



ARIZONA WATER COMPANY

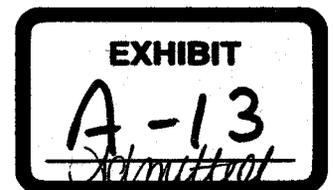


Docket No. W-1445A-02-0619

2002 RATE HEARING EXHIBIT NO. ____

For Test Year Ending 12/31/01

**PREPARED
REJOINDER TESTIMONY & EXHIBITS
OF
Sheryl L. Hubbard**



EXHIBITS

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE
APPLICATION OF ARIZONA WATER
COMPANY, AN ARIZONA
CORPORATION, FOR ADJUSTMENTS
TO ITS RATES AND CHARGES FOR
UTILITY SERVICE FURNISHED BY
ITS EASTERN GROUP AND FOR
CERTAIN RELATED APPROVALS.

Docket No. W-01445A-02-0619

REJOINDER TESTIMONY OF SHERYL L. HUBBARD

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1 **I. INTRODUCTION**

2 **Q. WHAT ARE YOUR NAME, EMPLOYER AND OCCUPATION?**

3 A. My name is Sheryl L. Hubbard. I am employed by Arizona Water Company (the
4 "Company" or "AWC") as Manager of Rates and Regulatory Accounting.

5 **Q. ARE YOU THE SAME SHERYL L. HUBBARD THAT PREVIOUSLY**
6 **SUBMITTED DIRECT TESTIMONY AND REBUTTAL TESTIMONY IN**
7 **THIS MATTER?**

8 A. Yes, I am.

9 **II. OVERVIEW, PURPOSE AND EXTENT OF TESTIMONY**

10 **Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. The purpose of my rejoinder testimony is to respond to certain surrebuttal
13 testimony submitted by the Arizona Corporation Commission's Utilities Division
14 Staff ("Staff") and the Residential Utility Consumer Office ("RUCO") in this rate
15 proceeding. Specifically, I will present the Company's rejoinder position with
16 respect to several elements of rate base including plant in service, accumulated
17 depreciation, post test year plant additions, working capital allowance, deferred
18 Central Arizona Project ("CAP") charges, and the Phoenix Office and Meter Shop
19 allocations of plant-related items. In addition, I will address a number of items
20 related to net operating income such as the revenue annualization, purchased power
21 expenses, the Company's Purchased Power Adjustment Mechanism ("PPAM"), the
22 Company's Purchased Water Adjustment Mechanism ("PWAM"), amortization of
23 deferred CAP charges, water treatment expenses, rate case expenses, and
24 amortization of Contributions in Aid of Construction.

25 I also wish to note that, to the extent that rejoinder testimony of other
26 Company witnesses addresses surrebuttal positions proffered by Staff or RUCO

1 regarding the Pinal Creek Group ("PCG") settlement that have an impact on the
2 Company's rejoinder schedules, I will provide an explanation of those impacts.

3 **Q. DOES YOUR TESTIMONY IN THIS PROCEEDING INCORPORATE**
4 **RECOMMENDATIONS OF OTHER COMPANY WITNESSES?**

5 A. Yes, it does. My testimony in this proceeding incorporates recommendations
6 sponsored by the Company's President William M. Garfield, as well as by Vice-
7 Presidents Ralph J. Kennedy and Michael J. Whitehead throughout the course of
8 the Company's presentation in this case.

9 **Q. ARE YOU SPONSORING ANY OF THE COMPANY'S REJOINDER**
10 **EXHIBITS AND SCHEDULES?**

11 A. Yes, I am sponsoring the following exhibits, all of which are attached to this
12 testimony:

13 Exhibit SLH-RJ1 Comparison of Company's, Staff's and RUCO's
14 Recommended Revenue Requirements

15 Exhibit SLH-RJ2 Comparison of Company's, Staff's and RUCO's Original
16 Cost Rate Base

17 Exhibit SLH-RJ3 Comparison of Company's, Staff's and RUCO's Adjusted
18 Net Operating Income

19 Exhibit SLH-RJ4 Allocation of Phoenix Office (W/P SLH-R1 (Line 2))

20 Exhibit SLH-RJ5 Allocation of Meter Shop (W/P SLH-R1 (Line 3))

21 Exhibit SLH-RJ6 Response to Data Request No. RUCO 1.6 f)
22 (CIAC/AIAC)

23 Exhibit SLH-RJ7 Copy of 2003 Department of Revenue Preliminary Notice
24 of Value

25 Exhibit SLH-RJ8 Copy of 2003 Pinal County Tax Notice

26 Exhibit SLH-RJ9 Comparison of Net Plant

1 Exhibit SLH-RJ10 Apache Junction Purchased Water Expense Comparisons

2 **Q. PLEASE DESCRIBE EXHIBIT SLH-RJ1.**

3 A. Exhibit SLH-RJ1 is a nine-page exhibit titled "Computation of Increase in Gross
4 Revenue Requirements." The exhibit provides a comparison of the Company's
5 increase in gross revenue request in this proceeding to the positions of Staff and
6 RUCO. A separate schedule is provided for each system in the Eastern Group.
7 The format of the exhibit is comparable to Schedule A-1 of the Company's direct
8 case schedules.

9 **Q. PLEASE DESCRIBE EXHIBIT SLH-RJ2.**

10 A. Exhibit SLH-RJ2 is a nine-page exhibit titled "Pro Forma Adjustments to Rate
11 Base." There is a schedule for the entire Eastern Group and the eight operating
12 systems showing the specific adjustments that make up the final rate base positions
13 of the Company, Staff and RUCO. The format of the information summarized on
14 Exhibit SLH-RJ2 is comparable to the Company's rebuttal Exhibit SLH-R2.

15 **Q. PLEASE DESCRIBE EXHIBIT SLH-RJ3.**

16 A. Exhibit SLH-RJ3 is a nine-page exhibit titled "Pro Forma Operating Income
17 Statements". This exhibit, like Exhibit SLH-RJ2, consists of a set of schedules
18 setting forth the detailed adjustments making up the final adjusted operating
19 income positions of the Company, Staff and RUCO. A separate schedule is
20 provided for each system in the Eastern Group. The format of the exhibit is
21 comparable to Schedule C-1 of the Company's direct case schedules.

22 **III. RATE BASE**

23 **A. Plant In Service**

24 **Q. DID STAFF ACCEPT THE COMPANY'S ASSERTION THAT THE**
25 **PHOENIX OFFICE AND METER SHOP TEST YEAR PLANT IN**
26 **SERVICE BALANCES WERE INADVERTANTLY REMOVED FROM**

1 **RATE BASE BY STAFF?**

2 A. Yes. Staff accepts the Company's assertion that an adjustment is necessary to
3 correct Staff's elimination of test year plant for the Phoenix Office and Meter
4 Shop. *See* Surrebuttal Testimony of Ronald E. Ludders ("Ludders Surrebuttal") at
5 2. However, Staff has now revised the adjustment the Company identified as
6 necessary to correct Staff's error.

7 **Q. HAS THE COMPANY REVIEWED THE CALCULATION OF THE**
8 **STAFF'S PROPOSED ADJUSTMENT?**

9 A. Yes. Unfortunately, it appears that the Company's attempt to provide a simple
10 adjustment to add back test year plant that Staff inadvertently eliminated has not
11 been understood. In its direct filing, Staff included only its recommended level of
12 post test year plant for the Phoenix Office and Meter Shop inadvertently
13 eliminating the allocation of the Phoenix Office and Meter Shop test year plant. In
14 its rebuttal filing, the Company computed the necessary adjustment to test year
15 plant to reinstate the Phoenix Office and Meter Shop plant in rate base to be
16 \$1,615,233. *See* Hubbard Rebuttal at 5. The adjustment reflected the Company's
17 removal of \$125,565 of construction work in progress that was in the Company's
18 original request for test year plant for the Phoenix Office.

19 **Q. HAVE YOU PREPARED A SCHEDULE TO PROVIDE AN APPLES TO**
20 **APPLES COMPARISON AND CALCULATES THE RESULTING**
21 **UNDERSTATEMENT THAT EXISTS?**

22 A. Yes. Exhibit SLH-RJ9 itemizes the components included in the Company's
23 rebuttal recommendations for net plant with corresponding amounts included in the
24 Staff's surrebuttal calculations.

25 **Q. PLEASE EXPLAIN THE PURPOSE OF EXHIBIT SLH-RJ9.**

26 A. Exhibit SLH-RJ9 is intended to provide the trier of facts in this proceeding with a

1 comparison of the Company's and Staff's proposed plant and to provide reasonable
2 starting points if adjustments to either the Company's or Staff's proposals are
3 recommended. As can be seen by the exhibit, the Company and Staff agree on the
4 amount of Gross Plant In Service, i.e. total Eastern Group system plant before
5 allocation of the Phoenix office or meter shop. However, there is a difference of
6 \$333,483 between the Company and Staff regarding the net Phoenix office and
7 meter shop allocation. The difference is primarily in the proper amount of test year
8 plant as shown on line 4 of the exhibit. The Company's gross plant of \$84,514,771
9 on line 19 is comparable to the Staff's \$84,181,288, an understatement by Staff of
10 \$333,483. The exhibit also shows that the Company's proposed accumulated
11 depreciation balance of \$18,157,534 on line 28 is comparable to the Staff's
12 \$19,859,537.

13 **B. Accumulated Depreciation**

14 **Q. IN ITS SURREBUTTAL TESTIMONY, DID STAFF RESPOND TO ANY**
15 **OF THE COMPANY'S DISAGREEMENTS PERTAINING TO THE**
16 **METHODOLOGY USED BY STAFF TO CALCULATE ITS PROPOSED**
17 **ACCUMULATED DEPRECIATION BALANCE?**

18 **A.** Partially. In the Company's rebuttal testimony, the Company questioned Staff's
19 imputation of an additional year of depreciation expense on the adjusted test year
20 plant, as well as Staff's failure to reflect the effect of using the half-year
21 convention as it applies to plant retirements in calculating its proposed
22 accumulated depreciation balance for the twelve years since 1991. The Staff
23 adjusted its calculation of the half-year convention in its surrebuttal calculations,
24 but the Staff did not change its imputation of an additional year of depreciation on
25 all adjusted test year plant or provide any rationale for doing so. Imputing an
26 additional year of depreciation to further reduce the Company's investment upon

1 which its revenue requirement will be determined as Staff proposes inhibits the
2 Company's ability to earn a fair rate of return on its historical adjusted test year
3 rate base. As such, Staff's recommended accumulated depreciation balance should
4 not be relied upon.

5 **C. Working Capital Allowance**

6 **Q. DOES THE COMPANY AGREE WITH THE STAFF'S REVISED**
7 **POSITION CONCERNING THE PROPER LAG FACTOR FOR**
8 **PROPERTY TAXES?**

9 A. No, and we maintain the position set forth in the Company's rebuttal filing. *See* Hubbard
10 Rebuttal at 9. Staff is mistakenly measuring the lag between the valuation date and the
11 payment date. The lead/lag method of computing the cash working capital component of
12 rate base requires a calculation of the lead days (prepayments) or lag days (accruals) that
13 exist between the time an expense is **recorded** and the **payment** of such expense.
14 Although, the Company does not take issue with the January 7, 1997 Arizona Department
15 of Revenue ("DOR") memo (Staff Surrebuttal Exhibit REL-2), which, I note, existed at
16 the time when the Northern Group's rate case was processed, it does not affect the
17 computation of the lag days for working capital purposes. As discussed in the Company's
18 rebuttal, the Staff used a 212 lag day factor in calculating the cash working capital
19 component related to property taxes in the Northern Group's rate case which was adopted
20 by the Commission. *See* Hubbard at 9. Staff, in this case, relies on the timing of the
21 valuation versus the recording and payment of the tax expense to determine its property
22 tax lag days. The tax year and the associated payment dates are clearly set forth in the
23 DOR memo attached to Mr. Ludders' testimony as Exhibit REL-2. Upon careful
24 examination of that memo referring to the column labeled "New Calendar", for tax year
25 1999, the due date for the first half of taxes was October 1, 1999. The due date for the
26 second half of taxes was March 1, 2000. The valuation date of January 1, 1998 had

1 nothing to do with the timing of the liability to the property owner or the timing of the
2 payment of property taxes. The 2003 valuation notice provided to Arizona Water by DOR
3 attached as Exhibit SLH-RJ7 confirms the Company's use of a 212 lag day factor in its
4 cash working capital calculation for property taxes. The 2003 valuation notice explicitly
5 states that "The valuation date for the above value is: January 1, 2002. However, the
6 value will not be used for property tax purposes until tax year 2003. Taxes will be due as
7 follows: First half due: October 1, 2003, Second half due: March 1, 2004."

8 The property tax bill for the year is computed by the counties and cities, which
9 then send the Company a tax notice around August of the property tax year payable in two
10 increments. (See Exhibit SLH-RJ8, copy of the 2003 Pinal County tax notice for tax year
11 2003). One half of the bill (**recorded** by AWC during the first six months of the year) is
12 **payable** November 3rd (2003 in this example) and the remaining half of the bill (**recorded**
13 by AWC during the last six months of the year) is **payable** May 3rd of the subsequent
14 year (2004 for the 2003 tax bill and tax year). Therefore, the current year's property tax
15 liability is **recorded** from January to December with **payments** in November of the
16 current year and May of the subsequent year, resulting in an extended lag in the payment
17 of property taxes but **only** a 212 day lag for working capital purposes. The billing and
18 payment requirements by the counties and cities assessing property taxes have not been
19 changed based upon the valuation date notice relied upon by the Staff in its calculation of
20 the lag days.

21 **Q. DOES STAFF CONTINUE TO ASSERT THAT THE COMPANY**
22 **INCLUDED DEPRECIATION EXPENSE AND DEFERRED TAXES IN**
23 **THE CALCULATION OF EXPENSE LAG DAYS?**

24 **A.** No, instead, Staff's surrebuttal testimony asserts that the Company "did not remove
25 [depreciation expense and deferred taxes] from its calculation of revenue days."
26 Ludders Surrebuttal at 4.

1 **Q. WHAT IS THE COMPANY'S RESPONSE TO THIS NEW POSITION?**

2 A. To compute its working capital requirements, the Company computed revenue
3 days based on the amount of revenues billed to its customers adjusted for the pro
4 forma adjustments that affect revenues. The lag in the collection of adjusted test
5 year revenues was determined for each system in the Eastern Group and used in
6 computing the revenue lag to determine the working capital requirement. When
7 the lag in the collection of revenues is greater than the lag for the payment of
8 expenses, working capital is provided by investors and that amount is added to rate
9 base.

10 **E. Deferred Central Arizona Project Charges**

11 **Q. DO YOU AGREE WITH MR. LUDDERS THAT GENERALLY**
12 **ACCEPTED ACCOUNTING PRINCIPLES SUPPORT STAFF'S**
13 **RECOMMENDED 44-YEAR AMORTIZATION PERIOD FOR**
14 **RECOVERY OF DEFERRED CENTRAL ARIZONA PROJECT**
15 **CHARGES?**

16 A. Mr. Ludders is only partially correct. The deferral of Central Arizona Project
17 ("CAP") charges is allowable under Generally Accepted Accounting Principles
18 ("GAAP") for regulated entities because of Financial Accounting Standards
19 Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 71,
20 "Accounting for the Effects of Certain Types of Regulation". Generally, this
21 statement identifies when the recording of regulatory assets is appropriate which is
22 a departure from GAAP for unregulated entities. Regulatory assets, such as the
23 deferred CAP M&I charges, allow regulators to balance the financial needs of the
24 utility with the need to prevent sharp increases in rates.

25 Under SFAS #71, instead of recording the full cost as an expense in the
26 same period the cost is incurred, the regulated utility capitalizes the future

1 recoverable amount. That asset is then amortized over the period that the costs are
2 allowed in rates by the regulator. The Commission is not restricted to or limited to
3 an amortization period based upon an "estimated benefit period" that a non-
4 regulated entity would be required to use. As explained in the Company's rebuttal
5 testimony, the basis of Staff's recommended amortization period is that the
6 deferred CAP M&I charges are an asset with some estimated future benefit period.
7 *See Hubbard Rebuttal at 12.* The Company, however, asserts that M&I charges
8 are more accurately characterized as a lease payment for the use of the Central
9 Arizona Project canal system for the annual delivery of Colorado River water for
10 the Apache Junction system under the CAP contract. *Id.* at 12. The Commission
11 authorized the deferral of the M&I charges and an allowance for funds used during
12 construction until such time as AWC's CAP allocation was being fully utilized.
13 (Decision 58120, December 23, 1992) Arizona Water has used a portion of its
14 annual allocation for potable consumption since prior to entry of Decision 58120
15 without recovery of the CAP M&I charges.

16 **Q. IS THE THREE-YEAR AMORTIZATION PERIOD PROPOSED BY THE**
17 **COMPANY CONSISTENT WITH GAAP?**

18 A. Yes. As discussed above, the recovery period for a regulatory asset such as the
19 deferred CAP M&I charges, is determined by the regulator's inclusion of the
20 deferred expenses in the Company's rates. The subjective nature of the recovery
21 period is the reason regulatory bodies generally strive for some consistency in the
22 treatment of similar expenditures between utilities they regulate.

23 **Q. HOW HAS THIS COMMISSION ADDRESSED THE RECOVERY OF**
24 **DEFERRED CAP M&I CHARGES FOR OTHER WATER UTILITIES**
25 **UTILIZING THEIR ALLOCATIONS?**

26 A. As discussed thoroughly in my rebuttal testimony at pages 12-13, the Commission

1 addressed the recovery of deferred CAP M&I charges for Sun City Water
2 Company and Sun City West Utilities Company, now operational districts of
3 Arizona-American Water Company in Decision No. 62293 (February 1, 2000). In
4 that case, following a determination that the CAP water was "used and useful", the
5 deferred CAP charges were amortized over a 5-year amortization period. Staff
6 ignores this aspect of my testimony and I cannot see how they can reconcile the
7 inconsistent treatment they propose for AWC.

8 **III. NET OPERATING INCOME**

9 **A. Revenue Annualization**

10 **Q. DID STAFF ACCEPT THE COMPANY'S RATIONALE FOR ITS USE OF**
11 **THE AVERAGE REVENUE PER CUSTOMER BASED SOLELY ON THE**
12 **5/8-INCH METER SIZE FOR PURPOSES OF COMPUTING ITS**
13 **REVENUE ANNUALIZATION?**

14 **A.** No. But the Staff does argue that a mismatch results from the use of total expenses
15 rather than just the expenses for the 5/8-inch meter group. The Company does
16 concede that its calculation of the expense annualization applies the cost per gallon
17 of applicable expenses to the average gallons sold per customer for all meter sizes
18 versus just the 5/8-inch meter size. Therefore, an adjustment to the expense
19 annualization previously reflected in the Company's direct case presentation to
20 reflect only expenses associated with the 5/8-inch meter size is reflected in the
21 Company's rejoinder position on the attached Exhibit SLH-RJ3. The adjustments
22 affect the source of supply expenses, pumping costs, and water treatment. The
23 effect of this adjustment on the Eastern Group's operating income is a decrease in
24 expenses of \$25,967 less the effect of income taxes.

25 The Company maintains its position that the Staff's revenue annualization is
26 incorrect because it overstates revenues by at least \$94,080 for the Eastern Group,

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but acknowledges that the Company's expense annualization is overstated by \$25,967 less applicable income taxes and has reflected that adjustment in its final rejoinder position. See Hubbard Rebuttal at page 17.

B. Purchased Power Adjustment Mechanism

Q. IS THE COMPANY PERSUADED BY THE STAFF'S ADDITIONAL TESTIMONY REGARDING ELIMINATION OF THE PPAM?

A. No. Why would the Commission reject a mechanism designed to recover costs, like purchased power, that are outside of the Company's control when doing so either threatens the Company's ability to earn its authorized rate of return or causes customers to pay more than the cost of service? Staff's position is especially problematic in times when the electric power market is in a transition from a fully regulated environment to a market-based deregulated environment. I should think it obvious that a mechanism that both shields AWC from unanticipated cost increases and passes through to customers unanticipated decreases in the costs of electric power is fair and equitable. Therefore, the Company's PPAM should be retained.

C. Purchased Water Adjustment Mechanism

Q. STAFF'S SURREBUTTAL TESTIMONY REPEATS ITS RECOMMENDATION TO ELIMINATE THE COMPANY'S PURCHASED WATER ADJUSTOR MECHANISM FOR SAN MANUEL. WHAT IS THE COMPANY'S RESPONSE TO STAFF'S ARGUMENT THAT THE PURCHASED WATER ADJUSTMENT MECHANISM TRANSFERS THE RISK OF PROVIDING WATER TO RATEPAYERS?

A. The risk that a shareholder takes is the risk that earnings will not be sufficient to pay dividends and provide a reasonable return on the shareholder's investment. The cost of purchasing water is not the only cost of providing reliable water

1 service in the San Manuel system, as Staff implies. The Company has investment
2 in transmission and distribution facilities (\$825,000 - adjusted TY 2001) and
3 incurs expenses (\$360,000 O&M for 2001) to provide water service to its San
4 Manuel customers. The PWAM allows the Company a reasonable opportunity to
5 earn its authorized return on its investment in the San Manuel system because the
6 changes in the cost of one component of providing water are recovered without the
7 delay and expense of a general rate proceeding, while at the same time, the
8 PWAM assures that customers bear no more than the actual cost of purchased
9 water. With the Company's pro forma expense adjustments, which reflect the
10 latest rate increase to \$1.12 per thousand gallons, purchased water constitutes 41%
11 of the San Manuel system's O&M expenses and is highly volatile. The last two
12 increases by BHP increased the cost of purchased water 96% as discussed in the
13 Company's rebuttal testimony. See Hubbard Rebuttal at 20.

14 **D. Central Arizona Project Cost Amortization**

15 **Q. STAFF REJECTS THE COMPANY'S ASSERTION THAT STAFF'S**
16 **RECOMMENDED PURCHASED WATER EXPENSE FOR APACHE**
17 **JUNCTION IS UNDERSTATED BY \$31,604 AND FURTHER REVISES ITS**
18 **CAP PURCHASED WATER EXPENSE RECOMMENDATION. WHAT IS**
19 **THE COMPANY'S RESPONSE TO THESE CHANGES?**

20 **A.** The table below summarizes the Company's request for purchased water expense
21 for Apache Junction and the Staff's surrebuttal recommendation regarding the same
22 also set forth on Exhibit SLH-RJ10.
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	Company	Staff
Purchased Water Expense	\$797,336	\$797,336
Pro Forma Adjustments	<u>166,225</u>	<u>168,353</u>
Subtotal	\$963,561	965,689
Annualize Test Year End Customers	<u>19,233</u>	<u>31,584</u>
Total Purchased Water Expense	<u>\$982,794</u>	<u>\$997,273</u>

In its surrebuttal testimony, Staff is recommending \$965,689 for purchased water expense for Apache Junction. See Ludders Surrebuttal at 9. The effect of this revised recommendation is an elimination of the adjustment to annualize test year end customers. The Company opposes Staff's adjustment to eliminate the Company's pro forma adjustment to annualize purchased water expense because this would create a mismatch in revenues and expenses. Staff's original recommendation to annualize the expense is an increase in the purchased water expense of \$31,584 and, when added to Staff's revised purchased water expense results in a total purchased water expense of \$997,273 (\$965,689 + \$31,584).

Q. PLEASE EXPLAIN THE DIFFERENCE IN THE COMPANY'S AND STAFF'S PROPOSED EXPENSE ANNUALIZATION.

A. For consistency with the Company's rejoinder testimony, the expense annualization for purchased water of \$19,233 reflects the adjustment discussed at pages 11-12 to compute the pro forma adjustment using costs associated with the 5/8-inch meter size only.

Q. FOR THE APACHE JUNCTION SYSTEM, STAFF IS RECOMMENDING \$965,689 OF PURCHASED WATER EXPENSE. IS THIS AMOUNT PROPERLY REFLECTED IN THE STAFF'S CALCULATION OF ITS NET OPERATING INCOME?

A. No. On Staff's work paper detailing its recommended Adjusted Operating Income

1 of \$2,145,383, the purchased water expense included in the calculation of the net
2 income is \$752,219 while in Staff's surrebuttal testimony, the recommended
3 purchased water expense is \$965,689, a difference of \$213,470. See Ludders
4 Surrebuttal at 9. The effect of this apparent error on the Apache Junction system is
5 an overstatement of income by Staff of \$131,073. (\$213,470 net of income taxes of
6 \$82,397).

7 **E. Water Treatment Expenses**

8 **Q. YOUR REBUTTAL TESTIMONY AT PAGE 23 ACCEPTS STAFF'S**
9 **RECOMMENDED LEVEL OF WATER TESTING EXPENSES. HAS THE**
10 **COMPANY INCORPORATED THE STAFF'S PROPOSED WATER**
11 **TESTING EXPENSE INTO ITS REJOINDER EXHIBITS?**

12 **A.** Yes. The Company accepts the Staff's water testing expenses, as well as the
13 remainder of Staff's proposed water treatment expenses. The effect of accepting
14 Staff's proposed water treatment expenses is reflected on line 12 of Exhibit SLH-
15 RJ3 in the column labeled Company-Rebuttal & Rejoinder Adjustments. The
16 difference in the Company's water treatment expenses of \$358,062 and the Staff's
17 water treatment expenses of \$360,946 is due to the revision of the Company's
18 expense annualization adjustment discussed on pages 11 and 12.

19 **F. Rate Case Expense**

20 **Q. HOW DOES AWC RESPOND TO STAFF'S OPPOSITION TO THE**
21 **INCLUSION OF LEGAL EXPENSES REGARDING THE ARSENIC COST**
22 **RECOVERY MECHANISM PROCEEDINGS IN THE RATE CASE**
23 **EXPENSE FOR THIS EASTERN GROUP RATE CASE?**

24 **A.** The Arsenic Cost Recovery Mechanism ("ACRM") proceeding, although it arose
25 as Phase Two of the Company's Northern Group rate case, has evolved into a
26 procedure that will, with minor modifications, be applied to the Eastern Group

1 systems as well. For that reason, AWC asserts that Northern Group customers
2 should not bear the full impact of the costs to obtain an ACRM and that \$71,003 of
3 the total \$100,579 incurred through July 2003 by AWC in Phase Two of the
4 Northern Group proceedings should be allocated between the Eastern Group
5 systems that will require arsenic treatment facilities. A 3-factor allocation of the
6 \$71,003 based upon the systems that will benefit from the ACRM is recommended.
7 For purposes of this proceeding, the Company proposes to allocate \$56,770 of the
8 ACRM legal costs to Apache Junction, \$7,225 to Superior and \$7,008 to San
9 Manuel. Other allocation methodologies were analyzed with similar results. The
10 ACRM legal costs are in addition to the rate case expenses previously requested in
11 this proceeding of \$257,550. The Company is requesting a three-year amortization
12 for the recovery of those rate case expenses or \$85,850 per year on a total Eastern
13 Group basis. The Company is requesting the same three-year amortization period
14 for the ACRM legal costs. The Company has already provided an update to its
15 proposed rate case expenses in response to discovery requests and will provide an
16 additional update on September 15, 2003. At that time a revised allocation of rate
17 case expenses will be incorporated into the Company's request in this proceeding.

18 **G. Additional CIAC Amortization**

19 **Q. STAFF ALSO OPPOSES THE CALCULATION OF A COMPOSITE RATE**
20 **FOR PURPOSES OF AMORTIZING CONTRIBUTIONS IN AID OF**
21 **CONSTRUCTION ("CIAC") BASED UPON THE PLANT ACCOUNTS**
22 **AFFECTED BY CONTRIBUTIONS. WHAT IS THE COMPANY'S**
23 **RESPONSE TO STAFF'S ALLEGATION, IN ITS SURREBUTTAL**
24 **TESTIMONY, THAT THIS SUBJECT SHOULD HAVE BEEN PROPOSED**
25 **IN THE COMPANY'S ORIGINAL FILING?**

26 **A. Although Staff questions why the Company did not raise this change in**

1 amortization methodology when it filed the application (*See* Ludders Surrebuttal at
2 11), the change in methodology is necessitated by the change in depreciation
3 methodology Staff is recommending and it is wrong for Staff to preclude the
4 Company from addressing the issue.

5 In its last two rate cases, the Company used a composite depreciation
6 methodology for computing depreciation of its plant assets as well as amortizing
7 CIAC. In Decision No. 64282 (December 28, 2001), the Commission adopted
8 Staff's recommendation to require the Company to use component depreciation
9 rates in its next rate case filing. As a result of that decision, the Company filed pro
10 forma adjustments to its test year depreciation expense to convert its depreciation
11 expense calculation to recognize the effect of using a component methodology to
12 depreciate assets. Accordingly, this rate proceeding is the appropriate forum to
13 establish the appropriate rate to amortize CIAC for Arizona Water. The effect on
14 the Company's rate base and income statement is not material (less than \$30,000
15 on an Eastern Group basis) and does not present an obstacle, irrespective of
16 whether it was raised by the Company in the application or in rebuttal to Staff's
17 adjustment to the amortization expense. The important thing is for the Commission
18 to adopt the correct methodology.

19 **IV. RESPONSE TO SURREBUTTAL TESTIMONY OF RUCO**

20 **A. Test Year Adjustments**

21 **Q. RUCO ALLEGES THAT THE COMPANY HAS OVERSTATED ITS**
22 **OVERALL LEVEL OF ADJUSTED TEST YEAR EXPENSES. IS THERE**
23 **ANY VALIDITY TO THIS ALLEGATION?**

24 **A.** No. A comparison of the expense levels recommended by RUCO, including minor
25 adjustments set forth in its surrebuttal to the Company's requested level of
26 expenses, illustrates that there is no validity to RUCO's allegation. For example,

1 for the Apache Junction system, the Company is requesting total operation and
2 maintenance expenses of approximately \$4.2 million compared to RUCO's
3 recommendation of \$4.4 million. Likewise, the Company is requesting
4 approximately \$7.1 million in operating expenses versus the \$7.5 million that
5 RUCO is recommending.

6 **Q. RUCO SPECIFICALLY TARGETS THE COMPANY'S PROPOSED**
7 **DEPRECIATION AND AMORTIZATION EXPENSE AS POSSIBLY**
8 **BEING OVERSTATED. HAS THE COMPANY PERFORMED A SIMILAR**
9 **COMPARISON?**

10 A. Yes. On a total Eastern Group basis, the difference between the requested
11 depreciation and amortization expense of the Company and the comparable
12 expenses recommended by RUCO is approximately \$250,000. Of course, one
13 must keep in mind that the Company is requesting a three-year amortization of its
14 deferred CAP M&I charges of approximately \$700,000, while RUCO is
15 recommending a recovery period more than three times as long, translating into
16 less than one-third of the amortization expense. Another factor contributing to the
17 difference is RUCO's erroneous use of a composite depreciation rate of 2.59%,
18 whereas, the Company utilized component depreciation rates mandated by the
19 Commission in Decision No. 64282 (December 28, 2001).

20 **Q. IN ITS SURREBUTTAL TESTIMONY, RUCO STATES THAT THE**
21 **COMPANY FAILED TO PROPERLY MATCH THE POST TEST YEAR**
22 **ADDITIONS THAT WERE PROVIDED THROUGH CONTRIBUTIONS IN**
23 **AID OF CONSTRUCTION. IS THIS TRUE?**

24 A. No, it is absolutely not true. The Company did **not** include any post test year
25 additions that constitute contributions or advances in aid of construction and as
26 such, there is no need to provide an offset for contributions in aid of construction.

1 In Response to Data Request No. RUCO 1.6 f), attached as Exhibit SLH-RJ6, the
2 Company responded to RUCO's request for information regarding post test year
3 plant additions included in the Company's rate base adjustments funded by CIAC
4 and AIAC. That response clearly states that none of the projects included in the
5 Company's post test year adjustments to rate base was funded by either CIAC or
6 AIAC.

7 **Q. RUCO ALSO CONTENDS NO ADJUSTMENT TO THE TEST YEAR**
8 **DEPRECIATION EXPENSE WAS MADE EVEN THOUGH A NUMBER**
9 **OF REVENUE NEUTRAL ADDITIONS DID NOT GO INTO SERVICE BY**
10 **THE DECEMBER 31, 2002 CUT-OFF DATE. IS THAT CORRECT?**

11 **A.** Yes. In the Company's rebuttal presentation, the primary focus was on rate base.
12 AWC provided a revised schedule setting forth its actual revenue-neutral post test
13 year plant additions with an adjustment to accumulated depreciation to reflect the
14 revised depreciation expense resulting from the change in post test year plant
15 additions between AWC's direct and rebuttal filings. Work papers setting forth the
16 calculation of the revised depreciation expense were provided to both Staff and
17 RUCO and the Company has provided a revised operating income that incorporates
18 the revised depreciation expense in this rejoinder testimony.

19 **Q. MS. HUBBARD, IN ITS SURREBUTTAL TESTIMONY, RUCO'S**
20 **WITNESS IDENTIFIES THREE AREAS OF CONCERN WITH THE**
21 **COMPANY'S REBUTTAL TESTIMONY. HOW DOES AWC RESPOND?**

22 **A.** The first area of concern that RUCO discusses relates to RUCO's misconception
23 that the Company included post test year plant additions funded by CIAC and
24 AIAC. RUCO opines that for proper matching, post test year plant additions
25 funded by CIAC and AIAC should be offset by the associated CIAC and AIAC.
26 But, AWC did not include any post test year plant additions that were funded by

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CIAC or AIAC, as discussed above. Therefore, an adjustment is not necessary.

The second area of concern for RUCO relates to the \$126,565 of construction work in progress inadvertently included in the Company's direct presentation related to the Phoenix Office test year plant. In the Company's rebuttal presentation, the construction work in progress was removed and is also removed in the Company's final rejoinder calculation of rate base. Had the Company not properly removed the amount, there would be a double counting of post test year plant, but since the adjustment was made in the rebuttal rate base and also the rejoinder rate base, no further adjustment is necessary.

The third area of concern involves the appropriate number of lag days with respect to the payment of federal and state income taxes. The Company believes RUCO is using the wrong number of lag days. The lead/lag method of computing the cash working capital component of rate base requires a calculation of the lead days (prepayments) or lag days (accruals) that exist between the time an expense is recorded and the payment of such expenses. For purposes of federal income taxes, the Company records the annual income tax liability on a monthly basis. Payments of the accrued liability are made quarterly. The Company's calculation of the lag associated with the payment of federal income taxes recognizes the lag associated with the quarterly payment of ninety percent of the liability as well as the lag associated with the payment of the remaining ten percent of the liability made in March of the subsequent year. RUCO's calculation of its 61.95 days is based upon the erroneous assumption that payments are made annually. As such, the Company's cash working capital allowance is not overstated.

B. Deferred CAP Charges

Q. RUCO TESTIFIES IN ITS DIRECT AND SURREBUTTAL FILINGS THAT AWC'S RECOVERY OF DEFERRED CAP CHARGES SHOULD BE

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LIMITED TO RUCO'S RECOMMENDED FIGURE OF \$645,207. IS THE COMPANY REQUESTING RECOVERY OF DEFERRED CAP CHARGES IN EXCESS OF THIS AMOUNT?

A. No. In this proceeding, the Company is requesting the recovery of \$645,207 of actual deferred CAP M&I charges incurred subsequent to 1990 through December 31, 2002. The Company interpreted RUCO's recommendation to limit the Company's recovery of deferred CAP charges to no more than \$645,207 as precluding the Company from requesting in a future rate proceeding recovery of additional CAP M&I charges that have been incurred and deferred after December 31, 2002 through the period when a decision in this proceeding is issued.

Q. IS THE COMPANY ATTEMPTING TO RECOVER DEFERRED CAP M&I CHARGES INCURRED AFTER DECEMBER 31, 2002 IN THIS PROCEEDING?

A. No, but the Company should not be prevented from seeking recovery of those expenses in a future rate proceeding.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does, except that I wish to note that my silence on any issue raised or recommendation made by Staff or RUCO in the surrebuttal testimony should not be taken as the Company's acceptance of such issue or recommendation.

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Schedule A-1 Comparisons

**ARIZONA WATER COMPANY
COMPUTATION OF INCREASE IN
GROSS REVENUE REQUIREMENTS
TEST YEAR 2001 EASTERN GROUP**

Line No.	Description	Company		Staff		RUCO	
		Direct Testimony	Rejoinder Testimony	Direct Testimony	Surrebuttal Testimony	Direct Testimony	Surrebuttal Testimony
1.	Adjusted Rate Base	41,604,880	39,002,879	32,403,018	33,798,552	35,236,992	35,237,938
2.	Adjusted Operating Income	1,969,032	2,019,507	2,398,375	2,284,305 (a)	2,624,724	2,593,425
3.	Current Rate of Return	4.73%	5.18%	7.40%	6.76%	7.45%	7.36%
4.	Required Operating Income	4,576,537	4,251,314	2,775,643	2,895,184	3,059,572	3,059,654
5.	Required Rate of Return	11.00%	10.90%	8.566%	8.566%	8.68%	8.68%
6.	Operating Income Deficiency	2,607,505	2,231,807	377,268	610,879	434,848	466,229
7.	Gross Revenue Conversion Factor	1.63241	1.63195	1.63195	1.63195	Various	Various
8.	Increase in Gross Revenue	4,256,517	3,642,197	615,683	996,924	598,229	648,443

(a) - Includes (\$140,787) adjustment to reflect Staff's recommended Purchased Water expense for Apache Junction of \$965,689.

Schedule A-1 Comparisons

ARIZONA WATER COMPANY
COMPUTATION OF INCREASE IN
GROSS REVENUE REQUIREMENTS
TEST YEAR 2001 APACHE JUNCTION

Line No.	Description	Company		Staff		RUCO	
		Direct Testimony	Remainder Testimony	Direct Testimony	Surrebuttal Testimony	Direct Testimony	Surrebuttal Testimony
1.	Adjusted Rate Base	24,207,016	21,722,321	18,346,065	19,071,140	19,792,392	19,793,353
2.	Adjusted Operating Income	1,862,934	1,885,563	2,123,886	2,004,596 (a)	2,106,210	2,099,279
3.	Current Rate of Return	7.70%	8.68%	11.58%	10.51%	10.84%	10.61%
4.	Required Operating Income	2,662,772	2,367,733	1,571,524	1,633,634	1,718,542	1,718,625
5.	Required Rate of Return	11.00%	10.90%	8.566%	8.566%	8.66%	8.66%
6.	Operating Income Deficiency	799,838	482,169	(552,362)	(370,962)	(367,668)	(380,654)
7.	Gross Revenue Conversion Factor	1.63241	1.63195	1.63195	1.63195	1.63245	1.63245
8.	Increase in Gross Revenue	1,305,663	786,877	(901,427)	(605,392)	(632,849)	(621,398)

(a) - Includes (\$140,787) adjustment to reflect Staff's recommended Purchased Water expense of \$965,689.

Schedule A-1 Comparisons

**ARIZONA WATER COMPANY
COMPUTATION OF INCREASE IN
GROSS REVENUE REQUIREMENTS
TEST YEAR 2001 BISBEE**

Line No.	Description	Company		Staff		RUCO	
		Direct Testimony	Rejoinder Testimony	Direct Testimony	Surrebuttal Testimony	Direct Testimony	Surrebuttal Testimony
*		3,700,113	3,878,994	3,425,681	3,590,535	3,603,100	3,603,097
1.	Adjusted Rate Base	31,708	29,073	74,498	75,855	120,327	113,054
2.	Adjusted Operating Income	0.86%	0.75%	2.17%	2.11%	3.34%	3.14%
3.	Current Rate of Return	407,012	422,810	293,444	307,565	312,851	312,851
4.	Required Operating Income	11.00%	10.90%	8.566%	8.566%	8.68%	8.68%
5.	Required Rate of Return	375,304	393,738	218,946	231,710	192,524	199,797
6.	Operating Income Deficiency	1.63241	1.63195	1.63195	1.63195	1.63136	1.63136
7.	Gross Revenue Conversion Factor	612,651	642,560	357,309	378,140	314,077	325,941
8.	Increase in Gross Revenue						

Schedule A-1 Comparisons

**ARIZONA WATER COMPANY
COMPUTATION OF INCREASE IN
GROSS REVENUE REQUIREMENTS
TEST YEAR 2001 SIERRA VISTA**

Line No.	Description	Company		Staff		RUCCO	
		Direct Testimony	Rejoinder Testimony	Direct Testimony	Surrebuttal Testimony	Direct Testimony	Surrebuttal Testimony
1.	Adjusted Rate Base	2,574,687	2,512,878	2,200,445	2,317,564	2,256,648	2,256,646
2.	Adjusted Operating Income	31,076	31,373	60,967	61,972	145,377	140,678
3.	Current Rate of Return	1.21%	1.25%	2.77%	2.67%	6.44%	6.23%
4.	Required Operating Income	283,216	273,904	188,490	198,523	195,941	195,941
5.	Required Rate of Return	11.00%	10.90%	8.566%	8.566%	8.68%	8.68%
6.	Operating Income Deficiency	252,140	242,531	127,523	136,551	50,564	55,263
7.	Gross Revenue Conversion Factor	1.63241	1.63195	1.63195	1.63195	1.55062	1.55062
8.	Increase in Gross Revenue	411,595	395,798	208,111	222,844	78,406	85,692

Schedule A-1 Comparisons

**ARIZONA WATER COMPANY
COMPUTATION OF INCREASE IN
GROSS REVENUE REQUIREMENTS
TEST YEAR 2001 MIAMI**

Line No.	Description	Company		Staff		RUCO	
		Direct Testimony	Rejoinder Testimony	Direct Testimony	Surrebuttal Testimony	Direct Testimony	Surrebuttal Testimony
1.	Adjusted Rate Base	59,991	92,973	121,633	122,821	167,256	161,155
2.	Adjusted Operating Income	1.31%	2.06%	4.44%	4.21%	4.64%	4.48%
3.	Current Rate of Return	502,722	491,330	234,761	248,964	312,658	312,658
4.	Required Operating Income	11.00%	10.90%	8.566%	8.566%	8.68%	8.68%
5.	Required Rate of Return	442,731	398,358	113,128	127,143	145,402	151,503
6.	Operating Income Deficiency	1.63241	1.63195	1.63195	1.63195	1.63121	1.63121
7.	Gross Revenue Conversion Factor	722,718	650,100	184,619	207,490	237,181	247,133
8.	Increase in Gross Revenue						
		4,570,196	4,507,618	2,740,612	2,918,090	3,600,871	3,600,868

Schedule A-1 Comparisons

**ARIZONA WATER COMPANY
COMPUTATION OF INCREASE IN
GROSS REVENUE REQUIREMENTS
TEST YEAR 2001 SAN MANUEL**

Line No.	Description	Company		Staff		RUCO	
		Direct Testimony	Rejoinder Testimony	Direct Testimony	Surrebuttal Testimony	Direct Testimony	Surrebuttal Testimony
1.	Adjusted Rate Base	793,993	759,504	641,450	699,272	746,978	746,995
2.	Adjusted Operating Income	(186,410)	(181,279)	(157,941)	(157,490)	(196,500)	(196,716)
3.	Current Rate of Return	-23.48%	-23.87%	-24.62%	-22.52%	-26.31%	-26.33%
4.	Required Operating Income	87,339	82,786	54,947	59,900	64,859	64,860
5.	Required Rate of Return	11.00%	10.90%	8.566%	8.566%	8.68%	8.68%
6.	Operating Income Deficiency	273,749	264,065	212,888	217,390	261,359	261,576
7.	Gross Revenue Conversion Factor	1.63241	1.63195	1.63195	1.63195	1.28036	1.28036
8.	Increase in Gross Revenue	446,871	430,940	347,422	354,769	334,633	334,912

Schedule A-1 Comparisons

**ARIZONA WATER COMPANY
COMPUTATION OF INCREASE IN
GROSS REVENUE REQUIREMENTS
TEST YEAR 2001 ORACLE**

Line No.	Description	Company		Staff		RUCO	
		Direct Testimony	Rejoinder Testimony	Direct Testimony	Surrebuttal Testimony	Direct Testimony	Surrebuttal Testimony
1.	Adjusted Rate Base	2,819,400	2,706,211	2,415,268	2,495,716	2,513,635	2,513,634
2.	Adjusted Operating Income	167,200	158,185	159,659	160,336	233,730	230,836
3.	Current Rate of Return	5.93%	5.85%	6.61%	6.42%	9.30%	9.18%
4.	Required Operating Income	310,134	294,977	206,892	213,783	218,255	218,255
5.	Required Rate of Return	11.00%	10.90%	8.566%	8.566%	8.68%	8.68%
6.	Operating Income Deficiency	142,934	136,792	47,233	53,447	(15,475)	(12,581)
7.	Gross Revenue Conversion Factor	1.63241	1.63195	1.63195	1.63195	1.57244	1.57244
8.	Increase in Gross Revenue	233,327	223,238	77,082	87,223	(24,334)	(19,783)

Schedule A-1 Comparisons

**ARIZONA WATER COMPANY
COMPUTATION OF INCREASE IN
GROSS REVENUE REQUIREMENTS
TEST YEAR 2001 WINKELMAN**

Line No.	Description	Company		Staff		RUCO	
		Direct Testimony	Rejoinder Testimony	Direct Testimony	Surrebuttal Testimony	Direct Testimony	Surrebuttal Testimony
1.	Adjusted Rate Base	265,899	269,330	232,924	242,504	252,071	252,049
2.	Adjusted Operating Income	9,437	8,419	9,576	9,629	7,933	7,381
3.	Current Rate of Return	3.55%	3.13%	4.11%	3.97%	3.15%	2.93%
4.	Required Operating Income	29,249	29,357	19,952	20,773	21,887	21,885
5.	Required Rate of Return	11.00%	10.90%	8.566%	8.566%	8.68%	8.68%
6.	Operating Income Deficiency	19,812	20,938	10,376	11,144	13,954	14,504
7.	Gross Revenue Conversion Factor	1.63241	1.63195	1.63195	1.63195	1.26755	1.26755
8.	Increase in Gross Revenue	32,341	34,169	16,934	18,186	17,687	18,385

Schedule A-1 Comparisons

**ARIZONA WATER COMPANY
COMPUTATION OF INCREASE IN
GROSS REVENUE REQUIREMENTS
TEST YEAR 2001 SUPERIOR**

Line No.	Description	Company		Staff		RUCO	
		Direct Testimony	Rejoinder Testimony	Direct Testimony	Surrebuttal Testimony	Direct Testimony	Surrebuttal Testimony
1.	Adjusted Rate Base	2,673,576	2,646,023	2,400,573	2,463,731	2,471,297	2,471,296
2.	Adjusted Operating Income	(6,904)	(4,800)	6,097	6,586	40,391 (a)	37,758 (a)
3.	Current Rate of Return	-0.26%	-0.18%	0.25%	0.27%	1.63%	1.53%
4.	Required Operating Income	294,093	288,417	205,633	211,043	214,579	214,579
5.	Required Rate of Return	11.00%	10.90%	8.566%	8.566%	8.68%	8.68%
6.	Operating Income Deficiency	300,997	293,217	199,536	204,457	174,188	176,821
7.	Gross Revenue Conversion Factor	1.63241	1.63195	1.63195	1.63195	1.56973	1.56973
8.	Increase in Gross Revenue	491,351	478,515	325,633	333,664	273,428	277,561

(a) - RUCO's formula did not include the additional \$35 adjustment to Other Revenues that they proposed so income has been increased by \$35.

Schedule B-2 Comparisons

ARIZONA WATER COMPANY
PRO FORMA ADJUSTMENTS RATE BASE
TEST YEAR 2001 EASTERN GROUP

Line No.	Description	Company		Rejoinder		Staff		RUCO				
		Actual	Pro Forma Present Adjustments	As Adjusted	Adjustments	As Adjusted	Adjustments	As Adjusted	Adjustments	As Adjusted	Adjustments	
1.	Gross Plant in Service	79,801,452	6,468,871	86,270,323	(3,552,432)	82,717,891	82,717,891	84,866,205	(1,404,118)	84,866,205	(1)	84,866,204
2.	Phoenix Office Allocation	1,639,085	0	1,639,085	119,649	1,758,734	1,758,734	2,041,149	402,064	2,041,149	0	2,041,149
3.	Meter Shop Allocation	34,141	0	34,141	3,999	38,140	38,140	34,141	0	34,141	0	34,141
4.	Total Gross Plant in Service	81,474,678	6,468,871	87,943,549	(3,428,784)	84,514,765	84,514,765	86,941,495	(1,002,054)	86,941,495	(1)	86,941,494
5.	Less: Accumulated Depreciation	(18,068,863)	(252,877)	(18,321,740)	164,206	(18,157,534)	(18,157,534)	(19,758,490)	(1,435,750)	(19,758,490)	(1)	(19,758,491)
6.	Net Plant in Service	63,405,815	6,215,994	69,621,809	(3,264,578)	66,357,231	66,357,231	67,183,005	(2,438,804)	67,183,005	(2)	67,183,003
7.	Construction Work in Progress	1,114,579	(1,114,579)	0	0	0	0	0	0	0	0	0
8.	Total Net Plant	64,520,394	5,101,415	69,621,809	(3,264,578)	66,357,231	66,357,231	67,183,005	(2,438,804)	67,183,005	(2)	67,183,003
9.	Less: Customers' Advances for Construction	(18,335,026)	1,102,363	(17,232,663)	0	(17,232,663)	(17,232,663)	(18,827,202)	(1,594,539)	(18,827,202)	0	(18,827,202)
10.	Contributions in Aid of Construction	(7,850,910)	0	(7,850,910)	0	(7,850,910)	(7,850,910)	(6,590,261)	(739,351)	(6,590,261)	0	(6,590,261)
11.	Gross	968,440	0	968,440	(28,945)	939,495	939,495	1,181,354	212,914	1,181,354	0	1,181,354
12.	Accumulated Amortization	(25,217,496)	1,102,363	(24,115,133)	(28,945)	(24,144,078)	(24,144,078)	(26,236,109)	(2,120,976)	(26,236,109)	0	(26,236,109)
13.	Net Contributions in Aid of Construction	(4,825,667)	0	(4,825,667)	0	(4,825,667)	(4,825,667)	(5,711,520)	(885,853)	(5,711,520)	0	(5,711,520)
14.	Deferred Income Tax	0	0	0	691,522	691,522	691,522	645,207	645,207	645,207	0	645,207
15.	Deferred CAP (Net)	923,871	0	923,871	0	923,871	923,871	(867,462)	(867,462)	(867,462)	948	57,357
16.	Add: Total Working Capital Allowance	35,401,102	6,203,778	41,604,880	(2,602,001)	39,002,879	39,002,879	35,936,992	(5,667,888)	35,936,992	946	35,937,938
17.	Total Rate Base Components & Adjustments	0	0	0	0	0	0	(700,000)	(700,000)	(700,000)	0	(700,000)
18.	PCG Settlement	35,401,102	6,203,778	41,604,880	(2,602,001)	39,002,879	39,002,879	35,936,992	(5,667,888)	35,936,992	946	35,937,938
19.	Total Rate Base Components & Adjustments & PCG	35,401,102	6,203,778	41,604,880	(2,602,001)	39,002,879	39,002,879	35,936,992	(5,667,888)	35,936,992	946	35,937,938

Schedule B-2 Comparisons

ARIZONA WATER COMPANY
PRO FORMA ADJUSTMENTS RATE BASE
TEST YEAR 2001 APACHE JUNCTION

Line No.	Description	Company			Reolinder			Staff			RUCO			
		Actual	Pro Forma Present Adjustments	As Adjusted	Adjustments	As Adjusted	Pro Forma Present Adjustments	As Adjusted	Adjustments	As Adjusted	Pro Forma Present Adjustments	As Adjusted	Adjustments	As Adjusted
1.	Gross Plant in Service	50,766,542	4,458,249	55,226,791	(3,412,565)	51,814,226	(3,412,565)	51,814,226	0	51,814,226	(1,438,204)	53,788,587	0	53,788,587
2.	Phoenix Office Allocation	852,453	852,453	852,453	56,459	908,912	(765,834)	747,791	664,172	747,791	214,642	1,067,095	0	1,067,095
3.	Meter Shop Allocation	17,756	17,756	17,756	1,960	19,716	(15,796)	13,287	11,327	13,287	17,756	17,756	0	17,756
4.	Total Gross Plant in Service	51,638,751	4,458,249	56,097,000	(3,354,146)	52,742,854	(4,194,195)	51,902,805	672,499	52,575,304	(1,223,562)	54,873,438	0	54,873,438
5.	Less: Accumulated Depreciation	(8,681,694)	(110,011)	(8,791,705)	198,946	(8,592,759)	(1,100,547)	(9,892,252)	(20,001)	(9,912,253)	(1,102,379)	(9,894,084)	(1)	(9,894,085)
6.	Net Plant in Service	42,957,057	4,348,238	47,305,295	(3,155,200)	44,150,095	(5,294,742)	42,010,553	652,498	42,663,051	(2,325,941)	44,979,354	(1)	44,979,353
7.	Construction Work in Progress	1,107,018	(1,107,018)	0	0	0	0	0	0	0	0	0	0	0
8.	Total Net Plant	44,064,075	3,241,220	47,305,295	(3,155,200)	44,150,095	(5,294,742)	42,010,553	652,498	42,663,051	(2,325,941)	44,979,354	(1)	44,979,353
9.	Less: Customers' Advances for Construction	(16,543,636)	1,100,259	(15,443,377)	(15,443,377)	(15,443,377)	0	(15,443,377)	0	(15,443,377)	(1,264,007)	(16,707,384)	0	(16,707,384)
10.	Contributions in Aid of Construction	(6,228,486)	(6,228,486)	(6,228,486)	(6,228,486)	(6,228,486)	0	(6,228,486)	0	(6,228,486)	(668,894)	(6,897,380)	0	(6,897,380)
11.	Gross	713,806	713,806	713,806	(21,017)	692,789	713,806	713,806	0	713,806	169,980	883,786	0	883,786
12.	Accumulated Amortization	(22,058,316)	1,100,259	(20,958,057)	(21,017)	(20,979,074)	0	(20,958,057)	0	(20,958,057)	(1,762,921)	(22,720,978)	0	(22,720,978)
13.	Net Contributions in Aid of Construction	(2,699,309)	(2,699,309)	(2,699,309)	(2,699,309)	(2,699,309)	0	(2,699,309)	0	(2,699,309)	(409,446)	(3,108,755)	0	(3,108,755)
14.	Deferred Income Tax	0	0	0	691,522 (c)	691,522	684,785	684,785	(13,381)	671,404	645,207	645,207	0	645,207
15.	Deferred CAP (Net)	559,087	559,087	559,087	559,087	559,087	(1,250,994)	(691,907)	85,958	(605,949)	(561,523)	(2,436)	962	(1,474)
16.	Add: Total Working Capital Allowance	19,855,537	4,341,479	24,207,016	(2,484,695)	21,722,321	(5,860,951)	18,346,065	725,075	19,071,140	(4,414,624)	19,792,392	961	19,793,353
17.	Total Rate Base Components & Adjustments	19,855,537	4,341,479	24,207,016	(2,484,695)	21,722,321	(5,860,951)	18,346,065	725,075	19,071,140	(4,414,624)	19,792,392	961	19,793,353

(a) - Adjustment includes Unamortized Cap (\$704,903) reclassified as separate line item in RUCO's presentation.
 (b) - Represents RUCO's proposed adjustment for Phoenix Office and Meter Shop.
 (c) - Reclassified from Gross Plant in Service for comparative purposes.

Schedule B-2 Comparisons

ARIZONA WATER COMPANY
PRO FORMA ADJUSTMENTS RATE BASE
TEST YEAR 2001 BISBEE

Line No.	Description	Company		Rejoinder		Staff		RUCO		
		Actual	Pro Forma Present Adjustments	As Adjusted	Adjustments	As Adjusted	Pro Forma Present Adjustments	As Adjusted	Pro Forma Present Adjustments	As Adjusted
1.	Gross Plant in Service	6,836,396	597,543	7,433,939	179,974	7,613,913	179,974	7,613,913	187,076	7,621,015
2.	Phoenix Office Allocation	189,951		189,951	12,580	202,531	19,301	166,630	47,638 (a)	237,589
3.	Meter Shop Allocation	3,956		3,956	436	4,392	(3,520)	2,960	3,956	3,956
4.	Total Gross Plant in Service	7,030,303	597,543	7,627,846	192,980	7,820,826	5,804	7,783,503	234,714	7,862,560
5.	Less: Accumulated Depreciation	(3,071,420)	(27,629)	(3,099,049)	(12,900)	(3,111,949)	(128,966)	(3,232,977)	(121,468)	(3,220,517)
6.	Net Plant in Service	3,958,883	569,914	4,528,797	180,080	4,708,877	(123,162)	4,550,526	113,246	4,642,043
7.	Construction Work in Progress	0	0	0	0	0	0	0	0	0
8.	Total Net Plant	3,958,883	569,914	4,528,797	180,080	4,708,877	(123,162)	4,550,526	113,246	4,642,043
9.	Less: Customers' Advances for Construction	(190,083)		(190,083)	0	(190,083)	0	(190,083)	(11,491)	(201,574)
10.	Contributions in Aid of Construction									
11.	Gross	(372,133)		(372,133)	0	(372,133)	0	(372,133)	(2,425)	(374,558)
12.	Accumulated Amortization	55,613		55,613	(1,209)	54,404	0	55,613	9,670	65,283
13.	Net Contributions in Aid of Construction	(506,603)	0	(506,603)	(1,209)	(507,812)	0	(506,603)	(4,246)	(510,849)
14.	Deferred Income Tax	(423,066)		(423,066)	0	(423,066)	0	(423,066)	(146,467)	(569,533)
15.	Deferred CAP (Net)	0	0	0	0	0	0	0	0	0
16.	Add: Total Working Capital Allowance	100,985		100,985	0	100,985	(151,270)	(30,322)	(59,546)	41,439
17.	Total Rate Base Components & Adjustments	3,130,199	569,914	3,700,113	178,881	3,878,994	(274,432)	3,590,535	(97,013)	3,603,097

(a) - Represents RUCO's proposed adjustment for Phoenix Office and Meter Shop.

Schedule B-2 Comparisons
ARIZONA WATER COMPANY
PRO FORMA ADJUSTMENTS RATE BASE
TEST YEAR 2001 SIERRA VISTA

Line No.	Description	Company		Rebinder		Pro Forma Present		Staff		RUCO			
		Actual	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted		
1.	Gross Plant in Service	5,121,802	5,282,359	(63,066)	5,219,293	(63,066)	5,219,293	0	5,219,293	155,384	5,437,743	0	5,437,743
2.	Phoenix Office Allocation	130,569	130,569	8,647	139,216	(117,302)	13,267	101,299	114,566	28,651 (a)	159,220	0	159,220
3.	Meter Shop Allocation	2,720	2,720	300	3,020	(2,420)	300	1,735	2,035	2,720	2,720	0	2,720
4.	Total Gross Plant in Service	5,255,091	5,415,648	(54,119)	5,361,529	(182,788)	5,232,860	103,034	5,335,894	184,035	5,599,683	0	5,599,683
5.	Less: Accumulated Depreciation	(1,381,211)	(1,405,900)	(3,645)	(1,410,545)	(82,722)	(1,499,822)	(3,046)	(1,502,868)	(39,723)	(1,446,623)	0	(1,446,623)
6.	Net Plant in Service	3,873,880	4,009,748	(57,764)	3,950,984	(275,510)	3,733,238	99,988	3,833,226	144,312	4,153,060	0	4,153,060
7.	Construction Work in Progress	2,104	0	0	0	0	0	0	0	0	0	0	0
8.	Total Net Plant	3,875,984	4,009,748	(57,764)	3,950,984	(275,510)	3,733,238	99,988	3,833,226	144,312	4,153,060	0	4,153,060
9.	Less: Customers' Advances for Construction	(589,715)	(587,611)	0	(587,611)	0	(587,611)	0	(587,611)	(337,114)	(924,725)	0	(924,725)
10.	Contributions in Aid of Construction	(699,448)	(699,448)	0	(699,448)	0	(699,448)	0	(699,448)	(42,631)	(742,079)	0	(742,079)
11.	Gross	113,980	113,980	(4,045)	109,935	0	113,980	0	113,980	19,668	132,648	0	132,648
12.	Accumulated Amortization	(1,175,183)	(1,173,079)	(4,045)	(1,177,124)	0	(1,173,079)	0	(1,173,079)	(361,077)	(1,534,156)	0	(1,534,156)
13.	Net Contributions in Aid of Construction	(331,421)	(331,421)	0	(331,421)	0	(331,421)	0	(331,421)	(49,050)	(380,471)	0	(380,471)
14.	Deferred Income Tax	0	0	0	0	0	0	0	0	0	0	0	0
15.	Deferred CAP (Net)	70,439	70,439	0	70,439	(98,732)	(28,293)	17,131	(11,162)	(52,224)	18,215	(2)	18,213
16.	Add: Total Working Capital Allowance	2,439,819	2,574,887	(61,809)	2,512,878	(374,242)	2,200,445	117,119	2,317,564	(318,039)	2,256,648	(2)	2,256,646
17.	Total Rate Base Components & Adjustments	2,439,819	2,574,887	(61,809)	2,512,878	(374,242)	2,200,445	117,119	2,317,564	(318,039)	2,256,648	(2)	2,256,646

(a) - Represents RUCO's proposed adjustment for Phoenix Office and Meter Shop.

Schedule B-2 Comparisons

ARIZONA WATER COMPANY
PRO FORMA ADJUSTMENTS RATE BASE
TEST YEAR 2001 MIAMI

Line No.	Description	Company		Rebinder		Slaff		RUCO	
		Pro Forma Present Adjustments	As Adjusted	Adjustments	As Adjusted	Pro Forma Present Adjustments	As Adjusted	Adjustments	As Adjusted
		Actual							
1.	Gross Plant in Service	6,336,685	6,837,666	(66,858)	6,770,808	6,770,808	6,770,808	(103,965)	6,733,701
2.	Phoenix Office Allocation	193,170	193,170	12,795	205,965	19,629	169,453	45,963 (e)	239,133
3.	Meter Shop Allocation	4,024	4,024	444	4,468	444	3,011		4,024
4.	Total Gross Plant in Service	6,533,879	7,034,860	(53,619)	6,981,241	6,790,881	6,943,272	(68,002)	6,976,858
5.	Less: Accumulated Depreciation	(1,667,874)	(1,713,977)	(7,898)	(1,721,875)	(1,745,153)	(1,746,697)	(13,420)	(1,727,397)
6.	Net Plant in Service	4,866,005	5,320,883	(61,517)	5,259,366	5,045,728	5,196,575	(71,422)	5,249,461
7.	Construction Work in Progress	492	0	0	0	0	0	0	0
8.	Total Net Plant	4,866,497	5,320,883	(61,517)	5,259,366	5,045,728	5,196,575	(71,422)	5,249,461
9.	Less: Customers' Advances for Construction	(109,428)	(109,428)	0	(109,428)	(109,428)	(109,428)	6,180	(103,248)
10.	Contributions in Aid of Construction	(188,394)	(188,394)	0	(188,394)	(188,394)	(188,394)	(13,660)	(202,054)
11.	Gross	32,086	32,086	(1,061)	31,025	32,086	32,086	5,056	37,142
12.	Accumulated Amortization	(265,736)	(265,736)	(1,061)	(266,797)	(265,736)	(265,736)	(2,424)	(268,160)
13.	Net Contributions in Aid of Construction	(566,719)	(566,719)	0	(566,719)	(566,719)	(566,719)	(122,314)	(689,033)
14.	Deferred Income Tax	0	0	0	0	0	0	0	0
15.	Deferred CAP (Net)	81,768	81,768	0	81,768	(122,661)	(96,030)	(73,165) a	8,600
16.	Add: Total Working Capital Allowance	454,386	4,570,196	(62,578)	4,507,618	4,090,612	4,268,090	(269,325)	4,300,871
17.	Total Rate Base Components & Adjustments	4,115,810	4,570,196	(62,578)	4,507,618	2,740,612	2,918,090	(969,325)	3,600,871
18.	PCG Settlement								
19.	Total Rate Base	4,115,810	4,570,196	(62,578)	4,507,618	2,740,612	2,918,090	(969,325)	3,600,871

(a) - Represents RUCO's proposed adjustment for Phoenix Office and Meter Shop.

Schedule B-2 Comparisons

ARIZONA WATER COMPANY
PRO FORMA ADJUSTMENTS RATE BASE
TEST YEAR 2001 SAN MANUEL

Line No.	Description	Company		Rejoinder		Staff		RUCCO				
		Actual	Pro Forma Present Adjustments	As Adjusted								
1.	Gross Plant in Service	1,455,009	99,591	1,554,600	(39,759)	1,514,841	(39,759)	1,514,841	(42,467)	1,512,133	0	1,512,133
2.	Phoenix Office Allocation	79,057		79,057	5,236	84,293	(71,024)	61,318	18,717 (e)	97,774	0	97,774
3.	Meter Shop Allocation	1,647		1,647	182	1,829	(1,465)	1,050	1,232	1,647	0	1,647
4.	Total Gross Plant in Service	1,535,713	99,591	1,635,304	(34,341)	1,600,963	(112,248)	1,523,056	(23,750)	1,611,554	0	1,611,554
5.	Less: Accumulated Depreciation	(724,297)	(11,777)	(736,074)	(194)	(736,268)	27,119	(708,955)	16,092	(719,982)	0	(719,982)
6.	Net Plant in Service	811,416	87,814	899,230	(34,535)	864,695	(85,129)	814,101	(7,666)	891,572	0	891,572
7.	Construction Work in Progress	2,844	(2,844)	0	0	0	0	0	0	0	0	0
8.	Total Net Plant	814,260	84,970	899,230	(34,535)	864,695	(85,129)	814,101	(7,658)	891,572	0	891,572
9.	Less: Customers' Advances for Construction	(23,194)		(23,194)	0	(23,194)	0	(23,194)	0	(23,194)	0	(23,194)
10.	Contributions in Aid of Construction	(20,375)		(20,375)	0	(20,375)	0	(20,375)	0	(20,375)	0	(20,375)
11.	Gross	2,990		2,990	46	3,036	2,990	2,990	528	3,518	0	3,518
12.	Accumulated Amortization	(40,579)		(40,579)	46	(40,533)	0	(40,579)	528	(40,051)	0	(40,051)
13.	Net Contributions in Aid of Construction	(39,372)		(39,372)	0	(39,372)	0	(39,372)	(17,534)	(110,906)	0	(110,906)
14.	Deferred Income Tax	0		0	0	0	0	0	0	0	0	0
15.	Deferred CAP (Net)	28,714		28,714	0	28,714	(67,414)	(38,700)	(22,351)	6,363	17	6,380
16.	Add: Total Working Capital Allowance	709,023	84,970	793,993	(34,469)	759,504	(152,543)	641,450	(47,015)	746,978	17	746,995
17.	Total Rate Base Components & Adjustments											

(b) - Represents RUCCO's proposed adjustment for Phoenix Office and Meter Shop.

Schedule B-2 Comparisons

ARIZONA WATER COMPANY
PRO FORMA ADJUSTMENTS RATE BASE
TEST YEAR 2001 ORACLE

Line No.	Description	Company		Rejoinder		Staff		RUCO				
		Actual	Pro Forma Present Adjustments	As Adjusted	As Adjusted	Pro Forma Present Adjustments	As Adjusted	Pro Forma Present Adjustments	As Adjusted	Pro Forma Present Adjustments	As Adjusted	
1.	Gross Plant in Service	4,848,115	330,907	5,179,022	5,064,631	5,064,631	5,064,631	(99,184)	5,079,838	5,079,838	0	5,079,838
2.	Phoenix Office Allocation	93,008		93,008	99,169	99,169	81,869	22,551	115,569	115,569	0	115,569
3.	Meter Shop Allocation	1,937		1,937	2,151	2,151	1,456	(76,633)	1,937	1,937	0	1,937
4.	Total Gross Plant in Service	4,943,060	330,907	5,273,967	5,165,951	5,165,951	5,147,676	(76,633)	5,197,334	5,197,334	0	5,197,334
5.	Less: Accumulated Depreciation	(1,455,964)	(12,581)	(1,468,545)	(1,472,493)	(1,472,493)	(1,572,305)	(117,761)	(1,586,306)	(1,586,306)	0	(1,586,306)
6.	Net Plant in Service	3,487,096	318,326	3,805,422	3,693,458	3,693,458	3,575,371	(194,394)	3,611,028	3,611,028	0	3,611,028
7.	Construction Work in Progress	2,121	(2,121)	0	0	0	0	0	0	0	0	0
8.	Total Net Plant	3,489,217	316,205	3,805,422	3,693,458	3,693,458	3,575,371	(194,394)	3,611,028	3,611,028	0	3,611,028
9.	Less: Customers' Advances for Construction	(473,356)		(473,356)	0	0	(473,356)	10,013	(463,343)	(463,343)	0	(463,343)
10.	Contributions in Aid of Construction											
11.	Gross	(258,151)		(258,151)	0	0	(258,151)	(11,741)	(269,892)	(269,892)	0	(269,892)
12.	Accumulated Amortization	37,740		37,740	36,515	36,515	37,740	6,638	44,578	44,578	0	44,578
13.	Net Contributions in Aid of Construction	(693,767)	0	(693,767)	(694,992)	(694,992)	(693,767)	5,110	(688,657)	(688,657)	0	(688,657)
14.	Deferred Income Tax	(344,341)		(344,341)	0	0	(344,341)	(63,763)	(408,104)	(408,104)	0	(408,104)
15.	Deferred CAP (Net)	0		0	0	0	0	0	0	0	0	0
16.	Add: Total Working Capital Allowance	52,086		52,086	0	0	(41,547)	(52,718)	(632)	(632)	(1)	(633)
17.	Total Rate Base Components & Adjustments	2,503,195	316,205	2,819,400	2,706,211	2,706,211	2,495,716	(305,765)	2,513,635	2,513,635	(1)	2,513,634

(b) - Represents RUCO's proposed adjustment for Phoenix Office and Meter Shop.

Schedule B-2 Comparisons

ARIZONA WATER COMPANY
PRO FORMA ADJUSTMENTS RATE BASE
TEST YEAR 2001 SUPERIOR

Line No.	Description	Company		Refrinder		Pro Forma Present		Staff		RUCC				
		Actual	Pro Forma Present Adjustments	As Adjusted	Adjustments	As Adjusted	Adjustments	As Adjusted	Adjustments	As Adjusted	Adjustments			
1.	Gross Plant in Service	4,023,648	303,877	4,327,525	(28,473)	4,299,052	(28,473)	4,299,052	0	4,299,052	(55,250)	4,272,275	0	4,272,275
2.	Phoenix Office Allocation	89,788		89,788	5,947	95,735	(80,665)	9,123	69,641	78,764	21,240 (a)	111,028	0	111,028
3.	Meter Shop Allocation	1,870		1,870	207	2,077	(1,663)	207	1,192	1,399	1,870	1,870	0	1,870
4.	Total Gross Plant In Service	4,115,306	303,877	4,419,183	(22,319)	4,396,864	(110,801)	4,308,382	70,833	4,379,215	(34,010)	4,385,173	0	4,385,173
5.	Less: Accumulated Depreciation	(970,047)	(16,039)	(986,086)	(4,811)	(990,897)	(80,890)	(1,066,976)	(1,109)	(1,068,085)	(63,277)	(1,049,363)	0	(1,049,363)
6.	Net Plant In Service	3,145,259	287,838	3,433,097	(27,130)	3,405,967	(191,691)	3,241,406	69,724	3,311,130	(97,287)	3,335,810	0	3,335,810
7.	Construction Work in Progress	0	0	0	0	0	0	0	0	0	0	0	0	0
8.	Total Net Plant	3,145,259	287,838	3,433,097	(27,130)	3,405,967	(191,691)	3,241,406	69,724	3,311,130	(97,287)	3,335,810	0	3,335,810
9.	Less: Customers' Advances for Construction	(384,759)		(384,759)	0	(384,759)	0	(384,759)	0	(384,759)	1,718	(383,041)	0	(383,041)
10.	Contributions in Aid of Construction	(82,088)		(82,088)	0	(82,088)	0	(82,088)	0	(82,088)	0	(82,088)	0	(82,088)
11.	Gross	11,961		11,961	(423)	11,538	0	11,961	0	11,961	2,126	14,087	0	14,087
12.	Accumulated Amortization	(454,886)		(454,886)	(423)	(455,309)	0	(454,886)	0	(454,886)	3,844	(451,042)	0	(451,042)
13.	Net Contributions in Aid of Construction	(332,521)		(332,521)	0	(332,521)	0	(332,521)	0	(332,521)	(70,880)	(403,401)	0	(403,401)
14.	Deferred Income Tax	0		0	0	0	0	0	0	0	0	0	0	0
15.	Deferred CAP (Net)	27,886		27,886	0	27,886	(81,312)	(53,426)	(6,566)	(59,982)	(37,956)	(10,070)	(1)	(10,071)
16.	Add: Total Working Capital Allowance	27,886		27,886	0	27,886	(81,312)	(53,426)	(6,566)	(59,982)	(37,956)	(10,070)	(1)	(10,071)
17.	Total Rate Base Components & Adjustments	2,385,738	287,838	2,673,576	(27,553)	2,646,023	(273,003)	2,400,573	63,158	2,463,731	(202,279)	2,471,297	(1)	2,471,296

(a) - Represents RUCC's proposed adjustment for Phoenix Office and Meter Shop.

Schedule C-1 Comparisons

ARIZONA WATER COMPANY
Pro Forma Operating Income Statements
Test Year 2001
Eastern Group - Summary

Line No.	Description	Company			Staff			RUCO			
		Actual	Pro Forma Present		Rebuttal & Rejoinder Adjustments	Pro Forma Present Adjustments	Surrebuttal		Pro Forma Present Adjustments	Surrebuttal	
			As Adjusted	As Adjusted			As Adjusted	As Adjusted		As Adjusted	As Adjusted
Operating Revenues:											
1.	Residential	11,533,006	10,935,433	0	11,031,642	0	11,031,642	1,040,626	11,976,059	(38,208)	11,937,851
2.	Commercial	2,840,678	2,635,993	0	2,635,993	0	2,635,993	0	2,635,993	0	2,635,993
3.	Industrial	94,808	89,592	0	89,592	0	89,592	0	89,592	0	89,592
4.	Private Fire Service	8,939	8,939	0	8,939	0	8,939	0	8,939	0	8,939
5.	Other	1,051,746	983,159	0	983,159	0	983,159	35	983,194	35	983,229
6.	Total Operating Revenues	15,529,177	14,653,116	0	14,749,325	0	14,749,325	1,040,661	15,693,777	(38,173)	15,655,604
Operating Expenses:											
Source of Supply Expenses:											
7.	Purchased Water	940,389	1,261,743	(20,197)	1,028,164	(25,188)	1,002,976	(42,860)	1,218,883	11,304	1,230,187
8.	Other	54,305	54,346	(14)	54,360	0	54,360	1,616	55,976	(1)	55,975
Pumping Expenses:											
9.	Purchased Power	1,286,379	1,312,960	(10,804)	1,258,197	0	1,258,197	103,642	1,416,602	(1)	1,416,601
10.	Purchased Gas	905	905	0	905	0	905	891	1,796	0	1,796
11.	Other	405,759	405,759	0	405,759	0	405,759	88,069	483,828	0	483,828
12.	Water Treatment Expenses	329,496	438,652	(80,590)	360,946	0	360,946	(61,031)	377,621	0	377,621
13.	Transmission and Distribution Expenses	1,562,945	1,722,202	0	1,689,526	0	1,689,526	(40,952)	1,681,250	0	1,681,250
14.	Customer Account Expenses	1,379,224	1,415,837	0	1,416,060	0	1,416,060	20,052	1,435,888	0	1,435,889
15.	Sales Expenses & Payroll	6,851	6,851	0	6,851	0	6,851	(2,706)	4,145	0	4,145
16.	Administrative and General Expenses	1,605,020	1,862,416	0	1,798,022	0	1,798,022	(39,807)	1,822,609	0	1,822,610
17.	Total Operation and Maintenance	7,571,273	8,481,665	(111,605)	8,018,790	(25,188)	7,993,602	26,914	8,508,598	11,303	8,519,902
18.	Depreciation and Amortization Expenses	1,802,267	2,288,733	(18,225)	1,831,161	0	1,831,161	(253,225)	2,035,508	276	2,035,784
19.	Taxes: Federal and State	935,727	449,399	72,420	861,487	(5,730)	855,757	487,728	937,127	(15,067)	922,060
20.	Taxes: State Income	163,498	163,498	6,428	189,779	0	189,779	142,860	189,245	(3,421)	185,824
21.	Ad Valorem (Property)	1,081,365	1,232,272	507	1,274,596	4,201	1,278,797	(56,199)	1,176,566	0	1,176,566
22.	Other	1,354,625	1,179,488	0	1,175,137	0	1,175,137	36,871	212,008	0	212,008
23.	Total Operating Expenses	12,908,755	12,684,084	(50,475)	12,350,950	(26,711)	12,324,239	384,969	13,069,053	(6,909)	13,062,144
24.	Operating Income	2,620,422	1,969,032	50,475	2,019,507	26,711	2,046,218	655,692	2,624,724	(31,284)	2,593,460

(a) - Staff testified that Purchased Water for Apache Junction should be \$965,689, a difference of \$229,921 from Staff's Operating Income proposed. Effect is a decrease in Operating Income of \$140,787 (\$229,291(1) - 385,988)

Comparisons of Schedule C-1

ARIZONA WATER COMPANY
Pro Forma Operating Income Statements
Test year 2001
Apache Junction - Summary

Line No.	Description	Actual		Company		Rebutal & Rejoinder		Staff		RUCO	
		Pro Forma	Adjustments	Pro Forma	As Adjusted	Pro Forma	As Adjusted	Pro Forma	As Adjusted	Pro Forma	As Adjusted
Operating Revenues:											
1.	Residential	6,647,850	(189,098)	6,458,754	0	6,458,754	0	6,553,469	0	6,553,469	0
2.	Commercial	1,700,643	(118,454)	1,582,189	0	1,582,189	0	1,582,189	0	1,582,189	0
3.	Industrial	106	(13)	93	0	93	0	93	0	93	0
4.	Private Fire Service	959,508	(62,527)	896,981	0	896,981	0	896,981	0	896,981	0
5.	Other	959,508	(62,527)	896,981	0	896,981	0	896,981	0	896,981	0
6.	Total Operating Revenues	9,314,017	(370,090)	8,943,927	0	8,943,927	0	9,038,642	0	9,038,642	0
Operating Expenses:											
Source of Supply Expenses:											
7.	Purchased Water	805,211	197,829	1,003,040	(20,246)	982,794	(25,188)	736,398	(25,188)	711,210	(11,304)
8.	Other	23,251	0	23,251	0	23,251	0	23,251	0	23,251	0
Pumping Expenses:											
9.	Purchased Power	588,864	29,847	618,711	(10,531)	608,180	0	612,460	0	601,649	663,758
10.	Purchased Gas	0	0	0	0	0	0	0	0	0	0
11.	Other	117,465	0	117,465	0	117,465	0	117,465	0	106,884	166,884
12.	Water Treatment Expenses	189,843	1,799	191,642	2,480	194,122	0	196,962	0	193,600	193,600
13.	Transmission and Distribution Expenses	682,301	76,293	758,594	0	758,594	0	739,544	0	771,825	771,825
14.	Customer Account Expenses	606,014	30,232	636,246	0	636,246	0	636,471	0	664,849	664,849
15.	Sales Expenses & Payroll	2,059	0	2,059	0	2,059	0	2,059	0	1,653	1,653
16.	Administrative and General Expenses	774,394	122,434	896,828	0	896,828	0	863,329	0	935,984	935,984
17.	Total Operation and Maintenance	3,789,402	458,434	4,247,836	(28,297)	4,219,539	(25,188)	3,953,127	(25,188)	4,373,372	4,384,876
18.	Depreciation and Amortization Expenses	1,082,006	343,599	1,425,605	(52,964)	1,372,641	0	1,067,852	0	1,296,439	1,296,439
19.	Taxes: Federal Income	757,463	(249,253)	508,210	50,026	558,236	1,817	847,452	1,817	819,006	(3,583)
20.	State Income	132,350	(54,909)	77,441	8,606	86,047	0	109,245	0	180,420	(790)
21.	Ad Valorem (Property)	647,720	103,727	751,447	0	751,447	0	789,185	2,074	742,060	742,060
22.	Other	784,012	(713,558)	70,454	(22,629)	47,825	(21,497)	70,454	(21,497)	49,957	49,957
23.	Total Operating Expenses	7,192,853	(111,960)	7,080,893	22,629	7,099,522	21,497	6,893,259	21,497	7,505,799	6,831
24.	Operating Income	2,121,064	(258,130)	1,862,934	22,629	1,885,563	21,497	2,145,383	21,497	2,106,210	(6,931)

(a) - Staff testified that Purchased Water should be \$965,689
Effect is a decrease in Operating Income of \$140,787 (\$229,291*(1-.385988))

Comparisons of Schedule C-1

ARIZONA WATER COMPANY
Pro Forma Operating Income Statements
Test year 2001
Sierra Vista - Summary

Line No.	Description	Company			Staff			RUCCO				
		Actual	Pro Forma Present Adjustments	As Adjusted	Rebuttal & Rejoinder Adjustments	As Adjusted	Pro Forma Present Adjustments	As Adjusted	Surrebuttal Adjustments	As Adjusted		
Operating Revenues:												
1.	Residential	798,551	(62,640)	735,911	0	735,911	0	736,589	103,763	839,674	(7,267)	832,407
2.	Commercial	158,541	(11,766)	146,775	0	146,775	0	146,775	0	146,775	0	146,775
3.	Industrial	0	0	0	0	0	0	0	0	0	0	0
4.	Private Fire Service	1,027	0	1,027	0	1,027	0	1,027	0	1,027	0	1,027
5.	Other	13,568	(737)	12,771	0	12,771	0	12,771	0	12,771	0	12,771
6.	Total Operating Revenues	971,687	(75,203)	896,484	0	896,484	0	897,162	103,763	1,000,247	(7,267)	992,980
Operating Expenses:												
Source of Supply Expenses:												
7.	Purchased Water	0	0	0	0	0	0	0	0	0	0	0
8.	Other	1,533	7	1,540	(2)	1,538	0	1,540	(92)	1,448	0	1,448
Pumping Expenses:												
9.	Purchased Power	161,884	399	162,283	(174)	162,109	0	159,739	41,058	203,341	0	203,341
10.	Purchased Gas	504	0	504	0	504	0	504	45	549	0	549
11.	Other	27,471	0	27,471	0	27,471	0	27,471	(3,576)	23,895	0	23,895
12.	Water Treatment Expenses	21,802	4,673	26,475	(5,051)	21,424	0	21,444	(273)	26,202	0	26,202
13.	Transmission and Distribution Expenses	138,985	499	139,484	0	139,484	0	139,488	(4,544)	134,940	0	134,940
14.	Customer Account Expenses	121,012	1,631	122,643	0	122,643	0	122,647	(8,041)	114,602	0	114,602
15.	Sales Expenses & Payroll	666	0	666	0	666	0	666	(509)	157	0	157
16.	Administrative and General Expenses	137,373	21,223	158,596	0	158,596	0	153,467	(48,684)	111,912	0	111,912
17.	Total Operation and Maintenance	611,230	28,432	639,662	(5,227)	634,435	0	626,966	(22,616)	617,046	0	617,046
18.	Depreciation and Amortization Expenses	116,734	25,689	142,443	3,645	146,088	0	133,542	(17,008)	125,435	0	125,435
19.	Taxes: Federal Income	24,573	(20,540)	4,033	1,444	5,477	0	1,822	33,957	37,980	(2,062)	35,928
20.	State Income	4,294	(4,525)	(231)	(128)	(359)	0	934	9,555	9,324	(506)	8,818
21.	Ad Valorem (Property)	59,799	3,756	63,555	(31)	63,524	284	57,802	(10,102)	53,453	0	53,453
22.	Other	86,383	(70,437)	15,946	0	15,946	0	15,946	(4,324)	11,622	0	11,622
23.	Total Operating Expenses	903,033	(37,625)	865,408	(297)	865,111	0	835,190	(10,538)	854,870	(2,568)	852,302
24.	Operating Income	68,654	(37,578)	31,076	297	31,373	0	60,967	114,301	145,377	(4,689)	140,678

Comparisons of Schedule C-1
ARIZONA WATER COMPANY
Pro Forma Operating Income Statements
Test year 2001
Miami - Summary

Line No.	Description	Company		Rebutal & Rejoinder		Slaf		RUOC	
		Actual	Pro Forma Present As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted	As Adjusted
Operating Revenues:									
1.	Residential	1,138,614	(91,374)	1,047,240	0	1,047,023	0	1,047,023	1,093,953
2.	Commercial	353,482	(25,216)	328,266	0	328,266	0	328,266	328,266
3.	Industrial	89,111	(3,143)	65,968	0	65,968	0	65,968	65,968
4.	Private Fire Service	708	0	708	0	708	0	708	708
5.	Other	15,743	(986)	14,757	0	14,757	0	14,757	14,757
6.	Total Operating Revenues	1,577,658	(120,719)	1,456,939	0	1,456,722	0	1,456,722	1,503,652
Operating Expenses:									
Source of Supply Expenses:									
7.	Purchased Water	0	0	0	0	0	0	0	0
8.	Other	8,838	(6)	8,832	0	8,832	0	8,832	9,220
Pumping Expenses:									
9.	Purchased Power	150,420	902	151,322	2	111,199	0	111,199	144,959
10.	Purchased Gas	0	0	0	0	0	0	0	22
11.	Other	97,770	0	97,770	0	97,770	0	97,770	127,328
12.	Water Treatment Expenses	24,368	71,176	95,544	(62,986)	32,552	0	32,552	42,994
13.	Transmission and Distribution Expenses	236,363	26,665	263,028	0	259,240	0	259,240	284,477
14.	Customer Account Expenses	189,374	1,262	190,636	0	190,635	0	190,635	190,904
15.	Sales Expenses & Payroll	1,311	0	1,311	0	1,311	0	1,311	1,364
16.	Administrative and General Expenses	211,602	35,126	246,728	0	239,139	0	239,139	228,174
17.	Total Operation and Maintenance	920,046	135,125	1,055,171	(62,986)	940,678	0	940,678	1,029,442
18.	Depreciation and Maintenance	158,782	46,102	204,884	7,899	139,114	0	139,114	136,940
19.	Taxes: Federal Income	60,140	(8,496)	51,644	22,462	87,441	(1,788)	104,916	37,681
20.	State Income	10,508	(15,120)	(4,612)	(427)	23,875	19,263	0	12,925
21.	Ad Valorem (Property)	111,042	10,002	121,044	70	119,686	600	120,286	101,864
22.	Other	148,797	(119,840)	28,957	0	28,957	0	28,957	32,082
23.	Total Operating Expenses	1,409,315	(12,367)	1,396,948	(32,982)	1,333,901	(1,188)	1,333,901	1,342,497
24.	Operating Income	168,343	(108,352)	59,991	32,982	122,821	1,188	122,821	161,155

Comparisons of Schedule C-1

ARIZONA WATER COMPANY
Pro Forma Operating Income Statements
Test year 2001
San Manual - Summary

Line No.	Description	Company		Rebuttal & Remainder		Staff		RUCC				
		Actual	Pro Forma Present As Adjusted	Adjustments	As Adjusted	Pro Forma Present As Adjusted	Adjustments	As Adjusted	Pro Forma Present As Adjusted	Adjustments	As Adjusted	
Operating Revenues:												
1.	Residential	481,078	(74,612)	406,466	0	406,466	(134)	406,332	35,510	441,978	1	441,977
2.	Commercial	65,771	(10,581)	55,190	0	55,190	0	55,190	0	55,190	0	55,190
3.	Industrial	0	0	0	0	0	0	0	0	0	0	0
4.	Private Fire Service	60	0	60	0	60	0	60	0	60	0	60
5.	Other	13,618	(1,085)	12,533	0	12,533	(134)	12,533	0	12,533	0	12,533
6.	Total Operating Revenues	560,527	(86,278)	474,249	0	474,249	(134)	474,115	35,510	509,759	1	509,760
Operating Expenses:												
Source of Supply Expenses:												
7.	Purchased Water	135,178	123,525	258,703	49	258,752	7,875	266,578	28,748	287,451	0	287,451
8.	Other	6,246	0	6,246	0	6,246	(1,024)	6,246	671	6,917	0	6,917
Pumping Expenses:												
9.	Purchased Power	32,506	(1,148)	31,358	23	31,381	(1,024)	30,334	7,783	39,141	0	39,141
10.	Purchased Gas	0	0	0	0	0	0	0	0	0	0	0
11.	Other	32,609	0	32,609	0	32,609	(9,269)	32,609	(3,189)	29,420	0	29,420
12.	Water Treatment Expenses	18,742	11,651	30,393	(9,263)	21,130	(9,269)	21,124	(8,030)	22,363	0	22,363
13.	Transmission and Distribution Expenses	88,796	(5,650)	83,146	0	83,146	(1,981)	81,165	8,845	91,991	0	91,991
14.	Customer Account Expenses	86,301	439	86,740	0	86,740	(1)	86,739	3,077	89,817	0	89,817
15.	Sales Expenses & Payroll	472	0	472	0	472	(1)	472	(237)	235	0	235
16.	Administrative and General Expenses	92,577	14,952	107,529	0	107,529	(3,103)	104,426	(10,318)	97,211	1	97,212
17.	Total Operation and Maintenance	493,427	143,769	637,196	(9,191)	628,005	(7,503)	629,693	27,350	664,547	1	664,547
18.	Depreciation and Amortization Expenses	40,950	11,777	52,727	194	52,921	(13,004)	39,723	(15,788)	36,939	276	37,215
19.	Taxes: Federal Income	(15,304)	(63,409)	(78,713)	3,843	(74,870)	(11,274)	(89,987)	38,031	(40,682)	(41)	(40,723)
20.	State Income	(2,674)	(13,968)	(16,642)	62	(16,580)	(3,181)	(19,823)	(2,582)	(19,224)	(19)	(19,243)
21.	Ad Valorem (Property)	38,291	14,982	53,253	(39)	53,214	6,359	59,612	(2,164)	51,069	0	51,069
22.	Other	48,298	(35,480)	12,838	0	12,838	0	12,838	773	13,611	0	13,611
23.	Total Operating Expenses	602,988	57,671	660,659	(5,131)	655,528	(28,603)	632,056	45,600	706,259	217	706,476
24.	Operating Income	(42,461)	(143,949)	(186,410)	5,131	(181,279)	28,469	(157,490)	(10,090)	(196,500)	(216)	(196,716)

Comparisons of Schedule C-1
ARIZONA WATER COMPANY
Pro Forma Operating Income Statements
Test year 2001
Winkelman - Summary

Line No.	Description	Company			Staff			RUCO								
		Actual	Pro Forma Present Adjustments	As Adjusted	Rebuttal & Rejoinder Adjustments	As Adjusted	Pro Forma Present Adjustments	As Adjusted	Surrebuttal Adjustments	As Adjusted						
Operating Revenues:																
1.	Residential	52,086	(3,769)	48,317	0	48,317	0	49,019	0	49,019	0	40,362	(7,955)	40,362	(516)	39,846
2.	Commercial	50,586	(3,953)	46,605	0	46,605	0	46,605	0	46,605	0	46,605	0	46,605	0	46,605
3.	Industrial	2,478	(207)	2,271	0	2,271	0	2,271	0	2,271	0	2,271	0	2,271	0	2,271
4.	Private Fire Service	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5.	Other	846	(16)	830	0	830	0	830	0	830	0	830	0	830	0	830
6.	Total Operating Revenues	105,988	(7,945)	98,023	0	98,023	0	98,725	0	98,725	0	90,068	(7,955)	90,068	(516)	89,552
Operating Expenses:																
Source of Supply Expenses:																
7.	Purchased Water	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8.	Other	747	12	759	(7)	752	(7)	759	0	759	0	817	58	817	(1)	816
Pumping Expenses:																
9.	Purchased Power	7,599	194	7,793	(109)	7,684	(109)	7,671	0	7,671	0	6,602	(1,191)	6,602	(1)	6,601
10.	Purchased Gas	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11.	Other	4,034	0	4,034	0	4,034	0	4,034	0	4,034	0	3,627	(407)	3,627	0	3,627
12.	Water Treatment Expenses	3,361	(367)	2,994	210	3,204	210	3,236	0	3,236	0	3,464	470	3,464	0	3,464
13.	Transmission and Distribution Expenses	10,241	4,614	14,855	0	14,855	0	14,618	0	14,618	0	10,487	(4,368)	10,487	0	10,487
14.	Customer Account Expenses	11,570	274	11,844	0	11,844	0	11,844	0	11,844	0	11,467	(377)	11,467	0	11,467
15.	Sales Expenses & Payroll	56	0	56	0	56	0	56	0	56	0	29	(27)	29	0	29
16.	Administrative and General Expenses	11,508	1,887	13,395	0	13,395	0	12,958	0	12,958	0	12,005	(1,390)	12,005	0	12,005
17.	Total Operation and Maintenance	49,116	6,614	55,730	94	55,824	94	55,174	0	55,174	0	48,498	(7,232)	48,498	(2)	48,496
18.	Depreciation and Amortization Expenses	10,839	3,049	13,888	1,343	15,231	1,343	13,646	0	13,646	0	11,140	(2,748)	11,140	0	11,140
19.	Taxes: Federal Income	5,604	(3,872)	1,732	(414)	1,318	(414)	2,074	(124)	1,950	(124)	3,361	1,629	3,361	25	3,386
20.	State Income	979	(853)	126	(83)	43	(83)	397	0	397	0	1,678	1,552	1,678	13	1,691
21.	Ad Valorem (Property)	14,335	1,395	15,730	78	15,808	78	16,751	71	16,822	71	15,795	65	15,795	0	15,795
22.	Other	9,671	(8,291)	1,380	0	1,380	0	1,380	0	1,380	0	1,663	283	1,663	0	1,663
23.	Total Operating Expenses	90,544	(1,956)	88,588	1,018	89,604	1,018	89,096	(53)	89,096	(53)	82,135	(6,451)	82,135	36	82,171
24.	Operating Income	15,424	(5,987)	9,437	(1,018)	8,419	(1,018)	9,576	53	9,629	53	7,933	(1,504)	7,933	(652)	7,381

Comparisons of Schedule C-1
ARIZONA WATER COMPANY
Pro Forma Operating Income Statements
Test year, 2001
Superior - Summary

Line No.	Description	Company		Rebuttal & Rejoinder		Staff		RUCO				
		Actual	Pro Forma Present Adjustments	As Adjusted	As Adjusted	Pro Forma Present Adjustments	As Adjusted	Pro Forma Present Adjustments	As Adjusted			
Operating Revenues:												
1.	Residential	628,575	(62,007)	566,568	0	566,189	(379)	566,189	0	575,013	(4,124)	570,889
2.	Commercial	108,630	(9,501)	99,129	0	99,129	0	99,129	0	99,129	0	99,129
3.	Industrial	21,244	(1,703)	19,541	0	19,541	0	19,541	0	19,541	0	19,541
4.	Private Fire Service	336	0	336	0	336	0	336	0	336	0	336
5.	Other	14,620	(1,226)	13,394	0	13,394	0	13,394	0	13,429	35	13,429
6.	Total Operating Revenues	773,405	(74,437)	698,968	0	698,968	(379)	698,968	0	707,448	(4,089)	703,324
Operating Expenses:												
Source of Supply Expenses:												
7.	Purchased Water	0	0	0	0	0	0	0	0	0	0	0
8.	Other	4,755	(26)	4,729	3	4,729	0	4,729	0	4,752	0	4,752
Pumping Expenses:												
9.	Purchased Power	76,492	(202)	76,290	77	76,367	0	76,290	0	76,290	(13,099)	63,191
10.	Purchased Gas	0	0	0	0	0	0	0	0	22	0	22
11.	Other	54,189	0	54,189	0	54,189	(8,847)	54,189	0	24,376	0	78,565
12.	Water Treatment Expenses	19,636	11,156	30,792	(8,836)	21,956	(8,847)	21,945	0	23,665	(7,127)	23,665
13.	Transmission and Distribution Expenses	122,942	36,632	159,574	0	159,574	(1,839)	157,835	0	107,818	(51,756)	107,818
14.	Customer Account Expenses	114,349	(23)	114,326	0	114,326	0	114,322	0	106,832	(5,494)	106,832
15.	Sales Expenses & Payroll	872	0	872	0	872	0	872	0	257	0	257
16.	Administrative and General Expenses	83,004	15,961	98,965	0	98,965	(3,527)	95,438	0	97,719	(1,246)	97,719
17.	Total Operation and General Expenses	476,239	63,498	539,737	(8,756)	530,981	(14,017)	525,720	0	484,821	(54,916)	484,821
18.	Depreciation and Amortization Expenses	102,778	16,039	118,817	4,811	123,628	(2,715)	116,102	0	110,049	(8,768)	110,049
19.	Taxes: Federal Income	1,884	(7,358)	(5,474)	(281)	(6,418)	(6,509)	(29,136)	(730)	11,607	(1,204)	(12,224)
20.	State Income	86,003	(74,655)	11,348	0	11,348	(6,418)	0	0	2,842	(2,832)	(2,919)
21.	Ad Valorem (Property)	742,728	(36,856)	705,872	(2,104)	703,768	(13,380)	692,492	241	75,117	9,016	73,087
22.	Other	30,677	(37,581)	(6,904)	2,104	(4,800)	(13,380)	11,348	0	12,752	0	12,752
23.	Total Operating Expenses	742,728	(36,856)	705,872	(2,104)	703,768	(13,380)	692,492	(489)	667,057	(38,815)	665,566
24.	Operating Income	30,677	(37,581)	(6,904)	2,104	(4,800)	13,001	6,097	489	40,391	(2,598)	37,758 (a)

(35) - RUCO's formula did not include the additional \$35 adjustment to Other Revenues so income is understated.

ARIZONA WATER COMPANY
ALLOCATION OF PHOENIX OFFICE
TEST YEAR ENDED DECEMBER 31, 2001

Line Description	Phoenix Office @12/31/01 (a)	Phoenix Office @12/31/01 Revised	Eastern Group	Apache Junction 0.2383	Bisbee 0.0531	PHOENIX OFFICE ALLOCATION					Winkelman 0.0031	Superior 0.0251
						Sierra Vista 0.0365	Miami 0.054	San Manuel 0.0221	Oracle 0.026			
1. Gross Plant In Service	\$3,903,884	\$3,903,884	\$1,788,760	\$930,296	\$207,296	\$142,492	\$210,810	\$86,276	\$101,501	\$12,102	\$97,987	
2. less: Accumulated Depreciation	(453,222)	(453,222)	(207,666)	(108,003)	(24,066)	(16,543)	(24,474)	(10,016)	(11,784)	(1,405)	(11,376)	
3. Net Plant In Service	3,450,662	3,450,662	1,581,093	822,293	183,230	125,949	186,336	76,260	89,717	10,697	86,612	
4. Construction Work In Progress	126,565	0 (b)	0	0	0	0	0	0	0	0	0	
5. Total Net Plant	3,577,227	3,450,662	1,581,093	822,293	183,230	125,949	186,336	76,260	89,717	10,697	86,612	
6. Less: Customers' Advances for Construction	0	0	0	0	0	0	0	0	0	0	0	
7. Contributions in Aid of Construction	0	0	0	0	0	0	0	0	0	0	0	
8. Gross	0	0	0	0	0	0	0	0	0	0	0	
9. Accumulated Amortization	0	0	0	0	0	0	0	0	0	0	0	
10. Net Contributions In Aid Of Construction	0	0	0	0	0	0	0	0	0	0	0	
11. Deferred Income Tax	0	0	0	0	0	0	0	0	0	0	0	
12. Add: Total Working Capital Allowance (b)	0	0	0	0	0	0	0	0	0	0	0	
13. Total Rate Base Components & Adjustments	\$3,577,227	\$3,450,662	\$1,581,093	\$822,293	\$183,230	\$125,949	\$186,336	\$76,260	\$89,717	\$10,697	\$86,612	

(a) - Source: Schedule B-2, Page 10 of 11
(b) - Removed \$126,565 of CWIP since Post Test Year Plant Additions were included by system.

ARIZONA WATER COMPANY
ALLOCATION OF METER SHOP
TEST YEAR ENDED DECEMBER 31, 2001

Line Description	Meter Shop @12/31/01 (a)	METER SHOP ALLOCATION							Superior 0.0251	
		Eastern Group	Apache Junction 0.2383	Bisbee 0.0531	Sierra Vista 0.0365	Miami 0.054	San Manuel 0.0221	Oracle 0.026		Winkelman 0.0031
1. Gross Plant In Service	\$99,104	\$45,410	\$23,617	\$5,262	\$3,617	\$5,352	\$2,190	\$2,577	\$307	\$2,488
2. less: Accumulated Depreciation	(24,594)	(11,269)	(5,861)	(1,306)	(898)	(1,328)	(544)	(639)	(76)	(617)
3. Net Plant In Service	74,510	34,141	17,756	3,956	2,720	4,024	1,647	1,937	231	1,870
4. Construction Work In Progress	0	0	0	0	0	0	0	0	0	0
5. Total Net Plant	74,510	34,141	17,756	3,956	2,720	4,024	1,647	1,937	231	1,870
6. Less: Customers' Advances for Construction	0	0	0	0	0	0	0	0	0	0
7. Contributions in Aid of Construction	0	0	0	0	0	0	0	0	0	0
8. Gross	0	0	0	0	0	0	0	0	0	0
9. Accumulated Amortization	0	0	0	0	0	0	0	0	0	0
10. Net Contributions In Aid Of Construction	0	0	0	0	0	0	0	0	0	0
11. Deferred Income Tax	0	0	0	0	0	0	0	0	0	0
12. Add: Total Working Capital Allowance (b)	0	0	0	0	0	0	0	0	0	0
13. Total Rate Base Components & Adjustments	\$74,510	\$34,141	\$17,756	\$3,956	\$2,720	\$4,024	\$1,647	\$1,937	\$231	\$1,870

(a) - Source: Schedule B-2, Page 11 of 11

ARIZONA WATER COMPANY
Docket No. W-1445A-02-0619
Witness(es) Whitehead

Data Request No. RUCO 1.6
Construction Work In Progress – *Please provide the following information for each system that is requesting a rate base adjustment for post test year construction projects;*

- a) *List of each project and its associated cost;*
- b) *Status of the project including its actual in-service date if now complete and its estimated date if not yet completed;*
- c) *Indicate whether the cost information provided in response to part a) is an actual or estimated cost;*
- d) *Copy of the work order for each project identified in response to part a);*
- e) *Copy of the low bid that was accepted for each project identified in part a); and*
- f) *For each project and cost identified in response to part a) please indicate whether the project is supported either by a CIAC or an AIAC, and if so the dollar amount of the advance or contribution.*

Response to Data Request No. RUCO 1.6

- a-b) A summary of the projects comprising the Company's request for a rate base adjustment for post test year construction projects is attached.
- c) Cost information that formed the basis of the rate base adjustments for post test year plant construction projects were based upon estimates of construction expenditures and overheads at the time of the filing of the application in this docket. Actual expenditures on projects that have already been completed are shown in Column f.-Expenditures-to-Date, Completed Projects on the schedule provided in response to items a. and b. above. These projects do not include any applicable overheads and may have some additional expenditures added.
- d) A copy of the work order for each project identified in response to part a) above is attached.
- e) A copy of the bid that was accepted for each project is attached.
- f) All of the projects comprising the Company's request for a rate base adjustment for post test year construction projects are non-revenue producing, inside-funded projects and, as such, are supported by neither CIAC or AIAC.



**ARIZONA DEPARTMENT OF REVENUE
PROPERTY TAX FUNCTION**

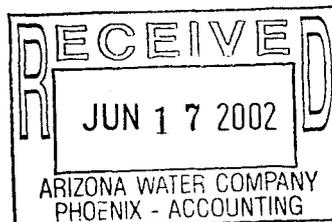
1600 West Monroe, Room 820, Phoenix, Arizona 85007
Telephone: (602) 542-3529 Facsimile: (602) 542-5667

**JANE DEE HULL
GOVERNOR**

**MARK W. KILLIAN
DIRECTOR**

June 13, 2002

CVP TAXPAYER ID #55-510
ARIZONA WATER CO - APACHE JUNCTION
RALPH J KENNEDY
P O BOX 29006
PHOENIX, AZ 85038



PRELIMINARY NOTICE OF VALUE
TAX YEAR 2003

The **PRELIMINARY FULL CASH VALUE** of your operating property located in Arizona is:

\$16,376,000

If the property owner disagrees with the **PRELIMINARY FULL CASH VALUE** stated above, an informal conference to discuss the value may be requested on or before July 15, 2002.

If an informal conference is requested, the request must be in writing and must list who will be attending the conference and what issues are to be discussed. The property owner must provide supporting documentation to justify his/her opinion of value no later than the day of the conference.

This **PRELIMINARY FULL CASH VALUE** is subject to change based on additional information provided by the taxpayer or otherwise discovered by the Department prior to August 31, 2002.

Final Notices of Value will be mailed on or before: August 31, 2002.

The valuation date for the above value is: January 1, 2002.

However, the value will not be used for property tax purposes until tax year 2003.

Taxes will be due as follows:

First half due: October 1, 2003

Second half due: March 1, 2004

If you have questions regarding this notice, please contact the Centrally Valued Property Unit at (602) 542-3529.

2003 PINAL COUNTY



THIS IS THE ONLY TAX NOTICE YOU WILL RECEIVE.

Office of County Treasurer has elected to send individual property tax statements to the owner of record to enable the property owner to examine the manner in which the calculation of taxable properties affected assessments. IF PROPERTY TAXES ARE PAID THROUGH MORTGAGE IMPROVEMENTS WILL ASK TO FINANCIAL INSTITUTIONS, BANKS, SAVINGS AND LOAN ETC.) PLEASE FORWARD THIS TAX STATEMENT TO THE FINANCIAL INSTITUTION TO WHICH IMPROVEMENT PAYMENTS ARE REGULARLY MADE.

COUNTY	TAX AUTHORITY	LEVY	PURPOSE	PRCL	PRM - Primary Value	SEC - Secondary Value	AREA CODE
0003	W008 Acorn/Altern School	5.60		11	308-25-14005	02022	
0003	P001 Pinal County	173.94		5.08			
0003	010 School Equalization	19.42		158.14			
0003	002 Oracle ESD #002	142.38		17.36			
0003	002 Oracle ESD #002	.44		4.96			
0003	002 Oracle ESD #002	10.02		.00			
0003	002 Oracle ESD #002	84.90		10.12			
0003	002 Oracle ESD #002	.00		77.20			
0003	002 Oracle ESD #002	60.68		.00			
0003	002 Oracle ESD #002	3.84		6.82			
0003	002 Oracle ESD #002	5.38		4.16			
0003	002 Oracle ESD #002	2.54		5.70			
0003	002 Oracle ESD #002	4.04		2.50			
0003	002 Oracle ESD #002	.00		3.94			
0003	002 Oracle ESD #002	.00		.00			
TOTAL					512.18		36.70

2003 TOTAL TAXES	512.18	FIRST HALF TAXES	256.09	DELINQUENT TAXES AS OF	.00	DATE	AUGUST 22, 2003	TOTAL TAXES DUE	512.18
LOS ROBLES ESTATES: N-332.49' OF LT 138 SEC 35-9S-15E									

07985 01 AT 0.2

INSTRUCTIONS

To pay full year taxes send full year coupon.

To pay 1st half ONLY send 1st half coupon ONLY with your payment.

2nd HALF IS DUE NOT LATER THAN NOV 3, 2003 UNLESS FULL YEAR TAX BILL EXCEEDS \$100.00 AND THE FULL YEAR TAX IS PAID BY DEC 31, 2003 (EXCLUDING DELINQUENCIES AT ARE DUE NOV 3, 2003). Arizona Revised Statute 42-18052 requires that all tax of \$100.00 or less becomes due and payable in full on the date shown on the 1st half coupon, and becomes delinquent on the 1st day of the month of the 1st half coupon ONLY with your payment. SECOND HALF IS DUE NOT LATER THAN MAY 3, 2004.

If you wish to use your credit card to pay your taxes, please call 88-2PAY-TAX (1-888-272-9829). Jurisdiction Code 1302 or payments can be made through www.officialpayments.com. See note: Our credit card processor, (Official Payments), requires a convenience fee for each transaction.

EASE MAKE CERTAIN THE PROPERTY DESCRIBED ON THIS TAX BILL IS THE PROPERTY ON WHICH YOU INTEND TO PAY TAXES. A fee of \$25.00 will be charged for any reversal any payment.

DELINQUENT DATES

1st Half Year Taxes become delinquent on November 3, 2003 at 5:00 P.M. unless the full year tax bill exceeds \$100.00 and the full year is paid by December 31, 2003 (excluding delinquencies that are due November 3, 2003).

2nd Half Year Taxes become delinquent on May 3, 2004 at 5:00 P.M. Penalty for late payment is 16% interest per year promoted monthly as of the 1st day of the month. (Arizona Revised Statutes 42-18053)

IF YOU HAVE QUESTIONS CONCERNING YOUR TAX STATEMENT, IT CAN BEST BE HANDLED BY REQUESTING THE INFORMATION FROM THE CORRECT DEPARTMENT.

1. VALUATION, CLASSIFICATION OR CHANGE OF ADDRESS: Pinal County Assessor 520-866-6361
2. TAX RATES: Contact The Specific Taxing Authority
3. TITLE RECORDINGS: Pinal County Recorder 520-866-7100
4. TAX PAYMENTS, DELINQUENT TAXES: Pinal County Treasurer 520-866-6412

This tax statement reflects taxes set by several taxing authorities. The Treasurer's office does not set tax rates. The Treasurer's office oversees the collection of taxes.

- The State Legislature, through Statutes, sets the rates for School Equalization and Fire District Assistance Tax.
- The Board of Supervisors sets the tax rates for ONLY Pinal County, Pinal County Library District and Pinal County Flood Control District.
- The County School Superintendent sets the rate for the Mary C. O'Brien Accommodation School.
- Each city or town, school district, special district and Central Arizona Water Conservation District independently sets its own tax rates.
- Central Arizona College sets the rate for Pinal County Jr College.
- Bond amounts represent amounts previously determined and voted on by area residents.

Please refer questions regarding a tax line item to the taxing authority responsible for that portion of your tax bill. Thank you.

PLEASE MAKE CHECKS PAYABLE TO:
JIM L. TURNBULL
PINAL COUNTY TREASURER
PO BOX 729
FLORENCE, AZ 85232

2003 FULL YEAR
PAYMENT COUPON

Parcel 308-25-14
Full Year Tax 512
Delinquent 256
Total Taxes Due 512

Date November 3, 2003

PLEASE RETURN THIS COUPON WITH YOUR PAYMENT - A RECEIPT WILL BE RETURNED NO PERSONAL FOREIGN CHECKS OR FOREIGN CURRENCY ACCEPTED, US CURRENCY

If permanent address change is required please complete the form on the reverse side of this coupon.

308-25-14005 512.18

PLEASE MAKE CHECKS PAYABLE TO:
JIM L. TURNBULL
PINAL COUNTY TREASURER
PO BOX 729
FLORENCE, AZ 85232

2003 2nd HALF YEAR
PAYMENT COUPON

Parcel 308-25-14
2nd Half Tax 256

Date May 3, 2004

PLEASE RETURN THIS COUPON WITH YOUR PAYMENT - A RECEIPT WILL BE RETURNED NO PERSONAL FOREIGN CHECKS OR FOREIGN CURRENCY ACCEPTED, US CURRENCY

If permanent address change is required please complete the form on the reverse side of this coupon.

308-25-14005 256.09

PLEASE MAKE CHECKS PAYABLE TO:
JIM L. TURNBULL
PINAL COUNTY TREASURER
PO BOX 729
FLORENCE, AZ 85232

2003 1st HALF YEAR
PAYMENT COUPON

Parcel 308-25-14
1st Half Tax 256
Delinquent 256
Total Taxes Due 256

Date November 3, 2003

PLEASE RETURN THIS COUPON WITH YOUR PAYMENT - A RECEIPT WILL BE RETURNED NO PERSONAL FOREIGN CHECKS OR FOREIGN CURRENCY ACCEPTED, US CURRENCY

If permanent address change is required please complete the form on the reverse side of this coupon.

308-25-14005 256.09

ARIZONA WATER COMPANY
Net Plant Comparisons
Test Year 2001

Line		Company Rebuttal (a)	Staff Surrebuttal (b)	Difference (b)-(a)
TEST YEAR PLANT:				
1	Gross Plant in Service (Undisputed)	82,717,891	82,717,891	0
2	Plant in Service			
3	Phoenix Office	1,788,760	1,472,535	
4	Meter Shop	45,410	30,373	
5	Total Gross Plant	Line 2+ Line 3 <u>1,834,170</u>	<u>1,502,908</u>	<u>(331,262)</u>
6	Accumulated Depreciation			
7	Phoenix Office	(207,666)	(198,762)	
8	Meter Shop	(11,269)	(11,073)	
9	Total Accumulated Depreciation	Line 6+Line 7 <u>(218,935) (a)</u>	<u>(209,835)</u>	<u>9,100</u>
10	Net Plant			
11	Phoenix Office	Line 2+Line6 1,581,094	1,273,773	(307,321)
12	Meter Shop	Line 3+Line 7 34,141	19,300	(14,841)
13	Total Net Plant	Line 10 + Line 11 <u>1,615,235</u>	<u>1,293,073</u>	<u>(322,162)</u>
POST TEST YEAR PLANT:				
14	Plant in Service			
15	Phoenix Office	Staff's direct 177,640	166,550	
16	Meter Shop	Staff's direct 3,999	3,768	
17	Total Gross Plant	<u>181,639</u>	<u>170,318</u>	<u>(11,321)</u>
18	Total Phoenix Office/Meter Shop TY and PTY Plant	Line 12+ Line16 <u>1,796,874</u>	<u>1,463,391</u>	<u>(333,483)</u>
19	Test Year Gross Plant In Service	Line 17 + Line 18 84,514,765	84,181,282	(333,483)
20	Add back: Phoenix Office & Meter Shop Accum. Depr	From Line 8 218,935	209,835	
21	Gross Plant In Service Excluding PHX & MS Accum Depr	Line 20 + Line 19 <u>84,733,700</u>	<u>84,391,117</u>	
22	Accumulated Depreciation:			
23	Test Year Plant	(18,068,863)	(17,992,143)	
24	Full Year Depreciation		(2,037,594)	
25	Depreciation on Post Test Year Plant	(109,869)		
26	Addtl Six Months Depreciation on TY Plant	(124,784)	(37,564)	
27	Retirements - Post Test Year Additons	145,982	207,764	
28	Subtotal before PHX & MS Accumulated Depreciation	Lines 23-27 (18,157,534)	(19,859,537)	(1,702,003)
29	Phoenix Office	From Line 6 (207,666)	(198,762)	
30	Meter Shop	From Line 7 (11,269)	(11,073)	
31	Subtotal PHX & MS	Line 29+Line 30 <u>(218,935)</u>	<u>(209,835)</u>	
32	Adjusted TY Accumulated Depreciation W/ PHX & MS	Line 28+Line 31 (18,376,469)	(20,069,372)	
33	Net Plant In Service	Line 35+Line28 66,357,231	64,321,745	(2,035,486)

(a) - The Company's rebuttal reflected the Phoenix Office and Meter Shop test year plant net of accumulated depreciation while Staff's surrebuttal did not.

Arizona Water Company
Purchased Water Expense Comparisons
Apache Junction
Test Year 2001

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[C]
		COMPANY DIRECT	ADJUSTMENT	COMPANY AS ADJUSTED	STAFF'S REJOINER
1	Purchased Water - CAP & City of Mesa Treatment	\$ 703,309	\$ -	\$ 703,309	\$ 703,309
2	Purchased Water - Effluent	\$ 94,027	\$ -	\$ 94,027	\$ 94,027
3	Purchased Water - Unreconciled Amount	\$ 7,875	\$ (7,875)	\$ -	\$ -
4	Subtotal	\$ 805,211	\$ (7,875)	\$ 797,336	\$ 797,336
5	November 2001 Mesa Treatment Cost	\$ 10,982	\$ -	\$ 10,982	\$ 10,982
6	M&I Capital Costs (Currently Deferred)	\$ 113,939	\$ -	\$ 113,939	\$ 113,939
7	Increase in CAWCD Charge Per Acre-Feet	\$ 41,304	\$ -	\$ 41,304	\$ 43,432
8	Subtotal	\$ 166,225	\$ -	\$ 166,225	\$ 168,353
9	Total Purchased Water before Exp Annual. Adj.	\$ 971,436	\$ (7,875)	\$ 963,561	\$ 965,689
10	Expense Annualization Adjustment	\$ 31,604	\$ (12,371)	\$ 19,233	\$ 31,584 (a)
11	Total Purchased Water (L9+L10)	<u>\$ 1,003,040</u>	<u>\$ (20,246)</u>	<u>\$ 982,794</u>	<u>\$ 997,273</u>

(a) - Taken from REL-15 (Source of Supply - Expense Annualization)