446
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	10,222								10,222		10,222
21	Depreciation Expense	73,799	24,852							98,651		98,651
22	Taxes Other Than Income	-								-		-
23	Property Taxes	5,813		6,222						12,035		12,035
24	Income Tax	-								-		-
25	**Total Operating Expenses**	$ 166,539	$ 24,852	$ 6,222	$ -	$ -	$ -	$ -	$ -	$ 197,613	$ -	$ 197,613
26	**Operating Income**	$ (75,772)	$ (24,852)	$ (6,222)	$ 83,560	$ -	$ -	$ -	$ -	$ (23,286)	$ 312,361	$ 289,075
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)**	$ (75,772)	$ (24,852)	$ (6,222)	$ 83,560	$ -	$ -	$ -	$ -	$ (23,286)	$ 312,361	$ 289,075
35												
36	SUPPORTING SCHEDULES:									RECAP SCHEDULES:		
37	Rejoinder C-2									Rejoinder A-1		

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

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Adjustments to Revenues and Expenses

Line No.		1	2	3	4	5	6	
1		Depreciation	Property	Proforma	Intentionally	Intentionally	Intentionally	
2		Expense	Taxes	Revenue Adjustment	Left Blank	Left Blank	Left Blank	Subtotal
3	Revenues			83,560				83,560
4								
5	Expenses	24,852	6,222					31,074
6								
7	Operating							
8	Income	(24,852)	(6,222)	83,560	-	-	-	52,486
9								
10	Interest							-
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	(24,852)	(6,222)	83,560	-	-	-	52,486
17								
18								

Adjustments to Revenues and Expenses

Line No.		7	8	9	10	11	12	
19								
20								
21		Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	
22		Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Subtotal
23	Revenues							83,560
24								
25	Expenses							31,074
26								
27	Operating							
28	Income	-	-	-	-	-	-	52,486
29								
30	Interest							
31	Expense							-
32	Other							
33	Income /							-
34	Expense							
35								
36	Net Income	-	-	-	-	-	-	52,486
37								
38								

Adjustments to Revenues and Expenses

Line No.		13	14	15	16	17	18	
39								
40								
41		Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	
42		Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Total
43	Revenues							83,560
44								
45	Expenses							31,074
46								
47	Operating							
48	Income	-	-	-	-	-	-	52,486
49								
50	Interest							
51	Expense							-
52	Other							
53	Income /							-
54	Expense							
55								
56	Net Income	-	-	-	-	-	-	52,486

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

Exhibit
Rejoinder Schedule C-2
Page 2
Witness: Bourassa

Line No.	Account No.	Description	Direct Adjusted Original Cost	From Rejoinder B-2 Adj. #1 Plant	Intentionally Left Blank	Rejoinder Adjusted Original Cost	Proposed Rates	Depreciation Expense
1	Depreciation Expense							
2								
3								
4								
5	301	Organization Cost	-			-	0.00%	-
6	302	Franchise Cost	-			-	0.00%	-
7	303	Land and Land Rights	210,000			210,000	0.00%	-
8	304	Structures and Improvements	72,997			72,997	3.33%	2,431
9	305	Collecting and Impounding Res.	-			-	2.50%	-
10	306	Lake River and Other Intakes	-			-	2.50%	-
11	307	Wells and Springs	1,335,238	736,583		2,071,821	3.33%	68,992
12	308	Infiltration Galleries and Tunnels	-			-	6.67%	-
13	309	Supply Mains	-			-	2.00%	-
14	310	Power Generation Equipment	87,400			87,400	5.00%	4,370
15	311	Electric Pumping Equipment	158,711			158,711	12.50%	19,839
16	320	Water Treatment Equipment	5,487			5,487	3.33%	183
17	330	Distribution Reservoirs & Standpipe	321,452			321,452	2.22%	7,136
18	331	Transmission and Distribution Mains	147,200			147,200	2.00%	2,944
19	333	Services	86,250			86,250	3.33%	2,872
20	334	Meters	-			-	8.33%	-
21	335	Hydrants	34,500			34,500	2.00%	690
22	336	Backflow Prevention Devices	-			-	6.67%	-
23	339	Other Plant and Miscellaneous Equipment	-			-	6.67%	-
24	340	Office Furniture and Fixtures	-			-	6.67%	-
25	341	Transportation Equipment	-			-	20.00%	-
26	342	Stores Equipment	-			-	4.00%	-
27	343	Tools and Work Equipment	-			-	5.00%	-
28	344	Laboratory Equipment	-			-	10.00%	-
29	345	Power Operated Equipment	-			-	5.00%	-
30	346	Communications Equipment	-			-	10.00%	-
31	347	Miscellaneous Equipment	-			-	10.00%	-
32	348	Other Tangible Plant	-				10.00%	
33								
34		TOTALS	$ 2,459,235	$ 736,583	$ -	$ 3,195,818		$ 109,456
35								
63							Composite	
64	Less: Amortization of CIAC -Rebuttal Balance End of TY		$ 294,745			$ 294,745	3.666%	$ (10,805)
65						-		-
66			$ 294,745	$ -	$ -	$ 294,745		$ (10,805)
67								
68	Adjusted Test Year Depreciation Expense Rejoinder Filing							$ 98,651
69	Adjusted Test Year Depreciation Expense Rebuttal Filing							73,799
70								
71	Increase (decrease) in Depreciation Expense							$ 24,852
72								
73	Adjustment to Revenues and/or Expenses							$ 24,852

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

Line No.			
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended 12/31/2005	$	174,328
4	Adjusted Revenues in year ended 12/31/2005		174,328
5	Proposed Revenues		486,689
6	Average of three year's of revenue	$	278,448
7	Average of three year's of revenue, times 2	$	556,896
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		-
12			
13	Full Cash Value	$	556,896
14	Assessment Ratio		23.50%
15	Assessed Value		130,871
16	Property Tax Rate		8.9963%
17			
18	Property Tax		11,774
19	Tax on Parcels		261
20			
21	Total Property Tax at Proposed Rates Rejoinder	$	12,035
22	Property Taxes per Rebuttal Filing		5,813
23	Change in Property Taxes	$	6,222
24			
25			
26	Adjustment to Revenues and/or Expenses	$	6,222
27			
28			

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

Line No.			
1	Proforma Revenues from Additional 350 Customers		
2			
3			
4	Proforma Revenues per Rejoinder Filing	$	83,560
5	Proforma Revenues per Rebuttal Filing		-
6			
7	Adjustment to Revenues and/or Expenses	$	83,560
8			
9			
10			
11			
12	SUPPORTING SCHEDULES		
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
Computation of Gross Revenue Conversion Factor

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	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	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.0000
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rejoinder A-1
20		

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

Exhibit
Rejoinder Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	End of Test Year Dollar Amount	End of Test Year Percent of Total	End of Test Year (e) Cost Rate	End of Test Year Weighted Cost	Adjusted End of Test Year Dollar Amount	Adjusted End of Test Year Percent of Total	Adjusted End of Test Year (e) Cost Rate	Adjusted End of Test Year Weighted Cost
1	Long-Term Debt	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	N/A
2									
3	Stockholder's Equity	3,383,299	100.00%	10.50%	10.50%	3,672,374	100.00%	10.50%	N/A
4									
5	Totals	3,383,299	100.00%		10.50%	3,672,374	100.00%		0.00%

11 SUPPORTING SCHEDULES:
12 Rejoinder D-2

RECAP SCHEDULES:

Utility Source, L.L.C. - Water Division
Test Year Ended August 31, 2005
Cost of Long Term Debt

Exhibit
Rejoinder Schedule D-2
Page 1
Witness: Bourassa

		End of Test Year				End of Projected Year			
Line No.	Description of Debt	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost	Amount Outstanding	Annual Interest	Interest Rate	Weighted Cost
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13	Totals	$ -	-		0.00%	$ -	-		0.00%
14									
15	Supporting Schdules:								
16	E-2								
17									
18									
19									
20									
21									
22									
23									

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

Exhibit
Rejoinder 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	214,653	137,861	179.52%	44.03%	44.10%
3	1 Inch Meter						
4	1.5 Inch Meter Commercial	2,397	7,956	5,559	231.94%	1.37%	1.63%
5	2 Inch Meter Commercial	3,868	12,874	9,006	232.83%	2.22%	2.65%
6							
7	Miscellaneous Revenues	1,657	1,657	-	0.00%	0.95%	0.34%
8	Total Water Revenues	$ 84,715	$ 237,141	$ 152,426	179.93%	48.58%	48.72%
9	3/4 Inch customer revenue						
10	annualized to end of year, based on						
11	year end number of customers	$ 6,121	$ 16,854	$ 10,734	175.36%	3.51%	3.46%
12	Proforma Revenues	$ 83,560	$ 232,706	$ 149,146	178.49%	47.91%	47.81%
13	Total Water Revenues, after correction for						
14	Billing to hundreds of Gallons	$ 174,395	$ 486,701	$ 312,305	355.28%	52.09%	52.19%
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							

Exhibit
Rejoinder Schedule H-2
Page 1
Witness: Bourassa

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

Line No.	Customer Classification and/or Meter Size	Average Number of Customers at 12/31/2005	Average Consumption	Revenues: Present Rates	Revenues: Proposed Rates	Proposed Increase: Dollar Amount	Proposed Increase: Percent Amount
1							
2	3/4 Inch Meter - Residential	307	4,740	$ 76,792	$ 214,653	$ 137,861	178.49%
3	1 Inch Meter	-	-	$ -	$ -	$ -	0.00%
4	1.5 Inch Meter Commercial	1	64,470	$ 2,397	$ 7,956	$ 5,559	231.94%
5	2 Inch Meter Commercial	1	103,821	$ 3,868	$ 12,874	$ 9,006	232.83%
6	3/4 Inch Meter - Residential Revenue Annualization	307	4,740	$ 6,121	$ 16,854	$ 10,734	175.36%
7							
8							

Exhibit
Rejoinder Schedule H-3
Page 1
Witness: Bourassa

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 5/8 Inch Meter	Meter Flow Ratios 3/4 Inch Meter
1	**Monthly Usage Charge for:**					
2	Residential,Commercial, Irrigation, Resale and Miscellaneous Customers					
3	5/8 x 3/4 Inch	N/A	$ 24.39		1	N/A
4	3/4 Inch	6.48	24.39	276.40%	1.5	1.00
5	1 Inch	8.02	60.98	660.31%	2.5	1.67
6	1 1/2 Inch	9.62	121.95	1167.71%	5	3.33
7	2 Inch	14.00	195.13	1293.76%	8	5.33
8	3 Inch	N/A	390.25		16	10.67
9	4 Inch	58.00	609.77	951.32%	25	16.67
10	6 Inch	89.80	1,219.54	1258.06%	50	33.33
11	Construction, Bulk, Standpipe	-	-	0.00%		
12						
13	Gallons In Minimum					
14	All Meter Sizes	-	-			

Line No.			Present Rates From Gallons		Present Rates To Gallons	Present Rates Charge per 1,000 gal	Proposed Rates From Gallons	Proposed Rates To Gallons	Proposed Rates Charge per 1,000 gal
15									
16									
17									
18									
19	**Residential (all meter sizes)**								
20	Tier 1		-	Up to	5,000	$ 2.83	See Page 2 for Proposed Rates		
21	Tier 2	From	5,001	Up to	15,000	$ 3.32			
22	Tier 3	Over	15,000			$ 4.71			
23									
24	**Muti-Family, Mobile Home, Commercial**								
25			All gallons			$ 2.97	See Page 2 for Proposed Rates		
26									
27									
28	**Irrigation**								
29			All gallons			N/A	See Page 2 for Proposed Rates		
30									
31	**Standpipe**								
32			All gallons			$ 6.00	All gallons		$ 8.13
33									
34	**Construction Water**								
35			All gallons			$ 6.00	All gallons		$ 8.13
36									
37									
38									
39									
40									

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

Exhibit
Rejoinder Schedule H-3
Page 2
Witness: Bourassa

Line No.		From Gallons	Proposed Rates	To Gallons		Charge per 1,000 gal
3	**Residential, Commercial, Irrigation**					
5	Meter Size					
6		-	Up to	4,000	$	6.25
7	5/8 Inch and 3/4 Inch	4,001	Up to	12,000	$	8.13
8			Over		$	10.56
11	1 Inch	-	Up to	30,000	$	8.13
12			Over	30,000	$	10.56
15	1 1/2 Inch	-	Up to	60,000	$	8.13
16			Over	60,000	$	10.56
19	2 Inch	-	Up to	96,000	$	8.13
20			Over	96,000	$	10.56
23	3 Inch	-	Up to	192,000	$	8.13
24			Over	192,000	$	10.56
27	4 Inch	-	Up to	300,000	$	8.13
28			Over	300,000	$	10.56
31	6 Inch	-	Up to	600,000	$	8.13
32			Over	600,000	$	10.56

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

Meter and Service Line Installation Charges

Meter Size	Present Rates	Proposed Rates
5/8 x 3/4 Inch	N/A	$520.00
3/4 Inch	$575.00	$575.00
1 Inch	$660.00	$660.00
1 1/2 Inch	$900.00	$900.00
2 Inch Turbo	$1,525.00	$1,525.00
2 Inch Compound		$2,320.00
3 Inch Turbo		$2,275.00
3 Inch Compound		$3,110.00
4 Inch Turbo	$3,360.00	$3,360.00
4 Inch Compound		$4,475.00
6 Inch Turbo	$6,035.00	$6,035.00
6 Inch Compound		$8,050.00

Exhibit
Rejoinder Schedule H-3
Page 4
Witness: Bourassa

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
20			$ -

(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
Rejoinder Schedule H-4
Page 1
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 6.48	$ 24.39	$ 17.91	276.40%
1,000	9.31	30.64	21.33	229.12%
2,000	12.14	36.89	24.75	203.88%
3,000	14.97	43.14	28.17	188.18%
4,000	17.80	49.39	31.59	177.48%
5,000	20.63	57.52	36.89	178.80%
6,000	23.95	65.64	41.69	174.07%
7,000	27.27	73.77	46.50	170.50%
8,000	30.59	81.89	51.30	167.70%
9,000	33.91	90.02	56.11	165.45%
10,000	37.23	98.14	60.91	163.61%
12,000	43.87	114.39	70.52	160.75%
14,000	50.51	135.52	85.01	168.29%
16,000	58.54	156.64	98.10	167.58%
18,000	67.96	177.77	109.81	161.57%
20,000	77.38	198.89	121.51	157.03%
25,000	100.93	251.70	150.77	149.38%
30,000	124.48	304.52	180.04	144.63%
35,000	148.03	357.33	209.30	141.39%
40,000	171.58	410.14	238.56	139.04%
45,000	195.13	462.95	267.82	137.25%
50,000	218.68	515.77	297.09	135.85%
60,000	265.78	621.39	355.61	133.80%
70,000	312.88	727.02	414.14	132.36%
80,000	359.98	832.64	472.66	131.30%
90,000	407.08	938.27	531.19	130.49%
100,000	454.18	1,043.89	589.71	129.84%
Average Usage				
4,740	$ 19.90	$ 55.41	$ 35.51	178.49%
Median Usage				
4,500	$ 19.22	$ 53.45	$ 34.24	178.18%

Present Rates:		
Monthly Minimum:		$ 6.48
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	5,000	$ 2.83
Over	15,000	$ 3.32
		$ 4.71
Proposed Rates:		
Monthly Minimum:		$ 24.39
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	4,000	$ 6.25
Up to	12,000	$ 8.13
Over		$ 10.56

Exhibit
Rejoinder Schedule H-4
Page 2
Witness: Bourassa

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

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 9.62	$ 121.95	$ 112.33	1167.71%
1,000	12.59	130.08	117.49	933.19%
2,000	15.56	138.20	122.64	788.20%
3,000	18.53	146.33	127.80	689.68%
4,000	21.50	154.45	132.95	618.39%
5,000	24.47	162.58	138.11	564.40%
6,000	27.44	170.70	143.26	522.10%
7,000	30.41	178.83	148.42	488.06%
8,000	33.38	186.95	153.57	460.08%
9,000	36.35	195.08	158.73	436.67%
10,000	39.32	203.20	163.88	416.79%
12,000	45.26	219.45	174.19	384.87%
14,000	51.20	235.70	184.50	360.36%
16,000	57.14	251.95	194.81	340.94%
18,000	63.08	268.20	205.12	325.18%
20,000	69.02	284.45	215.43	312.13%
25,000	83.87	325.08	241.21	287.60%
30,000	98.72	365.70	266.98	270.45%
35,000	113.57	406.33	292.76	257.78%
40,000	128.42	446.95	318.53	248.04%
45,000	143.27	487.58	344.31	240.32%
50,000	158.12	528.20	370.08	234.05%
60,000	187.82	609.45	421.63	224.49%
70,000	217.52	715.08	497.56	228.74%
80,000	247.22	820.70	573.48	231.97%
90,000	276.92	926.33	649.41	234.51%
100,000	306.62	1,031.95	725.33	236.56%
Average Usage				
64,470	201.10	656.67	455.57	226.54%
Median Usage				
60,000	187.82	609.45	421.63	224.49%

Present Rates:

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

Proposed Rates:

Monthly Minimum:		$ 121.95
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	60,000	$ 8.13
Over	60,000	$ 10.56

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

Exhibit
Rejoinder Schedule H-4
Page 3
Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ 14.00	$ 195.13	$ 181.13	1293.76%
1,000	16.97	203.25	186.28	1097.71%
2,000	19.94	211.38	191.44	960.06%
3,000	22.91	219.50	196.59	858.10%
4,000	25.88	227.63	201.75	779.54%
5,000	28.85	235.75	206.90	717.16%
6,000	31.82	243.88	212.06	666.42%
7,000	34.79	252.00	217.21	624.35%
8,000	37.76	260.13	222.37	588.89%
9,000	40.73	268.25	227.52	558.61%
10,000	43.70	276.38	232.68	532.44%
12,000	49.64	292.63	242.99	489.50%
14,000	55.58	308.88	253.30	455.73%
16,000	61.52	325.13	263.61	428.49%
18,000	67.46	341.38	273.92	406.04%
20,000	73.40	357.63	284.23	387.23%
25,000	88.25	398.25	310.00	351.28%
30,000	103.10	438.88	335.78	325.68%
35,000	117.95	479.50	361.55	306.53%
40,000	132.80	520.13	387.33	291.66%
45,000	147.65	560.75	413.10	279.78%
50,000	162.50	601.38	438.88	270.08%
60,000	192.20	682.63	490.43	255.16%
70,000	221.90	763.88	541.98	244.24%
80,000	251.60	845.13	593.53	235.90%
90,000	281.30	926.38	645.08	229.32%
100,000	311.00	1,017.38	706.38	227.13%
Average Usage				
103,821	322.35	1,057.73	735.38	228.13%
Median Usage				
100,901	313.68	1,026.89	713.22	227.37%

Present Rates:		
Monthly Minimum:		$ 14.00
Gallons in Minimum		-
Charge Per 1,000 Gallons		
All gals		$ 2.97
Proposed Rates:		
Monthly Minimum:		$ 195.13
Gallons in Minimum		-
Charge Per 1,000 Gallons		
Up to	96,000	$ 8.13
Over	96,000	$ 10.56

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Company Proposed rates

	Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
Customer Growth			50	50	50
Cummulative Additional Customers			50	100	150
Effective Customer Growth 1/2 year			25	75	125
Revenues[2]	$ 90,768	$ 252,805	$ 270,426	$ 304,670	$ 338,914
Operating Expenses	$ 197,613	$ 197,613	$ 197,613	$ 197,613	$ 197,613
Operating Income	$ (106,845)	$ 55,192	$ 72,813	$ 107,057	$ 141,301
Operating Margin	-117.71%	21.83%	26.93%	35.14%	41.69%
Rate Base	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096
Return on Rate Base	-3.88%	2.00%	2.64%	3.89%	5.13%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch customer

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Company Proposed rates

	Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
Customer Growth			100	100	100
Cummulative Additional Customers			100	200	300
Effective Customer Growth 1/2 year			50	150	250
Revenues[2]	$ 90,768	$ 252,805	$ 288,048	$ 356,536	$ 425,023
Operating Expenses	$ 197,613	$ 197,613	$ 197,613	$ 197,613	$ 197,613
Operating Income	$ (106,845)	$ 55,192	$ 90,435	$ 158,923	$ 227,410
Operating Margin	-117.71%	21.83%	31.40%	44.57%	53.51%
Rate Base	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096
Return on Rate Base	-3.88%	2.00%	3.28%	5.77%	8.26%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch customer

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Staff Proposed Rates at 6.23 ROR

	Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
Customer Growth			50	50	50
Cummulative Additional Customers			50	100	150
Effective Customer Growth 1/2 year			25	75	125
Revenues[2]	$ 90,768	$ 186,411	$ 200,311	$ 227,112	$ 253,912
Operating Expenses	$ 195,549	$ 195,549	$ 195,549	$ 195,549	$ 195,549
Operating Income	$ (104,781)	$ (9,138)	$ 4,762	$ 31,563	$ 58,363
Operating Margin	-115.44%	-4.90%	2.38%	13.90%	22.99%
Rate Base	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096
Return on Rate Base	-3.81%	-0.33%	0.17%	1.15%	2.12%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch metered customer.

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Staff Proposed Rates at 6.23 ROR

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			100	100	100
8	Cummulative Additional Customers			100	200	300
10	Effective Customer Growth 1/2 year			50	150	250
12	Revenues[2]	$ 90,768	$ 186,411	$ 214,212	$ 267,813	$ 321,414
14	Operating Expenses	$ 195,186	$ 195,549	$ 195,186	$ 195,186	$ 195,186
16	Operating Income	$ (104,418)	$ (9,138)	$ 19,026	$ 72,627	$ 126,228
18	Operating Margin	-115.04%	-4.90%	8.88%	27.12%	39.27%
20	Rate Base	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096
22	Return on Rate Base	-3.79%	-0.33%	0.69%	2.64%	4.58%

25 [1] Excludes pro-forma revenues from customer growth.
26 [2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch metered customer.

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Company Proposed rates

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			50	50	50
8	Cummulative Additional Customers			50	100	150
10	Effective Customer Growth 1/2 year			25	75	125
12	Revenues[2]	$ 59,552	$ 131,591	$ 141,303	$ 158,727	$ 176,151
14	Operating Expenses	$ 136,864	$ 136,864	$ 136,864	$ 136,864	$ 136,864
16	Operating Income	$ (77,312)	$ (5,273)	$ 4,439	$ 21,863	$ 39,287
18	Operating Margin	-129.82%	-4.01%	3.14%	13.77%	22.30%
20	Rate Base	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382
22	Return on Rate Base	-6.96%	-0.47%	0.40%	1.97%	3.53%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch customer

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Company Proposed rates

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			100	100	100
8	Cummulative Additional Customers			100	200	300
10	Effective Customer Growth 1/2 year			50	150	250
12	Revenues[2]	$ 59,552	$ 131,591	$ 151,015	$ 185,863	$ 220,711
14	Operating Expenses	$ 136,864	$ 136,864	$ 136,864	$ 136,864	$ 136,864
16	Operating Income	$ (77,312)	$ (5,273)	$ 14,151	$ 48,999	$ 83,847
18	Operating Margin	-129.82%	-4.01%	9.37%	26.36%	37.99%
20	Rate Base	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382
22	Return on Rate Base	-6.96%	-0.47%	1.27%	4.41%	7.54%

25 [1] Excludes pro-forma revenues from customer growth.
26 [2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch customer

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Staff Proposed Rates at 8.9 ROR

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			50	50	50
8	Cummulative Additional Customers			50	100	150
10	Effective Customer Growth 1/2 year			25	75	125
12	Revenues[2]	$ 59,552	$ 119,156	$ 128,463	$ 145,077	$ 161,691
14	Operating Expenses	$ 136,348	$ 136,348	$ 136,348	$ 136,348	$ 136,348
16	Operating Income	$ (76,796)	$ (17,192)	$ (7,885)	$ 8,729	$ 25,343
18	Operating Margin	-128.96%	-14.43%	-6.14%	6.02%	15.67%
20	Rate Base	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382
22	Return on Rate Base	-6.91%	-1.55%	-0.71%	0.79%	2.28%

25 [1] Excludes pro-forma revenues from customer growth.
26 [2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch customer

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Staff Proposed Rates at 8.9 ROR

	Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
Customer Growth			50	50	50
Cummulative Additional Customers			50	100	150
Effective Customer Growth 1/2 year			25	75	125
Revenues[2]	$ 90,768	$ 229,539	$ 245,587	$ 275,683	$ 305,779
Operating Expenses	$ 195,549	$ 195,549	$ 195,549	$ 195,549	$ 195,549
Operating Income	$ (104,781)	$ 33,990	$ 50,038	$ 80,134	$ 110,230
Operating Margin	-115.44%	14.81%	20.37%	29.07%	36.05%
Rate Base	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096
Return on Rate Base	-3.81%	1.23%	1.82%	2.91%	4.00%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch metered customer.

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Staff Proposed Rates at 8.9 ROR

	Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
Customer Growth			100	100	100
Cummulative Additional Customers			100	200	300
Effective Customer Growth 1/2 year			50	150	250
Revenues[2]	$ 59,552	$ 119,156	$ 137,770	$ 170,998	$ 204,226
Operating Expenses	$ 136,346	$ 136,346	$ 136,346	$ 136,346	$ 136,346
Operating Income	$ (76,794)	$ (17,190)	$ 1,424	$ 34,652	$ 67,880
Operating Margin	-128.95%	-14.43%	1.03%	20.26%	33.24%
Rate Base	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382	$ 1,111,382
Return on Rate Base	-6.91%	-1.55%	0.13%	3.12%	6.11%

[1] Excludes pro-forma revenues from customer growth.
[2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch customer

Utility Source, L.L.C. - Water Division
Test Year Ended December 31, 2005
Projected Revenues and Expense and Return on Rate Base Using Staff Proposed Rates at 8.9 ROR

Line No.		Adjusted Test Year at Present Rates[1]	Adjusted Test Year at Proposed Rates[1]	Projected Year 1	Projected Year 2	Projected Year 3
6	Customer Growth			100	100	100
8	Cummulative Additional Customers			100	200	300
10	Effective Customer Growth 1/2 year			50	150	250
12	Revenues[2]	$ 90,768	$ 229,539	$ 261,635	$ 321,827	$ 382,019
14	Operating Expenses	$ 195,549	$ 195,549	$ 195,549	$ 195,549	$ 195,549
16	Operating Income	$ (104,781)	$ 33,990	$ 66,086	$ 126,278	$ 186,470
18	Operating Margin	-115.44%	14.81%	25.26%	39.24%	48.81%
20	Rate Base	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096	$ 2,753,096
22	Return on Rate Base	-3.81%	1.23%	2.40%	4.59%	6.77%

25 [1] Excludes pro-forma revenues from customer growth.
26 [2] Half-year convention used for projected customer growth and revenues. Based on average bill for 3/4 inch metered customer.

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

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

WATER DIVISION

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THE INSTANT CASE?

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

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

A. I will provide rejoinder testimony in response to the surrebuttal filings by Arizona Corporation Commission Utilities Division Staff ("Staff") and the Ponderosa Fire District ("District") with respect to rate base, revenues and expenses, and rate design. My rejoinder testimony on the cost of capital can be found under separate cover.

Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS PROPOSING IN THIS REJOINDER TESTIMONY?

A. The Company is proposing a total revenue requirement of $253,559, which constitutes an increase in revenues of $139,654, or 122.61 percent over adjusted test year revenues.

Q. HOW DOES THIS COMPARE WITH THE COMPANY'S REBUTTAL FILING?

A. In the rebuttal filing, the Company requested a total revenue requirement of $283,384, an increase in revenues of $169,479, or 148.79 percent.

Q. WHY IS THE REQUESTED RATE INCREASE LOWER IN THE COMPANY'S REJOINDER FILING?

A. The Company's rebuttal filing reflects the adoption of Staff's recommendation to remove additional plant-in-service totaling $216,389. Original Cost Rate Base ("OCRB") and Fair Value Rate Base ("FVRB") are decreased by $202,711 from the rebuttal filing. The adjusted test year level of operating expense has been reduced by $8,591 compared to the Company's rebuttal adjusted test year levels primarily as a result of a decrease to depreciation expense and property taxes.

Q. HAS THE COMPANY PROPOSED TO INCREASE OPERATING EXPENSES TO REFLECT THE BILLING AND CUSTOMER SERVICE COSTS ASSOCIATED WITH THE ADDITONAL 350 CUSTOMERS?

A. No, and as a result operating expenses are to some extent understated.

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

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

	Revenue Requirement	Revenue Incr.	% Increase
Company Direct	$301,124	$187,220	164.37%
Staff Direct	$224,908	$111,003	97.45%
Company Rebuttal	$283,384	$169,479	148.79%
Staff Surrebuttal	$235,454	$121,549	106.71%
Company Rejoinder	$253,559	$139,654	122.61%

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

A. The difference in the revenue requirement between Staff and the Company of $18,105 is primarily due to a difference in each of the party's recommended return. Staff is recommending an 8.9 percent return. *See* Michlik SB at 8. The Company continues to recommend a return of 10.5 percent.

Q. DO YOU AGREE THAT THE REQUESTED RATE INCREASE IS LARGE?

A. Yes. However, the actual expenses and plant investment (rate base) support the large increase and the Company should be afforded the ability to recover its operating expenses as well as a return on and of that investment. Stated another way, which I believe is accurate, the existing rates were initially set too low. Again, and I must emphasize, the Company has made an extraordinary proposal to include revenues from potential future customer growth which may not materialize for several years in order to help minimize the impact. As I will discuss later in my testimony, the Company will not earn the return authorized in the instant case for several years – at best.

Q. IN THE COMPANY'S PRIOR CASE, DIDN'T STAFF RECOMMEND MUCH HIGHER RATES THAN WERE APPROVED?

A. Yes. While not being directly relevant to the instant case, Staff's analysis in the prior case did recognize that higher 'initial' rates were warranted. Based on the information at the time, Staff recommended rates which were much higher than those approved. The flat monthly charge Staff recommended for a residential customer was $40.64. The 'initial' rates recommended by Staff in the prior case are not that different than the Company's recommendations in the instant case. Under the Company's proposed rates, the average bill for a residential customer will be $31.96. It is not surprising that higher rates are being recommended by the Company in the instant case. The CC&N application schedules and including plant costs (actual and projected) and customer growth in the prior case demonstrated track to the actual expenses and plant investment in the instant case - especially considering the inclusion of the pro-forma customer growth. Putting this aside, the Company's recommendations are based on actual expenses and rate base – which was the stated objective of the Commission in the prior case. (See Decision 67446, January 4, 2005)

Q. DOES THE COMPANY CONTINUE TO INCLUDE PRO-FORMA REVENUES FROM POTENTIAL FUTURE GROWTH OF 350 CUSTOMERS IN REVENUES?

A. Yes. As you will recall, the company increase test year revenues by $54,353 for pro-forma revenues from future customer growth. The portion of the revenue requirement from pro-forma revenues at proposed rates is $121,968, which is approximately 48 percent of the proposed revenue requirement. Because of this, the impact to existing rate payers is significantly reduced.

Q. PLEASE QUANTIFY THE REDUCTION IN THE IMPACT TO RATE PAYERS BY THE INCLUSION OF THE PRO-FORMA REVENUES?

A. Without the inclusion of pro-forma revenues, the required rate increase to achieve the revenue requirement would be approximately $193,000. This would constitute a rate increase of approximately 325 percent. By inclusion of the pro-form revenues, the rate increase dropped to approximately 123 percent – a 62 percent reduction from the required increase without the pro-forma revenues. The Company has shifted a significant portion of the rate payer impact to potential future customer growth. In fact, the pro-forma revenues from growth make up nearly 87 percent of the requested rate increase.

Q. PLEASE EXPLAIN.

A. As you will recall, under the Company's proposed rates, the pro-forma revenues total approximately $122,000 while the requested rate increase is approximately $140,000. Dividing $122,000 by $140,000 yields approximately 87 percent. It should be noted that the potential customer growth may not materialize for several years and, in the instant case, the Company will not even realize the return authorized by the Commission until such time as that growth may materialize. It is not news the housing market has experienced a significant slow down in the past year or so and is not expected to recover until the 2nd half of 2008 at the earliest.

Q. HOW MUCH CUSTOMER GROWTH OCCURRED IN 2006?

A. Zero.

Q. WITHOUT THE REVENUES FROM POTENTIAL FUTURE CUSTOMER GROWTH, WHAT IS THE RETURN ON RATE BASE UNDER THE COMPANY'S PROPOSED RATES AND STAFF'S PROPOSED RATES?

A. Under the Company's proposed rates the return is approximately a <u>negative</u> 0.47 percent and under Staff's proposed rates the return is approximately <u>negative</u> 1.6 percent.

Q. WHAT WOULD BE THE PROJECTED ACTUAL RETURNS FOR THE NEXT THREE YEARS ASSUMING ANNUAL GROWTH OF 50 CUSTOMERS AND ASSUMING ANNUAL GROWTH OF 100 CUSTOMERS?

A. I have prepared an exhibit to illustrate the projected returns for the sewer division. *See* Rejoinder Exhibit 1, pages 5 and 6. Assuming an annual growth of 50 customers the projected actual return for projected years 1, 2, and 3 are 0.40 percent, 1.97 percent, and 3.53 percent, respectively. Assuming an annual growth of 100 customers the projected actual return for projected years 1, 2, and 3 are 1.27 percent, 4.41 percent, and 7.54 percent, respectively. *Id.* These projections assume no increases in operating expenses and increases in rate base as a result of additional required plant investment. Using Staff's proposed rates the returns are far less. *Id.* at 7 and 8. The assumptions that there will be no change in operating expenses and rate base are unrealistic. As a result the return projections stated above are high-end estimates. As I have stated, while the Company is including revenues from potential future growth to help minimize the impact to rate payers, in doing so, it is taking enormous risk while at the same time receiving very low returns for several years.

Q. **YOU HAVE USED A FIGURE OF 350 POTENTIAL FUTURE CUSTOMERS THROUHOUT THIS PROCEEDING, IS THIS A KNOWN NUMBER BASED ON RECENT INFORMATION?**

A. It is actually high by 70 to 75 customers based on the latest master plan for the Flagstaff Meadows - Phase III development. The current master plan shows development of 276 lots, not the anticipated 350 lots the Company has used throughout this proceeding. Never-the-less, the Company continues to base it proposals using potential future growth of 350.

Q. **WILL THE COMPANY HAVE TO EXTEND ITS CC&N TO ACCOMMODATE THE ADDITIONAL 70 TO 75 CUSTOMERS?**

A. Yes.

Q. **WHO OWNS THE LOTS AND WHO IS THE BUILDER FOR FLAGSTAFF MEADOWS PHASE III?**

A. Empire Builders. Empire Builders is not affiliated with the Company or its shareholder.

Q. **IS THAT BUILDER FUNDING THE ON-SITE INFRASTRUCTURE FOR THE DEVELOPMENT THROUGH CONTRIBUTIONS-IN-AID OF CONSTRUCTION?**

A. Yes.

Q. **PLEASE RESPOND TO MR. MICHLIK'S COMMENTS ON PAGE 10 OF HIS SURREBUTTAL TESTIMONY FOR THE WATER DIVISION THAT UNDER STAFF'S RATES THE COMPANY WILL HAVE A SUFFICIENT OPERATING MARGIN?**

A. Putting aside that an operating margin approach is not appropriate in the instant case, Mr. Michlik claims the Company will have an operating margin of 41 percent for the sewer division. *See* Michlik SB at 10 . What he doesn't disclose is that that operating margin assumes the potential future 350 customers are connected and the Company is receiving revenues from them. None of the 350 customers are actually there and his operating margin is <u>fiction</u>. In reality, if no additional customer growth occurs, then the Company will have a <u>negative</u> 14.43 percent operating margin under Staff rates. *Id.* And, like the rate of return, it will take several years to achieve that operating margin assuming no increase in operating expenses and rate base as a result of further plant investment. Again, arguably these are unrealistic assumptions. So, it is more likely the Company may never achieve that operating margin under Staff's rates.

Q. WILL THE COMPANY HAVE SUFFICIENT OPERATING MARGIN UNDER THE COMPANY'S PROPOSED RATES?

A. Not for the sewer division. The sewer division will have a <u>negative</u> 6.51 percent under the Company's proposed rates. *Id.* at 5 and 6. On the other hand, combined with the water division's positive operating margin, overall the Company will have a positive operating margin of about 12 percent. Based on my experience, Staff typically recommends a minimum of 10 percent for cases in which an operating margin approach is used. I do not typically ascribe to having the water division subsidize the sewer division, or visa versa. Rates should be set to support the operating expenses and plant used to serve rate payers for each division. But, in the instant case, the Company is willing to accept that scenario – for now at least.

Q. DO YOU HAVE ANY PROBLEMS WITH AN 8.9 PERCENT RETURN?

A. Yes. As you can see, even the 10.5 percent return is insufficient to provide a positive operating margin for the sewer division under a no growth scenario. An

8.9 percent exacerbates the problem. In fact, the combined the water division's negative operating margin under Staff's proposed rates at a 6.23 percent return, the overall operating margin is a <u>negative</u> 8.62 percent. This is insufficient by any standard.

Q. AT WHAT POINT WILL THE SEWER DIVISION EXPERIENCE A POSTIVE OPERATING MARGIN UNDER STAFF PROPOSED RATES?

A. It appears from the analysis that at least 100 new customers will be necessary. At that level the analysis shows a positive operating margin of about 1 percent. *Id.* at 7 and 8.

Q. PLEASE RESPOND TO THE SURREBUTTAL TESTIMONY OF THE PONDEROSA FIRE DISTRICT.

A. My testimony in response to the district can be found in my water division rejoinder testimony. I will not repeat that testimony here.

II. <u>RATE BASE.</u>

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

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

	OCRB	FVRB
Company-Direct	$ 1,401,953	$ 1,401,953
Staff Direct	$ 989,576	$ 989,576
Company Rebuttal	$ 1,314,093	$ 1,314,093
Staff Surrebuttal	$ 1,113,582	$ 1,113,582
Company Rejoinder	$ 1,111,382	$ 1,111,382

Q. TO WHAT DO YOU ATTRIBUTE THE DECREASE IN RATE BASE FROM THE REBUTTAL FILING TO THE REJOINDER FILING?

A. The Company has accepted Staff's adjustments to increase plant-in-service totaling

$236,389.

A. <u>Plant-in-Service</u>.

Q. PLEASE EXLAIN THE COMPANY'S REBUTTAL ADJUSTMENTS TO PLANT-IN-SERVICE.

A. B-2 rebuttal adjustment number 1 reflects an increase to plant-in-service of $216,389. The Company has accepted and the adjustment matches Staff's proposed adjustment. *See* Michlik SB at 5.

Notably, to eliminate issues between the parties, the Company has agrees to remove $178,703 of costs related to evaporative lagoons. *See* Michlik SB at 6.

Q. DO STAFF AND THE COMPANY AGREE ON THE BALANCE OF PLANT-IN-SERVICE?

A. Yes.

B. <u>Accumulated Depreciation</u>.

Q. PLEASE EXPLAIN THE COMPANY'S REJOINDER ADJUSTMENT TO ACCUMULATED DEPRECIATION?

A. B-2 rebuttal adjustment number 2 reflects the increase to accumulated depreciation for $14,030 associated with the decrease to plant-in-service. The Company's adjustment is lower than Staff's adjustment of $16,229. Both Staff and the Company computed accumulated depreciation taking into account all plant adjustments. The Company's computed accumulated depreciation amount is approximately $2,200 higher than Staff. I have not found a reason for the discrepancy. *See* Staff Surrebuttal Schedule JMM-WW2.

C. <u>Accumulated Amortization of CIAC</u>.

Q. HAVE YOU MADE A REJOINDER ADJUSTMENT CONCERNING CONTRIBUTIONS-IN-AID OF CONTRUCTION?

A. Yes. The Company has adjusted the balance of accumulated amortization of CIAC to reflect the change to the composite depreciation rate as the result of the changes to plant-in-service. B-2 rebuttal adjustment number 3 reflects this adjustment. The Company accumulated amortization balance of $14,425 is the same as Staff's.

III. INCOME STATEMENT.

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

A. Yes. The Company rejoinder adjustments are detailed on Rebuttal Schedule C-2, pages 1-3. The rejoinder income statement with adjustments is shown on Rebuttal Schedule C-1, pages 1-2.

Rejoinder adjustment 1 annualizes depreciation expense taking into account the changes to plant-in-service, as discussed above.

Rejoinder adjustment number 2 reduces property tax expense and reflects the rejoinder proposed revenues.

IV. RATE DESIGN.

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

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

Q. WHAT ARE THE COMPANY'S REJOINDER PROPOSED RATES?

A. The rejoinder proposed rates are:

A.

Customer Class	Flat Monthly Charge	Charge per 1,000 gallons of Water Usage
Residential	N/A	$ 6.13
Car Washes,		

Laundromats, Commercial, Manufacturing	N/A	$ 5.99
Hotels, Motels	N/A	$ 8.03
Restaurants	N/A	$ 9.92
Industrial Laundries	N/A	$ 8.80
Waste Haulers	N/A	$179.52
Restaurant Grease	N/A	$157.08
Treatment Plant Sludge	N/A	$179.52
Mud Sump Waste	N/A	$561.00

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

A. Yes.

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

A. Yes.

Q. DOES THAT CONCLUDE YOUR REJOINDER TESTIMONY REGARDING THE WATER APPLICATION?

A. Yes.

Utility Source, L.L.C. - Sewer Division
Test Year Ended December 31, 2005
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rejoinder Schedule A-1
Page 1
Witness: Bourassa

Fair Value Rate Base	$	1,111,382
Adjusted Operating Income		(22,959)
Current Rate of Return		-2.07%
Required Operating Income	$	116,695
Required Rate of Return on Fair Value Rate Base		10.50%
Operating Income Deficiency	$	139,654
Gross Revenue Conversion Factor		1.0000
Increase in Gross Revenue Requirement	$	139,654
% Increase		122.61%

Customer Classification **(Residential Commercial, Irrigation)**		**Present Rates**		**Proposed Rates**		**Dollar Increase**	**Percent Increase**
3/4 Inch Residential	$	47,983	$	107,674	$	59,691	124.40%
1.5 Inch Commercial		2,750		6,171	$	3,421	124.40%
2 Inch Commercial		3,326		7,464	$	4,138	124.40%
					$	-	0.00%
Revenue Annualization		3,836		8,607	$	4,772	124.40%
							0.00%
Proforma Revenues		54,353		121,968	$	67,615	124.40%
						-	0.00%
Subtotal	$	112,248	$	251,884	$	139,636	124.40%
Other Revenues		1,657		1,657		-	0.00%
							0.00%
							0.00%
Total of Water Revenues (a)	$	113,905	$	253,541	$	139,636	122.59%

SUPPORTING SCHEDULES:
Rejoinder B-1
Rejoinder C-1
Rejoinder C-3
Rejoinder H-1

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

Exhibit
Rejoinder Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 1,379,092	$ 1,379,092
3	Less: Accumulated Depreciation	82,161	82,161
4			
5	Net Utility Plant in Service	$ 1,296,931	$ 1,296,931
6			
7	Less:		
8	Advances in Aid of		
9	Construction	-	-
10	Contributions in Aid of		
11	Construction	197,973	197,973
12	Accumulated Amortization of CIAC	(12,425)	(12,425)
13			
14	Customer Meter Deposits	-	-
15	Deferred Income Taxes & Credits	-	-
16	Customer Meter Deposits	-	-
17	Deferred Income Taxes		
18	Investment Tax Credits		
19	Plus:		
20	Unamortized Finance Charges	-	-
21	Material and Supplies Inventories		
22	Prepayments		
23	Allowance for Working Capital	-	-
24			
25			
26			
27	Total Rate Base	$ 1,111,382	$ 1,111,382
28			
29			
30			
31	SUPPORTING SCHEDULES:		
32	Rejoinder B-2		
33	Rejoinder 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
Rejoinder Schedule B-2
Page 1
Witness: Bourassa

	Adjusted at End of Test Year	Adjustments	Rejoinder Adjusted at end of Test Year
Gross Utility Plant in Service	$ 1,595,481	(216,389)	$ 1,379,092
Less:			
Accumulated Depreciation	96,191	(14,030)	82,161
Net Utility Plant in Service	$ 1,499,290	$ (202,359)	$ 1,296,931
Less:			
Advances in Aid of Construction	-	-	-
Contributions in Aid of Construction (CIAC)	197,973	-	197,973
Accum. Amortization of CIAC	(12,777)	352	(12,425)
Customer Meter Deposits	-	0	-
Deferred Income Taxes	-	-	-
Investment Tax Credits	-	-	-
Plus:			
Unamortized Finance Charges	-		-
Material and Supplies Inventories			
Prepayments			
Allowance for Working Capital	-	-	-
Total	$ 1,314,093	$ (202,711)	$ 1,111,382

SUPPORTING SCHEDULES:
Rejoinder B-2, pages 2

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

Exhibit
Rejoinder Schedule B-2
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Rebuttal Adjusted End of Test Year	1 Plant-In-Service	2 Accum. Depreciation	3 CIAC Amortization	4 Intentionally Left Blank	5 Intentionally Left Blank	Rejoinder Adjusted at end of Test Year
1	Gross Utility							
2	Plant in Service	$ 1,595,481	(216,389)					$ 1,379,092
3								
4	**Less:**							
5	Accumulated							
6	Depreciation	96,191		(14,030)				82,161
7								
8								
9	Net Utility Plant							
10	in Service	$ 1,499,290	$ (216,389)	$ 14,030	$ -	$ -	$ -	$ 1,296,931
11								
12	**Less:**							
13	Advances in Aid of							
14	Construction	-						-
15								
16	Contributions in Aid of							
17	Construction (CIAC)	197,973						197,973
18								
19	Accum. Amortization of CIAC	(12,777)			352			(12,425)
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	-						-
31								
32	Total	$ 1,314,093	$ (216,389)	$ 14,030	$ (352)	$ -	$ -	$ 1,111,382
33								
34	SUPPORTING SCHEDULES:							
35	Rejoinder B-2, pages 3-5							

Exhibit
Rejoinder Schedule B-2
Page 3
Witness: Bourassa

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

Line No.				
1	Plant-in-Service			
2				
3				
4	380	Treatment and Disposal Equipment	$	(24,107)
5	380	Treatment and Disposal Equipment		(13,579)
6	380	Treatment and Disposal Equipment		(178,703)
7				
8	Total Plant-in-Service to be Removed		$	(216,389)
9				
10				
11	Increase (Decrease) to Plant-in-Service		$	(216,389)
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30	SUPPORTING SCHEDULES			
31	Staff Surrebuttal Schedule JMM-WW4			

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

Line No.			
1	Accumulated Depreciation		
2			
3	Accumulated Depreciation per Rejoinder Filing	$	82,161
4	Accumulated Depreciation per Rebuttal Filing		96,191
5			
6	Increase (Decrease) to Accumulated Depreciation	$	(14,030)
7			
8			
9	Increase (Decrease) to Accumulated Depreciation	$	(14,030)
10			
11			
12			
13	SUPPORTING SCHEDULES		
14	Rejoinder B-2, pages 4a through 4c		
15			
16			
17			
18			
19			
20			

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

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

Account No.	Description	Deprec. Rate	12/31/2004	2004 Accum. Depr.	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Balance	2004 Depr.
351	Organization	0.00%	-				-		-	-
352	Franchises	0.00%	-				-		-	-
353	Land and Land Rights	0.00%	-		105,000		105,000		105,000	-
354	Structures and Improvements	3.33%	-		56,350		56,350		56,350	938
355	Power Generation Equipment	5.00%	-		32,200		32,200		32,200	805
360	Collection Sewers - Force	2.00%	-				-		-	-
361	Collection Sewers - Gravity	2.00%	-		260,553		260,553		260,553	2,606
362	Special Collecting Structures	2.00%	-				-		-	-
363	Services to Customers	2.00%	-		60,375		60,375		60,375	604
364	Flow Measuring Devices	10.00%	-				-		-	-
365	Flow Measuring Installations	10.00%			3,450		3,450		3,450	173
370	Receiving Wells	3.33%	-				-		-	-
371	Pumping Equipment	12.50%	-				-		-	-
380	Treatment and Disposal Equipment	5.00%	-		1,106,874	(216,389)	890,485		890,485	22,262
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 TangiblePlant	10.00%	-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
			-				-		-	-
	Plant Held for Future Use						-		-	-
	TOTAL WATER PLANT		-	-	1,624,802	(216,389)	1,408,413	-	1,408,413	27,387
	Depreciation								27,387	
(a)	Staff Accumulated Depreciation Allocated to Plant.		-							
	Retirements (excluding land)								-	
	Accumulated Depreciation Balance			-					27,387	
	Half Year Convention used on depreciation									

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

Exhibit
Rejoinder 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	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%	32,200			-		-	32,200	1,610
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%	890,485			-		-	890,485	44,524
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 TangiblePlant	10.00%	-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
			-			-		-	-	-
	Plant Held for Future Use		-			-		-	-	-
	TOTAL WATER PLANT		1,408,413	-	-	-	-	-	1,408,413	54,774
	Depreciation								54,774	
(a)	Staff Accumulated Depreciation Allocated to Plant.									
	Retirements (excluding land)								-	
	Accumulated Depreciation Balance								82,161	
	Half Year Convention used on depreciation									

Utility Source, LLC - Sewer Division
Plant Additions and Retirements

Exhibit
Rejoinder Schedule B-2
Page 4c
Witness: Bourassa

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account Dec-04 2004	Dec-05 2005
351	Organization	0.00%	-	-
352	Franchises	0.00%	-	-
353	Land and Land Rights	0.00%	-	-
354	Structures and Improvements	3.33%	938	2,815
355	Power Generation Equipment	5.00%	805	2,415
360	Collection Sewers - Force	2.00%	-	-
361	Collection Sewers - Gravity	2.00%	2,606	7,817
362	Special Collecting Structures	2.00%	-	-
363	Services to Customers	2.00%	604	1,811
364	Flow Measuring Devices	10.00%	-	-
365	Flow Measuring Installations	10.00%	173	518
370	Receiving Wells	3.33%	-	-
371	Pumping Equipment	12.50%	-	-
380	Treatment and Disposal Equipment	5.00%	22,262	66,786
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 TangiblePlant	10.00%	-	-
			-	-
			-	-
			-	-
			-	-
			-	-
	Plant Held for Future Use		-	-
	TOTAL WATER PLANT		27,387	82,161

Depreciation

(a) Staff Accumulated Depreciation Allocated to Plant.

Retirements (excluding land)

Accumulated Depreciation Balance

Half Year Convention used on depreciation

Exhibit
Rejoinder Schedule B-2
Page 5
Witness: Bourassa

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

No.		CIAC	Amortization Rate	Amortization[1]
1	CIAC Amortization			
2				
3				
4				
5	Balance at 12/31/2003	$ -		
6	2004 Additions	197,973	4.18%	4,142
7				
8	Balance at 12/31/2004	$ 197,973		
9	Jan-Dec Amortization		4.18%	8,283
10	2005 Additions			
11				
12	Balance at 12/31/2005	$ 197,973		$ 12,425
13				
14				
15	Balance of CIAC Amortization per Rebuttal Filing			$ 12,777
16				
17	Increase (Decrease) in Amortization			$ (352)
18				
19	Adjustment to Accumulated Amortization			$ 352
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
Computation of Working Capital

Exhibit
Rejoinder Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	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 Rejoinder	$	9,138
10			
11	Total Working Capital Allowance Requested	$	-
12			
13	Working Capital per Direct Filing	$	-
14			
15	Increase (Decrease) in Working Capital	$	-
16			
17			
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
19		Rejoinder B-1	
20			

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

Exhibit
Rejoinder Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Book Results	Adjustments	Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 112,248	$ -	$ 112,248	$ 139,654	$ 251,902
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	1,657	-	1,657		1,657
5		$ 113,905	$ -	$ 113,905	$ 139,654	$ 253,559
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	24,902	-	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 - Ra	12,500	-	12,500		12,500
22	Miscellaneous Expense	4,965	-	4,965		4,965
	Depreciation Expense	55,610	(10,585)	45,025		45,025
	Taxes Other Than Income	-	-	-		-
23	Property Taxes	5,123	1,994	7,116		7,116
24	Income Tax	-	-	-	-	-
25						
26	**Total Operating Expenses**	$ 145,455	$ (8,591)	$ 136,864	$ -	$ 136,864
27	**Operating Income**	$ (31,550)	$ 8,591	$ (22,959)	$ 139,654	$ 116,695
28	**Other Income (Expense)**					
29	Interest Income	-		-		-
30	Other income	-		-		-
31	Interest Expense	-		-		-
32	Other Expense	-		-		-
33						
34	**Total Other Income (Expense)**	$ -	$ -	$ -	$ -	$ -
35	**Net Profit (Loss)**	$ (31,550)	$ 8,591	$ (22,959)	$ 139,654	$ 116,695
36						
37						
38						
39	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
40	Rejoinder C-1, Page 2				Rejoinder A-1	
41	Rejoinder C-2					

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

Exhibit
Rejoinder Schedule C-1
Page 2
Witness: Bourassa

Line No.		ADJUSTMENT LABEL->> Rebuttal Adjusted Results	1 Depreciation Expense	2 Property Taxes	3 Intentionally Left Blank	4 Intentionally Left Blank	6 Rejoinder Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	**Revenues**								
2	Flat Rate and Metered Revenues	$ 112,248					$ 112,248	$ 139,654	$ 251,902
3	Misc. Service Revenues	-					-		-
4	Other Wastewater Revenues	1,657					1,657		1,657
5		$ 113,905	$ -	$ -	$ -	$ -	$ 113,905	$ 139,654	$ 253,559
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	24,902					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	4,965					4,965		4,965
23	Depreciation Expense	55,610	(10,585)				45,025		45,025
24	Taxes Other Than Income	-					-		-
25	Property Taxes	5,123		1,994			7,116		7,116
26	Income Tax	-					-		-
27	**Total Operating Expenses**	$ 145,455	$ (10,585)	$ 1,994	$ -	$ -	$ 136,864	$ -	$ 136,864
28	**Operating Income**	$ (31,550)	$ 10,585	$ (1,994)	$ -	$ -	$ (22,959)	$ 139,654	$ 116,695
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)**	$ (31,550)	$ 10,585	$ (1,994)	$ -	$ -	$ (22,959)	$ 139,654	$ 116,695
37									
38	SUPPORTING SCHEDULES:							RECAP SCHEDULES:	
39	Rejoinder C-2							Rejoinder A-1	
40									

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

Exhibit
Rejoinder Schedule C-2
Page 1
Witness: Bourassa

Line No.		Adjustments to Revenues and Expenses						
1		1 Depreciation	2 Property	3 Intentionally	4 Intentionally	5 Intentionally	6 Intentionally	
2		Expense	Taxes	Left Blank	Left Blank	Left Blank	Left Blank	Subtotal
3	Revenues							-
4								
5	Expenses	(10,585)	1,994					(8,591)
6								
7	Operating							
8	Income	10,585	(1,994)	-	-	-	-	8,591
9								
10	Interest							-
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	10,585	(1,994)	-	-	-	-	8,591
17								
18								
19		Adjustments to Revenues and Expenses						
20		7	8	9	10	11	12	
21		Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	
22		Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Subtotal
23	Revenues							-
24								
25	Expenses							(8,591)
26								
27	Operating							
28	Income	-	-	-	-	-	-	8,591
29								
30	Interest							
31	Expense							-
32	Other							
33	Income /							-
34	Expense							
35								
36	Net Income	-	-	-	-	-	-	8,591
37								
38								
39		Adjustments to Revenues and Expenses						
40		13	14	15	16	17	18	
41		Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	Intentionally	
42		Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Left Blank	Total
43	Revenues							-
44								
45	Expenses							(8,591)
46								
47	Operating							
48	Income	-	-	-	-	-	-	8,591
49								
50	Interest							
51	Expense							-
52	Other							
53	Income /							-
54	Expense							
55								
56	Net Income	-	-	-	-	-	-	8,591

									Exhibit Rejoinder Schedule C-2 Page 2 Witness: Bourassa

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

Line No.								
1	Depreciation Expense							
2			Direct	From	Intentionally	Rejoinder		
3	Account		Adjusted	B-2 Adj. #1	Left	Adjusted	Proposed	Depreciation
4	No.	Description	Original Cost	Plant	Blank	Original Cost	Rates	Expense
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	2,879			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	(216,389)		890,485	5.00%	44,524
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 TangiblePlant	-			-	10.00%	-
28								
29								
30								
31								
32								
33								
34		TOTALS	$ 1,595,481	$ (216,389)	$ -	$ 1,379,092		$ 53,308
35								
36								
63								
64	Less: Amortization of CIAC - Rebuttal Balance End of TY		$ 197,973			$ 197,973	4.18%	$ (8,283)
65								-
66			$ 197,973	$ -	$ -	$ 197,973		$ (8,283)
67	Adjusted Test Year Depreciation Expense Rejoinder Filing							$ 45,025
68	Adjusted Test Year Depreciation Expense Rebuttal Filing							55,610
69								
70	Increase (decrease) in Depreciation Expense							$ (10,585)
71								
72	Adjustment to Revenues and/or Expenses							$ (10,585)

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

Line No.			
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		253,559
6	Average of three year's of revenue	$	160,456
7	Average of three year's of revenue, times 2	$	320,913
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		-
12			
13	Full Cash Value	$	320,913
14	Assessment Ratio		23.50%
15	Assessed Value		75,414
16	Property Tax Rate		9.0903%
17			
18	Property Tax		6,855
19	Tax on Parcels		261
20			
21	Total Property Tax at Proposed Rates Rejoinder	$	7,116
22	Property Taxes per Direct Filing		5,123
23	Change in Property Taxes	$	1,994
24			
25			
26	Adjustment to Revenues and/or Expenses	$	1,994
27			
28			

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

Exhibit
Rejoinder Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	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	$\frac{1}{\text{Operating Income \%}}$ = Gross Revenue Conversion Factor	
16		1.0000
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		Rejoinder A-1
20		

Exhibit
Rejoinder Schedule D-1
Page 1
Witness: Bourassa

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

		End of Test Year				Adjusted End of Test Year			
Line No.	Item of Capital	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%	1,721,130	100.00%	10.50%	N/A
4									
5	Totals	1,604,435	100.00%		10.50%	1,721,130	100.00%		0.00%
6									
7									
8									
9									
10									
11	SUPPORTING SCHEDULES:							RECAP SCHEDULES:	
12	Rejoinder D-2								
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									

Utility Source, L.L.C. - Sewer Division
Test Year Ended August 31, 2005
Cost of Long Term Debt

Exhibit
Rejoinder Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	End of Test Year Annual Interest	End of Test Year Interest Rate	End of Test Year Weighted Cost	End of Projected Year Amount Outstanding	End of Projected Year Annual Interest	End of Projected Year Interest Rate	End of Projected Year Weighted Cost
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13	Totals	$ -	-		0.00%	$ -	-		0.00%
14									
15	Supporting Schdules:								
16	E-2								
17									
18									
19									
20									
21									
22									
23									

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	$ 107,674	$ 59,691	124.40%	42.13%	42.47%
3	1 Inch Meter						
4	1.5 Inch Meter Motel	2,750	6,171	3,421	124.40%	2.41%	2.43%
5	2 Inch Meter Commercial	3,326	7,464	4,138	124.40%	2.92%	2.94%
6							
7	Miscellaneous Revenues	1,657	1,657	-	0.00%	1.46%	0.65%
8	Total Water Revenues	$ 55,717	$ 122,966	$ 67,250	120.70%	48.91%	48.50%
9	3/4 Inch customer revenue						
10	annualized to end of year, based on						
11	year end number of customers	$ 3,836	$ 8,607	$ 4,772	124.40%	3.37%	3.39%
12							
13	Proforma Revenues (1)	$ 54,353	$ 121,968	$ 67,615	124.40%	47.72%	48.11%
14	Total Water Revenues, after correction for						
15	Billing to hundreds of Gallons	$ 113,905	$ 253,541	$ 139,636	122.59%	100.00%	100.00%
16							
17	(1) See C-2 adjustment number 6.						
18							
19	Total Water Revenues without Revenue						
20	Annualization and Proforma Revenues		$ 55,717				
21	Water Revenues Per General Ledger	$ 47,803					
22	C-2 Adjustment for Unrecorded Revenues (2)	$ 7,914	$ 55,717				
23	Difference		$0				
24							
25	Percentage Error		0.00%				
26							
27	(2) Company billed less than it should have based on water usage.						
28	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 Present Rates	Revenues Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1							
2	3/4 Inch Meter - Residential	307	4,740	$ 47,983	$ 107,674	$ 59,691	124.40%
3	1 Inch Meter	-	-	$ -	$ -	$ -	0.00%
4	1.5 Inch Meter Motel	1	64,470	$ 2,750	$ 6,171	$ 3,421	124.40%
5	2 Inch Meter Commercial	1	103,821	$ 3,326	$ 7,464	$ 4,138	124.40%
6	3/4 Inch Meter - Residential Revenue Annualization	307	4,740	$ 3,836	$ 8,607	$ 4,772	124.40%
7	Proforma Revenues	350	4,740	$ 54,353	$ 121,968	$ 67,615	124.40%
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, laudromats, Commercial, Manufacturing	-	-	0.00%
6	Hotels, Motels	-	-	0.00%
7	Restauarants	-	-	0.00%
8	Industrial Laundries	-	-	0.00%
9	Waste haulers	-	-	0.00%
10	Restuarant 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	$ 6.13	124.40%
16	Commercial and Industrial			
17	Car washes, laudromats, Commercial, Manufacturing	2.67	5.99	124.40%
18	Hotels, Motels	3.58	8.03	124.40%
19	Restauarants	4.42	9.92	124.40%
20	Industrial Laundries	3.92	8.80	124.40%
21	Waste haulers	80.00	179.52	124.40%
22	Restuarant Grease	70.00	157.08	124.40%
23	Treatment Plant Sludge	80.00	179.52	124.40%
24	Mud Sump Waste	250.00	561.00	124.40%
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,			
35	regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-608(D)(5).			
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

Other Service Charges	Present Rates	Proposed Rates
Establishment per Rule R14-2-603D (a)	$ 20.00	$ 20.00
Establishment, after hours	$ 40.00	$ 40.00
Re-establishment, per Rule R14-2-603D	$ 40.00	$ 40.00
Re-connection of Service, per Rule R-14-2-603D	$ 50.00	$ 50.00
Reconnection, after hours	$ 40.00	$ 40.00
Deposit Requirement, per Rule R14-2-603B	(b)	(b)
NSF check charge , per RUle R14-2-608E (c)	$ 20.00	$ 20.00
Deferred Payment Charge, per month (d)	1.50%	1.50%
Late Payment, per month	1.50%	1.50%
Service Calls, per hour (e)	40.00	$ 40.00
Service Lateral Connection Charge (f)		
Residential	$ 500.00	$ 500.00
Commercial	Cost	Cost
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 wih 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).

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	6.13	3.40	124.40%
2,000	5.46	12.25	6.79	124.40%
3,000	8.19	18.38	10.19	124.40%
4,000	10.92	24.50	13.58	124.40%
5,000	13.65	30.63	16.98	124.40%
6,000	16.38	36.76	20.38	124.40%
7,000	19.11	42.88	23.77	124.40%
8,000	21.84	49.01	27.17	124.40%
9,000	24.57	55.14	30.57	124.40%
10,000	27.30	61.26	33.96	124.40%
12,000	32.76	73.51	40.75	124.40%
14,000	38.22	85.77	47.55	124.40%
16,000	43.68	98.02	54.34	124.40%
18,000	49.14	110.27	61.13	124.40%
20,000	54.60	122.52	67.92	124.40%
25,000	68.25	153.15	84.90	124.40%
30,000	81.90	183.78	101.88	124.40%
35,000	95.55	214.41	118.86	124.40%
40,000	109.20	245.04	135.84	124.40%
45,000	122.85	275.68	152.83	124.40%
50,000	136.50	306.31	169.81	124.40%
60,000	163.80	367.57	203.77	124.40%
70,000	191.10	428.83	237.73	124.40%
80,000	218.40	490.09	271.69	124.40%
90,000	245.70	551.35	305.65	124.40%
100,000	273.00	612.61	339.61	124.40%
Average Usage 4,740	$ 12.94	$ 29.04	$ 16.10	124.40%
Median Usage 4,500	$ 12.29	$ 27.57	$ 15.28	124.40%

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	$ 6.13

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

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	#DIV/0!
1,000	3.58	8.03	4.45	124.40%
2,000	7.16	16.07	8.91	124.40%
3,000	10.74	24.10	13.36	124.40%
4,000	14.32	32.13	17.81	124.40%
5,000	17.90	40.17	22.27	124.40%
6,000	21.48	48.20	26.72	124.40%
7,000	25.06	56.23	31.17	124.40%
8,000	28.64	64.27	35.63	124.40%
9,000	32.22	72.30	40.08	124.40%
10,000	35.80	80.34	44.54	124.40%
12,000	42.96	96.40	53.44	124.40%
14,000	50.12	112.47	62.35	124.40%
16,000	57.28	128.54	71.26	124.40%
18,000	64.44	144.60	80.16	124.40%
20,000	71.60	160.67	89.07	124.40%
25,000	89.50	200.84	111.34	124.40%
30,000	107.40	241.01	133.61	124.40%
35,000	125.30	281.17	155.87	124.40%
40,000	143.20	321.34	178.14	124.40%
45,000	161.10	361.51	200.41	124.40%
50,000	179.00	401.68	222.68	124.40%
60,000	214.80	482.01	267.21	124.40%
70,000	250.60	562.35	311.75	124.40%
80,000	286.40	642.68	356.28	124.40%
90,000	322.20	723.02	400.82	124.40%
100,000	358.00	803.35	445.35	124.40%
Average Usage				
64,470	230.80	517.92	287.12	124.40%
Median Usage				
60,000	214.80	482.01	267.21	124.40%

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	
	$ 8.03

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

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	$ -	$ -	$ -	#DIV/0!
1,000	2.67	5.99	3.32	124.40%
2,000	5.34	11.98	6.64	124.40%
3,000	8.01	17.97	9.96	124.40%
4,000	10.68	23.97	13.29	124.40%
5,000	13.35	29.96	16.61	124.40%
6,000	16.02	35.95	19.93	124.40%
7,000	18.69	41.94	23.25	124.40%
8,000	21.36	47.93	26.57	124.40%
9,000	24.03	53.92	29.89	124.40%
10,000	26.70	59.91	33.21	124.40%
12,000	32.04	71.90	39.86	124.40%
14,000	37.38	83.88	46.50	124.40%
16,000	42.72	95.86	53.14	124.40%
18,000	48.06	107.85	59.79	124.40%
20,000	53.40	119.83	66.43	124.40%
25,000	66.75	149.79	83.04	124.40%
30,000	80.10	179.74	99.64	124.40%
35,000	93.45	209.70	116.25	124.40%
40,000	106.80	239.66	132.86	124.40%
45,000	120.15	269.62	149.47	124.40%
50,000	133.50	299.57	166.07	124.40%
60,000	160.20	359.49	199.29	124.40%
70,000	186.90	419.40	232.50	124.40%
80,000	213.60	479.32	265.72	124.40%
90,000	240.30	539.23	298.93	124.40%
100,000	267.00	599.15	332.15	124.40%
Average Usage				
103,821	277.20	622.04	344.84	124.40%
Median Usage				
100,901	269.41	604.55	335.14	124.40%

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	
	$ 5.99

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

REJOINDER TESTIMONY OF

THOMAS J. BOURASSA

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

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

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THE INSTANT CASE?

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

Q. WHAT IS THE PURPOSE OF THIS REJOINDER TESTIMONY?

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

II. COST OF CAPITAL.

A. Overview and Summary.

Q. PLEASE SUMMARIZE THE COMPANY'S REJOINDER POSITION REGARDING COST OF CAPITAL?

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

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

Q. HAVE YOU UPDATED YOUR COST OF CAPITAL SCHEDULES?

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

DCF Analysis	Range	Midpoint
Constant Growth (earnings growth)	9.7% - 12.0%	10.9%
Constant Growth (sustainable growth)	8.2% - 10.5%	9.4%
Two-Stage Growth Model	9.2% - 11.5%	10.4%
Risk Premium Analysis		
Actual Returns	10.1% - 10.2%	10.2%
Authorized Returns	10.8% - 11.3%	11.1%
Comparable Earnings		
Actual Returns[1]	4.2% - 11.7%	8.0%
Authorized Returns	9.9% - 12.7%	11.3%
Value Line Industry Composite (2006)		9.0%
Value Line Industry Composite (2007)		10.0%
Value Line Industry Composite (2009)		10.5%

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

Q. HAVE THE RESULTS OF YOUR COST OF CAPITAL CHANGED SIGNIFICANTLY SINCE YOUR REBUTTAL FILING?

A. No. In fact, they are nearly the same.

Q. HOW DOES THE RETURN OF 10.5 PERCENT YOU ARE RECOMMENDING COMPARE TO STAFF?

A. The rate of return on equity ("ROE") recommended by Staff is now 8.9 percent.

[1] If the low actual return of 4.2% for Connecticut Water Services is excluded because it is below the cost of debt, the midpoint is 10.1%.

This is 70 basis points lower than the 9.6 percent Staff recommended in its direct filing. I continue to believe the rate of return recommended by Staff is simply too low given the Company's extremely small size, limited revenue and cash flow, small customer base, lack of diversification, lack of liquidity, and other characteristics.

To make matters worse, while Staff witness Mr. Irvine recommends an overall 8.9 percent ROE, Staff witness Mr. Michlik employs a 'backed into' 6.23 percent return for the water division and an 8.9 percent return for the sewer division. As a result, Staff's <u>overall return is 7.0 percent</u> - not 8.9 percent. The Company has increased risks by using pro-forma revenues from potential future growth in the determination of the revenue requirement. Further, the Company will not realize the authorized return for several years, even at optimistic growth rates. *See* Rejoinder Testimony (Water Division) of Thomas J. Bourassa ("Bourassa WRJ") at 11, and Rejoinder Testimony (Sewer Division) of Thomas J. Bourassa ("Bourassa WWRJ") at 5.

Neither the returns recommended by Mr. Michlik (6.23 percent for the water division and 8.9 percent for the sewer division) nor the 8.9 percent overall return recommended by Mr. Irvine produce an adequate overall operating margin for USLLC (under a no growth scenario). In fact, the operating margin is <u>negative</u> for both the water and sewer division under Staff's current recommendations. *See* Bourassa WRJ at 13-14.

Q. WHAT IS THE CURRENT PRIME RATE?

A. 8.25 percent. Staff's overall rate of return of 7.0 percent in the instant case is <u>less</u> than the cost of debt.

B. <u>Analysis and Criticism of Staff's Cost of Capital Analysis.</u>

Q. WHAT IS THE CAUSE OF THE DECREASE IN THE RECOMMENDED

RETURN BY STAFF?

Q. There are two primary reasons. The first reason is that Staff's average DCF results dropped from 9.0 percent in its direct filing to 8.4 percent in its surrebuttal filing primarily due to a drop in the growth estimate used by Staff. Staff's dividend yield as dropped by 30 basis points, but I believe there may be an error in Staff's computation. I will discuss this later in my testimony. The second reason for the decrease in Staff's ROE is due to a significant decrease in Staff's average CAPM result which decreased from 10.2 percent in its direct filing to 9.4 percent in its surrebuttal filing. Staff's historical market risk premium ("MRP") CAPM result increased slightly from 10.9 percent to 11.0 percent, but Staff's current MRP premium CAPM result decreased by 170 basis points dropping from 9.5 percent in its direct filing to 7.8 percent in its surrebuttal filing.

Q. PLEASE DISCUSS THE DECREASE IN STAFF'S GROWTH RATE ESTIMATE.

A. Staff's growth rate estimate decreased from 5.7 percent in its direct filing to 5.2 percent in its surrebuttal filing. *See* Staff Direct and Surrebuttal Schedule SPI-2 and SPI-7. One of the main reasons that Staff's growth estimate has decreased is due to a much lower projected EPS growth estimate. Staff's projected EPS growth estimate dropped from 7.9 percent to 6.3 percent - a 160 basis point reduction. *See* Staff Direct and Surrebuttal Schedule SPI-7. As you will recall, Staff' relies exclusively on the Value Line Investment Survey data for its projected EPS growth rate. *See* Direct Testimony of Steven P. Irvine ("Irvine DT") at 15. The average of the Value Line published projected EPS growth rate for the utility sample companies has not changed significantly from the October 28, 2006 Value Line report Staff employed in its direct filing to the January 26, 2007 Value Line report Staff employed in its surrebuttal filing. Yet, Staff's projected EPS growth rate dropped precipitously.

The table below provides a comparison.

	VL Report Projected EPS Growth Oct. 28, 2006	Staff Direct Filing Computed EPS Growth	VL Report Projected EPS Growth Jan. 26, 2006	Staff Surrebuttal Filing Computed EPS Growth
American States	10.5%	7.6%	10.5%	7.6%
Aqua America	8.0%	12.0%	7.5%	7.1%
California Water	4.5%	4.1%	4.5%	4.1%
Conn. Water	No Projection	No Projection	No Projection	No Projection
Middlesex	No Projection	No Projection	No Projection	No Projection
SJW Corp.	No Projection	No Projection	No Projection	No Projection
Average	7.7%	7.9%	7.5%	6.3%

Q. **WHY ARE STAFF'S EPS GROWTH RATES DIFFERENT THAN THE VALUE LINE PUBLISHED GROWTH RATES?**

A. Because Staff computes its own based on other Value Line data. This computation is subject to Staff's own judgments about the time period and other information used to compute the growth rate. These judgments whether intentional or unintentional skew the results downward.

Q. **PLEASE EXPLAIN WHAT YOU MEAN WHEN YOU SAY THAT THE COMPUTATION OF THE PROJECTED EPS GROWTH RATES CAN BE DIFFERENT DEPENDING ON THE SELECTION OF THE TIME PERIODS?**

A. If one chooses to compute the compound growth rate of EPS from 2005 to 2010 using a 5 year compounding period, as Staff has done, the result is 6.3 percent. On the other hand, if one chooses to compute the compound growth rate of EPS from 2006 to 2010 using a 4 year compounding period, the result is 8.8 percent - 230 basis points higher.

Q. WHY DOES STAFF COMPUTE A PROJECTED EPS GROWTH RATE WHEN VALUE PUBLISHES THE GROWTH RATES?

A. I do not know. What I do know, is that the choice made by Staff results in the lowest growth rate which is <u>inconsistent</u> with not only Value Line's published growth rates, but those from other independently available sources.

Q. HOW DO THE CORRESPONDING PROJECTED EPS GROWTH RATES COMPARE FROM YOUR DIRECT TO YOUR REJOINDER COST OF CAPITAL ANALYSES?

A. The table below provides a comparison.

	VL Report Projected EPS Growth Oct. 28, 2006	USLLC Direct Filing Average EPS Growth	VL Report Projected EPS Growth Jan. 26, 2006	USLLC Rejoinder Filing Average EPS Growth
American States	10.5%	7.7%	10.5%	8.3%
Aqua America	8.0%	10.3%	7.5%	8.8%
California Water	4.5%	8.5%	4.5%	7.8%
Conn. Water	No Projection	No Projection	No Projection	No Projection
Middlesex	No Projection	4.0%	No Projection	No Projection
SJW Corp.	No Projection	No Projection	No Projection	No Projection
Average	7.7%	7.6%	7.5%	8.3%

Q. WHY ARE YOUR EPS GROWTH RATES DIFFERENT THAN THE VALUE LINE PUBLISHED GROWTH RATES?

A. As you will recall, I used analysts' forecasts of EPS growth from several sources, not just Value Line. I used forecasts published by Zack's Investment Research, Standard & Poor's Earning Guide, and Value Line Investment Survey. *See* Direct Testimony of Thomas J. Bourassa ("Bourassa DT") at 26. As I have previously testified, using analysts' forecasts from several reputable sources offsets potentially overly optimistic or overly pessimistic projections from one source. *See* Bourassa RB at 4.

In addition, I use the published rates which are <u>objectively</u> obtained. That is, I do not compute growth rates based on other data which may be subject to my own judgments about the time period and other information.

Q. I NOTICED YOU DO NOT HAVE AN EPS GROWTH RATE PROJECTION FOR MIDDLESEX WATER IN YOUR REJOINDER GROWTH ESTIMATES. PLEASE EXPLAIN?

A. In the preparation of the cost of capital analysis for the Company's direct filing, growth estimates for Middlesex Water could be obtained from at least two independent sources (Zack's Investment Research and the Standard and & Poor's Earnings Guide). Between the Company's direct and rebuttal filings, only one growth rate estimate from an independent source was available (Zack's Investment Research). This continues to be the case for the Company's rejoinder filing.

Q. YOU HAVE CRITICIZED STAFF FOR USING ITS OWN JUDGEMENTS, AREN'T YOU USING YOUR OWN JUDGEMENT TO EXCLUDE THE PROJECT GROWTH RATE FOR MIDDLESEX WATER? PLEASE EXPLAIN.

A. Yes. However, my judgment to exclude the projected EPS growth rate for Middlesex is based on sound reasoning as are my judgment to exclude the low historical DPS and EPS growth rates. *See* Bourassa RB at 20-22. By excluding Middlesex's projected EPS growth estimate, I remain consistent with my approach to have at least two <u>independent</u> sources.

In the interest of full disclosure, however, the EPS growth estimate for Middlesex Water published by Zack's Investment Research is <u>8.0 percent</u> - significantly higher than the 4.0 percent EPS growth estimate used in the Company's direct filing cost of capital analysis. Zack's Investment Research (March 23, 2007) also published a projected EPS growth estimate for Connecticut Water Services. The published growth rate estimate is <u>10.0 percent</u>. If these two independent <u>single source</u> estimates were to be employed in my rejoinder EPS growth estimate, the result would be approximately 8.6 percent - 30 basis points higher than the 8.3 percent stated in the table above and 230 basis points higher than Staff's.

Q. IT APPEARS THAT THE AVERAGE PROJECTED EPS GROWTH ESTIMATE FROM THE COMPANY'S DIRECT FILING TO THE COMPANY'S REJOINDER FILING HAS <u>INCREASED</u>, <u>NOT DECREASED</u> AS SUGGESTED BY STAFF'S COMPUTED EPS GROWTH RATE ESTIMATE?

A. Correct. Staff's projected EPS growth rate estimate has dropped by 160 basis points while the Company's has increased by 70 basis points. The independently published data, not only from Value Line, but other <u>independent sources</u>, suggest that the projected EPS growth estimate has increased, not decreased.

Q. IS STAFF'S AVERAGE DCF RESULT REALISTIC?

A. No. Staff's average DCF result of 8.4 percent is extremely low and is approaching the prime rate of 8.25 percent. More importantly, however, Staff's constant growth DCF result is 7.7 percent, 55 basis points <u>below</u> the prime rate. *See* Staff Surrebuttal Schedule SPI-2.

Q. IF THE AVERAGE PROJECTED EPS GROWTH ESTIMATE OF 8.3

PERCENT WERE TO BE USED IN STAFF'S GROWTH RATE ESTIMATE AND ULTIMATELY IN STAFF'S CONSTANT GROWTH DCF, WHAT WOULD THE CONSTANT GROWTH DCF RESULT BE?

A. 8.1 percent - still below the prime rate of 8.25 percent.

Q. THE USE OF THE HIGHER PROJECTED EPS GROWTH RATE ESTIMATE OF 8.3 PERCENT DOESN'T SEEM TO BRING STAFF'S CONSTANT GROWTH DCF RESULT UP OVER THE PRIME RATE. WHY?

A. Because of the extremely low historical DPS and EPS growth rates Staff also employs. I discussed at length in my rebuttal testimony about low historical DPS and EPS growth rates Staff employs and will not repeat them here. *See* Bourassa RB at 20-22. None-the-less, Staff's constant growth DCF result of 7.7 percent is another example of Staff <u>blindly</u> accepting the results of its models – results that do not pass a reality check.

Q. YOU MENTIONED THAT STAFF'S DIVIDEND YIELD DROPPED BY 30 BASIS POINTS. DO YOU HAVE AN EXPLANATION?

A. No. Staff's dividend yield is now 2.5 percent compared to 2.8 percent in its direct filing. I computed a dividend yield of 2.7 percent using the spot price February 21, 2007, the same date used by Staff. I believe Staff's dividend yield is understated by 20 basis points.

Q. PLEASE COMMENT ON STAFF'S CURRENT MARKET RISK PREMIUM CAPM RESULT.

A. As I stated earlier, Staff's current MRP CAPM result is now 7.8 percent. *See* Staff Surrebuttal Schedule SPI-2. Amazingly, this result is also below the prime rate of 8.25 percent. This is yet another example of Staff <u>blindly</u> accepting the results of its models.

Q. ISN'T THE CURRENT MARKET RISK PREMIUM CAPM AN UNSTABLE METHOD CONTRARY TO MR. IRVINE'S CLAIM ON PAGE 12 OF HIS SURREBUTTAL?

A. Yes. The fact that Staff's current MRP CAPM indicated cost of equity ("COE") dropped by 170 basis points from 9.5 percent to 7.8 percent in just a few short months should be enough evidence. If the computation were made using the most recent Value Line Investment Survey Summary and Index (dated March 30, 2007) and the March 29, 2007 treasury rates, Staff's current MRP CAPM indicated COE would be 9.5 percent - the same result Staff obtained in its direct. So, in the period of about a about two and a half months since Staff prepared its direct filing cost of capital analysis to now, the indicated COE using the current MRP CAPM has dropped by 170 basis points and then risen by 170 basis points.

Q. HAVE YOU TAKEN INTO CONSIDERATION ANY CHANGE IN BETA?

A. Yes. The same beta was used to eliminate the effects of any change in beta. But, beta has increased from 0.82 to 0.85. If the change in beta is taken into account, the indicated COE rises to 9.6 percent. Obviously, the volatility of Staff's current MRP CAPM raises serious questions about the use of the COE estimate produced with this input. We are still more than a month away from hearing, and new rates will not go into effect until August of 2007 – some five months from now. What will the current MRP CAPM indicated COE be at that time?

Q. HAVE YOU COMPUTED THE CURRENT MRP CAPM COST OF EQUITY FOR MARCH 30, 2007 USING THE SAME METHODLOGY STAFF DID IN ITS DIRECT AND SURREBUTTAL FILINGS?

A. Yes. In my rebuttal testimony I discussed Staff's methodology for the current MRP which is then used in Staff's current MRP CAPM. *See* Bourassa RB at 23. To be consistent with Staff, I used the median values of the dividend yield and price appreciation potential as the starting point. As you will recall, I have a difference with Staff with respect to the use of median values rather than average values for the dividend yield and the price appreciation potential as inputs to the market based DCF to derive the current market COE which is then used to compute the current MRP. *See* Bourassa RB at 23-25. It is clear that use of the median values produces extremely volatile results.

Q. HAVE THE AVERAGE VALUES FOR THE DIVIDEND YIELD AND PRICE APPRECIATION CHANGED AS DRAMATICALLY AS THE CORRESPONDING MEDIAN VALUES?

A. No. The average dividend yield for the Value Line Index for February 2007 is still 2.1 percent, the same as it was in October 2006. Compare the 2.1 percent <u>average</u> dividend yield to the 1.6 percent <u>median</u> dividend yield employed by Staff in its surrebuttal analysis on February 21, 2007. The average price appreciation potential for the Value Line Index for February 2007 is 10.47 percent. In October 2006, the average price appreciation potential was 10.76 percent. Compare the February 2007 10.47 percent <u>average</u> price appreciation potential to the 6.78 percent <u>median</u> price appreciation potential employed by Staff in its surrebuttal analysis on February 21, 2007.

Q. HOW DO THE RESULTS OF THE CURRENT MARKET RISK PREMIUM CAPM COMPARE FROM OCTOBER 2006 TO FEBRUARY 2007 USING THE AVERAGE DIVIDEND YIELD AND PRICE APPRECIATION POTENTIAL?

A. Eliminating the effect of the increase in beta, which as I stated increased from 0.82 to 0.85, the current MRP CAPM indicated COE using the February 2007 Value Line data as discussed above, would be 11.2 percent. – the same result as was computed in my rebuttal. *See* Bourassa RB at 24. If the increase in beta is taken into account, the indicated COE rises to 11.4 percent.

What is suggested by the 11.2 percent and the 11.4 percent indicated COE is that the COE under current market conditions is not decreasing, if anything it suggests it is increasing. This is contrary to what is suggested by Staff's two data points of 9.5 percent and 7.8 percent. Using the averages versus the medians in the instant case is clearly less volatile.

Q. WHY DO YOU USE THE OCTOBER 2006 AND FEBRUARY 2007 VALUE LINE DATA TO COMPUTE THE COST OF EQUITY?

A. To provide a direct comparison to Staff.

Q. DO YOU AGREE WITH MR. IRVINE THAT THE MEDIAN VALUES FOR THE DIVIDEND YIELD AND THE PRICE APPRECIATION POTENTIAL ARE MORE APPROPRIATE BECAUSE THEY ARE MORE ACCESSIBLE TO INVESTORS?

A. No. This is a poor excuse at best. Value Line publishes the projected EPS and DPS growth rates for the water utility sample companies. These are readily available to investors and require no further calculation, yet Staff makes a calculation of its own rather than use the published EPS growth rates. Interestingly, and as I have pointed out, the published rates produce projected growth rates significantly higher than Staff's computed growth rate. Clearly, Mr. Irvine has made choices in the selection of inputs which skew his results downward. *See* Bourassa RB at 34.

Q. ARE THE AVERAGE DIVIDEND YIELD AND AVERAGE PRICE APPRECIATION POTENITAL READILY AVAILABLE TO INVESTORS?

A. Yes. I obtained them from the Value Line Investment Analyzer software, widely available to investors.

Q. IS THE COMPUTATION OF THE AVERAGE VALUES FOR THE

DIVIDEND YIELD AND THE PRICE APPRECIATION POTENITAL SUBJECT TO YOUR JUDGEMENT?

A. No. The data is available from Value Line, an independent source, and a simple average is computed.

Q. **DOES MR. IRVINE'S ARGUMENT THAT THE MEDIAN VALUES ARE LESS AFFECTED BY STATISTICAL OUTLIERS HAVE ANY MERIT?**

A. No. A simple example will show how this argument does not have merit. Assume an investor purchases a single share of stock in each of the Value Line Index 1,700 stocks. I am sure Mr. Irvine would agree that the investor is diversified with respect to stocks. In purchasing a share of all 1,700 stocks in the market, the investor will earn the average return, not the median return.

C. <u>Response to Staff's Testimony on Unique Risks</u>.

Q. **PLEASE RESPOND TO THE TESTIMONY MR. IRVINE AT PAGE 3 OF SURREBUTTAL TESTIMONY REGARDING UNIQUE AND FIRM SIZE?**

A. I am a bit confused by Mr. Irvine's testimony. Mr. Irvine testifies that unique risk can be diversified away from by investors holding diversified portfolios. I have not testified in opposition to this view point. It is apparent Mr. Irvine has not read or has conveniently ignored my Rebuttal Testimony on this subject. *See* Bourassa RB at 14-20. Mr. Irvine arguments assume that the market data for the large publicly traded water utility companies captures the risks for small water utilities like USLLC. That is, the publicly traded water utility sample group is directly comparable to USLLC. It is not. Therefore, I am not speaking of unique risks with respect to USLLC.

The risks associated with small size, lack of diversification, limited revenue and cash flow, small customer base, lack of liquidity, as well as regulatory and construction risk are common to small water utilities. These risks are unique only in the sense that the large publicly traded water utilities do not possess these same levels of risk. As I testified, investors would price the risks differently in the market. *Id.*

Both Staff and I use a sample of publicly traded water utility companies as a starting point in our respective COE analyses. However, unlike Mr. Irvine, who starts and ends that analysis, I recognize that the USLLC, like other small water utilities in Arizona, is not directly comparable. The problem is, we simply do not have market data for small water utilities to directly assess how an investor would price those risks.

Firm size is not a unique risk as Mr. Irvine asserts. *See* Surrebuttal Testimony of Steven P. Irvine ("Irvine SB") at 4. The size phenomenon is well documented in the financial literature. I have previously testified to studies by Dr. Zepp and the California Public Utilities Commission ("CPUC"). *See* Bourassa RB at 16 and 17. Small companies have very different returns than large ones and on average those returns have been higher. Ibbotson Associates' widely used compilation of historical returns from 1926 to the present reinforces the evidence (*See* Stocks, Bonds, Bills and Inflation 2006 Year Book, Ibbotson Associates, Chicago, 2005). Ibbotson Associates' historical return series shows the average annual return of 12.3 percent is for large company stocks while returns for micro-cap, low-cap and mid-cap stocks are 18.8 percent, 15.7 percent, and 14.2 percent, respectively, significantly higher than those for large company stocks. The size effect is particularly relevant for small utilities. Not only do these small utilities possess higher risks than their larger counterparts, they are subjected to a significant size effect, strongly suggesting that their COE is higher.

The view that small water utilities are not directly comparable to the large publicly traded water utilities does not violate any tenet of modern financial theory.

Modern financial theory of investment behavior rests on the notion that the specific risk component not explained by the market can be diversified away by the investor. In the instant case, we are not talking about the specific risks to USLLC per se, but the market risk associated with small water utilities like USLLC which we unable to measure.

Q. **PLEASE RESPOND TO MR. IRVINE'S COMMENTS ON PAGE 4 OF HIS SURREBUTTAL TESTIMONY THAT THE COMMISSION HAS REJECTED THE FIRM PREMIUM FOR SMALL UTILITIES.**

A. In his testimony, Mr. Irvine admits that "the Commission does not customary make a judgment on a specific principle in an individual rate case and expressly apply the principle to all other regulated utilities. Such a global finding would be customarily made in a generic docket." *See* Irvine SB at 7. Mr. Irvine apparently agrees with my rebuttal response to his assertion that the Commission has rejected the size premium for all utilities. *See* Bourassa RB at 18-20. But, even if this Commission currently holds this view point at the present time, it does not detract from the merits with respect to higher returns for small utilities. The CPUC memorandum provides credible evidence supporting the viewpoint that small utilities have higher business and operational risks, that small utilities are not directly comparable to large utilities, and that no market data exists to make a market based analysis are directly meaningful for small utilities.

Q. **DO THE RETURNS STATED IN THE 2004 CALIFORNIA PUBLIC UTILITIES COMMISSION MEMORANDUM APPLY TO COST OF EQUITY RECOMENDATIONS FOR 2007?**

A. Not directly. However, they do have relevance in one important aspect. That is, the rise interest rates since 2004 do not suggest the CPUC recommended returns for small utilities have decreased. After all, according to the memorandum, the

CPUC returns for small water utilities are based largely on the prevailing and expected levels of interest rates.

Q. PLEASE RESPOND TO MR. IRVINE'S REFERENCES TO THE ANNIE WONG STUDY ON THE FIRM SIZE EFFECT FOR WATER UTLITIES ON PAGE 5 OF HIS SURREBUTTAL TESTIMONY.

A. Mr. Irvine has referred to this study before. Ms. Wong's study and her conclusions have been disputed and called into question by Dr. Zepp[2]. Dr. Zepp examined Ms. Wong's results are commented:

> Wong's empirical results *are not strong enough to conclude that beta risks of utilities are unrelated to size.* In the period 1963–1967, when monthly data were used to estimate betas, her estimates of utility betas as well as industrial betas increased as the size of the firms decreased, but she did not find the same inverse relationship between size and beta risk for utilities in other periods. Being unable to demonstrate a relationship between size and beta in other periods may be the result of Wong using monthly, weekly and daily data to make those beta estimates. Roll (1980) concluded trading infrequency seems to be a powerful cause of bias in beta risk estimates when time intervals of a month or less are used to estimate betas for small stocks. When a small stock is thinly traded, its stock price does not reflect the movement of the market, which drives down the apparent covariance with the market and creates an artificially low beta estimate. *Id.* at 579 (emphasis supplied)

Dr. Zepp ultimately concluded:

> Wong's concluding remarks should be re-examined and placed into perspective. She noted that industrial betas tend to decrease with increases in firm size but the same relationship is not found in every period for utilities. Had longer time intervals been used to estimate betas, as was done in Table 1, she may have found the same inverse relationship between size and beta risk for utilities in other periods. She also concludes "there is some weak evidence that firm size is a missing factor from the CAPM for the industrial but not the utility

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

> stocks" (Wong, 1993, p. 98), *but the weak evidence provides little support for a small firm effect existing or not existing in the in either the industrial or utility sector.* Two other studies discussed here support a conclusion that smaller water utilities are more risky than larger ones. To the extent that water utilities are representative of all utilities, there is support for smaller utilities being more risky than larger ones. *Id.* at 582 (emphasis supplied)

Regardless of whether one chooses to accept Ms. Wong's conclusions, Ms. Wong's study encompassed the utility industry which included both electric and gas utilities and did not focus on water utilities. Further, the average market value of the smallest utility portfolio in her study in 1993 was $62 million – 40 to 50 times larger than is USLLC. When I speak about the various risks associated with USLLC's small size, limited revenue, limited customer growth and lack of liquidity, I am talking about risks which have not been priced by investors and are not reflected in any available market data. Ms. Wong's study does not apply in the instant case.

But consider that if USLLC has a well failure or a transmission main break, the impact on USLLC is far more serious than if Aqua American or California Water Service experiences a similar problem. Indeed, USLLC's earnings could be wiped out as available cash flow is diverted to repair or replace the well. For this reason, an investor would view an equity investment in USLLC much differently than an equity investment in the stock of a large publicly traded water utility, and would require a higher return on that investment. Otherwise, the investor would instead purchase Aqua America's stock, which would have less risk while promising a greater return.

Q. PLEASE RESPOND TO MR. IRVINE'S ASSERTION THAT DR. ZEPP'S STUDY IS DEFECTIVE BECAUSE HIS SAMPLE SIZE WAS SMALL?

A. Whether one chooses to accept the results of Dr. Zepp's study or not, his study is consistent with the CPUC study using a sample of 58 <u>water</u> utilities. Contrast this to Ms. Wong's study which did not focus on water utilities. As Dr. Zepp states regarding the CPUC study, "Following 8 days of hearings and testimony by 21 witnesses regarding this study, it was adopted by the California Public Utilities Commission in CPUC Decision 92-03-093, dated March 31, 1992." *Id.*

Q. PLEASE COMMENT ON MR. IRVINES CRITICISM OF THE IBBOTSON ASSOCIATES HISTORICAL TOTAL MARKET RETURNS FOR MID-CAP, LOW-CAP, AND MICRO-CAP STOCKS ON PAGE 7 OF HIS SURREBUTTAL TESTIMONY?

A. While Mr. Irvine may find that the returns published by Ibbotson Associates (see Ibbotson Associates, Stocks, Bonds, Bills, and Inflation 2006 Year Book, Chicago, 2005 at 28) are irrelevant, the historical market returns of the water utility sample companies published by Value Line are consistent with the Ibbotson Associates returns. *See* Bourassa RB at 10. Further, the results on the bond risk premium analysis presented in my rebuttal testimony are also consistent with the Ibbotson Associates returns. *See* Bourassa RB at 14. As a reality check, the Ibbotson returns are relevant.

D. Response to Staff's Testimony on Comparisons to Actual and Authorized Returns.

Q. PLEASE RESPOND TO MR. IRVINE'S COMMENTS ON PAGE 7 AND 8 OF HIS SURREBUTTAL TESTIMONY CONCERNING THE ROLE OF ACTUAL AND AUTHORIZED EARNINGS?

A. It is apparent from his testimony that Mr. Irvine doesn't understand the basis for the comparable earnings method. As I previously discussed in my Direct Testimony, the comparable earnings approach is rooted in U.S. Supreme Court decisions, including *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944), and *Bluefield Waterworks & Improvement Co. v. Public Service*

Commission of West Virginia, 262 U.S. 679 (1923). *See* Direct Testimony of Thomas Bourassa ("Bourassa DT") at 24 and 30.

Given these requirements, it would be myopic at best to simply ignore actual and authorized returns on equity. The goal is to authorize a return on equity that is equal to the return on investments with similar risk. Mr. Irvine is exclusively advocating that the results of his finance models should be used without regard to whether the results of those models are consistent with the actual and authorized earnings of the companies he has used to implement his finance models. I am not surprised. Mr. Irvine does not even acknowledge the criteria set forth by *Hope* and *Bluefield* anywhere in his testimony. The basis of his entire testimony is that expected returns may only be estimated with market based models such as the DCF and CAPM. Like much of his testimony, this simply ignores reality. If a company has consistently earned returns on equity between 10 percent and 11 percent during the past 5 years, and is projected to continue to earn a return on equity within that range, why would an investor reject that information and, instead, choose to rely solely on a finance model? In fact, why would investment services such as Value Line and Standard & Poor's publish historic information regarding a company's earnings if expected returns can only be estimated by using finance models? They wouldn't have much of a market for their products.

E. <u>Response to Staff's Testimony on the Use of Analyst Forecasts.</u>

Q. PLEASE COMMENT ON MR. IRVINE'S TESTIMONY AND PAGE 10 OF HIS SURREBUTTAL THAT HISTORICAL GROWTH RATES ARE LESS SUBJECTIVE BECAUSE THEY ARE BASED ON CALCULATIONS?

A. Mr. Irvine's assertion that historical growth rates are less subjective because they are based on calculations is puzzling. A calculation of historical growth rates are what they are. The point is, when estimating investor expectations <u>using</u> those growth rates in a prospective model is subjective and provides no more a balanced approach than using only analyst expectations. I have already testified to the reasons why I chose to use analyst expectations and the superiority of the use of analyst expectations in estimating the COE and will not repeat them here. *See* Bourassa RB at 3-4.

Q. CAN YOU COMMENT ON MR. IRVINE' SURREBUTTAL TESTIMONY CONCERNING YOUR EXCLUSION OF HISTORICAL DPS AND EPS GROWTH RATES FROM THE DCF MODEL?

A. Mr. Irvine defends the use of historical DPS and EPS growth rates asserting that this provides a balanced and reasonable outcome, which is supposedly Staff's objective. *See* Irvine SB at 10. Mr. Irvine goes on to testify that if the low growth rates were to be excluded from Staff's growth estimate then it would also be appropriate to exclude the highest growth estimates. *Id.*. The difference is that there is a sound basis for excluding the historical growth rates, but not the projected growth rates. As I previously testified, the indicated costs of equity using historical DPS growth estimates are at or below the cost of debt. *See* Bourassa DT at 27-28 and Bourassa RB at 20-21. In addition, in estimating future growth, financial institutions and analysts have taken into account all relevant historical information on a company as well as other more recent information. Analyst estimates of EPS growth have also been shown to be superior in estimating the COE. These were the reasons why I excluded the historical growth rates from my analysis. *See* Bourassa DT at 26-27 and Bourassa RB at 3. The low indicated COE of Staff's constant growth DCF of 7.7% and current MRP CAPM of 7.8% suggest I am correct in my criticisms of the inputs Staff employs in its models.

The highest growth rates by either Staff or USLLC actually produce results within the ranges of my risk premium approaches and my comparable earnings approaches. Thus, there is no reason to exclude them.

Q. PLEASE EXPLAIN.

A. In Rejoinder Schedule D-4.5, the highest projected average EPS growth estimates are from Value Line at 9.0 percent. The average dividend yield of the water utilities sample is 2.7 percent. The indicated COE using the constant growth DCF model is 11.7 percent – still within the range of my COE results. Looking at it from Staff's perspective, Staff's highest growth rate is 7.5 percent for the projected sustainable growth rate. Staff's average dividend yield is 2.5 percent. The indicated COE using the constant growth DCF model is 10.0 percent - also still within the range of my COE results.

Even more telling is if Staff's highest growth rate of 7.5% is excluded from Staff's growth rates, Staff's constant growth DCF indicated COE drops to 7.2 percent – 50 basis points lower than the already low 7.7 percent.

I have shown that the average total market returns for the water utilities sample during the past 5 years have been 16.84 percent (13.34 percent compounded). *See* Bourassa RB at 10. In addition, I have shown that a market based bond risk premium based on the water utility sample and the current yield on long-term government bonds indicates a COE of over 17 percent. Historically investors have received returns far greater than Staff's recommended 8.9 percent return and far greater than my recommendation for USLLC of 10.5 percent. As the evidence shows, the highest growth rates should not be excluded because there is no rational basis to do so.

Q. DOES MR. IRVINE CRITICIZE YOUR COMPUTATION OF THE AVERAGE TOTAL MARKET RETURNS FOR THE WATER UTILITY SAMPLE FOR THE PAST 5 YEAR?

A. Yes, Mr. Irvine that the finds the 13.34 percent total market returns does not recognize compounding, but I in fact it does. *See* Irvine SB at 9. The 5 year average total market return is 16.84 percent.

F. <u>Response to Staff's Testimony on the Staff's Inputs.</u>

Q. PLEASE COMMENT ON MR. IRVINE'S TESTIMONY THAT STAFF DOES NOT EXCLUDE INPUTS BECAUSE THEY ARE AT OR BELOW A SELECTED BENCHMARK AND ARE VIEWED AS TOO HIGH OR TOO LOW?

A. Mr. Irvine's comments reinforce my point that Staff does not provide for a reality check on the results of their models. Mr. Irvine mechanically applies his finance models and blindly accepts the results.

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

A. Yes.

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

Exhibit
Rejoinder ScheduleD-4.0
Witness: Bourassa

Line No.		Low	High	Midpoint
1	DCF Constant Growth	9.7%	12.0%	10.9%
2	DCF Sustainable Growth	8.2%	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
Rejoinder Schedule D-4.1
Witness: Bourassa

Line No.		% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1						
2						
3						
4	1. American States	85%	$ 254.3	$ 655.7	A-	A2
5	2. Aqua America	88%	$ 519.6	$ 2,112.5	AA-	NR
6	3. California Water	96%	$ 331.9	$ 813.9	NR	A2
7	4. Connecticut Water	90%	$ 49.4	$ 209.0	AAA	NR
8	5. Middlesex	89%	$ 80.5	$ 274.4	A	NR
9	6. SJW Corp.	97%	$ 188.3	$ 406.7	NR	NR
10						
11	Average	91%	$ 237.3	$ 745.4		
12						
13	Utility Source, L.L.C.	56%	$ 0.2	$ 5.0	NR	NR
14						
15	Source: AUS Utility Reports (March 2007)					

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

Exhibit
Rejoinder Schedule D-4.2
Witness: Bourassa

	Book Value		Market Value	
	Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1. American States	50.4%	49.6%	29.4%	70.6%
2. Aqua America	52.0%	48.0%	22.8%	77.2%
3. California Water	48.3%	51.7%	25.0%	75.0%
4. Connecticut Water	40.6%	59.4%	24.5%	75.5%
5. Middlesex	56.3%	43.7%	36.7%	63.3%
6. SJW Corp.	42.6%	57.4%	16.2%	83.8%
Average	48.3%	51.7%	25.8%	74.2%
Utility Source, L.L.C.	0.0%	100.0%	N/A	N/A

Sources:
Zacks Investment Research

Exhibit
Rejoinder Schedule D-4.3
Page 1
Witness: Bourassa

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

		Five-year historical compound annual changes				
			Book			Average Future
	Company	Price	Value	DPS	EPS	Growth*
1.	American States	14.33%	4.53%	0.90%	Negative	8.25%
2.	Aqua America	13.45%	16.62%	8.45%	6.84%	8.83%
3.	California Water	14.16%	4.06%	0.53%	7.03%	7.83%
4.	Connecticut Water	-2.03%	5.40%	1.22%	Negative	
5.	Middlesex	5.41%	4.33%	1.56%	5.44%	
6.	SJW Corp.	24.77%	6.02%	5.27%	11.53%	
	GROUP AVERAGE	11.68%	6.83%	2.99%	7.71%	8.31%
	GROUP MEDIAN	13.81%	4.96%	1.39%	6.93%	8.25%

* See Rejoinder Schedule D-4.5

Sources:
Value Line Data
Yahoo Finance

Exhibit
Rejoinder Schedule D-4.4
Page 1
Witness: Bourassa

Utility Source, L.L.C.

Comparisons of Past and Future Estimates of Growth

	Company	Price	Book Value	DPS	EPS	Average Future Growth*
		Ten-year historical compound annual changes				
1.	American States	14.63%	4.13%	1.05%	1.64%	8.25%
2.	Aqua America	19.28%	12.77%	6.94%	9.00%	8.83%
3.	California Water	11.32%	2.60%	1.01%	Negative	7.83%
4.	Connecticut Water	9.88%	4.12%	1.13%	Negative	
5.	Middlesex	12.89%	3.89%	1.99%	3.67%	
6.	SJW Corp.	21.15%	4.28%	3.94%	3.24%	
	GROUP AVERAGE	14.86%	5.30%	2.68%	4.39%	8.31%
	GROUP MEDIAN	13.76%	4.13%	1.56%	3.45%	8.25%

* See Rejoinder Schedule D-4.5

Sources:
Value Line Data
Yahoo Finance

Exhibit
Rejoinder Schedule D-4.5
Witness: Bourassa

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

		(1)	(2)	(3)	(4)
		EPS GROWTH			Average
				Value	Growth (G)
	Company	Zacks	S&P	Line	(Cols 1-3)
1.	American States		6.00%	10.50%	8.25%
2.	Aqua America	9.00%	10.00%	7.50%	8.83%
3.	California Water	9.00%	10.00%	4.50%	7.83%
4.	Connecticut Water	*10.00%*			8.31%
5.	Middlesex	8.00%			8.31%
6.	SJW Corp.				8.31%
	GROUP AVERAGE	9.00%	8.67%	7.50%	8.31%
	GROUP MEDIAN				8.31%

Sources:
Value Line Investment Analyzer March 30, 2007
Zacks Investment Research Site March 23, 2007
S&P Earnings Guide March 2007

Exhibit
Rejoinder Schedule D-4.6
Witness: Bourassa

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

	Company	(1) Retention Ratio	(2) Rate of Return	(3) br Growth	(4) sv Growth	(5) Average Sustainable Growth (Cols 3+4)
1.	American States	0.48	10.00%	4.84%	1.81%	6.65%
2.	Aqua America	0.33	12.00%	3.96%	2.23%	6.19%
3.	California Water	0.32	9.00%	2.90%	4.60%	7.50%
4.	Connecticut Water					
5.	Middlesex					
6.	SJW Corp.					
	GROUP AVERAGE	0.38	10.33%	3.90%	2.88%	6.78%
	GROUP MEDIAN	0.33	10.00%	3.96%	2.23%	6.65%

Sources:
Value Line Data

Exhibit
Rejoinder Schedule D-4.7
Witness: Bourassa

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

Line No.		Company	Stock Financing Rate	Current Market to Book Ratio	v	sv Growth
1			(1)	(2)	(3)	(4)
2						
3						
4						
5						
6						
7	1.	American States	3.04%	2.48	0.60	1.81%
8	2.	Aqua America	3.06%	3.68	0.73	2.23%
9	3.	California Water	7.41%	2.64	0.62	4.60%
10	4.	Connecticut Water				na
11	5.	Middlesex				na
12	6.	SJW Corp.				na
13						
14						
15		GROUP AVERAGE	4.50%	2.93	0.65	2.88%
16		GROUP MEDIAN	3.06%	2.64	0.62	2.23%
17						
18	Sources:					
19		Value Line Data				
20						
21						

Exhibit
Rejoinder Schedule D-4.8
Witness: Bourassa

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

		(1)	(2)	(3)	(4)	(5)
	Company	Spot Price (Po)	Next Year's Div (D_1)	Dividend Yield	(a) EPS Growth (g)	Indicated Cost of Equity k=Div Yld + g (Cols 3+4)
1.	American States	36.87	0.94	2.55%	8.25%	10.8%
2.	Aqua America	22.45	0.50	2.23%	8.83%	11.1%
3.	California Water	38.32	1.16	3.03%	7.83%	10.9%
4.	Connecticut Water	24.05	0.86	3.57%	8.31%	11.9%
5.	Middlesex	18.39	0.68	3.72%	8.31%	12.0%
6.	SJW Corp.	40.48	0.58	1.43%	8.31%	9.7%
	GROUP AVERAGE			2.76%	8.31%	11.1%
	GROUP MEDIAN					11.0%

a) See Rejoinder Schedules D-4.5

Sources:
Value Line Investment Analyzer March 30, 2007
Yahoo Finance Website March 30, 2007

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

Exhibit
Rejoinder Schedule D-4.9
Witness: Bourassa

	Company	(1) Spot Price (Po)	(2) Next Year's Div (D_1)	(3) Dividend Yield	(4) Sustainable Growth(a) br	(5) Sustainable Growth(a) vs	(6) br+sv Growth (g)	(7) Indicated Cost of Equity k=Div Yld + g (Cols 3+6)
1.	American States	36.87	0.94	2.55%	4.84%	1.81%	6.65%	9.2%
2.	Aqua America	22.45	0.50	2.23%	3.96%	2.23%	6.19%	8.4%
3.	California Water	38.32	1.16	3.03%	2.90%	4.60%	7.50%	10.5%
4.	Connecticut Water	24.05	0.86	3.57%			6.78%	10.4%
5.	Middlesex	18.39	0.68	3.72%			6.78%	10.5%
6.	SJW Corp.	40.48	0.58	1.43%			6.78%	8.2%
	GROUP AVERAGE			2.76%			6.78%	9.5%
	GROUP MEDIAN							9.8%

a) See Rejoinder Schedule D-4.6 and D-4.7

Sources:
Value Line Investment Analyzer March 30, 2007
Yahoo Finance Website March 30, 2007

Exhibit
Rejoinder Schedule D-4.10
Witness: Bourassa

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

Line No.			(1)	(2)	(3)	(4)	(5)	(6)	(7)
1									
2									
3									
4				Next		Projected Growth Rates			Indicated
5			Spot	Year's	Yield	Near	Long		Cost of
6		Company	Price(P_0)	Div (D_1)	(D_1/P_0)	Term (a)	Term (GDP)	Average (b)	Equity
7	1.	American States	36.87	0.94	2.55%	8.25%	6.80%	7.77%	10.3%
8	2.	Aqua America	22.45	0.50	2.23%	8.83%	6.80%	8.16%	10.4%
9	3.	California Water	38.32	1.16	3.03%	7.83%	6.80%	7.49%	10.5%
10	4.	Connecticut Water	24.05	0.86	3.57%	8.31%	6.80%	7.81%	11.4%
11	5.	Middlesex	18.39	0.68	3.72%	8.31%	6.80%	7.81%	11.5%
12	6.	SJW Corp.	40.48	0.56	1.38%	8.31%	6.80%	7.81%	9.2%
13									
14									
15		GROUP AVERAGE						7.81%	10.6%
16		GROUP MEDIAN							10.5%
17									
18		(a) See Rejoinder Schedule D-4.5							
19		(b) Near term growth given weighting of .67							
20									
21									
22									
23									
24									

Exhibit
Rejoinder Schedule D-4.11
Witness: Bourassa

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

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 SBBI Valuation Edition 2006 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. December 2006			
29	Federal Reserve			
30				

Exhibit
Rejoinder 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%	6.13%
2	2004	10.40%	4.27%	6.13%
3	2003	10.48%	4.01%	6.47%
4	2002	10.62%	4.61%	6.01%
5	2001	10.86%	5.02%	5.84%
6	2000	11.12%	6.03%	5.09%
7	1999	11.12%	5.65%	5.47%
8	1998	11.06%	5.26%	5.80%
9	1997	11.18%	6.35%	4.83%
10	1996	11.58%	6.44%	5.14%
11	1995	11.51%	6.57%	4.94%
12				
13				
14	10 Year Average Premium			5.69%
15	5 Year Average Premium			6.12%
16				
17				
18	Consensus Forecast Interest Rates for 2008-2009			5.15%
19				
20	Projected Returns on Equity			
21	10 Year Average			10.8%
22	5 Year Average			11.3%
23				
24				
25	Sources:			
26	AUS Utility Reports, issues for December various years			
27	Ibbotson Associates SBBI Valuation Edition 2006 Yearbook			
28	Blue Chip Forecast Interest Rates - 10 year Treas. December 2006			
29	Federal Reserve			

Exhibit
Rejoinder 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
March 2007

Line No.		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			